

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2012



<i>INTRODUCTORY SECTION</i>	<i>Page</i>
Letter of Transmittal	i-xiii
District Profile	ii
Mission, Values and Goals	iii
Year at a Glance	iv-vi
Finance.....	vii-viii
Awards and Acknowledgements	ix-x
Board of Directors	xi
Organizational Staffing	xii
District Organizational Chart.....	xiii
 <i>FINANCIAL SECTION</i>	
Independent Auditor’s Report on Basic Financial Statements	1-2
Management’s Discussion and Analysis	3-16
Basic Financial Statements	
Balance Sheets – Proprietary Funds – Enterprise.....	17-18
Statements of Revenue, Expenses and Changes in Net Assets – Proprietary Funds – Enterprise.....	19
Statements of Cash Flows – Proprietary Funds – Enterprise.....	20-21
Statements of Fiduciary Net Assets – Fiduciary Fund – Pension and Other Employee Benefit Trust (Component Unit).....	22
Statements of Changes in Fiduciary Net Assets – Fiduciary Fund- Pension and Other Employee Benefit Trust (Component Unit).....	23
Notes to Basic Financial Statements.....	24-61
 Required Supplemental Information	
Employee Retirement System Schedule of Funding Progress.....	65-66
 Supplemental Information	
Employee Retirement System Balance Sheet.....	69
Employee Retirement System Statement of Changes in Net Assets.....	70

STATISTICAL SECTION

Financial Trends

Comparative Highlights 71-72
 Ten-Year Summary of Financial Data (Water System)..... 73
 Ten-Year Summary of Financial Data (Wastewater System) 74
 Changes in Net Assets..... 75-76
 Net Assets by Component..... 77

Revenue Capacity

Ten-Year Summary of Revenue by Source (Water System) 78
 Ten-Year Summary of Revenue by Source (Wastewater System)..... 79
 Rate History..... 80
 Ten-Year Summary of Net Revenue and Debt
 Service Coverage (Water System) 81
 Ten-Year Summary of Net Revenue and Debt
 Service Coverage (Wastewater System)..... 82

Debt Capacity

Debt Ratings..... 83
 Outstanding Debt by Type..... 84
 Authorized but Unissued Revenue Bonds and Outstanding Short-Term Debt 85
 Ratio of Net General Obligation Bonded Debt to Annual Billings
 and Net General Bonded Debt per Account 86
 Assessed Valuation of Taxable Property 87-88
 Summary of Debt Outstanding 89

Demographic and Economic Information

District Information 90
 Principal Water Rate Payers 91
 Water Sold by Type of Customer 92
 Consumption and Account Comparative Highlights..... 93
 Area Employment Information 94

STATISTICAL SECTION (Continued)

Operating Information

Full-time Equivalent District Employees by Function/Program	95
Assessed Valuation of Taxable Property	96
Ten-Year Summary of Property, Plant & Equipment (Water System)	97
Ten-Year Summary of Property, Plant & Equipment (Wastewater System)	98
Capital Asset Statistics by Function/Program	99
Operating Indicators by Function/Program	100
Ten-Year Summary of Expense by Source	101



Letter of Transmittal

GFOA Award Certificate

Board of Directors

Organizational Staffing

Organization Chart

December 31, 2012
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, 2012.

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, 2012. The purpose of the independent audit was to provide reasonable assurance that the financial statements of EBMUD for the year ended June 30, 2012, 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 Municipal 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 parts 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 1.3 million users of industrial, commercial, residential, and public authority in a 332 -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 1,756 full-time employees at the end of fiscal year 2012. 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 Fiscal 2012 (FY12), EBMUD achieved many strategic goals to best serve East Bay communities. In California, where new water projects take years to develop, long-term planning ensures reliable water supplies for the future. EBMUD is implementing its Water Supply Management Program 2040 which helps EBMUD meet water needs for its customers for the next 30 years. Revenues have stabilized and continues to be on the rise. The District again demonstrated great flexibility in meeting its mission of delivering quality water to the public at reasonable rates by aggressively managing costs and improving operational efficiencies throughout the year. Through cooperative efforts with stakeholders in FY12, EBMUD continued to maneuver through the many challenges with strength and stability.

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 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's 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:

- developing 43 million gallons a day of additional water supplies through a combination of water transfers, groundwater storage and regional supply projects;
- working with the Central Sierra foothill communities on prudent land management programs to protect EBMUD's water sources and water quality;
- pursuing additional water right permits to secure supplies;
- maximizing conservation, saving an additional 39 million gallons a day;
- aggressively recycling, stretching the supply by 20 million gallons a day; and
- limiting drought rationing to 15 percent.

Seismic Improvements

In response to the District's 1994 Seismic Study, the District completed the Water Systems Seismic Improvement Program in 2007 substantially improving seismic performance of the distribution systems and facilities and better enabling the District to provide post-earthquake water service.

Recycling Water

EBMUD can produce an average of nine million gallons per day of recycled water. In 2012, customers in Oakland and Emeryville used about 80,000 gallons per day of recycled water, and EBMUD used another 2.3 million gallons a day at its wastewater treatment plant located at the foot of the Bay Bridge. Plans are in place to expand the recycled water distribution system in Emeryville and into Albany, Berkeley, and Alameda.

Continuing Water Conservation and Management

California experienced extremely dry weather from 2006 to 2008. In 2009, customer conservation and ample rainfall ended the mandatory water rationing. The subsequent voluntary conservation ended in April 2010. Customers continued to conserve and use water wisely to minimize the effect of future droughts.

The District developed a Water Conservation Master Plan, updated in 2011, which directs the District's comprehensive strategies and initiatives to promote water conservation and reduce demand for water. When industrial and irrigation customers use recycled water during droughts more potable water is available for customers. Federal grant funds help EBMUD expand recycled water service for landscape irrigation in the San Ramon Valley. In FY12, the Richmond Advanced Recycled Expansion Water Project continued to save at least 3.5 million gallons per day of potable water daily. Chevron, EBMUD's partner, contributed \$52 million towards the capital costs to help EBMUD plan, design and construct this facility. Future costs related to operations and maintenance will be recouped by way of a monthly service charge to Chevron.

Reliable Water Supplies

EBMUD customers receive 90 percent of their water from the Mokelumne River watershed in the foothills of the Sierra Mountains. Historically, dry years can mean ten times less precipitation compared to wet years. To assure more reliable dry year supplies, EBMUD worked with Sacramento County and the City of Sacramento to complete the Freeport Regional Water Project. The Freeport Regional Water Facility 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.

The Bayside Groundwater Facility is a state of the art groundwater well that can store excess water in wet periods for later recovery during droughts. EBMUD completed the first phase of the project, including an injection/extraction well, pump, and treatment facility that can produce up to one million gallons per day on average when other EBMUD water supplies are limited.

Infrastructure Management

With an aging system, EBMUD must continually evaluate infrastructure durability and adjust investments to address the most pressing reliability concerns. Keeping infrastructure in good repair protects the environment and public health. EBMUD is increasing investments in refurbishing and replacing aging infrastructure. In FY12, EBMUD met its performance targets of (1) fewer than ten unplanned interruption lasting no more than four hours per 1,000 customer accounts, (2) less than 20 pipeline breaks per 100 miles of pipes, and (3) at least 90 percent of wastewater equipment and facilities in operation around the clock.

Water Storage

The fragile state of the Delta is a concern for EBMUD because District aqueducts cross the Delta. One option being explored to address this concern is storing some EBMUD water in Contra Costa Water District's Los Vaqueros Reservoir, located west of the Delta. As Contra Costa Water District nears completion of a reservoir expansion project, EBMUD has an opportunity to partner and potentially utilize a portion of the storage being created.

Water Quality and Safety

Federal and State regulatory agencies continually monitor and establish new water quality standards. Every day of the year EBMUD's laboratory tests water samples throughout the water system to ensure that water quality meets or surpasses all primary (health related) and secondary (aesthetic) regulatory standards established by the Federal and State regulatory agencies. Lead exposure can have serious impacts on children and adults, including kidney disease, hypertension, hearing loss and brain damage. EBMUD has been a leader in reducing the risk of exposure to lead in drinking water by sponsoring state legislation that became a model for national law. When President Obama signed legislation in January 2011 adopting strict national standards requiring manufacturers to virtually eliminate lead from water faucets and fixtures, the language was identical to an EBMUD-sponsored bill that reduced California's lead standard for drinking water plumbing from 8 percent to 0.25 percent (AB1953-Chan).

New Phase in Bay Protection

Over the years, Bay protection agencies, environmental groups and EBMUD have all worked to keep the Bay as healthy as possible. EBMUD's main wastewater treatment plant operated continuously, 24 hours a day, for 11 years within permit limits and without a National Pollutant Discharge Elimination System violation.

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 is working with six cities and one sewer district in our wastewater service area to ensure that private property owners fix old, cracked sewer pipes that serve business or residences as quickly as possible. EBMUD is also creating an incentive program repair leaking private sewers and seeking improvements in the wastewater transmission system.

Environmental Stewardship

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 worry 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, a long-term water supply plan.

Financial Position and Highlights

During the past three 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. To keep the budget balanced, EBMUD has reduced more than \$85 million in anticipated capital spending over the FY11 and FY12 two-year budget period. Cost-cutting programs in FY12 including a hiring freeze, delaying capital projects and reducing discretionary spending, which ensured that projected expenses matched revenues. As a result, EBMUD maintained its strong and stable fiscal position and continued to meet its financial goals.

In FY12, the total assets of the District exceeded the total liabilities by \$1.6 billion (*net assets*). Net assets decreased by \$27 million or 2 percent during the fiscal year. Capital assets decreased by \$138 million or 3 percent to \$4.1 billion. By far the largest portion of the District's net assets -- 61 percent or \$1.0 billion -- represents investment in capital assets necessary to provide services.

In FY12, total operating revenue increased by \$25 million to \$393 million and operating expense increased by \$13 million to \$371 million. Changes in net assets (including capital contributions) decreased from \$3 million to \$27 million.

As of June 30, 2012, EBMUD had \$205 million in cash and cash equivalent investments available to operating expenditures. 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 2011-2012. 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, 2012, 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 FY 12, EBMUD issued \$159 million Series 2011A revenue bonds to refund \$163 million of the District's Water System Subordinated Revenue Refunding Bonds, Series 2002. The Series 2011A Bonds are special obligations payable solely from and secured by a pledge of Subordinated Water Revenues. The advance refunding of the 2002 Water Bonds reduced debt service payments in FY 12 by approximately \$11 million.

Budget and Rates

The adopted biannual budget for Fiscal Year 2012/2013 supports EBMUD's mission, values and strategic plan. The Board of Directors approved a water system rate increase of 6 percent for both FY12 and FY13, and a wastewater system rate increase of 6 percent for both FY12 and FY13.

While the FY12-13 budget was difficult to balance, it funds the highest priority projects and tasks necessary to achieve District goals while keeping costs and projected rate increases as low as possible. Significant fiscal challenges continue to face the District in FY12-13. Rising costs for essential materials and supplies, reduced customer demand after the drought, the poor economy and other factors make financial projections more difficult. From the onset of this budget process, we scrutinized budget planning assumptions, established prudent budget targets and set priorities with careful consideration. In addition, EBMUD focused on meeting financial policies to retain our high bond ratings and low interest rates.

The total water system budget is \$595 million in FY12, and \$573 million in FY13. The FY12-16 Capital Improvement Program (CIP) includes funding for improving water and wastewater treatment processes; replacing, upgrading and maintaining aging infrastructure; preparing for seismic events; protecting natural resources; and ensuring our future water supply. Over the next five years, the District anticipates spending almost \$400 million to maintain the District's pipelines, aqueducts, pumping plants, reservoirs and other infrastructure.

The total wastewater system budget is \$127 million in FY12, and \$131 million in FY13. Over the next five years, the District anticipates spending over \$25 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 \$18 million to upgrade the digesters and \$27 million to rehabilitate two sewer interceptors.

Internal Controls

EBMUD management is responsible for establishing and maintaining adequate internal controls to assure that District operations are effective and efficient; that applicable laws and regulations are followed; and financial reports are reliable. 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, 2011. 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. 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 FY 12-13 biennial budget document. To qualify, 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,



Eric L. Sandler
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, 2011

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.



Linda C. Danison

President

Jeffrey R. Enev

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

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

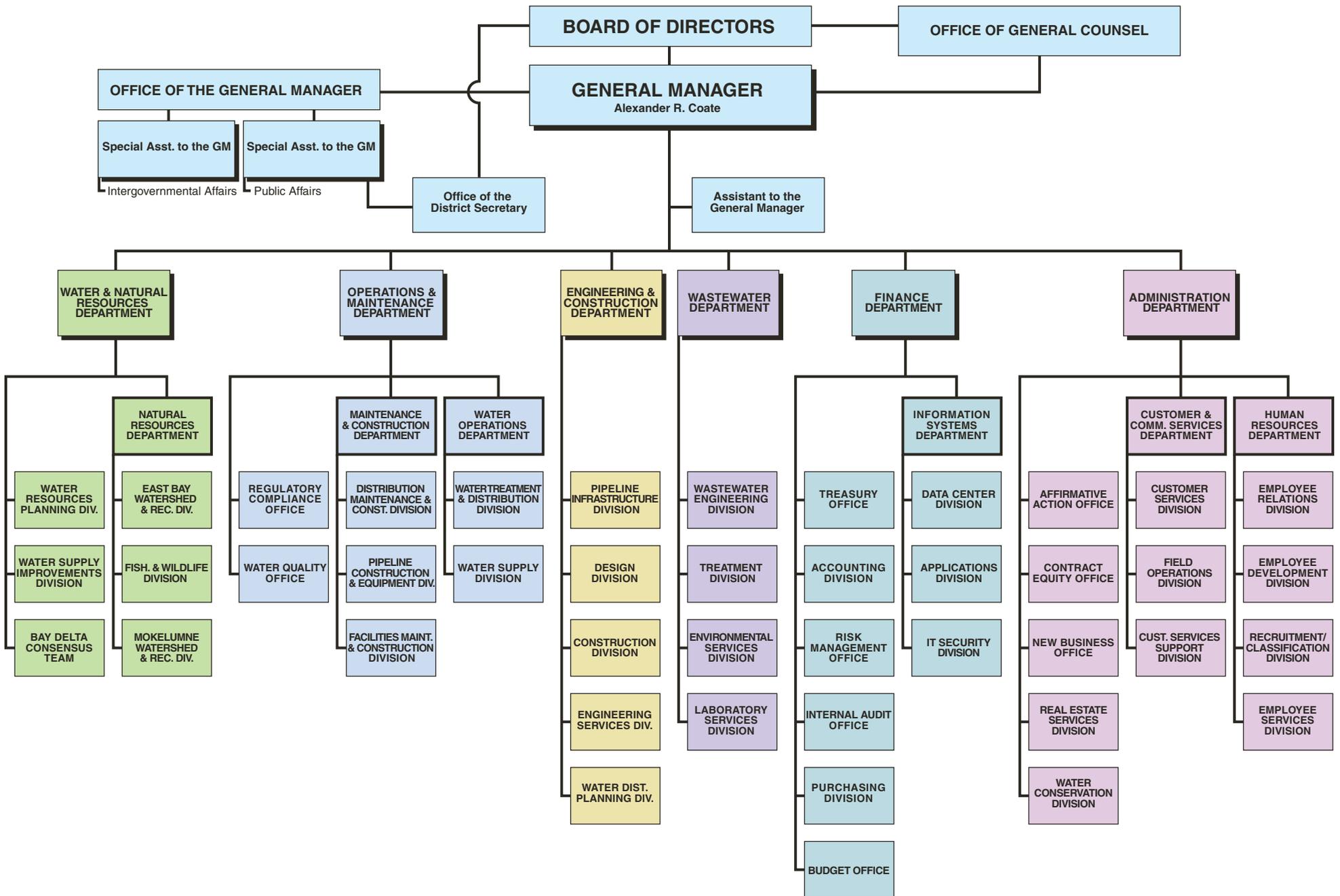
GENERAL MANAGER Alexander R. Coate

FINANCE DIRECTOR Eric L. Sandler

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, 2012 AND 2011

PREPARED BY THE
FINANCE DEPARTMENT

This Page Left Intentionally Blank

**EAST BAY MUNICIPAL UTILITY DISTRICT
 BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2012 and 2011**

Table of Contents

	<u>Page</u>
<i>Independent Auditor's Report on Basic Financial Statements</i>	1
<i>Management's Discussion and Analysis</i>	3
 <i>Basic Financial Statements</i>	
Balance Sheets - Proprietary Funds - Enterprise	17
Statements of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – Enterprise	19
Statements of Cash Flows - Proprietary Funds – Enterprise	20
Statements of Fiduciary Net Assets – Fiduciary Fund – Pension and Other Employee Benefit Trust (Component Unit)	22
Statements of Changes in Fiduciary Net Assets – Fiduciary Fund – Pension and Other Employee Benefit Trust (Component Unit)	23
Notes to Basic Financial Statements	24
 <i>Required Supplemental Information</i>	
Employee Retirement System Trust Fund:	
Schedule of Funding Progress for the Pension Plan.....	65
Schedule of Funding Progress for the Post-Employment Healthcare Plan	66
 <i>Supplemental Information</i>	
Employee Retirement System Trust Fund:	
Combining Balance Sheet	69
Combining Statement of Changes in Net Assets.....	70

This Page Left Intentionally Blank

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, 2012 and 2011, 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 auditing standards generally accepted 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 opinions.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial positions of the business-type activities, each major fund and the discretely presented component unit of the East Bay Municipal Utility District at June 30, 2012 and 2011, and the respective changes in the financial positions 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 24, 2012 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 6F, the District implemented the provisions of *Government Accounting Standards Board Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*.

Accounting principles generally accepted in the United States of America require that Management's Discussion and the schedules of employer contributions and funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the East Bay Municipal Utility District's financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



August 24, 2012

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

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, 2012. 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, 2012

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 24 to 61 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 65 to 70 of this report.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

FINANCIAL ANALYSIS

Financial Highlights

In fiscal year 2012, EBMUD continued to effectively manage its finances overcoming many fiscal challenges. EBMUD implemented cost saving programs to offset lower revenues and continued 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 decreased by \$27 million or 2% during the fiscal year.
- Capital assets decreased by \$138 million or 3% to \$4.0 billion.
- During the year, operating revenue increased by \$25 million or 7% to \$393 million.
- Operating expense increased by \$13 million or 4% to \$371 million.
- Other income (expense) decreased by \$41 million or 74% to (\$97) million.
- Capital contributions, consisting of capital facility fees, decreased by \$1 million or 2% from the prior fiscal year.

Financial Position

In the current year, the District's total net assets decreased by \$27 million or 2%. Current and other assets increased by \$178 million or 21%. Capital assets decreased by \$138 million or 3%. By far the largest portion of the District's net assets, 61% or \$1.0 billion, represents its investment in capital assets necessary to provide services.

- The Water System's net assets decreased by \$31 million or 2% during the twelve months ended June 30, 2012, due primarily to the \$24 million loss on the Hedge termination (see Note 6F) and the increase in bond interest expense due to an \$11 million reduction of capitalized interest resulting from the implementation of the Freeport Facilities as compared with the previous fiscal year.
- The Wastewater System's net assets increased by \$5 million or 2% during the twelve months ended June 30, 2012, due primarily to the \$5 million increase in operating revenues related to a stable revenue base coupled with a rate increase.

In the previous fiscal year, the District's total net assets increased by \$3 million or 0.2%. Current and other assets increased by \$34 million or 4%. Capital assets increased by \$62 million or 2%. By far the largest portion of the District's net assets, 74% or \$1.2 billion, represents its investment in capital assets necessary to provide services.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Table 1 shows the District's net assets for the fiscal years ended June 30, 2012, 2011 and 2010:

Net Assets				
Water and Wastewater				
June 30, 2012 and 2011				
(In thousands)				
	<u>2012</u>	<u>2011</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 1,025,079	847,495	177,584	21%
Capital assets	<u>4,053,742</u>	<u>4,191,759</u>	<u>(138,017)</u>	<u>(3)%</u>
Total assets	<u>5,078,821</u>	<u>5,039,254</u>	<u>39,567</u>	<u>1%</u>
Current and other liabilities	426,855	295,353	131,502	45%
Long-term liabilities	<u>3,046,800</u>	<u>3,111,477</u>	<u>(64,677)</u>	<u>(2)%</u>
Total liabilities	<u>3,473,655</u>	<u>3,406,830</u>	<u>66,825</u>	<u>2%</u>
Net assets:				
Invested in capital assets, net of related debt	983,487	1,202,772	(219,285)	(18)%
Restricted	347,554	132,173	215,381	163%
Unrestricted	<u>274,125</u>	<u>297,479</u>	<u>(23,354)</u>	<u>(8)%</u>
Total net assets	<u>\$ 1,605,166</u>	<u>1,632,424</u>	<u>(27,258)</u>	<u>(2)%</u>

Net Assets				
Water and Wastewater				
June 30, 2011 and 2010				
(In thousands)				
	<u>2011</u>	<u>2010</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 847,495	813,296	34,199	4%
Capital assets	<u>4,191,759</u>	<u>4,129,285</u>	<u>62,474</u>	<u>2%</u>
Total assets	<u>5,039,254</u>	<u>4,942,581</u>	<u>96,673</u>	<u>2%</u>
Current and other liabilities	295,353	316,227	(20,874)	(7)%
Long-term liabilities	<u>3,111,477</u>	<u>2,997,042</u>	<u>114,435</u>	<u>4%</u>
Total liabilities	<u>3,406,830</u>	<u>3,313,269</u>	<u>93,561</u>	<u>3%</u>
Net assets:				
Invested in capital assets, net of related debt	1,202,772	1,293,525	(90,753)	(7)%
Restricted	132,173	136,251	(4,078)	(3)%
Unrestricted	<u>297,479</u>	<u>199,536</u>	<u>97,943</u>	<u>49%</u>
Total net assets	<u>\$ 1,632,424</u>	<u>1,629,312</u>	<u>3,112</u>	<u>0%</u>

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Results of Operations

In the current fiscal year, the District's total operating revenue of \$393 million for the year increased by \$25 million and total operating expense of \$371 million for the year increased by \$13 million. The District's change in net assets (including capital contributions) decreased from \$3 million in the previous fiscal year to negative \$27 million in the current fiscal year. The District's total net assets decreased from \$1,632 million to \$1,605 million during the current fiscal year.

The major components of the District's results of operations were:

- Water revenues increased by \$19 million, mainly reflecting the water rate increase in the current fiscal year.
- Sewer revenues increased by \$5 million, mainly reflecting a stable revenue base, coupled with a rate increase in the current fiscal year, and an increase of property tax based wet weather facilities charges of \$1 million, as compared to the previous fiscal period.
- Power revenues decreased by \$3 million over the previous period due to lower precipitation and run-off for power generation in the current fiscal year as compared to the previous fiscal year.
- Operating expense increased by \$13 million, primarily reflecting increases in water treatment and distribution and depreciation on capital assets due to major assets being placed in service at the end of the previous fiscal and current fiscal years. These increases were offset by a decrease in General Administration due to reduced amortization expenditures as intangible assets have reached the end of their scheduled life.
- Non-operating income (net of non-operating expenses) decreased by \$41 million primarily due to the recognition of expenditures, as required by GASB 64, when the 2002 Water System Refunding Bonds SWAP derivative instrument counterparty was changed and an increase in interest expense due to the issuance of the 2010 Series Bonds in the previous fiscal year, as well as a \$16 million increase in Bond interest and amortization.
- The Fair Market Value of investments decreased \$1.687 million for Water System and \$1.088 million for Wastewater during the current fiscal year.
- Capital contributions decreased by \$1 million primarily reflecting fees received in the prior fiscal year for the relocation of District facilities. Page 12 contains additional capital contributions information.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

In the previous fiscal year, the District's total operating revenue of \$368 million for the year increased by \$19 million and total operating expense of \$358 million for the year increased by \$12 million. The District's change in net assets (including capital contributions) decreased from \$13 million in the previous fiscal year to \$3 million in the current fiscal year. The District's total net assets increased from \$1,629 million to \$1,632 million during the current fiscal year.

The major components of the District's results of operations were:

- Water revenue increased by \$13 million, mainly reflecting the water rate increase in the fiscal year.
- Sewer revenues increased by \$5 million, mainly reflecting a stable revenue base, coupled with a rate increase in the current fiscal year, 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 a return to more normal precipitation and run-off for power generation in the current fiscal year following the drought of previous fiscal years.
- Operating expense increased by \$12 million, primarily reflecting increases in water resources, information technology, sewer treatment plant operations, interception and pumping, power generation and a decrease in the overhead applied to capital projects (which decreases operating expenses) as compared to the previous fiscal period. These were offset by a decrease in recreation areas administration costs.
- Nonoperating income (net of nonoperating expense) decreased by \$24 million, primarily reflecting a \$5 million decrease in investment income, a \$1 million decrease in property tax revenue received, a \$20 million increase in Bond interest and amortization, and a \$3 million decrease in capitalized interest expense applied, offset by a \$5 million increase in other income/expense primarily from an \$8 million 2010B Build American Bond rebate.
- The Fair Market Value of investments decreased \$0.444 million for Water System and \$0.747 million for Wastewater during the previous fiscal year.
- Capital contributions increased by \$6 million primarily reflecting an increase in fees received for system capacity charges, which were lower in the previous fiscal year due to the current economic downturn.

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Table 2 shows changes in the District's net assets for the fiscal years ended June 30, 2012, 2011, and 2010:

Table 2

Changes in Net Assets
Water and Wastewater
June 30, 2012 and 2011
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water	\$ 306,228	283,644	22,584	8%
Sewer	64,252	60,313	3,939	7%
Power	4,943	8,082	(3,139)	(39)%
Wet weather facilities charges	17,228	16,064	1,164	7%
Total operating revenues	<u>392,651</u>	<u>368,103</u>	<u>24,548</u>	7%
Operating Expenses:				
Raw water	31,777	31,081	696	2%
Water treatment & distribution	91,751	84,170	7,581	9%
Recreation areas, net	5,549	5,685	(136)	(2)%
Sewer lines & pumps	12,515	13,353	(838)	(6)%
Sewer treatment plant operations	30,387	28,767	1,620	6%
Customer accounting & collecting	18,903	17,525	1,378	8%
Financial and risk management	18,213	18,054	159	1%
Facilities management	11,814	12,184	(370)	(3)%
General administration	46,855	55,339	(8,484)	(15)%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	103,452	92,146	11,306	12%
Total operating expenses	<u>371,216</u>	<u>358,304</u>	<u>12,912</u>	4%
Net operating income (expense)	21,435	9,799	11,636	119%
Nonoperating income (expense):				
Investment income	5,244	6,563	(1,319)	(20)%
Taxes & subventions	31,693	29,615	2,078	7%
Interest & amortization of bond expenses, net	(121,315)	(105,793)	(15,522)	15%
Hedge fund termination	(24,551)	—	(24,551)	N/A
Other income (expense)	12,202	14,018	(1,816)	(13)%
Total other income (expense), net	<u>(96,727)</u>	<u>(55,597)</u>	<u>(41,130)</u>	74%
Income (Loss) before contributions	(75,292)	(45,798)	(29,494)	64%
Capital contributions	48,034	48,910	(876)	(2)%
Change in net assets	<u>(27,258)</u>	3,112	(30,370)	(976)%
Total net assets – beginning	<u>1,632,424</u>	<u>1,629,312</u>	3,112	0%
Total net assets – ending	\$ <u>1,605,166</u>	<u>1,632,424</u>	<u>(27,258)</u>	(2)%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Table 2 (Continued)

Changes in Net Assets

Water and Wastewater

June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water	\$ 283,644	271,022	12,622	5%
Sewer	60,313	56,354	3,959	7%
Power	8,082	6,233	1,849	30%
Wet weather facilities charges	16,064	15,311	753	5%
Total operating revenues	<u>368,103</u>	<u>348,920</u>	<u>19,183</u>	5%
Operating Expenses:				
Raw water	31,081	28,959	2,122	7%
Water treatment & distribution	84,170	85,970	(1,800)	(2)%
Recreation areas, net	5,685	8,400	(2,715)	(32)%
Sewer lines & pumps	13,353	12,859	494	4%
Sewer treatment plant operations	28,767	25,188	3,579	14%
Customer accounting & collecting	17,525	16,115	1,410	9%
Financial and risk management	18,054	17,534	520	3%
Facilities management	12,184	11,284	900	8%
General administration	55,339	49,504	5,835	12%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	92,146	90,786	1,360	1%
Total operating expenses	<u>358,304</u>	<u>346,599</u>	<u>11,705</u>	3%
Net operating income (expense)	9,799	2,321	7,478	322%
Nonoperating income (expense):				
Investment income	6,563	11,578	(5,015)	(43)%
Taxes & subventions	29,615	30,336	(721)	(2)%
Interest & amortization of bond expenses, net	(105,793)	(80,881)	(24,912)	31%
Other income (expense)	14,018	6,873	7,145	104%
Total other income (expense), net	<u>(55,597)</u>	<u>(32,094)</u>	<u>(23,503)</u>	73%
Income (Loss) before contributions	(45,798)	(29,773)	(16,025)	54%
Capital contributions	48,910	42,811	6,099	14%
Change in net assets	3,112	13,038	(9,926)	(76)%
Total net assets – beginning	<u>1,629,312</u>	<u>1,616,274</u>	<u>13,038</u>	1%
Total net assets – ending	<u>\$ 1,632,424</u>	<u>1,629,312</u>	<u>3,112</u>	0%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Liquidity

The District had \$206 million in cash and cash equivalent investments available for operating use as of June 30, 2012. Cash and cash equivalent investments was \$194 million as of June 30, 2011. Components of cash and cash equivalents are:

- For the Water System, for the year ended June 30, 2012, cash and cash equivalents was \$155 million, an increase of \$7 million or 5%, from \$148 million in the previous fiscal year. This increase was due primarily to cash from operating activities, tax receipts and cash withdrawn from investments offsetting the expenditures in capital assets. Net cash provided by operating activities increased \$3 million or 3%, based on increased collections from customers and other income, and a reduction in payments to suppliers for goods and services as compared to the previous fiscal period.
- For the Wastewater System, for the year ended June 30, 2012, cash and cash equivalents was \$51 million, an increase of \$5 million, or 12%, from \$46 million. This increase was primarily due to cash received from customers.

Table 3 shows the District's cash flow for the fiscal years ended June 30, 2012, 2011 and 2010:

Table 3
Cash Flows
Water and Wastewater System
June 30, 2012 and 2011
(In thousands)

	2012	2011	Variance	%
Net cash provided by operating activities	\$ 152,285	\$ 140,602	11,683	8%
Net cash provided by financing activities	31,693	29,615	2,078	7%
Net cash provided by (used in) capital and related financing activities	(347,472)	(145,444)	(202,028)	139%
Net cash provided by (used in) investing activities	175,685	(119,835)	295,520	(247)%
Net increase (decrease) in cash and cash equivalents	12,191	(95,062)	107,253	(113)%
Cash and cash equivalents:				
Beginning of year	193,764	288,826	(95,062)	(33)%
End of period	<u>\$ 205,955</u>	<u>\$ 193,764</u>	<u>12,191</u>	<u>6%</u>

Cash Flows
Water and Wastewater System
June 30, 2011 and 2010
(In thousands)

	2011	2010	Variance	%
Net cash provided by operating activities	\$ 140,602	\$ 138,691	1,911	1%
Net cash provided by financing activities	29,615	30,336	(721)	(2)%
Net cash provided by (used in) capital and related financing activities	(145,444)	63,819	(209,263)	(328)%
Net cash provided by (used in) investing activities	(119,835)	(25,939)	(93,896)	362%
Net increase (decrease) in cash and cash equivalents	(95,062)	206,907	(301,969)	(146)%
Cash and cash equivalents:				
Beginning of year	288,826	81,919	206,907	253%
End of period	<u>\$ 193,764</u>	<u>\$ 288,826</u>	<u>(95,062)</u>	<u>(33)%</u>

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Capital Contributions

Capital contributions primarily consist of Capacity Charges and seismic improvement surcharges. Additionally, the District receives contributions when the District's facilities need to be relocated during construction projects, as well as state and federal grants.

The Water System's System Capacity Charge (SCC) is a way to equitably fund the capital cost of water system and pay for the cost of providing additional long-term water supply for new water service applicants. The charge is collected from all applicants who request a new water service connection or a larger water meter size, and varies depending on geographic region. The SCC pays for the applicant's share of the capital facilities including those that serve the entire water system such as the aqueducts and raw water facilities, regional facilities such as treatment plants and distribution facilities, and future water supply upgrades needed to meet long-term increases in water demand created by new customers. The portion of the SCC that pays for the Future Water Supply is restricted and the remainder is unrestricted.

The Wastewater System's Capacity Fee is treated as unrestricted funds and pays for the share of Wastewater facilities attributed to new customers.

A flat Seismic Improvement Program (SIP) Surcharge for each Single Family Residential or Multiple Family Residential account to pay for system-wide seismic improvements being made from 1995-2025. The SIP program costs are being paid over 30 years; the charge is effective on each water bill through February 28, 2025.

Table 4 shows the District's capital contributions received for the fiscal years ended June 30, 2012, 2011 and 2010:

Table 4

Capital Contributions

Water and Wastewater

June 30, 2012 and 2011

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2012	2011	2012	2011	2012	2011	Amount	%
System capacity charges	\$ 16,075	17,626	2,824	2,423	18,899	20,049	(1,150)	(6)%
Earned contributions on construction	5,870	6,481	—	668	5,870	7,149	(1,279)	(18)%
Seismic improvement surcharge	19,173	18,102	—	—	19,173	18,102	1,071	6%
Grants and other reimbursements	4,092	3,610	—	—	4,092	3,610	482	13%
Totals	\$ 45,210	45,819	2,824	3,091	48,034	48,910	(876)	(2)%

Capital Contributions

Water and Wastewater

June 30, 2011 and 2010

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2011	2010	2011	2010	2011	2010	Amount	%
System capacity charges	\$ 17,626	12,548	2,423	675	20,049	13,223	6,826	52%
Earned contributions on construction	6,481	6,004	668	1,951	7,149	7,955	(806)	(10)%
Seismic improvement surcharge	18,102	16,657	—	—	18,102	16,657	1,445	9%
Grants and other reimbursements	3,610	4,714	—	262	3,610	4,976	(1,366)	(27)%
Totals	\$ 45,819	39,923	3,091	2,888	48,910	42,811	6,099	14%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Capital Assets

Table 5 shows the District's capital assets for the fiscal years ended June 30, 2012, 2011 and 2010:

Table 5
Capital Assets, Net of Depreciation
Water and Wastewater
June 30, 2012 and 2011
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase/(decrease)</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$ 3,135,153	2,786,422	545,799	503,665	3,680,952	3,290,087	390,865	11.9%
Land and rights of way	55,432	52,939	19,986	19,904	75,418	72,843	2,575	3.5%
Construction work in progress	209,802	716,558	87,570	112,271	297,372	828,829	(531,457)	(64.1)%
Totals	<u>\$ 3,400,387</u>	<u>3,555,919</u>	<u>653,355</u>	<u>635,840</u>	<u>4,053,742</u>	<u>4,191,759</u>	<u>(138,017)</u>	<u>(3.3)%</u>

Capital Assets, Net of Depreciation
Water and Wastewater
June 30, 2011 and 2010
(In thousands)

	<u>Water System</u>		<u>Wastewater System</u>		<u>Total</u>		<u>Increase/(decrease)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>Amount</u>	<u>%</u>
Structures, buildings, and equipment	\$ 2,786,422	2,686,870	503,665	504,159	3,290,087	3,191,029	99,058	3.1%
Land and rights of way	52,939	53,477	19,904	19,744	72,843	73,221	(378)	(0.5)%
Construction work in progress	716,558	783,194	112,271	81,841	828,829	865,035	(36,206)	(4.2)%
Totals	<u>\$ 3,555,919</u>	<u>3,523,541</u>	<u>635,840</u>	<u>605,744</u>	<u>4,191,759</u>	<u>4,129,285</u>	<u>62,474</u>	<u>1.5%</u>

The District had \$4.1 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2012. Total capital assets were \$4.2 billion as of June 30, 2011. 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 2012, capital assets decreased by \$138 million or 3.3% over the prior fiscal year. In the previous fiscal year 2011, capital assets increased \$62 million or 2% over the fiscal year 2010 value. When the transfer of \$226 million, in fiscal year 2012, from construction work in progress to investment in the JPA Partnership is taken into consideration, both annual changes 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, 2012

The Water System had \$3.4 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2012. 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.

The Wastewater System had \$653 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2012. 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 expenditures included:

Water System

Pipeline Infrastructure Renewals	\$24,455
Pumping Plant Rehabilitation	13,720
Service Lateral Replacement Polybutylene	12,697
Folsom South Canal Connection	12,641
WTTIP WTP Improvements	10,497
New Service Installations	9,948
Raw Water Studies and Improvements	7,528
Pipeline Relocations	6,616
Reservoir Rehabilitation/Maintenance	5,780
Raw Water Aqueduct Operation and Maintenance Improvements	5,521
Summit Pressure Zone Improvement Study	3,479
Water Conservation Project	3,471
Open Cut Reservoir Rehabilitation	3,469
Pipeline System Extensions	3,152
Central Oakland Hills Pressure Zone Improvements	2,997
Administration Building Modifications	2,953
Additional Supplemental Supply Projects	2,646
Highland Reservoir	2,579
Mokelumne Aqueduct Recoating	2,389
Treatment Plant Upgrades	2,235
Reservoir Upgrades Seismic Improvement Project	2,129

Wastewater System

Digester Upgrade	12,189
PGS Expansion	5,175
Pump Station H Improvements	4,227
Resource Recovery Project	2,797
Infiltration/Inflow Control Project	2,490
Treatment Plant Infrastructure	2,490
Interceptor Corrosion Prevention	1,661
Routine Capital Equipment Replacement	1,319
Concrete Rehabilitation at SD1	1,234
Pump Station D and E Improvements	1,208

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

Debt Administration

The District had total long-term debt outstanding of \$3.1 billion (net of unamortized costs) as of June 30, 2012 or a 2% decrease from June 30, 2011. Total long-term debt outstanding was \$3.2 billion (net of unamortized costs) as of June 30, 2011 or 4% increase from June 30, 2010. Components of the District's long-term debt portfolio as of June 30, 2012 are:

- The Water System had total long-term debt outstanding of \$2.6 billion (net of unamortized costs). During the second quarter of the fiscal year 2012, the District issued \$159 million in Series 2011A Bonds to refund \$163 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2002.
- The Wastewater System had total long-term debt outstanding of \$481 million (net of unamortized costs). Total long-term debt decreased by \$13 million as General Obligation and Revenue Bond principal was retired during the year.

Table 6 shows the District's long-term debt outstanding for the fiscal years ended June 30, 2012, 2011 and 2010:

Table 6
Long -Term Debt
(Net of Unamortized Costs)
Water and Wastewater
June 30, 2012 and 2011
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2012	2011	2012	2011	2012	2011	Amount	%
General obligation bonds	\$ —	—	21,847	24,681	21,847	24,681	(2,834)	(11)%
Revenue bonds	2,294,115	2,334,475	444,366	454,285	2,738,481	2,788,760	(50,279)	(2)%
Extendable commercial paper	312,900	312,900	15,000	15,000	327,900	327,900	—	0%
Loans	17,970	26,501	—	—	17,970	26,501	(8,531)	(32)%
Totals	\$ 2,624,985	2,673,876	481,213	493,966	3,106,198	3,167,842	(61,644)	(2)%

Long -Term Debt
(Net of Unamortized Costs)
Water and Wastewater
June 30, 2011 and 2010
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2011	2010	2011	2010	2011	2010	Amount	%
General obligation bonds	\$ —	—	24,681	27,330	24,681	27,330	(2,649)	(10)%
Revenue bonds	2,334,475	2,373,062	454,285	296,903	2,788,760	2,669,965	118,795	4%
Extendable commercial paper	312,900	290,300	15,000	15,000	327,900	305,300	22,600	7%
Loans	26,501	29,028	—	20,651	26,501	49,679	(23,178)	(47)%
Totals	\$ 2,673,876	2,692,390	493,966	359,884	3,167,842	3,052,274	115,568	4%

EAST BAY MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis

June 30, 2012

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 7.

Table 7
Debt Ratings
Water and Wastewater
June 30, 2012

District debt by type	Rating by		
	Standard & Poor's	Moody's Investors Service	Fitch
Water system:			
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+
Wastewater system:			
General Obligation Bonds	AAA	Aa2	-
Fixed Rate Revenue Bonds	AAA	Aa2	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa2	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

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, 2012, the Water System had \$602.3 and the Wastewater System had \$204.3 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 or visit our website at <http://www.ebmud.com>.

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PROPRIETARY FUNDS - ENTERPRISE
JUNE 30, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Assets	Water System		Wastewater System		Total	
	2012	2011	2012	2011	2012	2011
Current assets:						
Cash and investments (Note 2)	\$279,970	\$293,888	\$56,838	\$46,661	\$336,808	\$340,549
Receivables:						
Customer	41,183	25,152	5,871	3,785	47,054	28,937
Interest and other	6,618	7,714	1,628	2,416	8,246	10,130
Materials and supplies	6,773	6,162			6,773	6,162
Prepaid insurance	1,083	1,074			1,083	1,074
Total current assets	<u>335,627</u>	<u>333,990</u>	<u>64,337</u>	<u>52,862</u>	<u>399,964</u>	<u>386,852</u>
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Bond construction fund	411	109,471	35,532	69,384	35,943	178,855
Capitalized interest fund			3,327	6,851	3,327	6,851
Bond interest and redemption fund	24,210	47		8	24,210	55
Debt service reserve fund	46,730	61,296	2,538	2,441	49,268	63,737
Funds received for construction	23,492	40,473			23,492	40,473
FERC partnership fund	2,238	2,209			2,238	2,209
Monetary reserve	722	720			722	720
Total restricted cash and investments	<u>97,803</u>	<u>214,216</u>	<u>41,397</u>	<u>78,684</u>	<u>139,200</u>	<u>292,900</u>
Unrestricted investments (Note 2):						
Reserve funded CIP			14,288	14,132	14,288	14,132
Vehicle/equipment replacement fund	7,844	6,875	8,674	6,970	16,518	13,845
Total unrestricted cash and investments	<u>7,844</u>	<u>6,875</u>	<u>22,962</u>	<u>21,102</u>	<u>30,806</u>	<u>27,977</u>
Other assets:						
Deferred bond issuance costs	10,776	12,238	2,766	3,030	13,542	15,268
Deferred outflow of resources (Note 6)	168,317	89,037	24,399	12,479	192,716	101,516
JPA partnership fund	248,406	22,601			248,406	22,601
Other	180	120	264	261	444	381
Total other assets	<u>427,679</u>	<u>123,996</u>	<u>27,429</u>	<u>15,770</u>	<u>455,108</u>	<u>139,766</u>
Capital assets (Note 3):						
Structures, buildings, and equipment	4,473,086	4,040,077	877,664	815,810	5,350,750	4,855,887
Less accumulated depreciation	<u>(1,337,933)</u>	<u>(1,253,655)</u>	<u>(331,865)</u>	<u>(312,145)</u>	<u>(1,669,798)</u>	<u>(1,565,800)</u>
Subtotal	3,135,153	2,786,422	545,799	503,665	3,680,952	3,290,087
Land and rights-of-way	55,432	52,939	19,986	19,904	75,418	72,843
Construction in progress	209,802	716,558	87,570	112,271	297,372	828,829
Total capital assets, net	<u>3,400,387</u>	<u>3,555,919</u>	<u>653,355</u>	<u>635,840</u>	<u>4,053,742</u>	<u>4,191,759</u>
Total noncurrent assets	<u>3,933,713</u>	<u>3,901,006</u>	<u>745,143</u>	<u>751,396</u>	<u>4,678,856</u>	<u>4,652,402</u>
Total assets	<u>\$4,269,340</u>	<u>\$4,234,996</u>	<u>\$809,480</u>	<u>\$804,258</u>	<u>\$5,078,820</u>	<u>\$5,039,254</u>

See accompanying notes to basic financial statements

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
PRORIETARY FUNDS - ENTERPRISE
JUNE 30, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Liabilities and Net Assets	Water System		Wastewater System		Totals	
	2012	2011	2012	2011	2012	2011
Current liabilities:						
Current maturities of long-term debt (Note 5 & 6)	\$46,378	\$43,875	\$13,020	\$12,490	\$59,398	\$56,365
Accounts payable and accrued expenses (Note 4)	59,425	51,478	9,405	9,471	68,830	60,949
Current reserve for claims	6,437	5,926	703	652	7,140	6,578
Accrued interest	8,754	9,149	1,907	1,970	10,661	11,119
Total current liabilities	120,994	110,428	25,035	24,583	146,029	135,011
Noncurrent liabilities:						
Other liabilities:						
Advances for construction	4,109	4,473			4,109	4,473
Derivative instrument (Note 6)	168,317	89,037	24,399	12,479	192,716	101,516
Deferred inflow of resources (Note 6F)	24,551				24,551	
OPEB liability (Note 8F)	13,508	10,404	2,435	1,855	15,943	12,259
Reserve for claims (Note 9)	31,017	29,963	5,466	5,233	36,483	35,196
Other liabilities	1,416	2,078	5,607	4,820	7,023	6,898
Total other liabilities	242,918	135,955	37,907	24,387	280,825	160,342
Long-term liabilities, net of current maturities (Note 5 & 6)	2,578,608	2,630,001	468,192	481,476	3,046,800	3,111,477
Total noncurrent liabilities	2,821,526	2,765,956	506,099	505,863	3,327,625	3,271,819
Total liabilities	2,942,520	2,876,384	531,134	530,446	3,473,654	3,406,830
Net assets (Note 7):						
Invested in capital assets, net of related debt	775,812	991,514	207,675	211,258	983,487	1,202,772
Restricted for construction	19,383	36,000	3,327	6,851	22,710	42,851
Restricted for debt service	70,940	61,343	2,538	2,449	73,478	63,792
Restricted - other	251,366	25,530			251,366	25,530
Unrestricted	209,319	244,225	64,806	53,254	274,125	297,479
Total net assets	1,326,820	1,358,612	278,346	273,812	1,605,166	1,632,424
Total liabilities and net assets	\$4,269,340	\$4,234,996	\$809,480	\$804,258	\$5,078,820	\$5,039,254

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, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2012	2011	2012	2011	2012	2011
Operating revenue:						
Water	\$306,228	\$283,644			\$306,228	\$283,644
Sewer			\$64,252	\$60,313	64,252	60,313
Power	4,609	8,082	334		4,943	8,082
Wet weather facilities charges			17,228	16,064	17,228	16,064
Total operating revenue	310,837	291,726	81,814	76,377	392,651	368,103
Operating expense:						
Raw water	31,777	31,081			31,777	31,081
Water treatment and distribution	91,751	84,170			91,751	84,170
Recreation areas, net	5,549	5,685			5,549	5,685
Sewer lines and pumping			12,515	13,353	12,515	13,353
Sewer treatment plant operations			30,387	28,767	30,387	28,767
Customer accounting and collecting	16,394	15,290	2,509	2,235	18,903	17,525
Financial and risk management	17,568	17,480	645	574	18,213	18,054
Facilities management	11,814	12,184			11,814	12,184
General administration	40,409	45,346	6,446	6,909	46,855	52,255
Depreciation on utility plant and vehicles	83,732	76,169	19,720	19,061	103,452	95,230
Total operating expense	298,994	287,405	72,222	70,899	371,216	358,304
Net operating income (loss)	11,843	4,321	9,592	5,478	21,435	9,799
Other income (expense):						
Investment income	4,671	5,284	573	1,279	5,244	6,563
Taxes and subventions	23,386	22,236	8,307	7,379	31,693	29,615
Interest and amortization of bond expenses, net of capitalized interest of \$13,295 and \$24,590 for the Water System and \$3,808 and \$3,433 for the Wastewater System in 2012 and 2011, respectively	(103,358)	(89,833)	(17,957)	(15,960)	(121,315)	(105,793)
Hedge fund termination (Note 6F)	(24,551)				(24,551)	
Other income	11,007	11,569	1,195	2,449	12,202	14,018
Total other income (expense), net	(88,845)	(50,744)	(7,882)	(4,853)	(96,727)	(55,597)
Income before capital contributions	(77,002)	(46,423)	1,710	625	(75,292)	(45,798)
Capital contributions	45,210	45,819	2,824	3,091	48,034	48,910
Change in net assets	(31,792)	(604)	4,534	3,716	(27,258)	3,112
Total net assets - beginning	1,358,612	1,359,216	273,812	270,096	1,632,424	1,629,312
Total net assets - ending	\$1,326,820	\$1,358,612	\$278,346	\$273,812	\$1,605,166	\$1,632,424

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, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2012	2011	2012	2011	2012	2011
Cash flows from operating activities						
Cash received from customers	\$294,806	\$290,620	\$79,728	\$76,506	\$374,534	\$367,126
Cash received from other income	11,007	11,569	1,195	2,449	12,202	14,018
Cash payments for judgments and claims	(4,985)	(6,111)	(1,966)	(113)	(6,951)	(6,224)
Cash payments to suppliers for goods and services	(36,907)	(39,429)	(20,837)	(30,376)	(57,744)	(69,805)
Cash payments to employees for services	(143,095)	(138,846)	(26,662)	(25,667)	(169,757)	(164,513)
Net cash provided by operating activities	<u>120,826</u>	<u>117,803</u>	<u>31,458</u>	<u>22,799</u>	<u>152,284</u>	<u>140,602</u>
Cash flows from noncapital financing activities:						
Tax receipts	<u>23,386</u>	<u>22,236</u>	<u>8,307</u>	<u>7,379</u>	<u>31,693</u>	<u>29,615</u>
Net cash provided by financing activities	<u>23,386</u>	<u>22,236</u>	<u>8,307</u>	<u>7,379</u>	<u>31,693</u>	<u>29,615</u>
Capital and related financing activities:						
Capital contributions	45,210	45,819	2,824	3,091	48,034	48,910
Net proceeds from advances for construction	(364)	(261)			(364)	(261)
Proceeds from sale of capital assets	802	55,441			802	55,441
Net proceeds and premiums from sale of bonds	159,789	(660)	(97)	281,114	159,692	280,454
Acquisition and construction of capital assets	(172,734)	(188,632)	(38,370)	(50,258)	(211,104)	(238,890)
Principal retirement on long-term debt and commercial paper	(48,890)	(41,115)	(12,754)	(24,478)	(61,644)	(65,593)
Amount paid to refunding bond escrow agent	(162,820)			(117,166)	(162,820)	(117,166)
Costs and discounts from issuance on long-term debt	(21)			(2,119)	(21)	(2,119)
Interest paid on long-term debt	(102,291)	(89,304)	(17,756)	(16,916)	(120,047)	(106,220)
Net cash provided by (used in) capital and related financing activities	<u>(281,319)</u>	<u>(218,712)</u>	<u>(66,153)</u>	<u>73,268</u>	<u>(347,472)</u>	<u>(145,444)</u>
Cash flows from investing activities:						
Proceeds from securities	368,590	446,135	70,758	62,576	439,348	508,711
Expenditures from purchases of securities	(229,363)	(494,847)	(40,033)	(141,089)	(269,396)	(635,936)
Interest received on investments	4,693	5,981	1,041	1,409	5,734	7,390
Net cash provided by (used in) investing activities	<u>143,920</u>	<u>(42,731)</u>	<u>31,766</u>	<u>(77,104)</u>	<u>175,686</u>	<u>(119,835)</u>
Net increase (decrease) in cash and cash equivalents	6,813	(121,404)	5,378	26,342	12,191	(95,062)
Cash and cash equivalents:						
Beginning of year	<u>147,867</u>	<u>269,271</u>	<u>45,897</u>	<u>19,555</u>	<u>193,764</u>	<u>288,826</u>
End of period	<u>\$154,680</u>	<u>\$147,867</u>	<u>\$51,275</u>	<u>\$45,897</u>	<u>\$205,955</u>	<u>\$193,764</u>

See accompanying notes to basic financial statements

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2012	2011	2012	2011	2012	2011
Reconciliation of net operating (loss) income to net cash provided by operating activities:						
Net operating income (loss)	\$11,843	\$4,321	\$9,592	\$5,478	\$21,435	\$9,799
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation on utility plant and vehicle	83,732	76,169	19,720	19,061	103,452	95,230
Depreciation within recreation areas	1,556	1,548			1,556	1,548
Amortization	16,371	23,096	1,135	1,101	17,506	24,197
Other income	11,007	11,569	1,195	2,449	12,202	14,018
Changes in assets/liabilities:						
Materials and supplies	(611)	(528)			(611)	(528)
Prepaid insurance	(9)	(49)			(9)	(49)
Customer receivables	(16,031)	(1,106)	(2,086)	129	(18,117)	(977)
Other assets	1,014	(1,533)	317	635	1,331	(898)
OPEB liability	3,104	2,738	580	510	3,684	3,248
Reserve for claims	1,565	2,378	284	633	1,849	3,011
Accounts payable and accrued expenses	7,285	(800)	721	(7,197)	8,006	(7,997)
Net cash provided by operating activities	<u>\$120,826</u>	<u>\$117,803</u>	<u>\$31,458</u>	<u>\$22,799</u>	<u>\$152,284</u>	<u>\$140,602</u>
Cash as presented on the Statement of Net Assets as Follows:						
Cash and investments included in current assets	\$279,970	\$293,888	\$56,838	\$46,661	\$336,808	\$340,549
Cash and investments included in restricted assets	97,803	214,216	41,397	78,684	139,200	292,900
Cash and investments included in unrestricted assets	7,844	6,875	22,962	21,102	30,806	27,977
Total Districts cash and investments	<u>385,617</u>	<u>514,979</u>	<u>121,197</u>	<u>146,447</u>	<u>506,814</u>	<u>661,426</u>
Less non-current investments	<u>(230,937)</u>	<u>(367,112)</u>	<u>(69,922)</u>	<u>(100,550)</u>	<u>(300,859)</u>	<u>(467,662)</u>
District cash and cash equivalents	<u>\$154,680</u>	<u>\$147,867</u>	<u>\$51,275</u>	<u>\$45,897</u>	<u>\$205,955</u>	<u>\$193,764</u>
Schedule of Non-Cash Activities						
Change in Fair Market Value	<u>\$163</u>	<u>\$1,850</u>	<u>(\$1,815)</u>	<u>(\$747)</u>	<u>(\$1,652)</u>	<u>\$1,103</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, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	2012	2011
Assets:		
Cash and investments (Note 2)	\$33,068	\$48,462
Invested securities lending collateral (Note 2)	100,577	129,553
Receivables:		
Contributions	2,602	2,132
Interest and other	10,312	25,412
Prepaid expenses	434	430
Retirement system investments, at fair value (Note 2):		
U.S. government obligations	121,790	141,372
Municipal bond	2,840	3,077
Domestic corporate bonds	84,499	72,386
International bonds	7,077	7,762
Domestic stocks	515,957	486,091
International stocks	177,166	202,510
Real estate	48,876	17,730
	958,205	930,928
Total investments		
	1,105,198	1,136,917
Total assets		
Liabilities:		
Accounts payable and accrued expenses	1,365	1,362
Retirement system liabilities	16,284	37,763
Securities lending collateral (Note 1.L.)	100,577	129,553
	118,226	168,678
Total liabilities		
Net assets:		
Held in trust for pension benefits	973,403	956,173
Held in trust for post-employment healthcare benefits	13,569	12,066
	\$986,972	\$968,239
Total net assets		

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUND- PENSION AND OTHER EMPLOYEE BENEFIT TRUST
(COMPONENT UNIT)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	2012	2011
Additions:		
Contributions		
Employer	\$59,651	\$58,481
Plan members	10,723	10,850
Total contributions	70,374	69,331
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Traded securities	(1,387)	176,346
Real Estate	1,160	2,363
Interest	8,278	9,023
Dividends	10,698	7,398
Real estate operating income (loss), net	981	890
Total investment income (loss)	19,730	196,020
Less:		
Investment expense	(3,380)	(2,734)
Borrowers' rebates and other agent fees on securities lending transactions	(63)	(179)
Net investment income (loss)	16,287	193,107
Total additions, net	86,661	262,438
Deductions:		
Benefits paid	66,254	61,862
Refund of contributions	589	252
Administrative expenses	1,085	1,137
Total deductions	67,928	63,251
Change in net assets	18,733	199,187
Net assets:		
Beginning of year	968,239	769,052
End of year	\$986,972	\$968,239

See accompanying notes to basic financial statements

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(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 or visit our website at <http://www.ebmud.com>.

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, 2011.

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, 2012 AND 2011
(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, 2012 AND 2011
(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, 2012 AND 2011
(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 2.06% and 2.03% average net book value of capital assets for the years ended June 30, 2012 and 2011.

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. 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.

Bond Reserved Fund: In connection with certain series of the District's outstanding bonds, a Bond Reserve Fund is created and required to be maintained at a specified level. Amounts in a Bond Reserve Fund may only be used for the payment of principal of and interest on the related series of Bonds in the event the District fails to transfer the required payment from the related system Revenue Fund (the respective designated part of the General Fund) or for the payment of redemption of all of the related series of Bonds then outstanding or for the payment of the final principal and interest payments on the related series of Bonds.

Bond Interest and Redemption Fund: Under the District's bond indentures, the District is required to transfer funds to the Trustee for the payment of principal and interest on the outstanding bonds one business day prior to the date such payment is due. The District uses the Bond Interest and Redemption Fund to segregate funds accumulated for such payments. In addition, under certain of the interest rate swap agreements related to the District's outstanding bonds, the District is required to post collateral to the swap counterparty to the extent that the District's total exposure for termination payments under the swap agreement exceeds the threshold amount specified in the applicable swap agreement. The District also uses the Bond Interest and Redemption Fund to segregate District funds held by the applicable custodian to satisfy this collateral posting obligation.

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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012, 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

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent’s short-term investment pool, which as of June 30, 2012, had a weighted average maturity of 39 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 87 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, 2012, the fair value of securities on loan was \$100,577. The total cash and non-cash collateral held by the System’s custodian to secure these securities on loan was valued at \$99,775, consisting of \$99,568 cash collateral and \$207 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, 2012, 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	\$28,231
Additions	28,868
Payments	<u>(28,329)</u>
Ending Balance	<u><u>\$28,770</u></u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
--

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.

P. Interest Rate Swap

The District enters into interest rate swap agreements to modify interest rates on some outstanding debt. The net interest is recorded in the financial statements annually. In the current year, the hedge fund termination has been recorded, see Note 6F for further details.

In June 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. The District implemented GASB 53 in fiscal 2010.

Q. Reclassification

For the year ended June 30, 2012, 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 2012 presentation.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 2012, are as follows:

	Water System	Wastewater System	Total
<i>District Enterprise Funds:</i>			
Cash and investments included in current assets	\$279,970	\$56,838	\$336,808
Cash and investments included in unrestricted assets	7,844	22,962	30,806
Total District unrestricted cash and investments	287,814	79,800	367,614
Cash and investments included in restricted assets	97,803	41,397	139,200
Total District cash and investments	385,617	121,197	506,814
Less non-current investments	(230,937)	(69,922)	(300,859)
	\$154,680	\$51,275	\$205,955
 <i>System Pension Trust Funds:</i>			
Cash and investments			\$33,068
Invested securities lending collateral			100,577
Retirement system investments			958,205
Total System cash and investments			\$1,091,850

B. District Enterprise Fund 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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	\$50,000 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	5 Years	AA	40%	10%

The District does not enter into reverse repurchase agreements.

C. District Enterprise Fund 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 Short term 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	FDIC insured or collateralised
Time Certificates of Deposits - Banks or Savings and Loans	FDIC insured or collateralised
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

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Employees Retirement System Authorized Investment Strategy

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. 6713*.

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 vary by up to $\pm 5\%$ 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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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. Structured notes issued by the U.S. Government (treasuries and agencies) will be considered allowable investments, and are exempt from this 5% restriction.

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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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	\$37,156	\$1,484	\$2,798		\$41,438
Callable	24,736		12,245		36,981
Corporate Securities:					
Non-callable	47,658	34,577	17,133		99,368
Municipal Bonds	6,676	5,049	1,702	\$63,675	77,102
Commercial Paper Discounted at Cost	19,904				19,904
Guaranteed Investment Contracts	12,000				12,000
Demand Deposits and Certificate of Deposit	10,945				10,945
Mutual Funds (U.S. Securities)	131,029				131,029
California Local Agency Investment Fund	49,447				49,447
Total Investments	<u>\$339,551</u>	<u>\$41,110</u>	<u>\$33,878</u>	<u>\$63,675</u>	478,214
Cash in banks					<u>28,600</u>
Total District Cash and Investments					<u>\$506,814</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

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		\$3,563	\$434	\$2,947		\$6,944
Equity Securities	\$662,740					662,740
Commercial Mortgage - Backed Securities				12,325		12,325
Corporate Bonds	686	22,350	29,706	17,329	\$3,266	73,337
Government Agencies	270	18,615	894	32,236		52,015
Government Bonds		3,598	2,592	4,973		11,163
Government Mortgage Backed Securities		20	403	35,270	1,160	36,853
Government Issued Commercial Mortgage-Backed Securities		138	293			431
Index Linked Government Bonds	11,827	9,232		688		21,747
Short Term Investment Funds					15,723	15,723
Municipal Bonds			78	2,762		2,840
Mutual Funds				3,371		3,371
Real Estate					48,876	48,876
Other Fixed Income		1,218			8,622	9,840
Total System Investments	\$675,523	\$58,734	\$34,400	\$111,901	\$77,647	\$958,205

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, 2012, these investments matured in an average of 268 days.

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

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Backed Securities	\$12,325
Government Mortgage - Backed Securities	36,853
Government Issued Commercial Mortgage - Backed Securities	431

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 2012, for each investment type as provided by Moody's.

District Enterprise Funds:

Investment Type	Aaa	Aa1	Aa2	Aa3	A	A1	Total
U.S. Government -Sponsored							
Enterprise Agencies:							
Non-callable	\$41,438						\$41,438
Callable	36,981						36,981
Corporate Securities:							
Non-Callable	24,743	\$4,922	\$5,252	\$36,608		\$27,843	99,368
Municipal Bonds		45,225	6,380	22,223			73,828
Commercial Paper Discounted at Cost				19,904			19,904
Guaranteed Investment Contracts				12,000			12,000
Mutual Funds (U.S. Securities)	78,729				\$52,300		131,029
Totals	<u>\$181,891</u>	<u>\$50,147</u>	<u>\$11,632</u>	<u>\$90,735</u>	<u>\$52,300</u>	<u>\$27,843</u>	414,548

Not rated:

Demand Deposits and Certificate of Deposit	10,945
Municipal Bonds	3,274
California Local Agency Investment Fund	49,447
Cash in Banks	28,600
Total District Cash and Investments	<u>\$506,814</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	\$4,512	\$541	\$99			\$311	\$831	\$595	\$55			\$6,944
Equity Securities											\$662,740	662,740
Commercial Mortgage - Backed Securities	8,320	1,092	14								2,899	12,325
Corporate Bonds	1,012	15,139	32,781	\$14,086	\$1,475	412					8,432	73,337
Government Agencies	48,565	648	1,497	104						\$1,201		52,015
Government Bonds	10,129			1,034								11,163
Government Mortgage Backed Securities										36,853		36,853
Government Issued Commercial Mortgage - Backed Securities										431		431
Index Linked Government Bonds	21,747											21,747
Short Term Investment Funds											15,723	15,723
Municipal Bonds		1,955	885									2,840
Mutual Funds	11		140	730		751	1,191	45	41		462	3,371
Real Estate											48,876	48,876
Other Fixed Income											9,840	9,840
Total System Investments	<u>\$94,296</u>	<u>\$19,375</u>	<u>\$35,416</u>	<u>\$15,954</u>	<u>\$1,475</u>	<u>\$1,474</u>	<u>\$2,022</u>	<u>\$640</u>	<u>\$96</u>	<u>\$38,485</u>	<u>\$748,972</u>	<u>\$958,205</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

G. Concentration Risk

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

District Enterprise Funds:

<u>Reporting Unit</u>	<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
District-Wide			
	FNMA	Federal Agency Securities	\$30,447
	FHLMC	Federal Agency Securities	30,233
	GECC	Corporate Securities	27,843
	Metropolitan Water District	Municipal Bonds	45,225
	Metropolitan Life	Corporate Securities	26,584
	Toyota Motor Credit	Commercial Paper Discounted at Cost	29,928
Major Funds:			
Water System			
	FNMA	Federal Agency Securities	26,184
	Toyota Motor Credit	Commercial Paper Discounted at Cost	29,928
	Metropolitan Water District	Municipal Bonds	41,225
	Hysperia Unified School District	Municipal Bonds	18,450
Wastewater System			
	FHLMC	Federal Agency Securities	28,233
	GECC	Corporate Securities	18,713
	Metropolitan Life	Corporate Securities	9,337

System Pension Trust Fund:

Significant System Pension Trust Fund investments are:

<u>Nature of Investment</u>	<u>Fair Value at Year End</u>
Northern Trust Collective Daily Russell 1000 Equity Index Fund	\$225,430

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 2 - CASH AND INVESTMENTS (Continued)

H. Foreign Currency Risk

System Pension Trust Fund:

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, 2012:

Foreign Currency	Equity Securities Investment Type
Euro	\$48,664
British Pound Sterling	28,262
Japanese Yen	13,662
Hong Kong Dollar	12,689
Swiss Franc	10,297
South Korean Won	6,762
Norwegian Krone	3,810
Canadian Dollar	2,885
Danish Krone	2,778
Swedish Krona	2,650
Singapore Dollar	2,288
Mexican Peso	2,265
Brazilian Real	2,087
Australian Dollar	1,473
Indonesian Rupiah	1,290
Turkish Lira	1,065
Thai Baht	943
South African Rand	883
Malaysia Ringgit	732
Total	\$145,485

The Fund's investment policy permits it to invest up to 20% of total investment on foreign currency-denominated investments. The Fund's current position is 18%.

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
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

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, 2012 and 2011, the System's brokers/dealers held \$89 and \$80, respectively, in cash and US government bonds exposed to custodial credit risk.

J. Joint Powers Authority

On June 28, 1995, the Dublin San Ramon Service District (DSRSD) and East Bay Municipal Utility District (District) entered into a Joint Powers Agreement (JPA) and established the DSRSD/EBMUD Recycled Water Authority (DERWA) with the purpose of creating a recycle water program in the San Ramon and Livermore-Amador Valleys. The JPA governing body is not substantially the same as the District and its independent Board consists of two directors from the DSRSD and District. The JPA books and records are being maintained separately from DSRSD and the District. The DSRSD and District make member contribution to fund the JPA start-up and capital projects at the request of the JPA on an as needed basis. Although DERWA has a significant relationship with the District, DERWA does not provide services solely to the District, and therefore, is presented discretely.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 3 – CAPITAL ASSETS

A. Summary

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

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

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

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

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 3 – CAPITAL ASSETS (Continued)

B. Additions and Retirements

Capital assets activity for all business-type activities for the year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2012
<i>Water System:</i>				
Capital assets, not being depreciated:				
Land	\$50,581	\$1,896		\$52,477
Rights-of-way	2,358	597		2,955
Construction in progress - Land	2,832	83	(\$2,493)	422
Construction in progress	713,726	(55,828)	(448,518)	209,380
Total capital assets, not being depreciated	<u>769,497</u>	<u>(53,252)</u>	<u>(451,011)</u>	<u>265,234</u>
Capital assets, being depreciated:				
Buildings and improvements	211,288	4,521		215,809
System and improvements	3,752,971	441,994	(15,008)	4,179,957
Machinery and equipment	75,818	2,003	(501)	77,320
Total capital assets, being depreciated:	<u>4,040,077</u>	<u>448,518</u>	<u>(15,509)</u>	<u>4,473,086</u>
Less accumulated depreciation for:				
Buildings and improvements	(77,121)	(4,765)		(81,886)
System and improvements	(1,120,192)	(76,877)	578	(1,196,491)
Machinery and equipment	(56,342)	(3,646)	432	(59,556)
Total accumulated depreciation	<u>(1,253,655)</u>	<u>(85,288)</u>	<u>1,010</u>	<u>(1,337,933)</u>
Total capital assets, being depreciated, net	<u>2,786,422</u>	<u>363,230</u>	<u>(14,499)</u>	<u>3,135,153</u>
Water System capital assets, net	<u>\$3,555,919</u>	<u>\$309,978</u>	<u>(\$465,510)</u>	<u>\$3,400,387</u>
<i>Wastewater System:</i>				
Capital assets, not being depreciated:				
Land	\$19,713	\$82		\$19,795
Rights-of-way	191			191
Construction in progress - Land	26	298	(\$82)	242
Construction in progress	112,245	38,311	(63,228)	87,328
Total capital assets, not being depreciated	<u>132,175</u>	<u>38,691</u>	<u>(63,310)</u>	<u>107,556</u>
Capital assets, being depreciated:				
Buildings and improvements	74,506	635		75,141
System and improvements	733,653	61,389	(1,374)	793,668
Machinery and equipment	7,651	1,204		8,855
Total capital assets, being depreciated	<u>815,810</u>	<u>63,228</u>	<u>(1,374)</u>	<u>877,664</u>
Less accumulated depreciation for:				
Buildings and improvements	(28,438)	(1,678)		(30,116)
System and improvements	(278,681)	(17,654)		(296,335)
Machinery and equipment	(5,026)	(388)		(5,414)
Total accumulated depreciation	<u>(312,145)</u>	<u>(19,720)</u>		<u>(331,865)</u>
Total capital assets, being depreciated, net	<u>503,665</u>	<u>43,508</u>	<u>(1,374)</u>	<u>545,799</u>
Wastewater System capital assets, net	<u>\$635,840</u>	<u>\$82,199</u>	<u>(\$64,684)</u>	<u>\$653,355</u>
Business-type activities capital assets, net	<u>\$4,191,759</u>	<u>\$392,177</u>	<u>(\$530,194)</u>	<u>\$4,053,742</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 3 – CAPITAL ASSETS (Continued)

C. Construction in Progress

Construction in Progress in fiscal 2011-2012 comprises:

	<u>Expended to Date</u>
<i>Water System:</i>	
Pipeline Infrastructure Renewals	\$18,983
Water Treatment & Transmission Improvement Program - Water Treatment Plant	18,497
Pumping Plant Rehabilitation	17,969
Summit Pressure Zone Improvement Study	14,236
Reservoir Rehabilitation/Maintenance	10,456
Open Cut Reservoir Rehabilitation	9,601
Raw Water Aqueduct Operations and Maintenance Improvements	7,876
Central Oakland Hills Cascade Pressure Zone Improvement Study	7,713
Treatment Plant Upgrades	7,244
San Ramon Valley Recycled Water Program	6,967
Raw Water Studies and Improvements	6,168
Administration Building Modifications	6,167
Water Conservation Project	5,531
Reservoir Upgrades Seismic Improvement Program	5,428
Dam Seismic Upgrades	4,747
Pipeline Relocations	4,182
Additional Supplemental Supply Projects	4,124
Mokelumne Aqueduct Recoating	3,547
Water Treatment & Transmission Improvement Program - Distribution Improvements	3,262
Round Hill Pressure Zone Improvements	2,960
Other Construction Projects	44,144
Total Water System	\$209,802
<i>Wastewater System:</i>	
Digester Upgrade	\$48,575
Power Generation Station Expansion	10,756
Pump Station H Improvements	6,715
Resource Recovery Project	4,044
Treatment Plant Infrastructure	3,684
Interceptor Corrosion Prevention	2,499
Main Wastewater Treatment Plant Master Plan	2,082
Pump Station D & E Improvements	1,743
Concrete Rehabilitation at SD1	1,520
Distributed Control System Upgrade	1,335
Routine Capital Equipment Replacement	996
Power Generation Station Engine Overhaul	746
South Interceptor Relocation at High Street	533
Power Generation Station Expansion	396
Buchanan Street Sewer Interceptor	378
Other Construction Projects	1,568
Total Wastewater System	\$87,570
Total District Construction in Progress	\$297,372

At June 30, 2012, the District's remaining current major project commitments are estimated to be \$23,032 for the Water System and \$12,436 for the Wastewater System.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2012 and 2011 consist of:

	Water System		Wastewater System		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Accounts payable	\$16,059	\$11,982	\$2,723	\$3,078	\$18,782	\$15,060
Accrued salaries	5,288	4,524	969	838	6,257	5,362
Accrued compensated absences	24,399	23,991	4,371	4,240	28,770	28,231
Other	13,679	10,981	1,342	1,315	15,021	12,296
Total	<u>\$59,425</u>	<u>\$51,478</u>	<u>\$9,405</u>	<u>\$9,471</u>	<u>\$68,830</u>	<u>\$60,949</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. As of June 30, 2012, the District had \$425 million authorized for this program. 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.

The District replaced the commercial paper program with an extendable commercial paper program in March 2009. Under the extendable commercial paper program, no liquidity support agreement (line of credit) with a commercial bank is needed. Instead, the District limits the term of the extendable commercial paper to 120 days, and the investor agrees to extend the maturity of their investment by 150 days at a higher interest rate in the event of a failed remarketing which gives the District sufficient time to find a replacement investor or refund the extendable commercial paper with a different form of debt (e.g. fixed or variable rate revenue bonds) to repay the investor.

As of June 30, 2012, \$312.9 million in Water Series and \$15.0 million in Wastewater Series extendable commercial paper notes were outstanding under this program. The Water Series included terms of 34 to 120 days and interest rates ranging from 0.20% to 0.26% as of June 30, 2012, and terms of 63 to 120 days and interest rates ranging from 0.25% to 0.38% as of June 30, 2011. The Wastewater Series included the term of 93 days and an interest rate of 0.25% as of June 30, 2012, and terms of 61 to 120 days and interest rates ranging from 0.27% to 0.38% as of June 30, 2011. There were no unused proceeds as of June 30, 2012. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

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, 2011	Additions	Retirements	Balance June 30, 2012	Amount due within one year
<i>Water System Revenue Bonds:</i>						
Subordinated Series 2001						
3.60-5.25%, due 6/1/26	\$250,000	\$2,880		\$2,880		
Subordinated Series 2002						
.18% variable rate, due 6/1/25	241,850	170,320		170,320		
Subordinated Series 2003						
2.00 - 5.00%, due 6/1/21	115,730	60,820		4,740	\$56,080	\$4,995
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	45,605		4,855	40,750	5,050
Subordinated Series 2008 A						
.04% variable rate, due 6/1/38	322,525	317,125		1,475	315,650	1,525
Subordinated Series 2008 B						
.05% variable rate, due 6/1/35	160,000	58,800		350	58,450	3,375
Subordinated Series 2009 A						
.12% variable rate, due 6/1/26	331,155	316,045		5,245	310,800	27,845
Subordinated Series 2010 A						
3.00 - 5.00%, due 6/1/36	192,830	192,830			192,830	2,260
Subordinated Series 2010 B						
5.87%, due 6/1/40	400,000	400,000			400,000	
Subordinated Series 2011 A						
.35% variable rate, due 6/1/25	79,605		\$159,210	10,680	148,530	360
Total water long-term bonds		<u>2,314,425</u>	<u>159,210</u>	<u>200,545</u>	<u>2,273,090</u>	<u>45,410</u>

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	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	\$24,545		\$2,895	\$21,650	\$3,095
<i>Wastewater System Revenue Bonds:</i>						
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	40,425		2,535	37,890	2,600
Subordinated Series 2008 C						
.04% variable rate, due 6/1/27	65,300	56,440		2,300	54,140	2,450
Subordinated Series 2010 A						
2.00 - 5.00%, due 6/1/29	58,095	57,935		3,080	54,855	3,150
Subordinated Series 2010 B						
5.03 - 5.18%, due 6/1/40	150,000	150,000			150,000	
Subordinated Series 2011 A						
.11% variable rate, due 6/1/38	65,905	64,250		1,680	62,570	1,725
Total wastewater long-term bonds		474,225		12,490	461,735	13,020
Total long-term bonds		2,788,650	159,210	213,035	2,734,825	58,430
<i>Water Loans:</i>						
2003 California Energy Commission						
3.00%, due 6/22/13	\$1,992	\$450		\$450		
<i>State Water Resources Control Board</i>						
2004 Upper San Leandro Reservoir Project						
2.51%, due 1/1/24	2,188	1,493		103	\$1,390	\$107
1992 Alameda Reclamation Project						
3.20%, due 11/20/11	1,359	37		37		
1993 Chevron Water Reclamation Project						
3.00%, due 8/8/15	22,292	7,099		7,099		
2008 East Bayshore, Recycled Water Project						
2.40%, due 4/1/28	20,100	17,422		842	16,580	861
Total water loans		26,501		8,531	17,970	968
Total long-term loans		26,501		8,531	17,970	968
Commercial Paper (see Note 5)		327,900			327,900	
Amount due within one year		(56,365)		3,033	(59,398)	
Less: Unamortized discount, net		24,791		(712)	25,503	
Total long-term liabilities, net		\$3,111,477	\$159,210	\$233,887	\$3,046,800	\$59,398

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(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.

Waster Issuance During the Fiscal Year

2011 Subordinated Water System Revenue Bond Refunding Bonds, Series 2011A – The District issued \$159 million Series 2011A revenue bonds on December 29, 2011, to advance refund \$163 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2002. The Series 2011A 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, 2012 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing June 1, 2012.

The advance refunding of the 2002 Water Bonds reduced debt service payments in fiscal year 2012 by approximately \$11 million. This refunding did not create an economic gain or loss. The 2011 Bonds follow the same maturity schedule of the 2002 Bonds.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

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
2013	\$46,378	\$76,390	\$13,020	\$16,141	\$59,398	\$92,531
2014	48,214	76,082	13,578	15,453	61,792	91,535
2015	50,045	75,378	12,770	15,877	62,815	91,255
2016	51,970	74,623	13,680	15,457	65,650	90,080
2017	55,639	73,816	14,405	15,014	70,044	88,830
2018 - 2022	311,439	357,936	62,082	69,322	373,521	427,258
2023 - 2027	373,433	343,628	65,530	63,603	438,963	407,231
2028 - 2032	461,976	273,457	85,710	53,267	547,686	326,724
2033 - 2037	585,140	158,326	84,395	31,378	669,535	189,704
2038 - 2040	306,826	28,008	96,565	9,616	403,391	37,624
Totals	<u>\$2,291,060</u>	<u>\$1,537,644</u>	<u>\$461,735</u>	<u>\$305,128</u>	<u>\$2,752,795</u>	<u>\$1,842,772</u>

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2012.

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, 2012, none of the bonds outstanding are considered defeased.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

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 2008A-1	1/11/2013	Reset Weekly	See below
Series 2008A-2	1/11/2013	Reset Weekly	See below
Series 2008A-3	1/10/2014	Reset Weekly	See below
Series 2008A-4	1/10/2014	Reset Weekly	See below
Series 2008B-3	1/10/2014	Reset Weekly	See below
Series 2009A-1	12/1/2012	Weekly SIFMA	See below
Series 2009A-2	3/1/2013	Weekly SIFMA	See below
Series 2011A-1	7/1/2014	Weekly SIFMA	See below
Series 2011A-2	7/1/2014	Weekly SIFMA	See below
Wastewater System Revenue			
Subordinated Bonds:			
Series 2008C	1/10/2014	Reset Weekly	See below
Series 2011A	2/1/2013	Weekly SIFMA	See below

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 6 – LONG-TERM DEBT (Continued)

F. Interest Rate Swap Agreements

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

Term and credit risks. The terms and credit ratings of the outstanding swaps, as of June 30, 2012, 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
2011A Water System Refunding Bonds	\$99,020	12/11/2011	The Bank of New York Mellon	Aa1	3.835%	65% of 30-day LIBOR	6/1/2025
2011A Water System Refunding Bonds	49,510	3/6/2002	JP Morgan Chase & Co.	Aa3	3.835%	65% of 30-day LIBOR	6/1/2025
2008A Water System Refunding Bonds	111,690	6/2/2005	JP Morgan Chase & Co.	Aa3	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	111,690	6/1/2011	Bank of America, National Association	A3	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	48,565	6/1/2012	Merrill Lynch Capital Services	Baa2	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	43,705	9/25/2008	The Bank of New York Mellon	Aa1	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008B-3/2009A Water System Refunding Bonds	221,370	6/1/2012	Deutsche Bank	A2	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2009 Water System Refunding Bonds	73,790	5/23/2007	Citi Bank, N.A. New York	A3	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2009 Water System Refunding Bonds	73,790	5/23/2007	Merrill Lynch Capital Services	Baa2	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B/2011A Wastewater System Refunding Bonds	63,475	12/16/2008	Dexia Credit Local	Baa2	3.098%	62.3% of 3-month LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	27,070	3/5/2003	Citigroup Financial Products, Inc.	Baa2	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	27,070	3/5/2003	JP Morgan Chase & Co.	Aa3	3.468%	65% of 30-day LIBOR	6/1/2027

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 6 – LONG-TERM DEBT (Continued)

The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate on the Bonds, since the inflow of payments from the 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, are included below:

Related Bond Issuance	Fair Value	
	2012	2011
Water		
2002 Water System Refunding Bonds		(\$24,773)
2011A Water System Refunding Bonds	(\$38,689)	
2008A Water System Refunding Bonds	(74,568)	(32,421)
2008B-3/2009 Water System Refunding Bonds	(55,060)	(31,843)
Total Water	(168,317)	(89,037)
Wastewater		
2011A Wastewater System Refunding Bonds	(13,550)	(5,909)
2008C Wastewater System Refunding Bonds	(10,849)	(6,570)
Total Wastewater	(24,399)	(12,479)
Totals	(\$192,716)	(\$101,516)

Credit risk. As of June 30, 2012, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$193 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, 2012, the District provided collateral of \$24.2 million between all SWAP counterparties.

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. Currently, the District has a negative basis difference on its swaps that range from 4 basis points to 37 basis points.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT (Continued)

Termination risk. The District or the counterparty may terminate if the other party fails to perform under the terms of the respective contracts. The District will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

The District exchanged the counterparty of the 2002 Water System Refunding Bonds swap counterparty from Citigroup Financial Products Inc. to The Bank of New York Mellon by executing a swap novation transaction for \$113,550 on December 14, 2011. In accordance with GASB Statement Number 64, the fair value of the swap at the date of novation is recorded as a \$24,551 deferred liability and loss. The fair value of the swap with The Bank of New York Mellon is reported at the fair value similar to existing swaps. The elimination of the \$24,551 liability and booking of the associated gain will be made at the maturity/termination date of the bonds and underlying swap on June 1, 2025.

Swap payments and associated debt. Using rates as of June 30, 2012, 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	
2013	\$37,280	\$1,467	\$29,563	\$31,030
2014	38,610	1,421	28,292	29,713
2015	40,070	1,372	26,971	28,343
2016	41,690	1,323	25,608	26,931
2017	44,660	1,247	24,135	25,382
2018 - 2022	285,635	4,877	94,618	99,495
2023 - 2027	300,640	1,376	38,929	40,305
2028 - 2032	65,605	458	18,228	18,686
2033 - 2037	77,525	196	7,468	7,664
2038	18,425			
Totals	\$950,140	\$13,737	\$293,812	\$307,549

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 7 – NET ASSETS

Net Assets is the excess of all the District's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets and are described below:

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

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

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

NOTE 8 – EMPLOYEES' RETIREMENT PLAN

A. Description

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

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

The Plan is funded by contributions from its members and from the District. District contribution percentages are recommended by the Retirement Board; employee contribution rates are established by the Board of Directors pursuant to the Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding.

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

B. Post-employment Healthcare Cost

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees’ Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2011, there were 1,241 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 \$6,374 in the year ended June 30, 2012. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

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 38.07% 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, 2011
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.

Actuarial assumptions:

Investment rate of return	8.00%
Average projected salary increases	0.50%
Inflation rate	3.50%
Cost-of-living adjustments	3.25%
Annual healthcare cost trend rates	8.75% reduced by increments to a rate of 5.00% after 10 years.

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, 2012 AND 2011
(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:

	2012		2011	
	Pension	Healthcare Benefit Plan	Totals	
Regular contributions:				
District contributions	\$52,156	\$7,495	\$59,651	\$58,481
Member contributions	10,559	141	10,700	10,823
	62,715	7,636	70,351	69,304
Other contributions:				
Member buybacks	23		23	27
	\$62,738	\$7,636	\$70,374	\$69,331

Regular District and member contributions in fiscal 2012 represent an aggregate of 38.07% and 6.86% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 5.10% of covered payroll, determined by an actuarial dated June 30, 2011. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2012, was \$156,668, which was 90.95% of the total District payroll of \$172,259.

The total District contribution of \$59,989 as of June 30, 2012, consisted of \$59,651 in regular contributions (\$24,499 of normal cost and \$35,152 of amortization of the unfunded actuarial accrued liability) and \$338 interest on contributions to Northern Trust.

Regular District and member contributions in fiscal 2011 represent an aggregate of 36.90% and 6.86% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of 4.78% of covered payroll, determined by an actuarial dated June 30, 2010. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2011, was \$158,482, which was 92.16% of the total District payroll of \$171,957.

The total District contribution of \$58,789 as of June 30, 2011, consisted of \$58,481 in regular contributions (\$23,644 of normal cost and \$34,837 of amortization of the unfunded actuarial accrued liability) and \$308 interest on contributions to Northern Trust.

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, 2012 AND 2011
(Dollars in Thousands)**

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

E. Schedule of Employer Contributions

The District’s annual pension and OPEB costs and schedules of contributions for the past three years are as follows:

Retirement Plan:

	Actual contribution	Annual pension cost	Percentage contributed	Net pension obligation
Fiscal year ended June 30:				
2010	\$44,031	\$44,031	100%	\$0
2011	50,987	50,987	100%	0
2012	52,156	52,156	100%	0

Health Insurance Benefit Plan:

	Actual contribution	Annual OPEB cost	Percentage contributed	Net OPEB obligation
Fiscal year ended June 30:				
2010	\$8,000	\$11,871	67%	\$9,024
2011	7,802	11,037	71%	12,259
2012	7,833	11,518	68%	15,944

The annual required contributions for fiscal years ended June 30, 2012, 2011 and 2010, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

F. Funding Progress and Funded Status

Retirement Plan:

The schedule of funding progress for the retirement plan is as follows for the fiscal years ended June 30:

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)
2009	\$862,021	\$1,323,555	\$461,534	65.1%	\$161,893	285.1%
2010	915,845	1,396,003	480,158	65.6%	164,085	292.6%
2011	954,719	1,446,039	491,320	66.0%	159,505	308.0%

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)

Health Insurance Benefit Plan:

During the fiscal year ended June 30, 2012, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to \$7,495, which represented 4.35% of the total \$172,259 total District payroll. During the fiscal year ended June 30, 2011, the District made contributions toward the ARC amounting to \$7,494 to the plan which represented 4.36% of the \$171,957 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, 2010		\$9,024
Annual required contribution (ARC)	\$10,870	
Interest on net OPEB obligation	654	
Adjustments to the ARC	(487)	
Annual OPEB cost - fiscal year 2010/2011	11,037	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,494)	
Interest on Contributions to Northern Trust	(308)	
	(7,802)	
Contributions less than ARC		3,235
Net OPEB obligation at June 30, 2011		12,259
Annual required contribution (ARC)	11,289	
Interest on net OPEB obligation	892	
Adjustments to the ARC	(664)	
Annual OPEB cost - fiscal year 2011/2012	11,517	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,495)	
Interest on Contributions to Northern Trust	(338)	
Contributions to Northern Trust	(7,833)	
Increase in net OPEB obligations		3,684
Net OPEB obligation at June 30, 2012		\$15,943

A schedule of funding progress for the retirement and post-employment healthcare plans presenting multiple-year trend information as to whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented immediately following the notes to basic financial statements in the Required Supplementary information section.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(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, 2012, the District paid \$1,517 for current year coverage.

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

Selected other coverages are:

Coverage	Policy Limit	Self-insurance retention
Workers' Compensation	Statutory Limit	\$5,000
All risk property (except flood)	\$200,000	500
Flood	25,000	1,500
Liability	90,000	10,000 Water/ 10,000 Wastewater
Crime	10,000	25
Boiler and Machinery	10,000	25
Pardee and Camanche Dams	10,000	50
Main Wastewater Treatment Plant	10,000	50

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, 2012, the amount of these liabilities was \$43,623 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:

	2012	2011
Liability at beginning of year	\$41,774	\$38,763
Current year claims and changes in estimates	8,801	9,235
Payments of claims	(6,952)	(6,224)
Liability at end of year	<u>\$43,623</u>	<u>\$41,774</u>
Estimated liability:		
Due within one year	\$7,140	\$6,578
Due in more than one year	36,483	35,196
	<u>\$43,623</u>	<u>\$41,774</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 10 – KNOWN ENVIRONMENTAL LIABILITIES

Following is a summary of the District's known environmental liabilities as of June 30, 2012, that meets the requirements of GASB Statement No. 49:

Under a NPDES permit issued by the San Francisco Regional Water Quality Control Board, discharges from the District's wet weather facilities are prohibited. Under an accompanying Cease and Desist Order, there is recognition of continued discharge and a requirement for the District to submit a plan for eliminating discharges from the three wet weather facilities and achieve full compliance with the discharge prohibition by January 13, 2019. The District also 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 and working with property owners to address leaks in their private sewer laterals. 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 as they have not provided any response to the District's evaluation. 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 and are jointly completing this site/investigation/remediation project. A risk assessment and additional site investigations were completed in 2010 and 2011, respectively. An Engineering Evaluation/Cost Analysis (EE/CA) will be completed in 2013. The final site remedy and cost allocations between the District and BLM have yet to be determined.

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)**

NOTE 10 – KNOWN ENVIRONMENTAL LIABILITIES (Continued)

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, including groundwater and soil gas monitoring. Assuming that the results of a recent soil gas survey confirm the absence of significant benzene concentrations in soil, and pending the CVRWQCB's concurrence with the investigation results, the site will be closed.

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, if any, depends on the county's reaction to the submitted results.

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 estimated to be less than \$250,000.

NOTE 11 - 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.

This Page Left Intentionally Blank

REQUIRED SUPPLEMENTAL INFORMATION

This Page Left Intentionally Blank

EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012
(Dollars in thousands)

(1) **Pension Plan**

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

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a Percentage of covered payroll ((b-a)/c)</u>
06/30/02	\$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%
06/30/10	915,845	1,396,003	480,158	65.6%	164,085	292.6%
06/30/11	954,719	1,446,039	491,320	66.0%	159,505	308.0%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012
(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 Accrued 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)
06/30/02	\$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%
06/30/10	10,061	135,379	125,318	7.4%	164,085	76.4%
06/30/11	12,048	135,360	123,312	8.9%	159,505	77.3%

Unaudited

SUPPLEMENTAL INFORMATION

This Page Left Intentionally Blank

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

JUNE 30, 2012

(With summarized comparative financial information as of June 30, 2011)

(DOLLARS IN THOUSANDS)

	2012			2011 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
Assets:				
Cash and cash equivalents, at fair value	\$32,636	\$432	\$33,068	\$48,462
Invested securities lending collateral	99,263	1,314	100,577	129,553
Prepaid expenses		434	434	430
Receivables:				
Brokers, securities sold	7,931	105	8,036	23,333
Employer	1,934	286	2,220	1,796
Plan members	382		382	336
Interest and dividends	2,246	30	2,276	2,079
Total receivables	<u>12,493</u>	<u>421</u>	<u>12,914</u>	<u>27,544</u>
Investments, at fair value:				
U.S. government obligations	120,200	1,590	121,790	141,372
Municipal Bond	2,803	37	2,840	3,077
Domestic corporate bonds	83,396	1,103	84,499	72,386
International bonds	6,985	92	7,077	7,762
Domestic stocks	509,219	6,738	515,957	486,091
International stocks	174,852	2,314	177,166	202,510
Real estate	48,238	638	48,876	17,730
Total investments	<u>945,693</u>	<u>12,512</u>	<u>958,205</u>	<u>930,928</u>
Total assets	<u>1,090,085</u>	<u>15,113</u>	<u>1,105,198</u>	<u>1,136,917</u>
Liabilities:				
Accounts payable and accrued expenses	1,347	18	1,365	1,362
Payables to brokers, securities purchased	16,071	213	16,284	37,763
Securities lending collateral	99,264	1,313	100,577	129,553
Total liabilities	<u>116,682</u>	<u>1,544</u>	<u>118,226</u>	<u>168,678</u>
Net assets held in trust for pension benefits and post-employment healthcare benefits	<u>\$973,403</u>	<u>\$13,569</u>	<u>\$986,972</u>	<u>\$968,239</u>

EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEE RETIREMENT SYSTEM TRUST FUND
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

(With summarized comparative financial information for the year ended June 30, 2011)
(DOLLARS IN THOUSANDS)

	2012		Total	2011 Total
	Pension plan benefits	Post- employment healthcare benefits		
Additions:				
Contributions (Note 8D):				
Employer	\$52,156	\$7,495	\$59,651	\$58,481
Plan members	10,582	141	10,723	10,850
Total contributions	<u>62,738</u>	<u>7,636</u>	<u>70,374</u>	<u>69,331</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments:				
Traded securities	(1,366)	(21)	(1,387)	176,346
Real Estate	1,143	17	1,160	2,363
Interest	8,153	125	8,278	9,023
Dividends	10,536	162	10,698	7,398
Real estate operating income (loss), net	967	14	981	890
Total investment income (loss)	<u>19,433</u>	<u>297</u>	<u>19,730</u>	<u>196,020</u>
Less:				
Investment expense	(3,338)	(42)	(3,380)	(2,734)
Borrowers' rebates and other agent fees on securities lending transactions	<u>(62)</u>	<u>(1)</u>	<u>(63)</u>	<u>(179)</u>
Net investment income (loss)	<u>16,033</u>	<u>254</u>	<u>16,287</u>	<u>193,107</u>
Total additions, net	<u>78,771</u>	<u>7,890</u>	<u>86,661</u>	<u>262,438</u>
Deductions:				
Benefits paid	59,880	6,374	66,254	61,862
Refund of contributions	589		589	252
Administrative expenses	1,072	13	1,085	1,137
Total deductions	<u>61,541</u>	<u>6,387</u>	<u>67,928</u>	<u>63,251</u>
Change in net assets	17,230	1,503	18,733	199,187
Net assets:				
Beginning of year	956,173	12,066	968,239	769,052
End of year	<u>\$973,403</u>	<u>\$13,569</u>	<u>\$986,972</u>	<u>\$968,239</u>

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

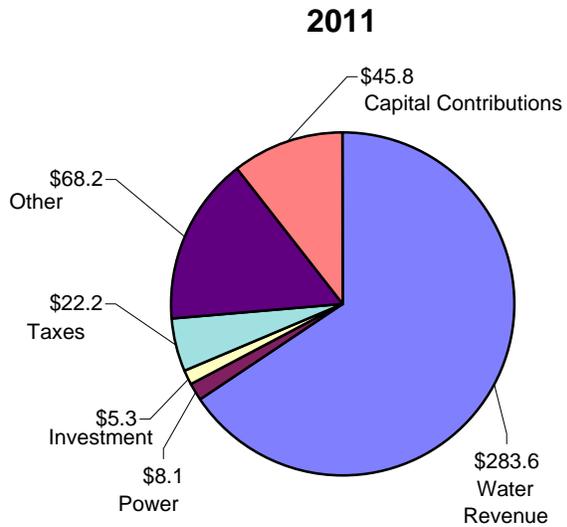
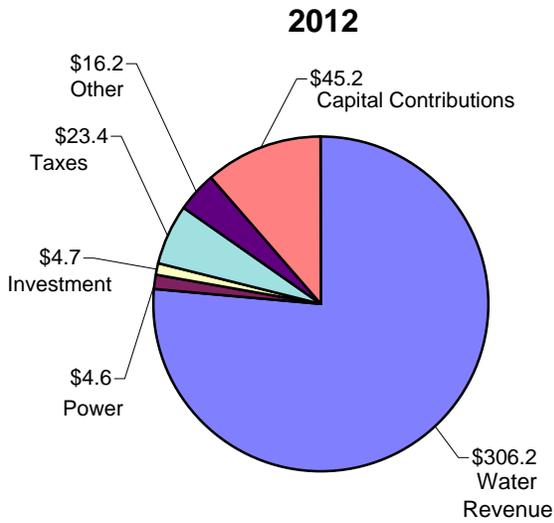
- Comparative Highlights
- Ten-Year Summary of Financial Data
- Changes in Net Assets
- Net Assets by Component

**Financial Trends
Comparative Highlights**

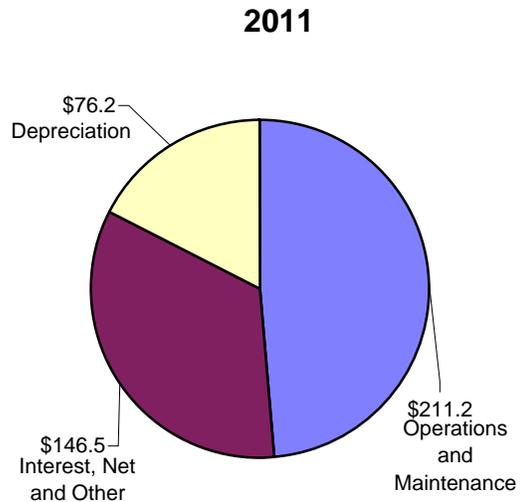
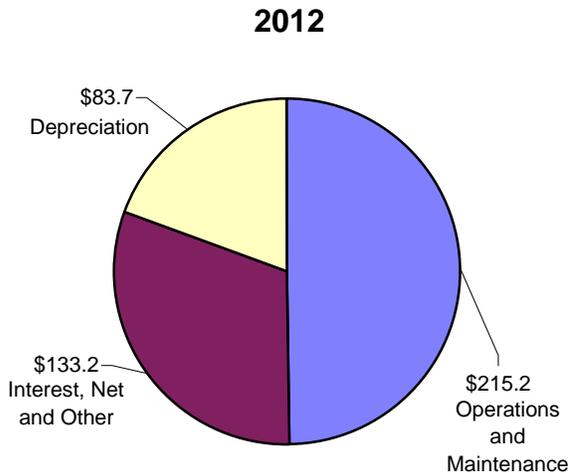
Fiscal Year 2012 and 2011

Water System

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



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



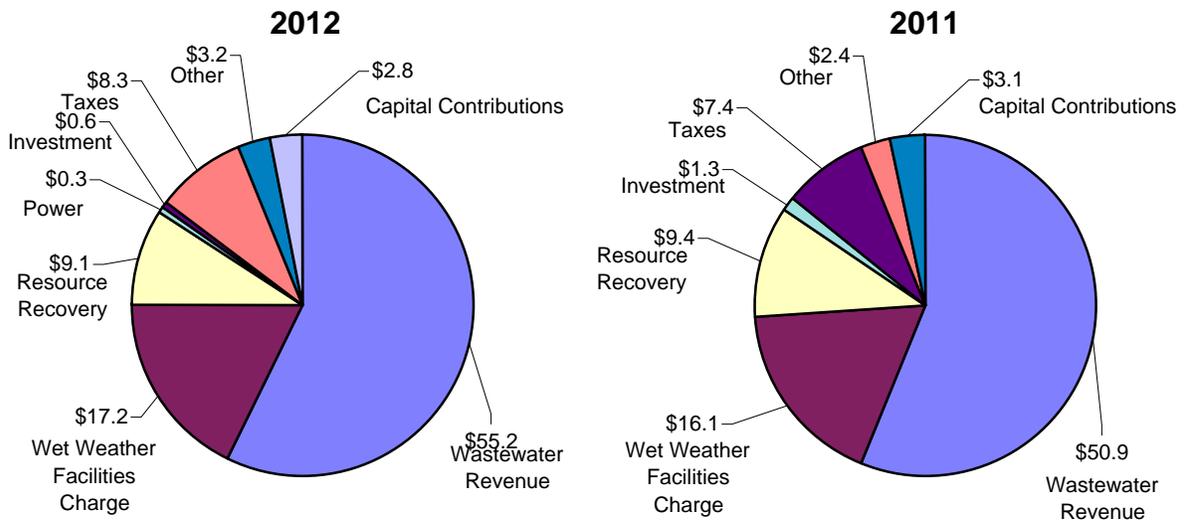
Sources: Financial Statements

Financial Trends
Comparative Highlights(continued)

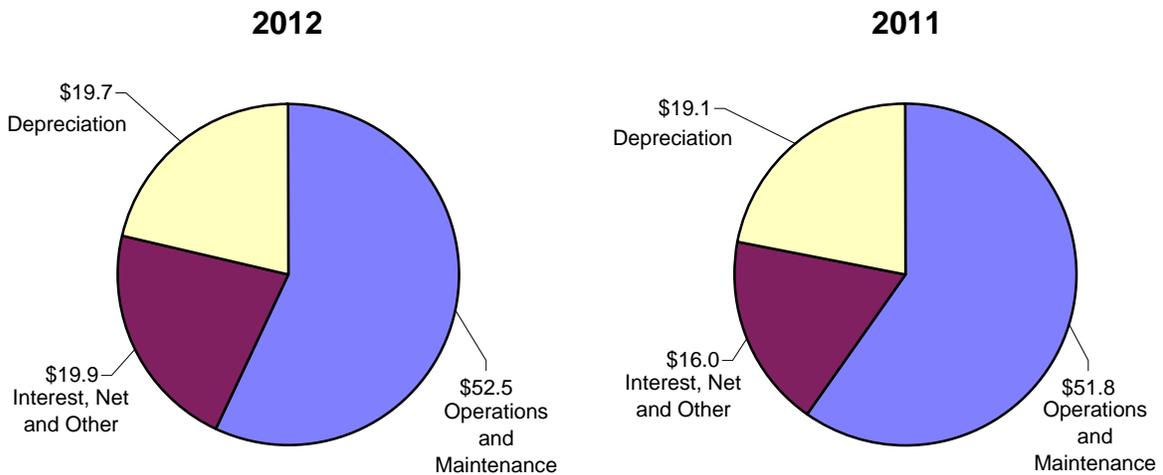
Fiscal Year 2012 and 2011

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 2003 to 2012
 (in Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010*	2009*	2008*	2007*	2006*	2005*	2004*	2003*
Water System										
Revenues										
Water Revenue	\$ 306.2	\$ 283.6	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9	\$ 223.2
Taxes	23.4	22.2	22.9	23.4	22.7	21.7	19.1	18.3	17.4	16.5
Investment	4.7	5.3	10.8	25.6	40.4	21.8	18.4	7.7	11.1	13.3
Power	4.6	8.1	6.2	4.3	3.1	4.2	11.0	7.0	2.8	4.1
Capital Contributions	45.2	45.8	39.9	38.3	50.5	64.1	67.3	44.9	39.3	44.1
Other ⁽¹⁾	16.2	68.3	7.7	6.2	29.4	7.8	5.3	6.2	2.7	12.9
Total Revenues	400.3	433.3	358.5	385.1	416.7	380.2	365.4	319.9	315.2	314.1
Expenses										
Operations and										
Maintenance	215.2	211.2	206.5	224.5	209.9	179.2	174.9	160.9	153.0	142.0
Depreciation	83.7	76.2	74.5	71.5	70.7	71.7	64.3	67.8	58.0	55.2
Interest, Net and Other ⁽²⁾	133.2	146.5	69.9	81.8	93.2	77.2	76.5	69.3	64.4	64.9
Total Expenses	432.1	433.9	350.9	377.8	373.8	328.1	315.7	298.0	275.4	262.1
Changes in Net Assets	\$ (31.8)	\$ (0.6)	\$ 7.6	\$ 7.3	\$ 42.9	\$ 52.1	\$ 49.7	\$ 21.9	\$ 39.8	\$ 52.0

* Restated to meet current formatting.

⁽¹⁾ Other revenue in 2011 includes receipts of \$53 million from Chevron for the RARE facilities.

⁽²⁾ Other expense in 2011 includes the \$53 million sales of the RARE facilities to Chevron.

Financial Trends
Ten-Year Summary of Financial Data

Fiscal Years 2003 to 2012
 (in Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004	2003
Wastewater System										
Revenues										
Wastewater Revenue	\$ 55.2	\$ 50.9	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6
Wet Weather										
Facilities Charges	17.2	16.1	15.3	14.3	13.7	13.7	13.8	13.9	13.9	13.9
Resource Recovery	9.1	9.4	7.6	7.7	6.9	5.8	4.5	3.4	-	-
Power	0.3									
Taxes	8.3	7.4	7.4	7.4	7.2	6.8	5.3	4.7	6.3	5.8
Investment	0.6	1.3	0.8	3.1	5.8	2.7	2.1	1.9	2.6	3.0
Capital Contributions	2.8	3.1	2.9	9.0	2.8	7.0	2.5	1.7	2.1	2.5
Other	3.1	2.4	1.2	0.9	0.7	1.4	0.7	0.7	(0.9)	0.3
Total Revenues	96.6	90.6	84.0	89.5	83.3	82.0	71.5	68.5	66.8	67.1
Expenses										
Operations and Maintenance	52.5	51.8	46.2	50.1	47.6	42.2	40.0	38.4	36.8	35.6
Depreciation	19.7	19.1	19.4	18.3	16.4	16.8	16.4	16.4	15.9	15.9
Interest, Net and Other	19.9	16.0	13.0	13.6	15.1	12.6	13.5	15.7	13.8	16.1
Total Expenses	92.1	86.9	78.6	82.0	79.1	71.6	69.9	70.5	66.5	67.6
Changes in Net Assets	\$ 4.5	\$ 3.7	\$ 5.4	\$ 7.5	\$ 4.2	\$ 10.4	\$ 1.6	\$ (2.0)	\$ 0.3	\$ (0.5)

* Restated to meet current formatting.

Financial Trends
Changes in Net Assets

Fiscal Years 2003 to 2012
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004*	2003*
Operating Revenues										
Charges for services:										
Water	\$ 306.2	\$ 283.6	\$ 271.0	\$ 287.3	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9	\$ 223.2
Wastewater	81.5	76.4	71.7	69.1	66.7	64.1	60.9	59.5	56.7	55.5
Power	4.9	8.1	6.2	4.3	3.1	4.2	11.0	7.0	2.8	4.1
Total Operating Revenues	392.6	368.1	348.9	360.7	340.4	329.0	316.2	302.3	301.4	282.8
Operating Expenses										
Water	299.0	287.4	281.1	296.0	280.5	250.9	239.2	228.7	211.0	197.2
Wastewater	72.2	70.9	65.5	68.4	64.0	59.0	56.4	54.8	52.7	51.4
Total Operating Expenses	371.2	358.3	346.6	364.4	344.5	309.9	295.6	283.5	263.7	248.6
 Operating Activities	 21.4	 9.8	 2.3	 (3.7)	 (4.1)	 19.1	 20.6	 18.8	 37.7	 34.2

* Restated to meet current formatting.

Financial Trends
Changes in Net Assets (continued)

Fiscal Years 2003 to 2012
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004*	2003*
General Revenues and Other Changes in Net Assets										
Non-Operating Activities										
Investment income	5.2	6.6	11.6	28.6	46.3	24.4	20.5	9.6	13.7	16.3
Taxes and subventions	31.7	29.6	30.3	30.8	29.9	28.5	24.5	22.9	23.7	22.2
Interest and amortization of bond expenses	(121.3)	(105.8)	(80.9)	(92.3)	(106.7)	(88.9)	(88.9)	(84.1)	(72.2)	(74.9)
Other income (expense)	(12.3)	14.0	6.9	4.1	28.4	8.3	4.8	6.0	(4.2)	7.1
Capital grants and contributions	48.0	48.9	42.8	47.3	53.3	71.0	69.8	46.5	41.4	46.4
Total Non-Operating Activities	(48.7)	(6.7)	10.7	18.5	51.2	43.3	30.7	0.9	2.4	17.1
Changes in Net Assets	\$ (27.3)	\$ 3.1	\$ 13.0	\$ 14.8	\$ 47.1	\$ 62.4	\$ 51.3	\$ 19.7	\$ 40.1	\$ 51.3

* Restated to meet current formatting.

Financial Trends
Net Assets by Component

Fiscal Years 2003 to 2012
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<u>Business-type activities</u>										
Invested in capital assets, net of related debt	\$ 983.5	\$ 1,202.7	\$ 1,293.5	\$ 1,304.6	\$ 1,182.8	\$ 1,174.5	\$ 1,226.1	\$ 1,213.2	\$ 1,090.0	\$ 1,006.5
Restricted for construction	22.7	42.9	66.8	84.5	85.4	89.6	78.6	54.0	64.4	65.8
Restricted for debt service	73.5	63.8	66.5	58.8	55.1	38.1	37.7	35.2	0.1	-
Restricted-other	251.4	25.5	3.0	3.1	3.0	2.9	2.9	2.9	2.9	2.9
Unrestricted	274.1	297.5	199.5	165.3	275.2	249.2	146.5	135.3	263.4	305.4
 Total business-type activities net assets	 \$ 1,605.2	 \$ 1,632.4	 \$ 1,629.3	 \$ 1,616.3	 \$ 1,601.5	 \$ 1,554.3	 \$ 1,491.8	 \$ 1,440.6	 \$ 1,420.8	 \$ 1,380.6

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 2003 to 2012

Water System

(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water	\$306.2	\$283.6	\$271.0	\$287.3	\$270.6	\$260.7	\$244.3	\$235.8	\$241.9	\$223.1
Taxes	23.4	22.2	22.9	23.4	22.7	21.7	19.1	18.3	17.5	16.5
Construction from SCC	0.0	0.0	0.0	0.0	0.0	19.7	13.7	12.8	12.9	12.3
Interest	6.4	5.7	9.7	24.5	40.6	20.3	16.5	7.6	11.1	13.3
Power	4.6	8.1	6.2	4.3	3.1	4.2	11.0	7.0	2.8	4.0
Rental & Other ⁽¹⁾	14.5	67.9	7.0	4.1	27.7	8.4	6.3	5.5	(2.6)	7.2
Total	\$355.1	\$387.5	\$316.8	\$343.6	\$364.7	\$335.0	\$310.9	\$287.0	\$283.6	\$276.4

⁽¹⁾ Includes revenue of \$53 million from the sale of the RARE facilities to Chevron in 2011.

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 2003 to 2012

Wastewater System

(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008*	2007*	2006*	2005*	2004*	2003*
Wastewater	\$ 55.2	\$ 50.9	\$ 48.8	\$ 47.1	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6
Wet Weather Facilities	17.2	16.1	15.3	14.3	13.7	13.7	13.8	13.9	13.9	13.9
Resource Recovery	9.1	9.4	7.6	7.7	6.9	5.8	4.5	3.4	-	-
Power	0.3	-	-	-	-	-	-	-	-	-
Taxes	8.3	7.4	7.4	7.4	7.2	6.8	5.3	4.7	6.2	5.8
Interest	1.7	2.0	1.2	2.9	5.7	2.1	1.8	2.1	2.6	2.9
Other	2.1	1.6	0.6	1.2	0.8	2.0	0.7	0.5	(1.6)	0.0
Total	\$ 93.9	\$ 87.4	\$ 80.9	\$ 80.6	\$ 80.5	\$ 75.0	\$ 68.7	\$ 66.8	\$ 63.9	\$ 64.2

* 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 2003 to 2012

<u>Fiscal Year</u>	<u>Water</u>		<u>Wastewater</u>	
	<u>Monthly Base Rate</u>	<u>Rate per 748 (1ccf) Gallons</u>	<u>Monthly Base Rate</u>	<u>Rate per 748 (1ccf) Gallons</u>
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
2011	10.89	2.15	10.95	0.59
2012	11.54	2.28	11.61	0.63

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 2003 to 2012

Water System

(In Millions)

Fiscal Year	Total Revenue (1)	Operations & Maintenance Expense (2)	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio
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	351.7	156.1	195.6	125.2	1.56
2011	374.7	159.5	215.2	141.6	1.52
2012	381.4	174.4	207.0	128.6	1.61

(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 2003 to 2012

Wastewater System

(In Millions)

Fiscal Year	Total Revenue (1)	Operations & Maintenance Expense (2)	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio
2003*	60.0	29.4	30.6	17.4	1.76
2004*	59.3	30.6	28.7	15.5	1.85
2005*	63.3	33.2	30.1	15.9	1.89
2006*	65.4	38.0	27.4	15.8	1.72
2007*	69.6	39.2	30.4	16.0	1.90
2008*	75.3	41.6	33.7	20.2	1.67
2009*	74.6	44.6	30.0	20.1	1.49
2010*	74.7	41.3	33.4	19.2	1.74
2011*	82.3	46.3	36.0	21.0	1.72
2012	88.3	48.8	39.5	26.1	1.52

* Restated to match current format which includes capacity fees

(1) Gross Revenues include operating revenue, investment earnings, facilities reserve charges, capacity fees,

(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, 2012

District Debt by Type	Rating by		
	Standard & Poor's	Moody's Investors Service	Fitch
Water System			
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+
Wastewater System			
General Obligation Bonds	AAA	Aa2	-
Fixed Rate Revenue Bonds	AAA	Aa2	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa2	AA+
SIFMA-Based Index Bonds	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

Debt Capacity
Outstanding Debt by Type

Fiscal Years 2003 to 2012

Water System

(In thousands)

Fiscal Year	General Obligation Bonds	Revenue Bonds	Loans Payable	Total
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
2011	0	2,314,425	26,501	2,340,926
2012	0	2,273,090	17,970	2,291,060

Wastewater System

(In thousands)

Fiscal	General Obligation	Revenue	Loans	
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
2011	24,545	449,680	0	474,225
2012	21,650	440,085	0	461,735

Sources: Financial Summary

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

As of June 30, 2012
(In Thousands)

Water System

Authorized but unissued revenue bonds	\$	602,300
Outstanding short-term debt (due within one year)	\$	45,410

Wastewater System

Authorized but unissued revenue bonds	\$	204,300
Outstanding short-term debt (due within one year)	\$	13,020

Debt Capacity

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

Fiscal Years 2003 to 2012
(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
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%
2011	383,000	0	0	306,200	0.00%
2012	378,000	0	0	306,228	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
2003*	175,000	42,079	234	41,590	99.38%
2004*	175,000	41,380	226	42,822	93.48%
2005*	175,000	40,031	216	42,244	90.55%
2006*	175,000	38,252	219	42,581	89.83%
2007*	176,000	34,298	195	44,593	76.91%
2008*	176,000	32,165	183	46,161	69.68%
2009*	176,000	29,785	169	47,085	63.26%
2010*	176,000	27,255	155	48,764	55.89%
2011*	177,000	24,545	139	50,910	48.21%
2012	174,000	21,650	124	55,191	39.23%

* Restated due to report duplication of certain accounts in previous years.

Source: (1) CIS

(2) Financial and Statistical Reports

**Debt Capacity
Assessed Valuation of Taxable Property**

Fiscal Year 2012

EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1

2011-12 Assessed Valuation:	\$ 75,029,468,101
Redeveloped Incremental Valuation:	14,782,786,719
Adjusted Assessed Valuation:	\$ 60,246,681,382

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/12</u>
Bay Area Rapid Transit District	13.815 %	\$ 56,992,401
Peralta Community College District	100.000	427,080,000
Alameda Unified School District	100.000	71,975,326
Albany Unified School District	100.000	40,660,000
Berkeley Unified School District	100.000	224,469,222
Oakland Unified School District	100.000	755,520,000
Piedmont Unified School District	100.000	79,018,792
West Contra Costa Unified School District	22.241	182,947,538
Other School Districts	Various	60,626,236
City of Alameda	100.000	9,155,000
City of Albany	100.000	17,420,000
City of Berkeley	100.000	79,075,000
City of Oakland	99.975	247,276,367
East Bay Municipal Utility District, Special District No. 1	100.000	21,650,000
East Bay Regional Park District	21.463	27,799,951
West Contra Costa Healthcare District Parcel Tax Obligations	19.806	12,209,409
City of El Cerrito Lease Tax Obligations	99.816	2,680,060
City of Alameda Community Facilities District Nos. 1 and 2	100.000	10,545,000
City of Berkeley Community Facilities District No. 1	100.000	6,050,000
1915 Act bonds	100.000	30,149,700
Sub-total Direct Tax and Assessment Debt		\$ 21,650,000
Sub-total Overlapping Tax and Assessment Debt		2,341,650,002
Total Direct and Overlapping Tax and Assessment Debt		\$ 2,363,300,002

Ratios to 2011-12 Assessed Valuation:

Direct Debt (\$21,650,000)	0.03 %
Total Direct and Overlapping Tax and Assessment Debt	3.15 %

(continued)

Table 18 (Continued)
Assessed Valuation of Taxble Property

Fiscal Year 2012

<u>Overlapping General Fund Debt:</u>	<u>(1) % Applicable</u>	<u>Debt 6/30/12</u>
Alameda County General Fund Obligations	33.405 %	\$ 223,649,983
Alameda County Pension Obligations	33.405	43,941,122
Contra Costa County General Fund Obligations	3.071	9,264,930
Contra Costa County Pension Obligations	3.071	11,009,381
Alameda-Contra Costa Transit District Certificates of Participation	43.304	14,933,384
Peralta Community College District Pension Obligations	100.000	160,149,000
Oakland Unified School District Certificates of Participation	100.000	50,145,090
Other School District Certificates of Participation	Various	3,202,907
City of Alameda Cetificates of Participation	100.000	11,600,000
City of Berkeley General Fund Obligations and Pension Obligations	100.000	39,290,000
City of Oakland General Fund Obligations	99.975	321,807,028
City of Oakland Pension Obligations	99.975	174,732,872
Other City General Fund Obligations	Various	<u>27,890,092</u>
Total Overlapping General Fund Debt		\$ 1,091,615,789
Less: Contra Costa County Obligations supported from revenue funds		3,478,454
City of Richmond oblifations supported from port revenues		<u>2,727,257</u>
Total Net Overlapping General Fund Debt		\$ 1,085,410,078
Total Debt		\$ 21,650,000
Gross Overlapping Debt		\$ 3,433,265,791
Net Overlapping Debt		\$ 33,427,060,080
Gross Combined Total Debt	(2)	\$ 3,454,915,791
Net Combined Total Debt		\$ 3,427,060,080

(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 Adjusted Assessed Valuation:

Gross Combined Total Debt	5.73 %
Net Combined Total Debt	5.72 %

State School Building Aid Repayable as of 6/30/12: \$ -

Sources: California Municipal Statistics, Inc.

**Debt Capacity
Summary of Debt Outstanding***

As of June 30, 2012
(Thousands of Dollars)

Water System

Revenue Bonds

Series 2003	\$	56,080
Series 2005A		300,000
Series 2007A		450,000
Series 2007B		40,750
Series 2008A		315,650
Series 2008B		58,450
Series 2009A		310,800
Series 2010A		192,830
Series 2010B		400,000
Series 2011A		148,530

Total Water System Debt Outstanding	\$	2,273,090
--	-----------	------------------

Wastewater System

General Obligation Bonds

Series F	\$	21,650
----------	----	--------

Revenue Bonds

Series 2007A	80,630
Series 2007B	37,890
Series 2008C	54,140
Series 2010A	54,855
Series 2010B	150,000
Series 2011A	62,570

Total Wastewater System Debt Outstanding	\$	461,735
---	-----------	----------------

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

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 2012

		<u>Water System</u>	<u>Wastewater System</u>
Established		1923	1944
Service Area	(square miles)	332	88
Population Served	(in thousands)	1,350	650
Unemployment Rate	(Alameda County - %)	9.5	9.5
Facilities:			
Miles of aqueducts		91.5	
Miles of pipeline		4,108	
Miles of tunnels		23.6	
Miles of interceptors			29
Number of treatment plants*		6	
Number of pumping stations		136	24
Number of treated water reservoirs		166	
Number of reservoirs		173	
Total District untreated water reservoir capacity	(acre feet)	766,740	
Water demand per fiscal year			
District-provided water	(acre feet)	200,221	
Water recycling per day	(in million gallons)		10.1
Wastewater treatment capacity			
Primary treatment			320
Secondary treatment			168
Energy Recovery	(%)		78
Number of employees		1,499	257
Average years of service of employees		14.4	14.3

* Includes one standby treatment plant

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 2012
(In Thousands)

2012		2011		2010		2009		2008		2007		2006		2005	
Billings	%														

REDACTED JUNE 18, 2019, PER CALIFORNIA GOVERNMENT CODE SECTION 6254.16.

Total annual billing	\$ 28,960	9.53%	\$ 28,346	10.02%	\$ 29,635	11.11%	\$ 30,792	11.42%	\$ 29,434	10.38%	\$ 28,265	10.84%	\$ 27,136	10.89%	\$ 25,823	11.26%
Total annual billings	<u>\$303,901</u>		<u>\$279,567</u>		<u>\$264,828</u>		<u>\$261,411</u>		<u>\$270,564</u>		<u>\$260,678</u>		<u>\$244,280</u>		<u>\$224,631</u>	

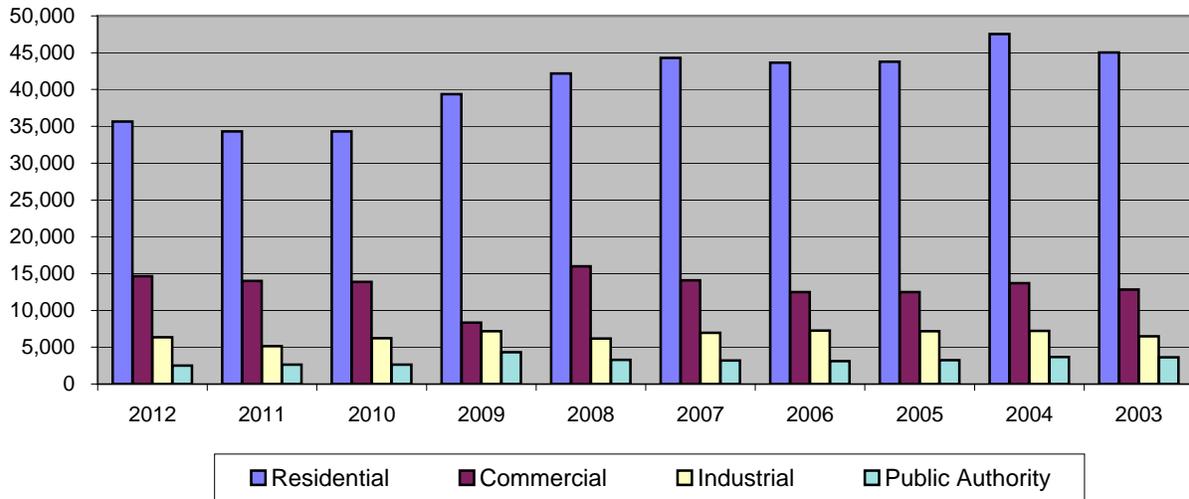
* Chevron USA decreased in 2011 due to completion of RARE Project. ** Listed individually from University of California beginning in 2008

Source: CIS

Source data not available for Fiscal Years 2001-2004.

Demographic and Economic Information
Water Sold by Type of Customer

Fiscal Years 2003 to 2012
(In millions of gallons)



Fiscal Year	Type of Customer				Total
	Residential	Commercial	Industrial	Public Authority	
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
2011	34,330	14,016	5,145	2,646	56,137
2012	35,657	14,632	6,363	2,521	59,173

Source: CIS

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

Fiscal Years 2012 and 2011

Water System	2012	2011
During the Year:		
Total Water Production, millions of gallons	65,242	63,421
Average Daily Water Production, MGD*	178	174
Maximum Daily Water Production, MGD	251	260
Minimum Daily Water Production, MGD	123	119
At Year End:		
Number of Accounts	378,123	383,066
Number of Employees	1,499	1,492
Miles of Water Distribution Pipe	4,110	4,110
Operating Distribution Storage Capacity, millions of gallons	630	826

Wastewater System		
During the Year:		
Average Daily Wastewater Flow, MGD	62	71
At Year End:		
Number of Accounts	174,232	176,515
Number of Employees	257	262

*=millions of gallons per day

**Demographic and Economic Information
Area Employment Information**

Fiscal Year 2012 and 2011

	Company	Employment	City
1	AT&T Corp	Information	San Ramon
2	University of California, Berkeley	Educational Services	Berkeley
3	County of Alameda	Public Administration	Oakland
4	County of Contra Costa	Public Administration	Martinez
5	Safeway Inc	Retail Trade	Walnut Creek
6	Lawrence Livermore National Lab	Professional, Scientific, and Technical Services	Livermore & Berkeley
7	Wells Fargo Home Mortgage Inc	Finance and Insurance	Concord
8	Kaiser Foundation Hospitals	Health Care and Social Assistance	Walnut Creek
9	Oakland Unified School Dist	Educational Services	Oakland
10	World Savings & Loan Assn	Finance and Insurance	Oakland

Previous years data unavailable, no change between 2012 and 2011

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 2003 to 2012

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
System Maintenance and Construction	699.0	660.0	660.0	603.5	603.5	611.5	574.5	578.5	567.5	567.5
Water Operations and Maintenance	196.5	232.5	235.5	282.5	279.5	278.5	309.5	311.5	312.5	314.5
Water Resources	46.0	44.0	44.0	42.0	42.0	42.0	42.0	43.0	45.0	45.0
Natural Resources	69.5	69.5	70.5	68.0	68.0	68.0	68.0	63.0	63.0	63.0
Engineering and Construction	258.5	255.5	257.5	253.5	254.5	260.5	266.5	275.5	274.5	275.5
Office of the General Manager	29.5	29.5	29.5	33.5	33.5	34.5	34.5	37.5	40.0	39.5
Finance	55.0	57.0	57.0	54.0	54.0	65.0	67.0	68.0	112.5	111.5
Information Systems	94.0	94.0	94.0	93.0	93.0	91.0	92.0	79.0	75.0	75.0
Administration Department	103.5	106.5	106.5	107.5	107.5	99.5	100.5	103.5	40.5	39.5
Customer and Community Services	138.0	138.0	144.0	137.0	137.0	137.0	138.0	130.0	149.0	152.0
Human Resources	49.5	48.5	48.5	49.5	49.5	49.5	49.5	50.5	50.5	50.5
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	8.0	8.0	9.0	9.0	9.0
Wastewater	284.5	286.5	283.5	285.5	284.5	286.5	284.5	281.0	278.0	284.5
Total	2,048.0	2,046.0	2,055.0	2,034.0	2,031.0	2,048.0	2,051.0	2,046.5	2,033.5	2,043.5

Note: Budgeted full-time equivalent positions available by Function/Program, actual headcount at year end for Water System and Wastewater System listed in: Demographic and Economic Information - Consumption and Account Comparative Highlights.

**Operating Information
Assessed Valuation of Taxable Property**

Fiscal Years 2003 to 2012
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010*	2009*	2008	2007	2006	2005	2004	2003
Water System										
Alameda County	\$ 94,461	\$ 92,498	\$ 91,896	\$ 93,523	\$ 95,616	\$ 90,960	\$ 83,810	\$ 76,078	\$ 69,637	\$ 64,799
Contra Costa County	81,232	79,611	79,539	82,362	85,734	83,512	77,161	70,537	65,322	59,627
Total	\$ 175,693	\$ 172,109	\$ 171,435	\$ 175,885	\$ 181,350	\$ 174,472	\$ 160,971	\$ 146,615	\$ 134,959	\$ 124,426
Wastewater System										
Alameda County	\$ 71,934	\$ 70,659	\$ 70,004	\$ 71,451	\$ 72,332	\$ 68,416	\$ 62,758	\$ 56,980	\$ 52,049	\$ 48,407
Contra Costa County	4,216	4,335	4,368	4,319	4,395	4,213	3,918	3,581	3,284	3,012
Total	\$ 76,150	\$ 74,994	\$ 74,372	\$ 75,770	\$ 76,727	\$ 72,629	\$ 66,676	\$ 60,561	\$ 55,333	\$ 51,419

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.

* Revised valuations for all years with reduction for Redevelopment Agencies removed.

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

Fiscal Years 2003 to 2012

Water System
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Structures, Buildings and Equipment	\$ 4,473.1	\$ 4,040.1	\$ 3,864.4	\$ 3,705.1	\$ 3,591.6	\$ 3,470.3	\$ 3,221.5	\$ 3,037.4	\$ 2,824.3	\$ 2,533.9
Less Accumulated Depreciation	<u>(1,337.9)</u>	<u>(1,253.7)</u>	<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>
Subtotal	<u>3,135.2</u>	<u>2,786.4</u>	<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>
Land and Rights-of-Way	55.4	52.9	53.5	50.9	49.9	48.9	49.0	49.0	48.9	48.9
Construction in Progress	<u>209.8</u>	<u>716.6</u>	<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>
Total Capital Assets, Net	<u>\$ 3,400.4</u>	<u>\$ 3,555.9</u>	<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>

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

Fiscal Years 2003 to 2012

Wastewater System
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Structures, Buildings and Equipment	\$ 877.7	\$ 815.8	\$ 797.2	\$ 768.5	\$ 744.8	\$ 711.6	\$ 703.6	\$ 677.7	\$ 662.7	\$ 653.4
Less Accumulated Depreciation	<u>(331.9)</u>	<u>(312.1)</u>	<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>
Subtotal	<u>545.8</u>	<u>503.7</u>	<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>
Land and Rights-of-Way	20.0	19.9	19.7	19.7	19.5	16.1	5.6	5.6	5.6	5.6
Construction in Progress	<u>87.6</u>	<u>112.2</u>	<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>
Total Capital Assets, Net	<u>\$ 653.4</u>	<u>\$ 635.8</u>	<u>\$ 605.7</u>	<u>\$ 572.5</u>	<u>\$ 555.0</u>	<u>\$ 539.4</u>	<u>\$ 514.3</u>	<u>\$ 496.3</u>	<u>\$ 496.2</u>	<u>\$ 496.6</u>

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

Fiscal Years 2003 to 2012

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water System										
Water mains (miles)	4,108	4,108	4,108	4,108	4,108	4,110	4,085	4,065	4,033	4,032
Fire hydrants	30,421	30,319	30,247	30,203	30,050	29,916	29,532	28,817	28,499	28,380
Reservoir storage at June 30 (in acre feet)	631,580	670,580	719,680	657,270	472,330	560,290	719,460	730,720	605,310	706,480
Wastewater System										
Sanitary sewers (miles)	Owned by \ Owned by various communities									
Storm sewers (miles)	Owned by \ 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

Source: Engineering/Accounting/Wastewater

Operating Information
Operating Indicators by Function/Program

Fiscal Years 2003 to 2012

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water System										
New connections	426	477	514	735	1,535	1,994	2,230	1,928	1,925	2,455
Water main breaks	825	726	852	1,238	916	938	842	855	876	747
Average daily production (millions of gallons)	178	174	174	182	205	211	211	205	224	213
Peak daily production (millions of gallons)	251	260	253	262	288	336	311	310	310	338
Wastewater System										
Average daily sewage treatment (millions of gallons)	62	71	68	66	69	67	82	76	72	73

**Operating Information
Ten-Year Summary of Expense by Source**

Fiscal Years 2003 to 2012
(In Millions)

	Fiscal Year Ended June 30									
	2012	2011*	2010*	2009*	2008*	2007*	2006*	2005*	2004*	2003*
Interest and Amortization of Bonds ⁽¹⁾	\$ 121.3	\$ 105.8	\$ 80.9	\$ 92.3	\$ 106.7	\$ 88.9	\$ 88.9	\$ 84.1	\$ 72.2	\$ 74.9
Depreciation on Utility Plant (2)	103.5	95.2	94.0	89.8	87.1	88.5	80.7	84.2	73.8	71.0
Water Treatment and Distribution	91.8	84.2	86.0	83.5	80.8	77.0	76.0	72.7	72.5	62.3
General Administration ⁽³⁾	46.9	52.2	49.5	63.7	61.9	37.2	34.7	28.9	21.2	26.2
Raw Water	31.8	31.1	28.9	36.3	29.6	25.3	24.2	23.1	22.8	22.9
Sewer Treatment Plant Operations	30.4	28.7	25.2	25.9	24.8	23.0	22.1	20.9	19.8	19.3
Financial and Risk Management	18.2	18.1	17.5	20.8	17.9	15.7	17.5	15.2	15.5	13.1
Customer Accounting and Collecting	18.9	17.5	16.1	16.5	14.8	14.0	13.3	13.0	12.6	11.7
Facilities Management	11.8	12.2	8.1	5.7	6.9	7.6	7.1	7.0	6.8	5.7
Sewer Lines and Pumping	12.5	13.4	12.9	13.2	12.0	12.3	11.7	10.7	10.9	9.4
Recreation Areas, Net	<u>5.5</u>	<u>5.7</u>	<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>
Total:	\$ 492.6	\$ 464.1	\$ 427.5	\$ 456.7	\$ 451.1	\$ 398.9	\$ 384.5	\$ 367.6	\$ 335.9	\$ 323.5

⁽¹⁾ The 2012 increase in Interest and Amortization of Bonds primarily reflects a \$10.9 million decrease in the capitalization of interest as major construction projects were completed.

⁽²⁾ The 2012 Depreciation on Utility Plant increased due to the completion of major construction projects.

⁽³⁾ The 2012 General Administration costs continue to reflect the cost reduction strategies implemented in 2010.

* Restated to meet current formatting.