

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2008

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**Comprehensive Annual Financial Report**  
***East Bay Municipal Utility District***

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008



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

Prepared by the Accounting Division  
of the Finance Department

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Letter of Transmittal

GFOA Award Certificate

Board of Directors

Organizational Staffing

Organization Chart



# Letter of Transmittal

*East Bay Municipal Utility District*

January 29, 2009

Board of Directors  
East Bay Municipal Utility District  
Oakland, California

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the East Bay Municipal Utility District (EBMUD, or District) for the fiscal year ended June 30, 2008.

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

Maze & Associates, Accountancy Corporation, have issued an unqualified ("clean") opinion on the East Bay Municipal Utility District's financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

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

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



## The Reporting Entity

The East Bay Utility District is a publicly owned utility formed under the Municipal Utility District Act passed by the California Legislature in 1921. The Act permits formation of multi-purpose government agencies to provide public services on a regional basis. In accordance with the Act's provision, voters in the east San Francisco Bay Area created EBMUD in 1923 to provide water service. The MUD Act was amended in 1941 to enable formation of special district. 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.

EBMUD supplies water and provides wastewater treatment for parts of Alameda and Contra Costa counties. The District's water system collects, transmits, treats, and distributes high-quality water to approximately 60% of the developed area within Alameda and Contra Costa counties of California. The water is supplied to approximately 1.3 million users of industrial, commercial, residential, and public authority in a 331-square-mile service area extending from Crockett in the north, southward to San Lorenzo (encompassing Oakland, Berkeley and Alameda), eastward from San Francisco Bay to Walnut Creek, and south 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 takes pride in providing a reliable, high-quality supply of water for the East Bay and for future generations. Our mission statement guides us as responsible stewards of a shared water resource.

## Fresh, Healthful Water is the Lifeblood of Any Community

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

EBMUD conserved, as did our customers. By making conservation a lifestyle choice, and using recycled water for landscape irrigation and other uses that don't waste drinking water, we banked water savings so we will have more water for tomorrow. EBMUD customers saved 1.5 million gallons of water a day in fiscal year 2008 through conservation.



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

To stretch our water supply even further, EBMUD is constructing facilities to bring recycled water to the East Bayshore for the first time. Our water conservation programs, including education and cash incentives for water-saving devices, help communities use water in a sustainable way. Our most critical water supply initiative is the Freeport Regional Water Project. EBMUD and its partners, the Sacramento County Water Agency and the City of Sacramento, are currently constructing this project after searching for nearly 40 years for a practical, reliable drought solution for the East Bay.

EBMUD continued an aggressive construction schedule to bring a dry-year water supply to East Bay customers beginning in 2010. The Freeport Regional Water Supply Project will ease the burden of rationing in droughts by supplying EBMUD customers with up to 100 million gallons of water a day in dry years, and it will help protect the regional economy from the effects of drought.

EBMUD dedicated a new recycled water treatment facility that will recycle 2.5 millions gallons of wastewater for use in industrial cooling and irrigation. This year customers also used 5.6 million gallons a day of recycled water. Adding that to EBMUD's use of 6.3 million gallons a day for operations needs at the West Oakland wastewater treatment plant, equals almost 12 million gallons of recycled water used in 2008.

EBMUD generated 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 by 14,000 metric tons of carbon dioxide 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 \$7 million in revenue, helping keep wastewater rates low.

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

Development of new solutions for EBMUD's long-term water supply continues by working collaboratively with community leaders and in-house experts to complete the Water Supply Management Program 2040. This planning document will utilize decades of combined experience to shape future water supply choices to meet the needs of a growing population in an environmentally responsible way.



# Mission Statement

*East Bay Municipal Utility District*

In the early 1900s, not one of seventeen different private companies could provide the East Bay with a safe, dependable water supply. Communities fed up with the lack of service dreamed of clear, fresh water from the Sierra Nevada. In 1923, seven cities voted to form a municipal water agency with public accountability, and EBMUD was born.

Today, EBMUD provides water quality that ranks among the best in the world. A commitment to reliable high-quality water became the cornerstone of EBMUD practices and remains central to its mission today.

Since 1951, EBMUD has consistently protected public health and San Francisco Bay with responsible wastewater treatment and innovative programs to decrease stress on the coastal ecosystem.

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



## **In carrying out this mission, we will:**

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

## **EBMUD Key Initiatives for the Fiscal Year July 2008–June 2009**

- **Long Term Water Supply**

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

- Preserving current entitlements and obtaining additional supplemental supplies sufficient to meet customer demands with minimal rationing.
- Conservation, reduce potable water demand by 26 million gallons per day (mgd) by 2010 and embark on new goals to be established in Water Supply Master Plan (WSMP) 2040.
- Recycling, reduce potable water demand by 9 mgd by 2010 and embark on new goals to be established in WSMP 2040.
- Developing and implementing a climate Change Monitoring and Response Plan to inform the District's future water supply, water quality and infrastructure planning and support infrastructure investment decisions, and mitigate District greenhouse gas (GHG) emissions that contribute to climate change.

- **Water Quality and Environmental Protection**

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

- Managing the Mokelumne and East Bay watersheds in a way that ensures a high quality water supply and protects natural resources while providing appropriate public access.
- Operating and maintaining District facilities to surpass federal and state drinking water regulations with a margin of safety to meet customer expectations.
- Operating and maintaining District facilities to anticipate and meet all air, land and water discharge requirements.
- Minimizing impacts to the environment by reducing, recycling, reusing and reclaiming waste and by conserving natural resources.
- Ensuring protection and stewardship of San Francisco Bay.
- Advocating for water quality and environmental regulations that are based on sound science, are protective of public health and beneficial uses and that are attainable and sustainable.

- **Long Term Infrastructure Investment**

Maintain and improve the District's infrastructure in a cost effective manner to ensure sustainable delivery of reliable, high quality service now and in the future by:

- Maintaining coordinated master plans for all facilities which consider current facility condition and performance and address future service needs as well as potential threats, challenges, and opportunities.
- Meeting operational needs and reliability goals by implementing effective maintenance practices.
- Implementing the master plans and set priorities in the operating and capital budget process to reflect the needs identified in those plans.

- **Long Term Financial Stability**

Manage the District's finances to support District needs and maintain reasonable water and wastewater rates through:

- Ensuring sufficient revenues to cover the District's needs.
- Maintaining a strong financial position to meet short and long-term needs.
- Maintaining the integrity of District financial systems.
- Making the best use of every dollar spent.
- Evaluating and implementing technologies that lower cost and/or improve service.

- **Customer Service**

Understand and be responsive to customer expectations for service through:

- Understanding customer expectations, opinions and satisfaction levels by obtaining feedback, and use customer input to inform our business decisions.
- Investing in business process changes and technologies that promote customer care, convenience, and self service.
- Maintaining an active Emergency Preparedness Program to plan for and manage the District's functions during an emergency and allow for an efficient and effective recovery following an emergency.

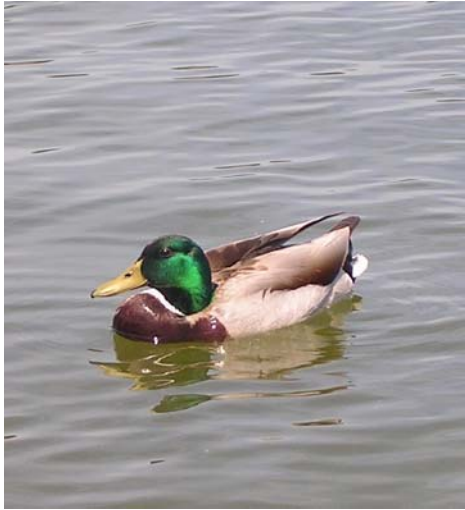
- **Workforce Planning and Development**

Ensure ample talent to do the District's work today and tomorrow by:

- Developing and implementing workforce plans that ensure critical work is performed, identify new ways to perform work and meet future workforce needs.
- Enhancing the District's ability to recruit a highly qualified, diverse staff.
- Developing employees to meet workforce demands.
- Actively managing employee performance to ensure that District goals are met.
- Creating an environment that encourages retention of employees.

# Administrative Profile

*East Bay Municipal Utility District*

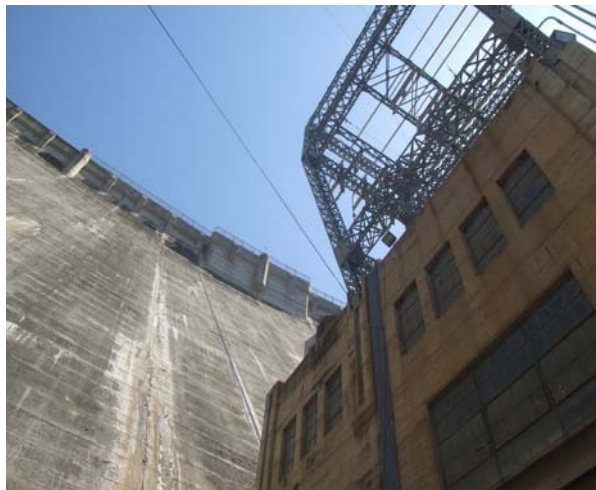


EBMUD has approximately 1,900 full-time employees under the administrative direction of an appointed General Manager and management staff at the end of the fiscal year. Groups of employees are represented by the American Federation of State, County and Municipal Employees, Locals 444 and 2019, International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

Following is the fiscal year 2007-2008 budgeted full-time equivalent employee details by Function/Program, as opposed to the actual headcount listed above.

<u>Function/Program</u>	<u>Fiscal Year 2008</u>
System Operations and Maintenance	603.5
Water Operations and Maintenance	279.5
Water Resources	42.0
Natural Resources	68.0
Engineering and Construction	254.5
Office of the General Manager	33.5
Finance	54.0
Information Systems	93.0
Administration Department	107.5
Customer and Community Services	137.0
Human Resources	49.5
Office of General Counsel	16.5
Water Recycling Program	8.0
Wastewater	284.5
<b>Total</b>	<b>2,031.0</b>

## Profile



EBMUD continues to carry out our mission: to be a financially sound, responsible agency. EBMUD keeps rates fair, provides a healthy work environment, gives back to the community, protects the environment and ensures a reliable water supply for future generations. The undertaking of significant projects is essential to meeting the District's goals, but is only part of the District's story. EBMUD's strategic plan places priorities on maintenance and upgrades of a complex water system that stretches 90 miles from Pardee Reservoir, through the Delta, until it ultimately reaches a network of facilities in the East Bay delivering Sierra snowflakes to EBMUD customers.

## Stability

As many experienced managers and staff retire, EBMUD is focused on developing the talent the District relies on. A Management Leadership Academy and other developmental training programs prepare employees to be future leaders. The academy cultivates key skills and attributes that prepare workers to compete for management positions, and helps participants achieve results in new leadership roles. New leaders will help support the District's mission to provide high-quality water and wastewater services.

## Meeting Our Goals

Reliability is a key driver of EBMUD's thinking about the future, and much has changed since the last update of the long-term Water Supply Master Plan 15 years ago, which is being updated in FY09. EBMUD experts in water supply modeling and environmental protection are gathering input from economic modelers, other specialists, and a community liaison committee to identify water supply and demand options for the next 30 years and beyond. Land use trends, new regulations, emerging issues and other factors will be included to produce a plan that is environmentally, fiscally and operationally sound. It will address global climate change, California's evolving water supply picture, and regional partnerships like the Freeport Regional Water Project, which will be ready in 2010 to help alleviate dry-year shortages. Whatever the future brings, our commitment is clear: a portfolio of initiatives to ensure a sufficient and healthy water supply for the next generation.



## Financial Strength & Stability<sub>(cont.)</sub> East Bay Municipal Utility District

### Financial Highlights

- The total assets of the District exceeded the total liabilities by \$1.6 billion (*net assets*).
- Net assets increased by \$47 million or 3% during the fiscal year.
- Capital assets increased by \$247 million or 7% to \$3.6 billion.
- During the year, operating revenue increased by \$10 million or 6% to \$333 million.
- Operating expense increased by \$35 million or 11% to \$345 million.
- Capital contributions, consisting of capital facility fees, decreased by \$18 million or 25% from the prior fiscal year to \$53 million.

### Financial Position

The District's net assets increased by \$47 million or 3% during the fiscal year. There was a decrease of \$199 million in the level of current and other assets that were used for investment in capital assets. By far the largest portion of the District's net assets (74%) or \$1.2 billion represents its investment in capital assets necessary to provide services. The increase of 3% in Total Net Assets is consistent with the District's implementation of a five-year capital improvement program.

### Budget and Rates



The EBMUD Board of Directors approved a water system rate increase of 5 percent for both FY08 and FY09, and a wastewater rate increase of 4 percent. Wastewater customers also faced a modest 4 percent increase in FY08 and 3.75 percent increase in FY09.

The total water system budget for FY08 (\$732 million) and FY 09 (\$492 million) are driven by the District's commitment to maintain and enhance infrastructure and acquire a much needed supplemental water supply. Over the next several years, the District anticipates spending \$460 million on the Freeport Regional Water Project to ensure adequate water supplies during times of drought and \$122 million on water treatment and transmission improvements to meet current and projected water needs in Lafayette, Orinda, Moraga, western Walnut Creek, and unincorporated Contra Costa County.

The District anticipates spending \$77 million to seismically retrofit the San Pablo Reservoir dam and \$75 million on water recycling and water conservation programs. The increase in rates is being driven too by rising health care and retirement system costs.

Similarly, wastewater costs are driven by infrastructure improvements to digesters and centrifuges that will improve the plants' efficiency and expansion of the power generation station to use digester gas as a renewable resource to generate power.

## Fiscal Year 2008



The fiscal year followed an extremely dry winter of 2006-2007. As the summer of 2007 started, water agencies throughout the Bay Area asked for voluntary customer water use reductions. Customer actions and a cool summer helped. Through the fall and winter, East Bay residents and businesses were urged to continue voluntary conservation while EBMUD kept a watchful eye on precipitation and snowpack conditions. Together, we stretched existing supplies through conservation and recycling. At the same time, EBMUD worked on building a groundwater project locally and a collaborative regional water project in the Sacramento area, both of which will

provide drought relief in the future. EBMUD also partnered with other agencies on short-term water transfers and investigated long-term shared water supply projects for additional future drought relief.

The immediate water supply picture worsened as the year went on. March and April 2008 together were the second driest period on record. In May 2008 the EBMUD Board of Directors declared a water shortage emergency and mandated water rationing to protect against a third dry year.

Although the drought increased attention to short-term water use and supply activities, EBMUD still progressed on long-term issues throughout FY08. Funds were invested for work to protect Delta levees, and EBMUD staff expertise contributed to the statewide look at how the Delta's waters are protected and used. EBMUD also launched a public process evaluating the East Bay's long-term water supply management program for the first time in fifteen years. As that work comes to fruition in FY09, a 2040 time horizon will begin guiding water supply management for the East Bay.

EBMUD's water supply programs of the early 20<sup>th</sup> century focused on capturing and delivering as much supply as possible. Reflecting the evolving East Bay communities it serves, EBMUD's 21<sup>st</sup> century approach is reinventing water supply management. Working with local industries and major irrigators, recycled water is being used where possible. Working with residents and businesses, new ways of using water in daily life are capturing efficiencies indoors and out. And working with a diverse set of partners, EBMUD is exploring new ways to secure water supplies to minimize the impact of future droughts on the East Bay.

## Hydropower

EBMUD generates hydropower from Pardee and Camanche Dams. One benefit of the extremely wet weather during winter 2005-2006 was a boost in electric power production from Camanche and Pardee dams and \$11.2 million in hydropower sales – more than double what was anticipated – which helped keep EBMUD rates low. In fiscal year 2008, net revenue from hydropower sales fell to \$3.1 million, a result of two consecutive dry winters. Though the drop seems large compared to 2006, sales were \$1.4 million less than the forecasted \$4.5 million, resulting in no impact on water rates.

## Community Outreach



Sustainable water resources result from the personal lifelong commitment of East Bay residents and business owners and employees to use water efficiently. EBMUD tailors information and resources to the audience so children, adults and businesses learn about and conserve water. Conservation ideas are routinely featured in customer newsletters, workshops and events and presented at public events throughout the East Bay. Each year, 41,000 students learn by attending entertaining conservation-themed plays offered at local schools.

This year, EBMUD conservation experts talked with thousands of customers at 27 different local events, including the Pacific Energy Center Water Conservation Showcase, several “green” corporate events, and fairs and festivals sponsored by neighborhoods, cities, towns, business and civic groups. At Berkeley’s Ecology Center, water conservation exhibits are supported by EBMUD at the EcoHouse, a location that features an innovative gray-water demonstration system. In the coming year, EBMUD will be supporting new signage and a water efficient irrigation system at the center so that visitors can see water efficiency in the context of a completely “green” building.

## Water Efficiency Research

Detecting leaks underground has taken advantage of technology advances in recent years, and EBMUD is one of the first in the nation to conduct thorough research on the new technology’s effectiveness. Digging up and fixing leaks on large pipes is very expensive – and those pipes generally are vital for serving thousands of customers. One of EBMUD’s FY08 research projects involved testing developing robotic technology for finding leaks, and figuring out how big the leaks are, so cost-effective repairs can be made.

Also in FY08, EBMUD began installing 1,000 devices in Berkeley that listen for running water and report their findings via a computer uplink. A federal grant is paying half of the costs for this project because of the benefits expected for water utilities in the western states that serve areas with similar soils and ground movement. It’s already helped locate leaks not only on EBMUD pipes in the streets but also on homeowner pipes in neighborhood yards. Early detection of leaks saves water, money, and customer aggravation.

## Financial Planning

Prudent financial management policies have resulted in bond ratings of Aa2 from Moody’s and AA+ from Standard & Poor’s. Our high ratings keep debt costs low, which keeps rates low. By financing at favorable interest rates, the District carries a lower debt service, saving ratepayers’ money.

Due to the unprecedented changes in the financial markets, the District issued Water and Wastewater Series 2008 Bonds in March and April of 2008 to refund Water Series 2005 and 2007 Bonds and Wastewater Series 2003 and 2005 Bonds respectively.



### Adapting to a Changing Climate

In FY08, EBMUD stepped up efforts to mitigate greenhouse gas emissions in the work to treat, move, store and deliver water. A strategy for monitoring climate change research was adopted, and climate change began to be factored into capital investment plans so that infrastructure priorities will be cost-effective under a variety of climate change scenarios. While no one can predict how climate change will affect water supplies in future decades, EBMUD is doing everything possible to lessen contributions to greenhouse gases and minimize the amount of water the East Bay uses daily.

### Awards and Acknowledgements

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial to EBMUD for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. This is the second consecutive year that EBMUD has received this award. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

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

Respectfully submitted,



Gary Breau  
Director of Finance



## Award Certificates

*East Bay Municipal Utility District*

GFOA Award



# 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, 2007

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.



*Charles S. Cox*  
President

*Jeffrey L. Esser*  
Executive Director



# Organization Information

*East Bay Municipal Utility District*

Board of Directors

Organizational Staffing

District Organizational Chart



## Board of Directors

*East Bay Municipal Utility District*

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.

### [Lesia R. McIntosh](#)

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

### [Frank G. Mellon](#)

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

### [William B. Patterson](#)

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

# Organizational Staffing

*East Bay Municipal Utility District*

## BOARD OF DIRECTORS

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

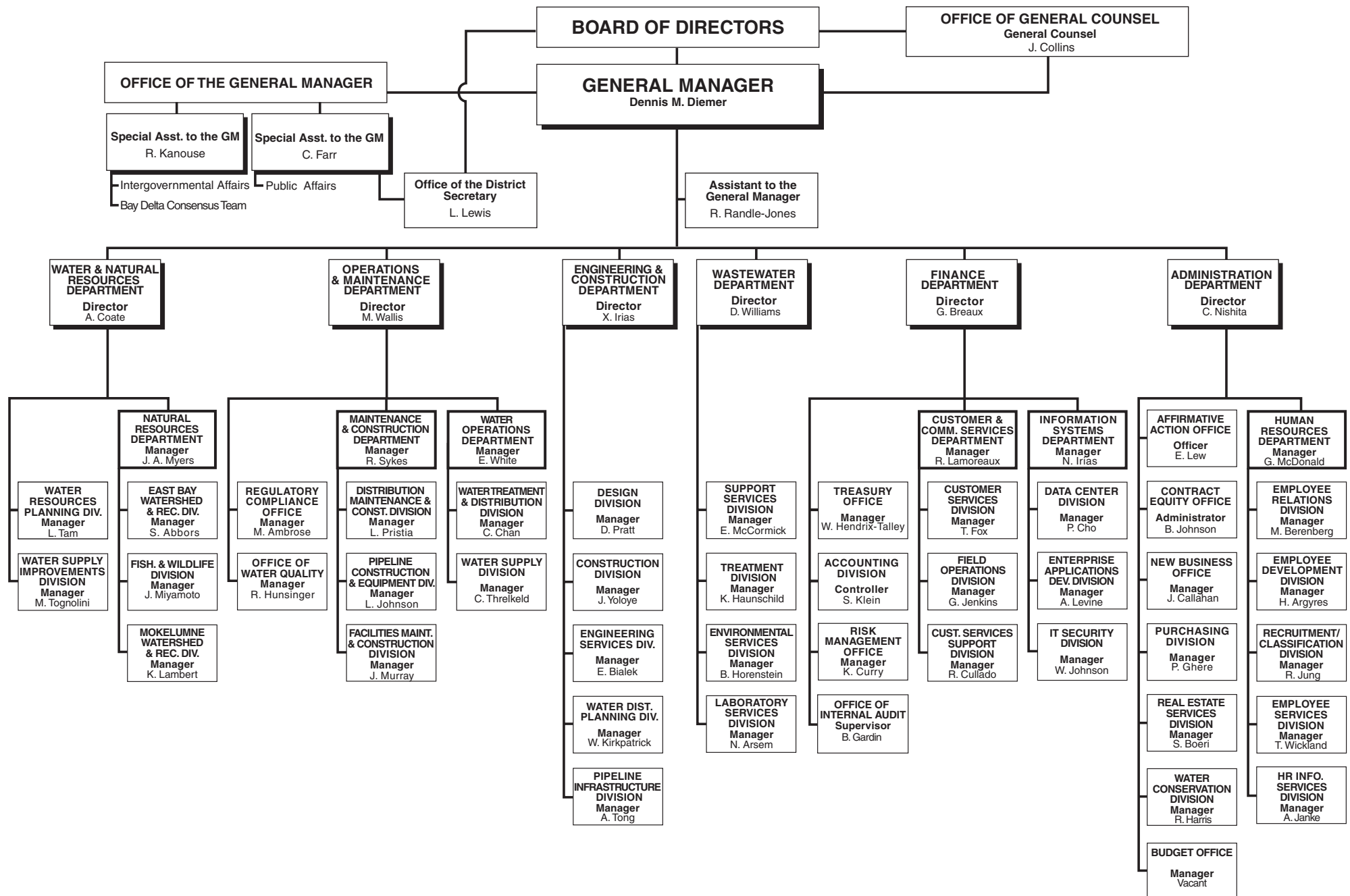
GENERAL MANAGER..... Dennis M. Diemer


FINANCE DIRECTOR ..... Gary M. Breaux

CONTROLLER ..... D. Scott Klein

PREPARED ..... Financial Reporting Section of  
the Accounting Division

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, 2008 AND 2007**

**PREPARED BY THE**  
**FINANCE DEPARTMENT**



**EAST BAY MUNICIPAL UTILITY DISTRICT  
BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2008 and 2007**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
East Bay Municipal Utility District  
Oakland, California

We have audited the financial statements of the business-type activities, each major fund and the discretely presented component unit, of the East Bay Municipal Utility District as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the business-type activities, each major fund and the discretely presented component unit of the East Bay Municipal Utility District at June 30, 2008 and 2007 and the respective changes in the financial position and cash flows, where applicable, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2008 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.

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



August 28, 2008

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2008

This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of and for the years ended June 30, 2008. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements.

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

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

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

### ORGANIZATION AND BUSINESS

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

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2008

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 38 to 69 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages 70-71 of this report.

## **EAST BAY MUNICIPAL UTILITY DISTRICT**

### **Management's Discussion and Analysis**

June 30, 2008

#### **FINANCIAL ANALYSIS**

##### ***Financial Highlights***

- The total assets of the District exceeded the total liabilities by \$1.6 billion (*net assets*).
- Net assets increased by \$47 million or 3% during the fiscal year.
- Capital assets increased by \$247 million or 7% to \$3.6 billion.
- During the year, operating revenue increased by \$10 million or 3% to \$333 million.
- Operating expense increased by \$35 million or 11% to \$345 million.
- Other income (expense) increased by \$27 million or 122% from a negative \$22 million to a positive \$5 million.
- Capital contributions, consisting of capital facility fees, decreased by \$18 million or 25% from the prior fiscal year.

##### ***Financial Position***

The District's net assets increased by \$47 million or 3% during the year (*see Table 1 on the following page*). There was a decrease of \$199 million in the level of current and other assets that were used for investment in capital assets. By far the largest portion of the District's net assets, 73% or \$1.2 billion represents its investment in capital assets necessary to provide services. The increase of 3% in Total Net Assets is consistent with the District's implementation of a five-year capital improvement program.

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2008

**Table 1**

Net Assets

Water and Wastewater

June 30, 2008 and 2007

(In thousands)

	<b>2008</b>	<b>2007</b>	<b>Variance</b>	<b>%</b>
Current and other assets	\$ 809,873	1,008,449	(198,576)	(20)%
Capital assets	<u>3,584,180</u>	<u>3,337,081</u>	<u>247,099</u>	7%
Total assets	<u>4,394,053</u>	<u>4,345,530</u>	<u>48,523</u>	1%
Current and other liabilities	191,691	152,041	39,650	26%
Long-term liabilities	<u>2,600,899</u>	<u>2,639,139</u>	<u>(38,240)</u>	(1)%
Total liabilities	<u>2,792,590</u>	<u>2,791,180</u>	<u>1,410</u>	0%
Net assets:				
Invested in capital assets, net of related debt	1,182,822	1,174,486	8,336	1%
Restricted	143,489	130,641	12,848	10%
Unrestricted	<u>275,152</u>	<u>249,223</u>	<u>25,929</u>	10%
Total net assets	<u>\$ 1,601,463</u>	<u>1,554,350</u>	<u>47,113</u>	3%

Net Assets

Water and Wastewater

June 30, 2007 and 2006

(In thousands)

	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>%</b>
Current and other assets	\$ 1,008,449	523,611	484,838	93%
Capital assets	<u>3,337,081</u>	<u>3,181,030</u>	<u>156,051</u>	5%
Total assets	<u>4,345,530</u>	<u>3,704,641</u>	<u>640,889</u>	17%
Current and other liabilities	152,041	152,317	(276)	(0)%
Long-term liabilities	<u>2,639,139</u>	<u>2,060,455</u>	<u>578,684</u>	28%
Total liabilities	<u>2,791,180</u>	<u>2,212,772</u>	<u>578,408</u>	26%
Net assets:				
Invested in capital assets, net of related debt	1,174,486	1,226,133	(51,647)	(4)%
Restricted	130,641	119,236	11,405	10%
Unrestricted	<u>249,223</u>	<u>146,500</u>	<u>102,723</u>	70%
Total net assets	<u>\$ 1,554,350</u>	<u>1,491,869</u>	<u>62,481</u>	4%



# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2008

### Results of Operations

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

**Table 2**

Changes in Net Assets

Water and Wastewater

June 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Operating Revenues:				
Water	\$ 270,564	260,678	9,886	4%
Sewer	46,161	44,593	1,568	4%
Power	3,091	4,236	(1,145)	(27)%
Wet weather facilities charges	13,669	13,735	(66)	(0)%
Total operating revenues	<u>333,485</u>	<u>323,242</u>	<u>10,243</u>	<u>3%</u>
Operating Expenses:				
Raw Water	29,586	25,252	4,334	17%
Water treatment & distribution	80,822	77,021	3,801	5%
Recreation areas, net	8,633	9,449	(816)	(9)%
Sewer lines & pumps	12,031	12,270	(239)	(2)%
Sewer treatment plant operations	24,839	22,972	1,867	8%
Customer accounting & collecting	14,781	13,992	789	6%
Financial risk management	17,930	15,732	2,198	14%
Facilities management	10,018	11,579	(1,561)	(13)%
General administration	61,910	37,151	24,759	67%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	84,004	84,494	(490)	(1)%
Total operating expenses	<u>344,554</u>	<u>309,912</u>	<u>34,642</u>	<u>11%</u>
Net operating income (expense)	<u>(11,069)</u>	<u>13,330</u>	<u>(24,399)</u>	<u>(183)%</u>
Nonoperating income (expense):				
Investment income	46,290	24,444	21,846	89%
Taxes & subventions	29,922	28,468	1,454	5%
Interest & amortization or bond expenses, net	(106,705)	(88,914)	(17,791)	20%
Other income (expense)	35,365	14,117	21,248	151%
Total other income (expense), net	<u>4,872</u>	<u>(21,885)</u>	<u>26,757</u>	<u>(122)%</u>
Income (Loss) before contributions	<u>(6,197)</u>	<u>(8,555)</u>	<u>2,358</u>	<u>(28)%</u>
Capital contributions	53,310	71,036	(17,726)	(25)%
Change in net assets	<u>47,113</u>	<u>62,481</u>	<u>(15,368)</u>	<u>(25)%</u>
Total net assets – beginning	<u>1,554,350</u>	<u>1,491,869</u>	<u>62,481</u>	<u>4%</u>
Total net assets – ending	<u>\$ 1,601,463</u>	<u>1,554,350</u>	<u>47,113</u>	<u>3%</u>

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2008

**Table 2 (Continued)**

Changes in Net Assets

Water and Wastewater

June 30, 2007 and 2006

(In thousands)

	2007	2006	Variance	%
Operating Revenues:				
Water	\$ 260,678	244,280	16,398	7%
Sewer	44,593	42,581	2,012	5%
Power	4,236	11,006	(6,770)	(62)%
System capacity charges	19,703	13,730	5,973	44%
Wet weather facilities charges	13,735	13,839	(104)	(1)%
Total operating revenues	342,945	325,436	17,509	5%
Operating Expenses:				
Raw Water	25,252	24,239	1,013	4%
Water treatment & distribution	77,021	75,983	1,038	1%
Recreation areas, net	9,449	8,293	1,156	14%
Sewer lines & pumps	12,270	11,725	545	5%
Sewer treatment plant operations	22,972	22,062	910	4%
Customer accounting & collecting	13,992	13,267	725	5%
Financial risk management	15,732	17,491	(1,759)	(10)%
Facilities management	11,579	10,923	656	6%
General administration	37,151	34,712	2,439	7%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	84,494	76,894	7,600	10%
Total operating expenses	309,912	295,589	14,323	5%
Net operating income (expense)	33,033	29,847	3,186	11%
Nonoperating income (expense):				
Investment income	24,444	20,482	3,962	19%
Taxes & subventions	28,468	24,466	4,002	16%
Interest & amortization or bond expenses, net	(88,914)	(88,863)	(51)	0%
Other income (expense)	14,117	9,343	4,774	51%
Total other income (expense), net	(21,885)	(34,572)	12,687	(37)%
Income (Loss) before contributions	11,148	(4,725)	15,873	(336)%
Capital contributions	51,333	55,992	(4,659)	(8)%
Change in net assets	62,481	51,267	11,214	22%
Total net assets – beginning	1,491,869	1,440,602	51,267	4%
Total net assets – ending	\$ 1,554,350	1,491,869	62,481	4%

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2008

The District's total operating revenue of \$333 million for the year increased by \$10 million and total operating expense increased by \$35 million. The District's change in net assets for the year, including capital contributions, decreased by \$15 million or 25%. The major components of this decrease were:

- Water revenue increased by \$10 million, mainly reflecting the 5% rate increase in fiscal year 2008.
- Operating expense increased by \$35 million, primarily reflecting increases in raw water, water treatment and distribution, sewer treatment plant operations, financial risk management and general administration expenses across both water and wastewater systems.
- Nonoperating income (net of nonoperating expense) increased by \$27 million, primarily reflecting an increase in investment income and other income offset by an increase in interest and amortization or bond expenses (net).
- Capital contributions decreased by \$18 million primarily reflecting a reduction in fees received for system capacity charges, mitigation, main, hydrant, service and miscellaneous installations.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District had \$3.6 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2008. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, pump stations, water reclamation facilities, wastewater and wet weather treatment facilities, machinery and equipment (*see Table 3 on the following page*). This amount represents an increase of \$247 million or 7% over the prior fiscal year, consistent with the District's implementation of a five-year (FY 08 to FY 12) capital improvement program. The District's net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

**Table 3**  
Capital Assets, Net of Depreciation  
Water and Wastewater  
June 30, 2008 and 2007  
(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Districtwide</b>		<b>Increase/(decrease)</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>Amount</b>	<b>%</b>
Structures, buildings, and equipment	\$ 2,556,570	2,504,980	489,162	472,424	3,045,732	2,977,404	68,328	2.3%
Land and rights of way	49,862	48,956	19,547	16,087	69,409	65,043	4,366	6.7%
Construction work in progress	422,726	243,707	46,313	50,927	469,039	294,634	174,405	59.2%
Totals	<u>\$ 3,029,158</u>	<u>2,797,643</u>	<u>555,022</u>	<u>539,438</u>	<u>3,584,180</u>	<u>3,337,081</u>	<u>247,099</u>	7.4%

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2008

**Table 3 (Continued)**

Capital Assets, Net of Depreciation

Water and Wastewater

June 30, 2007 and 2006

(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Districtwide</b>		<b>Increase/(decrease)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>Amount</b>	<b>%</b>
Structures, buildings, and equipment	\$ 2,504,980	2,303,555	472,424	478,696	2,977,404	2,782,251	195,153	7.0%
Land and rights of way	48,956	49,020	16,087	5,587	65,043	54,607	10,436	19.1%
Construction work in progress	<u>243,707</u>	<u>314,159</u>	<u>50,927</u>	<u>30,013</u>	<u>294,634</u>	<u>344,172</u>	<u>(49,538)</u>	<u>(14.4)%</u>
Totals	<u>\$ 2,797,643</u>	<u>2,666,734</u>	<u>539,438</u>	<u>514,296</u>	<u>3,337,081</u>	<u>3,181,030</u>	<u>156,051</u>	<u>4.9%</u>

This year's major capital additions included:

### **Water**

Folsom South Canal Connection	\$ 89,602
Freeport Regional Water Project	71,547
Pipeline Infrastructure Renewals	20,589
Service Lateral Replacements Polybutylene	13,097
New Service Installations	11,809
Pipeline System Extensions	8,057
Baseline/Laguna Pressure Zone Improvement	7,423
Moraga Road Pipeline Project	6,156
San Pablo Dam Seismic Modifications	6,134
Additional Supplemental Supply Projects	4,575

### **Wastewater**

Digester Upgrade	10,840
Centrifuge Replacement	6,929
Power Generation Station Expansion	2,729
Routine Capital Equipment Replacement	2,003

# EAST BAY MUNICIPAL UTILITY DISTRICT

## Management's Discussion and Analysis

June 30, 2008

### Long-Term Debt

As of June 30, 2008, the District had total long-term debt outstanding of \$2.7 billion (net of unamortized costs), decreasing by \$34 million or 1%, as shown in Table 4.

**Table 4**

Long - Term Debt  
(Net of Unamortized Costs)  
Water and Wastewater  
June 30, 2008 and 2007  
(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Districtwide</b>		<b>Increase (decrease)</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>Amount</b>	<b>%</b>
General obligation bonds	\$	—	32,120	34,298	32,120	34,298	(2,178)	(6.4)%
Revenue bonds	1,935,464	1,970,253	309,163	315,863	2,244,627	2,286,116	(41,489)	(1.8)%
Commercial paper	315,000	315,000	15,000	—	330,000	315,000	15,000	4.8%
Loans	15,478	17,189	29,878	34,278	45,356	51,467	(6,111)	(11.9)%
Totals	\$ 2,265,942	2,302,442	386,161	384,439	2,652,103	2,686,881	(34,778)	(1.3)%

Long - Term Debt  
(Net of Unamortized Costs)  
Water and Wastewater  
June 30, 2007 and 2006  
(In thousands)

	<b>Water System</b>		<b>Wastewater System</b>		<b>Districtwide</b>		<b>Increase (decrease)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>Amount</b>	<b>%</b>
General obligation bonds	\$	—	34,298	36,338	34,298	36,338	(2,040)	(5.6)%
Revenue bonds	1,970,253	1,516,564	315,863	234,345	2,286,116	1,750,909	535,207	30.6%
Commercial paper	315,000	260,000	—	—	315,000	260,000	55,000	21.2%
Loans	17,189	18,855	34,278	38,540	51,467	57,395	(5,928)	(10.3)%
Totals	\$ 2,302,442	1,795,419	384,439	309,223	2,686,881	2,104,642	582,239	27.7%

## EAST BAY MUNICIPAL UTILITY DISTRICT

### Management's Discussion and Analysis

June 30, 2008

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.

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

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

Revenue-supported debt authorization for the District can be approved by the District's board of directors, subject to a referendum process. At June 30, 2008, the District had \$1.3 billion in authorized but unissued revenue bonds (\$1.1 billion Water and \$0.2 billion Wastewater).

**Table 5**

#### Debt Ratings

#### Water and Wastewater

June 30, 2008

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

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

# **EAST BAY MUNICIPAL UTILITY DISTRICT**

## **Management's Discussion and Analysis**

June 30, 2007

### **REQUEST FOR INFORMATION**

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

East Bay Municipal Utility District  
BALANCE SHEETS  
PROPRIETARY FUNDS - ENTERPRISE  
JUNE 30, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

Assets	Water System		Wastewater System		Total	
	2008	2007	2008	2007	2008	2007
Current assets:						
Cash and investments (Note 2)	\$273,887	\$232,897	\$42,167	\$11,219	\$316,054	\$244,116
Receivables:						
Customer	20,639	19,638	3,061	3,278	23,700	22,916
Interest and other	6,528	5,418	1,993	6,722	8,521	12,140
Materials and supplies	10,168	10,234			10,168	10,234
Prepaid insurance	1,375	1,909			1,375	1,909
Total current assets	312,597	270,096	47,221	21,219	359,818	291,315
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Bond construction fund	218,662	457,203	32,083	67,083	250,745	524,286
Bond interest and redemption fund	964	211		206	964	417
Debt service reserve fund	48,675	33,793	5,494	3,860	54,169	37,653
Funds received for construction	93,205	100,731			93,205	100,731
FERC partnership fund	2,277	2,257			2,277	2,257
Monetary reserve	706	688			706	688
Total restricted cash and investments	364,489	594,883	37,577	71,149	402,066	666,032
Unrestricted investments (Note 2):						
Reserve funded CIP			13,320	12,665	13,320	12,665
Vehicle/equipment replacement fund	4,811	4,426	8,243	7,611	13,054	12,037
Total unrestricted cash and investments	4,811	4,426	21,563	20,276	26,374	24,702
Other assets:						
Deferred bond issuance costs	10,194	14,271	1,942	3,067	12,136	17,338
Other	8,078	7,903	1,401	1,159	9,479	9,062
Total other assets	18,272	22,174	3,343	4,226	21,615	26,400
Capital assets (Note 3):						
Structures, buildings, and equipment	3,591,588	3,470,290	744,730	711,581	4,336,318	4,181,871
Less accumulated depreciation	(1,035,018)	(965,310)	(255,568)	(239,157)	(1,290,586)	(1,204,467)
Subtotal	2,556,570	2,504,980	489,162	472,424	3,045,732	2,977,404
Land and rights-of-way	49,862	48,956	19,547	16,087	69,409	65,043
Construction in progress	422,726	243,707	46,313	50,927	469,039	294,634
Total capital assets, net	3,029,158	2,797,643	555,022	539,438	3,584,180	3,337,081
Total noncurrent assets	3,416,730	3,419,126	617,505	635,089	4,034,235	4,054,215
Total assets	\$3,729,327	\$3,689,222	\$664,726	\$656,308	\$4,394,053	\$4,345,530

(Continued)

See accompanying notes to basic financial statements



East Bay Municipal Utility District  
BALANCE SHEETS  
PROPRIETARY FUNDS - ENTERPRISE  
JUNE 30, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

Liabilities and Net Assets	Water System		Wastewater System		Totals	
	2008	2007	2008	2007	2008	2007
Current liabilities:						
Current maturities of long-term debt and commercial paper (Note 5 and 6)	\$38,378	\$35,462	\$12,826	\$12,280	\$51,204	\$47,742
Accounts payable and accrued expenses (Note 4)	101,242	63,695	13,647	10,947	114,889	74,642
Accrued interest	8,031	9,039	2,223	2,185	10,254	11,224
Total current liabilities	147,651	108,196	28,696	25,412	176,347	133,608
Noncurrent liabilities:						
Other liabilities:						
Advances for construction	7,832	11,102			7,832	11,102
Other liabilities	1,937	1,496	5,575	5,835	7,512	7,331
Total other liabilities	9,769	12,598	5,575	5,835	15,344	18,433
Long-term liabilities, net of current maturities (Note 6)	2,227,564	2,266,980	373,335	372,159	2,600,899	2,639,139
Total noncurrent liabilities	2,237,333	2,279,578	378,910	377,994	2,616,243	2,657,572
Total liabilities	2,384,984	2,387,774	407,606	403,406	2,792,590	2,791,180
Net assets (Note 7):						
Invested in capital assets, net of related debt	981,878	952,404	200,944	222,082	1,182,822	1,174,486
Restricted for construction	85,373	89,628			85,373	89,628
Restricted for debt service	49,639	34,004	5,494	4,064	55,133	38,068
Restricted - other	2,983	2,945			2,983	2,945
Unrestricted	224,470	222,467	50,682	26,756	275,152	249,223
Total net assets	1,344,343	1,301,448	257,120	252,902	1,601,463	1,554,350
Total liabilities and net assets	\$3,729,327	\$3,689,222	\$664,726	\$656,308	\$4,394,053	\$4,345,530

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, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2008	2007	2008	2007	2008	2007
Operating revenue:						
Water	\$270,564	\$260,678			\$270,564	\$260,678
Sewer			\$46,161	\$44,593	46,161	44,593
Power	3,091	4,236			3,091	4,236
Wet weather facilities charge:			13,669	13,735	13,669	13,735
Total operating revenue	<u>273,655</u>	<u>264,914</u>	<u>59,830</u>	<u>58,328</u>	<u>333,485</u>	<u>323,242</u>
Operating expense:						
Raw water	29,586	25,252			29,586	25,252
Water treatment and distribution	80,822	77,021			80,822	77,021
Recreation areas, net	8,633	9,449			8,633	9,449
Sewer lines and pumping			12,031	12,270	12,031	12,270
Sewer treatment plant operations			24,839	22,972	24,839	22,972
Customer accounting and collecting	12,828	12,101	1,953	1,891	14,781	13,992
Financial risk management	17,037	14,652	893	1,080	17,930	15,732
Facilities management	10,018	11,579			10,018	11,579
General administration	54,047	33,166	7,863	3,985	61,910	37,151
Depreciation on utility plant	<u>67,576</u>	<u>67,727</u>	<u>16,428</u>	<u>16,767</u>	<u>84,004</u>	<u>84,494</u>
Total operating expense	<u>280,547</u>	<u>250,947</u>	<u>64,007</u>	<u>58,965</u>	<u>344,554</u>	<u>309,912</u>
Net operating income (loss)	<u>(6,892)</u>	<u>13,967</u>	<u>(4,177)</u>	<u>(637)</u>	<u>(11,069)</u>	<u>13,330</u>
Other income (expense)						
Investment income	40,440	21,780	5,850	2,664	46,290	24,444
Taxes and subvention	22,731	21,695	7,191	6,773	29,922	28,468
Interest and amortization of bond expenses, net of capitalized interest of \$11,533 and \$9,938 for the Water System and \$2,388 and \$1,524 for the Wastewater System in 2008 and 2007, respectively	(91,713)	(76,290)	(14,992)	(12,624)	(106,705)	(88,914)
Other income	<u>27,863</u>	<u>6,927</u>	<u>7,502</u>	<u>7,190</u>	<u>35,365</u>	<u>14,117</u>
Total other income (expense), net	<u>(679)</u>	<u>(25,888)</u>	<u>5,551</u>	<u>4,003</u>	<u>4,872</u>	<u>(21,885)</u>
Income before capital contribution:	<u>(7,571)</u>	<u>(11,921)</u>	<u>1,374</u>	<u>3,366</u>	<u>(6,197)</u>	<u>(8,555)</u>
Capital contributions	<u>50,466</u>	<u>64,054</u>	<u>2,844</u>	<u>6,982</u>	<u>53,310</u>	<u>71,036</u>
Change in net asset:	<u>42,895</u>	<u>52,133</u>	<u>4,218</u>	<u>10,348</u>	<u>47,113</u>	<u>62,481</u>
Total net assets - beginning:	<u>1,301,448</u>	<u>1,249,315</u>	<u>252,902</u>	<u>242,554</u>	<u>1,554,350</u>	<u>1,491,869</u>
Total net assets - ending:	<u>\$1,344,343</u>	<u>\$1,301,448</u>	<u>\$257,120</u>	<u>\$252,902</u>	<u>\$1,601,463</u>	<u>\$1,554,350</u>

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, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2008	2007	2008	2007	2008	2007
Cash flows from operating activities						
Cash received from customers	\$272,479	\$282,219	\$60,047	\$58,294	\$332,526	\$340,513
Cash received from other income	27,863	6,927	7,502	7,190	35,365	14,117
Cash payments for judgments and claims	(6,006)	(6,980)	(528)	(714)	(6,534)	(7,694)
Cash payments to suppliers for goods and service	(9,834)	(12,049)	(24,924)	(16,391)	(34,758)	(28,440)
Cash payments to employees for service	(138,738)	(141,929)	(19,505)	(26,757)	(158,243)	(168,686)
Net cash provided by operating activities	<u>145,764</u>	<u>128,188</u>	<u>22,592</u>	<u>21,622</u>	<u>168,356</u>	<u>149,810</u>
Cash flows from noncapital financing activities:						
Tax receipts	<u>22,731</u>	<u>21,695</u>	<u>7,191</u>	<u>6,773</u>	<u>29,922</u>	<u>28,468</u>
Net cash provided by financing activities	<u>22,731</u>	<u>21,695</u>	<u>7,191</u>	<u>6,773</u>	<u>29,922</u>	<u>28,468</u>
Capital and related financing activities:						
Capital contributions	50,466	44,351	2,844	6,982	53,310	51,333
Proceeds from advances for construction	(3,270)	(2,132)			(3,270)	(2,132)
Proceeds from sale of capital assets	962	14			962	14
Net proceeds and premiums from sale of bonds	814,475	931,475	184,600	135,490	999,075	1,066,965
Acquisition and construction of capital assets	(248,625)	(164,967)	(29,168)	(41,504)	(277,793)	(206,471)
Principal retirement on long-term debt and commercial paper	(36,297)	(32,421)	(12,278)	(11,768)	(48,575)	(44,189)
Amount paid to refunding bond escrow agent	(814,475)	(448,005)	(184,600)	(49,351)	(999,075)	(497,356)
Costs and discounts from issuance on long-term debt	(1,416)	(6,177)	(731)	(984)	(2,147)	(7,161)
Interest paid on long-term debt	(87,228)	(71,656)	(13,098)	(12,036)	(100,326)	(83,692)
Net cash provided by (used in) capital and related financing activities	<u>(325,408)</u>	<u>250,482</u>	<u>(52,431)</u>	<u>26,829</u>	<u>(377,839)</u>	<u>277,311</u>
Cash flows from investing activities:						
Net proceeds from (purchases of) securities	(6,494)	(402,447)	23,134	(96,267)	16,640	(498,714)
Interest received on investments	<u>39,330</u>	<u>24,588</u>	<u>10,579</u>	<u>(2,519)</u>	<u>49,909</u>	<u>22,069</u>
Net cash (used in) provided by investing activities	<u>32,836</u>	<u>(377,859)</u>	<u>33,713</u>	<u>(98,786)</u>	<u>66,549</u>	<u>(476,645)</u>
Net increase (decrease) in cash and cash equivalents	<u>(124,077)</u>	<u>22,506</u>	<u>11,065</u>	<u>(43,562)</u>	<u>(113,012)</u>	<u>(21,056)</u>
Cash and cash equivalents:						
Beginning of year	<u>151,445</u>	<u>128,939</u>	<u>2,477</u>	<u>46,039</u>	<u>153,922</u>	<u>174,978</u>
End of year	<u>\$27,368</u>	<u>\$151,445</u>	<u>\$13,542</u>	<u>\$2,477</u>	<u>\$40,910</u>	<u>\$153,922</u>

(Continued)

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS - ENTERPRISE  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	2008	2007	2008	2007	2008	2007
Reconciliation of net operating (loss) income to net cash provided by operating activities:						
Net operating income (loss)	(\$6,892)	\$33,670	(\$4,177)	(\$637)	(\$11,069)	\$33,033
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation	67,576	67,727	16,428	16,767	84,004	84,494
Amortization	19,805	22,291	424	440	20,229	22,731
Other income	27,863	6,927	7,502	7,190	35,365	14,117
Changes in assets/liabilities:						
Materials and supplies	66	(256)			66	(256)
Prepaid insurance	534	1,130		165	534	1,295
Customer receivables	(1,001)	(248)	217	(34)	(784)	(282)
Other assets	(175)	(2,150)	(242)	(151)	(417)	(2,301)
Accounts payable and accrued expenses	37,988	(903)	2,440	(2,118)	40,428	(3,021)
Net cash provided by operating activities	<u>\$145,764</u>	<u>\$128,188</u>	<u>\$22,592</u>	<u>\$21,622</u>	<u>\$168,356</u>	<u>\$149,810</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, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

	2008	2007
Assets:		
Cash and investments (Note 2)	\$34,645	\$48,695
Invested securities lending collateral (Note 1.L and 2)	80,965	96,085
Receivables:		
Contributions	1,230	974
Interest and other	20,469	14,258
Prepaid insurance	367	355
Retirement system investments, at fair value (Note 2):		
U.S. government obligations	71,379	67,404
Domestic corporate bonds	70,299	157,059
International bonds	9,651	6,214
Domestic stocks	491,063	425,744
International stocks	181,016	236,095
Real estate	23,836	21,587
Total Investments	847,244	914,103
Total assets	984,920	1,074,470
Liabilities:		
Accounts payable and accrued expenses	749	794
Retirement system liabilities	64,592	66,487
Securities lending collateral (Note 1.L.)	80,965	96,085
Total liabilities	146,306	163,366
Net assets:		
Held in trust for pension benefits	832,139	906,492
Held in trust for post-employment healthcare benefits	6,475	4,612
Total net assets	\$838,614	\$911,104

See accompanying notes to basic financial statements.

EAST BAY MUNICIPAL UTILITY DISTRICT  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST  
(COMPONENT UNIT)  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
(DOLLARS IN THOUSANDS)

	<u>2008</u>	<u>2007</u>
Additions:		
Contributions (Note 8)		
Employer	\$44,603	\$39,332
Plan members	<u>10,394</u>	<u>9,891</u>
	<u>54,997</u>	<u>49,223</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Traded securities	(96,753)	130,345
Interest	11,251	11,142
Dividends	13,676	9,976
Real estate operating income, net	<u>2,249</u>	<u>1,339</u>
	(69,577)	152,802
Less:		
Investment expense	(2,889)	(2,779)
Borrowers' rebates and other agent fees on securities lending transactions	<u>(3,520)</u>	<u>(4,239)</u>
Net investment income	<u>(75,986)</u>	<u>145,784</u>
Total additions, net	<u>(20,989)</u>	<u>195,007</u>
Deductions:		
Benefits paid	50,476	46,189
Refund of contributions	304	319
Administrative expenses	<u>721</u>	<u>850</u>
Total deductions	<u>51,501</u>	<u>47,358</u>
Change in net assets	(72,490)	147,649
Net assets:		
Beginning of year	<u>911,104</u>	<u>763,455</u>
End of year	<u><u>\$838,614</u></u>	<u><u>\$911,104</u></u>

See accompanying notes to basic financial statements

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
(Dollars in Thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
--

***A. Description of the Primary Government***

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

***B. Description of the Component Unit***

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

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

***C. Basis of Presentation***

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

The basic financial statements include prior year comparative information. A complete presentation of the prior year information can be found in the District's financial statements for the year ended June 30, 2007.

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, 2008 AND 2007  
(Dollars in Thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
--

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, 2008 AND 2007  
(Dollars in Thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
--

- 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, 2008 AND 2007  
(Dollars in Thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
--

***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 2.07% and 2.22% of the average net book value of capital assets for the years ended June 30, 2008 and 2007, respectively.

***H. Restricted Assets***

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

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

***I. Deferred Amount on Bond Refundings***

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

***J. Cash and Cash Equivalents***

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

***K. District Investments***

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

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

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

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**  
**(Dollars in Thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
--

***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, 2008, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 2008, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
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(Dollars in Thousands)**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2008, had a weighted average maturity of 36 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 75 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, 2008, the fair value of securities on loan was \$80,965. The total cash and non-cash collateral held by the System's custodian to secure these securities on loan was valued at \$80,973, consisting of \$78,638 cash collateral and \$2,335 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 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	\$23,218
Additions	29,378
Payments	<u>(27,235)</u>
Ending Balance	<u><u>\$25,361</u></u>

***O. Revenue***

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

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

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

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***P. Interest Rate Swap***

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

***Q. Reclassification***

For the year ended June 30, 2008, 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 2008 presentation.

**NOTE 2 - CASH AND INVESTMENTS**

***A. Classification***

Reconciliations of cash and investments reported on the financial statements as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
District Enterprise Funds:		
Cash and investments included in current assets	\$316,054	\$244,116
Cash and investments included in restricted assets	402,066	666,032
Cash and investments included in unrestricted assets	<u>26,374</u>	<u>24,702</u>
Total District cash and investments	744,494	934,850
Less non-current investments	<u>(703,584)</u>	<u>(780,928)</u>
	<u>\$40,910</u>	<u>\$153,922</u>
System Pension Trust Funds:		
Cash and investments	\$34,645	\$48,695
Invested securities lending collateral	80,965	96,085
Retirement system investments	<u>847,244</u>	<u>914,103</u>
	<u>\$962,854</u>	<u>\$1,058,883</u>

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

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

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

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

The District does not enter into reverse repurchase agreements.

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

***C. District Investments Authorized by Debt Agreements***

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

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

***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. 6439*.



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<b>NOTE 2 - CASH AND INVESTMENTS (Continued)</b>
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The Retirement Board is authorized to designate multiple investment managers to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the Retirement Board. Allocations of assets to the investment managers are determined by the Retirement Board to accommodate changing conditions and laws. The long-range asset allocation goal is as follows:

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

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

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

The equity and fixed income asset allocation may range  $\pm 5\%$  from the long-range asset allocation goals. The equity allocation target (50% of the total portfolio) will consist of approximately 45% in large cap market related growth and value (average risk) securities, (5%) in small capitalization securities, and (20%) in international equities with an expected higher return but not closely correlated to domestic returns.

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

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

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

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

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

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

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

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

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

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

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

**E. Interest Rate Risk**

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Government-Sponsored Enterprise Agencies:				
Non-callable			\$2,194	\$2,194
Callable	\$181,593	\$8,178	681	190,452
Corporate Securities				
Non-callable	15,052	50,977	11,905	77,934
Callable	1,989			1,989
Municipal Bonds	128,000			128,000
Guaranteed Investment Contracts	284,630			284,630
Demand Deposits and Certificate of Deposit	1,795			1,795
Mutual Funds (U.S. Securities)	21,991			21,991
California Local Agency Investment Fund	11,571			11,571
 Total Investments	 \$646,621	 \$59,155	 \$14,780	 720,556
Cash in banks				23,938
 Total District Cash and Investments				 \$744,494

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

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

Investment Type	Less than 12 Months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity not Determined	Total
Asset Backed Securities		\$69	\$16	\$9,323		\$9,408
Equity Securities	\$647,308					647,308
Commercial Mortgage - Backed				5,469		5,469
Corporate Bonds	3,451	11,590	13,519	10,921	\$4,574	44,055
Corporate Convertible Bonds				61		61
Government Agencies	1,978	1,236	745	705		4,664
Government Bonds		643	10	567		1,220
Government Mortgage Backed Securities		70	26	59,567		59,663
Index Linked Government Bonds			479	4,568		5,047
Treasury Security Derivative Futures	2,006					2,006
Short Term Bills and Notes	1,143					1,143
Short Term Investment Funds	23,003					23,003
Mutual Funds				17,224	2,809	20,033
Real Estate					23,836	23,836
Bank Loans			328			328
Total System Investments	<u>\$678,889</u>	<u>\$13,608</u>	<u>\$15,123</u>	<u>\$108,405</u>	<u>\$31,219</u>	<u>\$847,244</u>

The District and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2008, these investments matured in an average of 212 days.

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Backed Securities	\$5,469
Government Mortgage - Backed Securities	59,663

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

**F. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 2008, for each investment type as provided by Moody's.

**District Enterprise Funds:**

Investment Type	Aaa	Aa3	Aa1	A	A1	A3	Total
U.S. Government-Sponsored							
Enterprise Agencies:							
Non-Callable	\$2,194						\$2,194
Callable	190,452						190,452
Corporate Securities							
Non-Callable	13,276	\$49,293	\$10,067		\$5,298		77,934
Callable	1,989						1,989
Municipal Bonds		94,500			23,500	\$10,000	128,000
Guaranteed Investment Contracts	241,237	43,393					284,630
Mutual Funds (U.S. Securities)	20,691			\$300			20,991
Totals	<u>\$469,839</u>	<u>\$187,186</u>	<u>\$10,067</u>	<u>\$300</u>	<u>\$28,798</u>	<u>\$10,000</u>	<u>706,190</u>
<i>Not rated:</i>							
Demand Deposits and Certificate of Deposit							1,795
Mutual Funds (U.S. Securities)							1,000
California Local Agency Investment Fund							11,571
Cash in Banks							<u>23,938</u>
Total District Cash and Investments							<u>\$744,494</u>

**System Pension Trust Fund:**

Investment Type	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	U.S. Government Guaranteed	Not Rated	Total
Asset Backed Securities	\$6,731	\$263	\$628	\$14	\$254	\$293	\$84	\$175		\$966	\$9,408
Equity Securities										647,308	647,308
Commercial Mortgage - Backed	3,059									2,410	5,469
Corporate Bonds	779	2,688	7,809	13,175	4,019	5,697	2,852	2		7,034	44,055
Corporate Convertible Bonds					10		51				61
Government Agencies	3,557	168		86					\$644	209	4,664
Government Bonds	206			431					583		1,220
Government Mortgage Backed Securities									59,663		59,663
Index Linked Government Bonds	5,047										5,047
Treasury Security Derivative Futures										2,006	2,006
Short Term Bills and Notes									1,143		1,143
Short Term Investment Funds										23,003	23,003
Mutual Funds										20,033	20,033
Real Estate										23,836	23,836
Bank Loans										328	328
Total System Investments	<u>\$19,379</u>	<u>\$3,119</u>	<u>\$8,437</u>	<u>\$13,706</u>	<u>\$4,283</u>	<u>\$5,990</u>	<u>\$2,987</u>	<u>\$177</u>	<u>\$62,033</u>	<u>\$727,133</u>	<u>\$847,244</u>

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

**G. Concentration Risk**

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

Reporting Unit	Issuer	Investment Type	Reported Amount
District-Wide			
	FMLC	Federal Agency Securities	\$ 90,334
	FHLB	Federal Agency Securities	42,516
	FNMA	Federal Agency Securities	40,190
	FSA	Guaranteed Investment Contracts	131,906
	Trinity	Guaranteed Investment Contracts	109,331
	AIG	Guaranteed Investment Contracts	44,601
	BATA	Municipal Bonds	82,500
Major Funds:			
Water System			
	FHLMC	Federal Agency Securities	64,616
	FHLB	Federal Agency Securities	36,990
	FNMA	Federal Agency Securities	37,523
	BATA	Municipal Bonds	80,500
	FSA	Guaranteed Investment Contracts	130,606
	Trinity	Guaranteed Investment Contracts	109,331
Wastewater System			
	FHLMC	Federal Agency Securities	25,718
	SFLH	Municipal Bonds	12,000
	AIG	Guaranteed Investment Contracts	32,083

Significant System Pension Trust Fund investments are:

Nature of investment	Fair Value at June 30, 2008
Northern Trust Collective Daily Russell 1000 Equity Index Fund	\$166,037
Templeton Institutional Funds, Inc. Foreign Equity Series	80,674
Federal National Mortgage Association	44,653
ING Investment Trust Company Fund	90,307

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***H. Foreign Currency Risk***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 2008:

<u>Foreign Currency</u>	<u>Equity Securities Investment Type</u>
Euro	\$25,468
Japanese Yen	14,691
British Pound Sterling	6,916
Swiss Franc	5,522
Australian Dollar	5,361
Canadian Dollar	2,441
Norwegian Krone	2,220
Swedish Krona	1,953
Hong Kong Dollar	1,946
Indonesian Rupiah	1,610
Mexican Peso	1,556
Singapore Dollar	1,084
South African Rand	480
Malaysia Ringgit	394
Czech Republic Koruna	381
Total	<u><u>\$72,023</u></u>

The Fund's investment policy permits it to invest up to 17% of total investment on foreign currency-denominated investments. The Fund's current position is 9%

***I. Custodial Credit Risk***

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

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

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

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

As of June 30, 2008 and 2007, the System's brokers/dealers held \$0 and \$54, respectively, in cash and US government bonds exposed to custodial credit risk.

**NOTE 3 – CAPITAL ASSETS**

**A. Summary**

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

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

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

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

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



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**NOTE 3 – CAPITAL ASSETS (Continued)**

***B. Additions and Retirements***

Capital assets activity for all business-type activities for the year ended June 30, 2008, was as follows:

	Balance at June 30, 2007	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2008
<b><i>Water System:</i></b>				
Capital assets, not being depreciated:				
Land and rights-of-way	\$48,956	\$906		\$49,862
Construction in progress - Land	1,077	612	(\$906)	783
Construction in progress	242,630	323,532	(144,219)	421,943
Total capital assets, not being depreciated	292,663	325,050	(145,125)	472,588
Capital assets, being depreciated:				
Buildings and improvements	179,860	5,602		185,462
System and improvements	3,217,356	136,793	(20,548)	3,333,601
Machinery and equipment	73,074	1,825	(2,374)	72,525
Total capital assets, being depreciated:	3,470,290	144,220	(22,922)	3,591,588
Less accumulated depreciation for:				
Buildings and improvements	(58,142)	(4,711)		(62,853)
System and improvements	(857,825)	(63,425)	416	(920,834)
Machinery and equipment	(49,343)	(3,998)	2,010	(51,331)
Total accumulated depreciation	(965,310)	(72,134)	2,426	(1,035,018)
Total capital assets, being depreciated, net	2,504,980	72,086	(20,496)	2,556,570
Water System capital assets, net	\$2,797,643	\$397,136	(\$165,621)	\$3,029,158
<b><i>Wastewater System:</i></b>				
Capital assets, not being depreciated:				
Land and rights-of-way	\$16,087	\$3,460		\$19,547
Construction in progress - Land	2,651	827	(\$3,460)	18
Construction in progress	48,276	31,866	(33,847)	46,295
Total capital assets, not being depreciated	67,014	36,153	(37,307)	65,860
Capital assets, being depreciated:				
Buildings and improvements	69,594	1,200		70,794
System and improvements	636,897	32,507	(684)	668,720
Machinery and equipment	5,090	142	(16)	5,216
Total capital assets, being depreciated	711,581	33,849	(700)	744,730
Less accumulated depreciation for:				
Buildings and improvements	(21,780)	(1,633)		(23,413)
System and improvements	(212,855)	(14,618)	1	(227,472)
Machinery and equipment	(4,522)	(177)	16	(4,683)
Total accumulated depreciation	(239,157)	(16,428)	17	(255,568)
Total capital assets, being depreciated, net	472,424	17,421	(683)	489,162
Wastewater System capital assets, net	\$539,438	\$53,574	(\$37,990)	\$555,022
Business-type activities capital assets, net	\$3,337,081	\$450,710	(\$203,611)	\$3,584,180

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

**C. Construction in Progress**

Construction in Progress in fiscal 2007-2008 comprises:

	Expended to Date
<i><b>Water System:</b></i>	
Freeport Regional Water Project	\$122,873
Folsom South Canal Connection	113,936
Pipeline Infrastructure Renewals	20,033
Bayside Groundwater Project	12,269
Baseline/Laguna Pressure Zone Improvement	10,282
San Pablo Dam Seismic Models	9,328
Richmond Advanced Recycled Expansion Water Project	7,993
Customer Information System Replacement Project	6,812
Moraga Road Pipeline Project	6,609
Additional Supplemental Supply Projects	6,602
Water Conservation Project	5,224
Southern Loop Enhancement	5,100
Vulnerability Assessment Security System Improvements	4,716
Pumping Plant Rehabilitation	4,553
Upcountry Wastewater Treatment Improvements	4,387
Meter Replacements	4,358
Mokelumne Aqueduct Recoating	4,277
Raw Water Aqueduct Operation and Management Improvements	3,644
District Microwave System Upgrade	3,348
Other Construction Projects	66,382
Total Water System	<u>\$422,726</u>
<i><b>Wastewater System:</b></i>	
Centrifuge Replacement	\$13,426
Digester Upgrade	5,804
Wet Weather Master Plan Update	4,636
National Pollutant Discharges Elimination System Compliance	3,433
Power Generation Station Expansion	2,729
Resource Recovery Project	2,717
Treatment Plant Infrastructure	2,401
Concrete Rehab at SD-1	1,375
South Interceptor Relocation High Street	1,143
Wet Weather Plant Improvements	1,101
Waste to Energy Project	921
Secondary Process Enhancement	503
Routine Capital Equipment Replacement	385
Priority Manhole Intercept Project	349
Main Wastewater Treatment Plant Power Distribution System Upgrade	335
Other Construction Projects	5,055
Total Wastewater System	<u>\$46,313</u>
Total District Construction in Progress	<u>\$469,039</u>

At June 30, 2008, the District's remaining current major project commitments are estimated to be \$336,393 for the Water System and \$129,147 for the Wastewater System.

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

Accounts payable and accrued expenses at June 30, 2008 and 2007 consist of:

	Water System		Wastewater System		Total	
	2008	2007	2008	2007	2008	2007
Accounts payable	\$39,090	\$18,038	\$3,381	\$3,641	\$42,471	\$21,679
Accrued salaries	3,360	2,307	559	394	3,919	2,701
Workers' compensation reserves	24,139	13,653	2,223	2,223	26,362	15,876
General liability reserves	5,356	3,319	2,375		7,731	3,319
Accrued compensated absences	21,742	19,875	3,619	3,344	25,361	23,219
Other	7,555	6,503	1,490	1,345	9,045	7,848
Total	<u>\$101,242</u>	<u>\$63,695</u>	<u>\$13,647</u>	<u>\$10,947</u>	<u>\$114,889</u>	<u>\$74,642</u>

**NOTE 5 – COMMERCIAL PAPER NOTES**

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

As of June 30, 2008, \$315,000 in Water Series and \$15,000 in Wastewater Series commercial paper notes were outstanding under this program. The Water Series included terms of 1 to 126 days and interest rates ranging from 0.65% to 3.70% as of June 30, 2008, and terms of 33 to 150 days and interest rates ranging from 3.52% to 3.68% as of June 30, 2007. The Wastewater Series terms included 28 to 103 days and interest rates ranging from 0.80% to 3.72% as of June 30, 2008. The District paid off a portion of the commercial paper in FY 2007 and reissued in FY 2008. There were no unused proceeds as of June 30, 2008. It is the District's policy to use commercial paper as a portion of the District's long-term variable debt exposure.

To provide liquidity for the program, the District maintains a liquidity support agreement (line of credit) with a commercial bank. Combined borrowings by the Water System and the Wastewater System with the commercial paper and bank notes cannot exceed the amount of this agreement. Drawings under the agreement are restricted to pay maturing commercial paper. There were no borrowings under the line of credit agreement during the years ended June 30, 2008 and 2007. The agreement expires on April 14, 2009 and is subject to renewal at the option of the District, in the amount of \$330,000.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 6 – LONG-TERM DEBT**

**A. Composition and Changes**

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

	Original Issue Amount	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amount due within one year
<b>Water System Revenue Bonds:</b>						
<b>Subordinated Series 1996</b>						
3.75 - 6.00%, due 6/1/26	\$290,475	\$2,705		\$2,705		
<b>Subordinated Series 1998</b>						
4.00 - 5.25%, due 6/1/38	300,000	8,580		4,200	\$4,380	\$4,380
<b>Subordinated Series 2001</b>						
3.60-5.25%, due 6/1/26	250,000	13,300		2,455	10,845	2,550
<b>Subordinated Series 2002</b>						
1.250% variable rate, due 6/1/25	241,850	230,880		470	230,410	19,210
<b>Subordinated Series 2003</b>						
2.00 - 5.00%, due 6/1/21	115,730	94,640		20,845	73,795	4,130
<b>Subordinated Series 2005 A</b>						
5.00%, due 6/1/35	300,000	300,000			300,000	
<b>Subordinated Series 2005 B</b>						
3.625% variable rate, due 6/1/38	325,000	322,525		322,525		
<b>Subordinated Series 2005 C</b>						
3.735% auction rate, due 6/1/35	100,000	100,000		100,000		
<b>Subordinated Series 2007 A</b>						
5.00%, due 6/1/37	450,000	450,000			450,000	
<b>Subordinated Series 2007 B</b>						
3.75 - 5.00%, due 6/1/19	54,790	54,790			54,790	
<b>Subordinated Series 2007 C</b>						
3.692% auction rate, due 6/1/26	391,950	391,950		391,950		
<b>Subordinated Series 2008 A</b>						
1.142% variable rate, due 6/1/38	322,525		\$322,525	1,275	321,250	1,325
<b>Subordinated Series 2008 B</b>						
1.186% variable rate, due 6/1/35	160,000		160,000	275	159,725	300
<b>Subordinated Series 2008 C</b>						
1.182% variable rate, due 6/1/26	331,950		331,950	1,525	330,425	4,725
Total water long term bonds		1,969,370	814,475	848,225	1,935,620	36,620

(Continued)

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

	Original Issue Amount	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amount due within one year
<b><i>Wastewater System General</i></b>						
<b><i>Obligation Bonds:</i></b>						
<b>Series F</b>						
2.5 % - 5.00%, due 4/1/18	\$41,730	\$34,405		\$2,240	\$32,165	\$2,380
<b><i>Wastewater System Revenue Bonds</i></b>						
<b>Subordinated Series 1996</b>						
3.75 % - 6.00%, due 6/1/26	91,410	1,840		1,840		
<b>Subordinated Series 1998</b>						
4.00-5.25%, due 6/1/38	50,000	2,970		695	2,275	725
<b>Subordinated Series 2003 A</b>						
3.70% auction rate, due 6/1/33	50,000	50,000		50,000		
<b>Subordinated Series 2003 B</b>						
3.70% variable rate, due 6/1/27	75,050	65,300		65,300		
<b>Subordinated Series 2005</b>						
3.655%, variable rate, due 6/1/38	70,000	69,300		69,300		
<b>Subordinated Series 2007 A</b>						
5.00%, due 6/1/37	80,630	80,630			80,630	
<b>Subordinated Series 2007 B</b>						
3.75 - 5.00%, due 6/1/26	46,670	46,670			46,670	2,835
<b>Subordinated Series 2008 A</b>						
1.25% variable rate, due 6/1/33	50,000		\$50,000		50,000	
<b>Subordinated Series 2008 B</b>						
1.26% variable rate, due 6/1/38	69,300		69,300	375	68,925	425
<b>Subordinated Series 2008 C</b>						
1.29% variable rate, due 6/1/27	65,300		65,300	2,730	62,570	1,920
Total wastewater long term bonds		351,115	184,600	192,480	343,235	8,285
<b>Total long-term bonds</b>		\$2,320,485	\$999,075	\$1,040,705	\$2,278,855	\$44,905

(Continued)

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

	Original Issue Amount	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amount due within one year
<b><i>Water Loans:</i></b>						
<b>1977 Federal Drought Loan</b>						
5.00%, due 9/1/17	\$5,973	\$1,566		\$142	\$1,424	\$142
<b>2003 California Energy Commission</b>						
3.00%, due 6/22/13	1,992	1,272		196	1,076	202
<b>2004 Upper San Leandro Reservoir Project</b>						
2.51%, due 1/1/24	2,188	1,880		93	1,787	96
<b><i>State Water Resources Control Board</i></b>						
<b>1989 Galbraith Golf Course Project</b>						
4.01%, due 2/28/09	122	18		8	10	9
<b>1992 Alameda Reclamation Project</b>						
3.20%, due 4/30/11	1,359	384		83	301	85
<b>1993 Chevron Water Reclamation Project</b>						
3.00%, due 8/8/15	22,292	12,069		1,187	10,882	1,224
Total water loans		17,189		1,709	15,480	1,758
<b><i>Wastewater Loans:</i></b>						
<b><i>State Water Resources Control Board</i></b>						
<b>1989 Oakport Project</b>						
4.01%, due 12/14/10	2,495	584		152	432	157
<b>1991 Adeline Street Project</b>						
3.50%, due 10/1/10	8,141	2,080		494	1,586	511
<b>1991 South Foothill Project</b>						
3.50%, due 10/1/10	14,293	3,650		866	2,784	896
<b>1992 Point Isabel Wet Weather Project</b>						
3.10%, due 10/2/13	21,515	9,364		1,218	8,146	1,256
<b>1994 North Interceptor Project</b>						
2.90%, due 12/31/14	10,091	4,828		545	4,283	561
<b>1995 San Antonio Creek Project</b>						
3.40%, due 11/30/16	15,331	9,195		787	8,408	814
<b>1997 Pump Station C Project</b>						
2.80%, due 1/31/17	3,849	2,417		191	2,226	196
<b>2000 Pump Station B Project</b>						
2.20%, due 2/1/09	3,088	2,159		145	2,014	150
Total wastewater loans		34,277		4,398	29,879	4,541
<b>Total long-term loans</b>		51,466		6,107	45,359	6,299
Commercial Paper (see Note 5)		315,000	\$330,000	315,000	330,000	
Amount due within one year		(47,742)		3,462	(51,204)	
Less: Unamortized discount, net		(70)	41,542	43,583	(2,111)	
<b>Total long-term liabilities, net</b>		<u>\$2,690,605</u>	<u>\$1,370,617</u>	<u>\$1,414,964</u>	<u>\$2,600,899</u>	<u>\$51,204</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT  
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<b>NOTE 6 - LONG TERM DEBT (Continued)</b>
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***B. Description of the District's Long-Term Debt Issues***

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

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

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

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

*Water System*

**2008 Water System Subordinated Revenue Refunding Bonds, Series 2008A** – The District issued Series 2008A on March 19, 2008, to refund \$322.53 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2005B. The Series 2008A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commenced on June 1, 2008 and are payable annually on June 1 thereafter. Interest payments commenced on June 1, 2008 and are payable semi-annually on June 1 and December 1 thereafter.

**2008 Water System Subordinated Revenue Refunding Bonds, Series 2008B** – The District issued Series 2008B on April 23, 2008, to refund \$100 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2005C and \$60 million principal amount of the District's Water System Subordinate Revenue Refunding Bonds, Series 2007C. The Series 2008B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commenced on June 1, 2008 and are payable annually on June 1 thereafter. Interest payments commenced on May 1, 2008 and are payable on the first business day of each month.

**2008 Water System Subordinated Revenue Refunding Bonds, Series 2008C** – The District issued Series 2008C on March 19, 2008, to refund \$331.95 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2007C. The Series 2008C Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commenced on June 1, 2008 and are payable annually on June 1 thereafter. Interest payments commenced on April 1, 2008 and are payable on the first business day of each month.

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**NOTE 6 – LONG-TERM DEBT (Continued)**

*Wastewater System*

**2008 Wastewater System Subordinated Revenue Refunding Bonds, Series 2008A** – The District issued Series 2008A on March 24, 2008, to refund \$50 million principal amount of the District's Wastewater System Subordinated Revenue Refunding Bonds, Series 2003A. The Series 2008A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commenced on June 1, 2027 and are payable annually on June 1 thereafter. Interest payments commenced on June 1, 2008 and are payable semi-annually June 1 and December 1 thereafter.

**2008 Wastewater System Subordinated Revenue Refunding Bonds, Series 2008B** – The District issued Series 2008B on March 19, 2008, to refund \$69.3 million principal amount of the District's Wastewater System Subordinated Revenue Refunding Bonds, Series 2005. The Series 2008B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commenced on June 1, 2008 and are payable annually on June 1 thereafter. Interest payments commenced on June 1, 2008 and are payable semi-annually June 1 and December 1 thereafter.

**2008 Wastewater System Subordinated Revenue Refunding Bonds, Series 2008C** – The District issued Series 2008C on March 26, 2008, to refund the \$65.3 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds, Series 2003B. The Series 2008C Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commenced on June 1, 2008 and are payable annually on June 1 thereafter. Interest payments commenced on June 1, 2008 and are payable semi-annually June 1 and December 1 thereafter.

**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
2009	\$38,378	\$56,258	\$12,826	\$10,760	\$51,204	\$67,018
2010	39,874	55,252	13,376	10,176	53,250	65,428
2011	41,497	54,379	13,826	9,671	55,323	64,050
2012	43,156	53,566	12,689	9,324	55,845	62,890
2013	44,983	52,552	13,255	9,302	58,238	61,854
2014 - 2018	251,768	249,092	65,691	39,508	317,459	288,600
2019 - 2023	308,867	222,420	47,188	30,985	356,055	253,405
2024 - 2028	369,425	192,702	56,370	25,201	425,795	217,903
2029 - 2033	460,435	116,750	68,135	18,228	528,570	134,978
2034 - 2038	352,717	21,440	69,758	4,816	422,475	26,256
Totals	<u>\$1,951,100</u>	<u>\$1,074,411</u>	<u>\$373,114</u>	<u>\$167,971</u>	<u>\$2,324,214</u>	<u>\$1,242,382</u>



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**NOTE 6 – LONG-TERM DEBT (Continued)**

Interest payments on auction rate debt were calculated using the rate in effect at June 30, 2008. Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2008.

***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, 2008, \$232.055 million of bonds outstanding are considered defeased.

***E. Authorized but Unissued Debt***

On June 12, 2007, the Board declared its intention to issue Water Revenue Bonds and Wastewater Revenue Bonds. At June 30, 2008, the District had \$1.3 billion in authorized but unissued revenue bonds (\$1.1 billion for Water and \$169 million for Wastewater).

***F. 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	Interest Rate Swap
Water System Revenue			
Subordinated Bonds:			
Series 2002	3/17/2017	Variable Bank Rate	See below
Series 2008A	3/18/2011	Variable Bank Rate	See below
Series 2008B	4/22/2011	Variable Bank Rate	See below
Series 2008C	3/19/2009	Variable Bank Rate	See below
Wastewater System Revenue			
Subordinated Bonds:			
Series 2008A	3/24/2011	Variable Bank Rate	See below
Series 2008B	3/18/2011	Variable Bank Rate	See below
Series 2008C	3/18/2011	Variable Bank Rate	See below

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**NOTE 6 – LONG-TERM DEBT (Continued)**

***G. 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, 2008, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Counterparty Credit Ratings	Issuer Pays	Issuer Receives	Maturity/Termination Date
2002 Water System Refunding Bonds	\$153,610	3/6/2002	Citigroup Financial Products, Inc.	Aa3	3.835%	65% of 30-day LIBOR	6/1/2025
2002 Water System Refunding Bonds	76,800	3/6/2002	JP Morgan Chase & Co.	Aa2	3.835%	65% of 30-day LIBOR	6/1/2025
2008A Water System Refunding Bonds	113,675	6/2/2005	JP Morgan Chase & Co.	Aa2	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	113,675	6/2/2005	Merrill Lynch Capital Services	A1	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	49,420	6/2/2005	SBS Financial Products Company	A1	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	44,480	6/2/2005	Lehman Brothers Special Financing	A1	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008B-3/2008C Water System Refunding Bonds	234,090	5/23/2007	SBS Financial Products Company	Aa1	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B-3/2008C Water System Refunding Bonds	78,030	5/23/2007	Citi Bank, N.A. New York	Aa1	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B-3/2008C Water System Refunding Bonds	78,030	5/23/2007	Merrill Lynch Capital Services	Aa1	3.407%	91.0% of USD-SIFMA Municipal Swap Index	6/1/2026
2008B Wastewater System Refunding Bonds	68,925	6/2/2005	Lehman Brothers Special Financing	A1	3.098%	62.3% of 30-day LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	31,285	3/5/2003	Citigroup Financial Products, Inc.	Aa3	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	31,285	3/5/2003	JP Morgan Chase & Co.	Aa2	3.468%	65% of 30-day LIBOR	6/1/2027

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**NOTE 6 – LONG-TERM DEBT (Continued)**

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

*Fair value.* The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The fair values of each swap at June 30, 2008, are included below:

Related Bond Issue	Fair Value
2002 Water System Refunding Bonds	(\$14,417)
2008A Water System Refunding Bonds	(4,731)
2008B-3/2008C Water System Refunding Bonds	(6,425)
2008B Wastewater System Refunding Bonds	(969)
2008C Wastewater System Refunding Bonds	(2,606)
	<u>(\$29,148)</u>

*Credit risk.* As of June 30, 2008, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$29,148. 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, 2008, neither the District nor the counterparty was required to provide collateral.

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

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**  
**(Dollars in Thousands)**

**NOTE 6 – LONG-TERM DEBT (Continued)**

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

*Swap payments and associated debt.* Using rates as of June 30, 2008, 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	
2009	\$27,905	\$12,579	\$19,597	\$32,176
2010	30,285	12,204	18,963	31,167
2011	31,530	11,814	18,303	30,117
2012	32,840	11,407	17,615	29,022
2013	37,285	10,958	16,888	27,846
2014 - 2018	211,350	47,388	72,542	119,930
2019 - 2023	314,055	31,481	47,451	78,932
2024 - 2028	238,330	12,073	16,784	28,857
2029 - 2033	68,025	6,370	8,606	14,976
2034 - 2038	81,700	1,991	2,685	4,676
Totals	<u>\$1,073,305</u>	<u>\$158,265</u>	<u>\$239,434</u>	<u>\$397,699</u>

**NOTE 7 – NET ASSETS**

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

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

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

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

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
(Dollars in Thousands)**

<b>NOTE 8 – EMPLOYEES’ RETIREMENT PLAN</b>
--

***A. Description***

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

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

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

***B. Post-employment Healthcare Cost***

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees’ Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2008, there were 1,103 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 2003, the District reimbursed up to \$450 per month (\$550 per month effective July 1, 2004, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$5,694 in the year ended June 30, 2008. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

**EAST BAY MUNICIPAL UTILITY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

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

**C. Contributions Required and Contributions Made**

The Plan’s funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual-entry-age-normal method is used to determine the normal cost, and the unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future covered payroll over 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 29.94% 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, 2007
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Assets valuation method	5-year smoothing of market value
Actuarial assumptions:	
Investment rate of return	8.25%
Average projected salary increases	6.07%
Inflation rate	4.00%
Cost-of-living adjustments	3.50%

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**  
**(Dollars in Thousands)**

**NOTE 8 – EMPLOYEES’ RETIREMENT PLAN (Continued)**

Contributions for the year ended June 30, 2008, based on the actuarial valuation (including amounts for post-employment healthcare benefits), were as follows:

	Water System Fund	Wastewater System Fund	Total
Regular contributions:			
District contributions	\$37,996	\$6,607	\$44,603
Member contributions	8,814	1,527	10,341
	<u>46,810</u>	<u>8,134</u>	<u>54,944</u>
Other contributions:			
Member buybacks	42	11	53
	<u>\$46,852</u>	<u>\$8,145</u>	<u>\$54,997</u>

Regular District and member contributions in fiscal 2008 represent an aggregate of 29.94% and 6.94% of covered payroll, respectively. The payroll for the District employees covered by the Plan for the year ended June 30, 2008, was \$148,967, which was 89.67% of the total District payroll of \$166,130. The total District contribution of \$44,603 consisted of \$18,225 for normal cost and \$26,378 for amortization of the unfunded actuarial accrued liability. The payroll for the District employees covered by the Plan for the year ended June 30, 2007, was \$143,689, which was 89.19% of the total District payroll of \$161,111. The total District contribution of \$39,332 consisted of \$16,385 for normal cost and \$22,960 for amortization of the unfunded actuarial accrued liability.

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

**D. Schedule of Employer Contributions**

The schedule of employer contributions is shown below:

	Annual required contribution	Percentage contributed
Fiscal year ended June 30:		
2006	\$35,635	100%
2007	39,332	100%
2008	44,603	100%

The annual required contributions for fiscal years ended June 30, 2008 and 2007, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**  
**(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, 2008, the District paid \$1,571 for current year coverage.

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

Selected other coverages are:

Coverage	Policy limit	Self-insured retention
Workers' compensation	Statutory Limit	\$5,000
All risk property (except flood)	\$125,000	100
Flood	25,000	1,000
Liability	90,000	10,000 Water 10,000 Wastewater
Crime	10,000	25

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

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2008, the amount of these liabilities was \$34,093 and is included in accounts payable and accrued expenses and other non-current liabilities in the accompanying balance sheet. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

	2008	2007
Liability at beginning of year	\$19,195	\$20,559
Current year claims and changes in estimates	21,432	4,620
Payments of claims	(6,534)	(5,984)
Liability at end of year	<u>\$34,093</u>	<u>\$19,195</u>

**NOTE 10 - CONTINGENT LIABILITIES**

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



**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Dollars in thousands)

**(1) Pension Plan**

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

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a Percentage of covered payroll ((b-a)/c)</b>
06/30/98	\$426,193	\$466,387	\$40,194	91.4%	\$106,099	37.9%
06/30/99	491,935	512,074	20,139	96.1%	111,955	18.0%
06/30/00	556,759	611,441	54,682	91.1%	118,798	46.0%
06/30/01	606,896	663,763	56,867	91.4%	125,313	45.4%
06/30/02	631,700	719,660	87,960	87.8%	129,791	67.8%
06/30/03	639,382	838,385	199,003	76.3%	133,678	148.9%
06/30/04	662,387	886,663	224,276	74.7%	137,138	163.5%
06/30/05	692,945	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%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Dollars in thousands)

**(2) Post-Employment Healthcare Plan**

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

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
6/30/1998	\$0	\$15,978	\$15,978	0.0%	\$106,099	15.1%
6/30/1999	357	23,132	22,775	1.5%	111,955	20.3%
6/30/2000	805	29,581	28,776	2.7%	118,798	24.2%
6/30/2001	841	30,971	30,130	2.7%	125,313	24.0%
6/30/2002	1,265	50,358	49,093	2.5%	129,791	37.8%
6/30/2003	2,113	58,752	56,639	3.6%	133,678	42.4%
6/30/2004	2,715	62,357	59,642	4.4%	137,138	43.5%
6/30/2005	3,409	71,892	68,483	4.7%	139,514	49.1%
6/30/2006	3,608	71,409	67,801	5.1%	142,373	47.6%
6/30/2007	4,208	105,409	101,201	4.0%	153,394	66.0%

Unaudited.

## 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

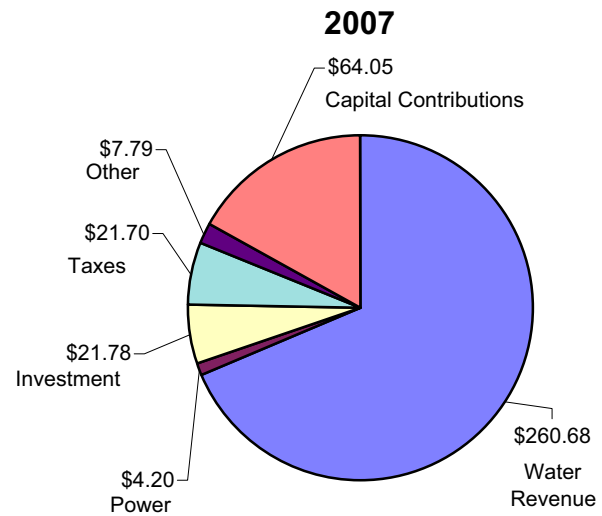
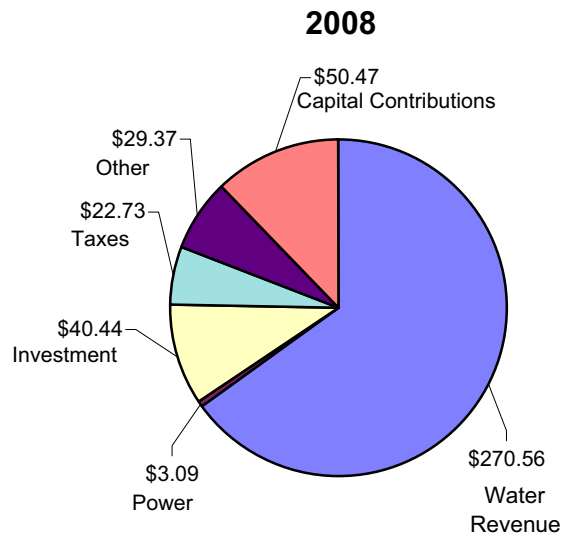
Net Assets by Component

## Financial Trends Comparative Highlights

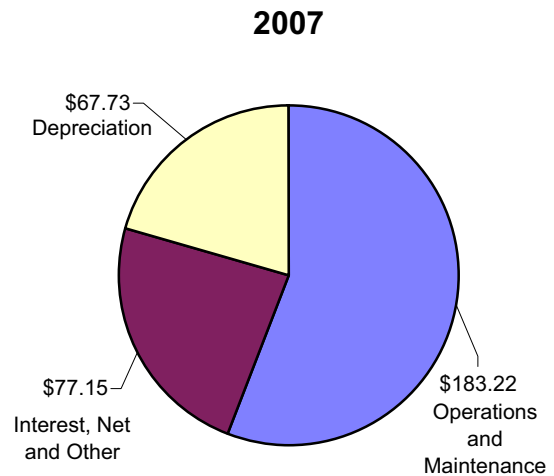
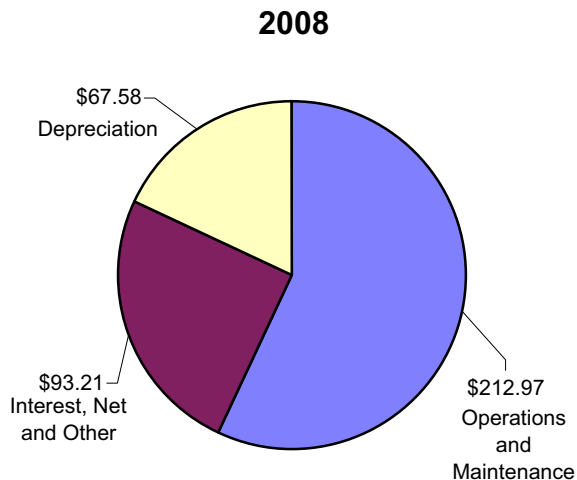
Fiscal Year 2008 and 2007

### Water System

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



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

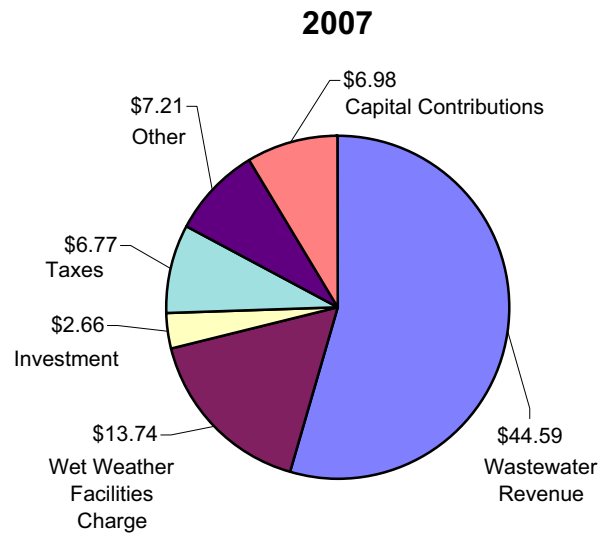
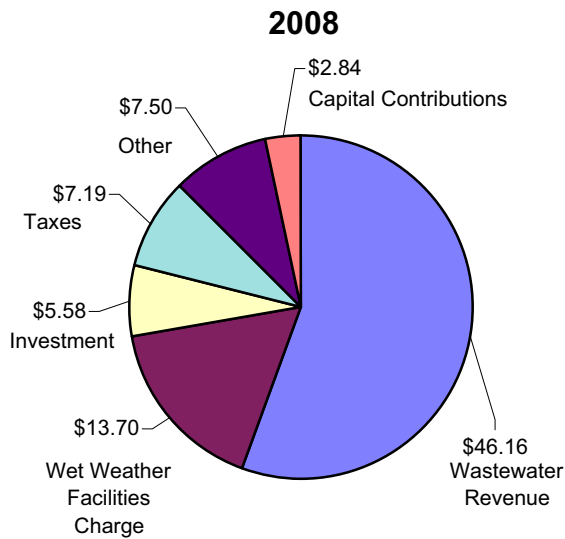


## Financial Trends Comparative Highlights

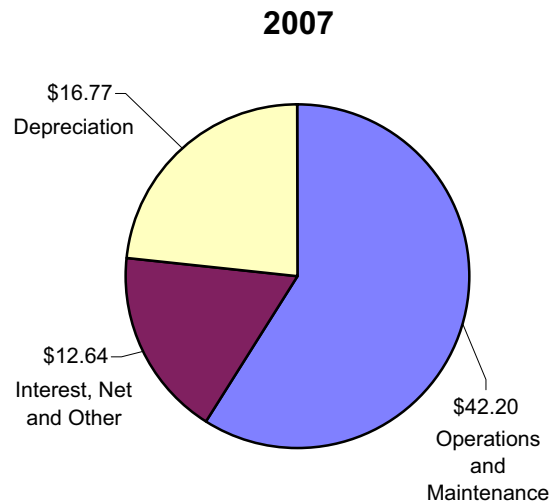
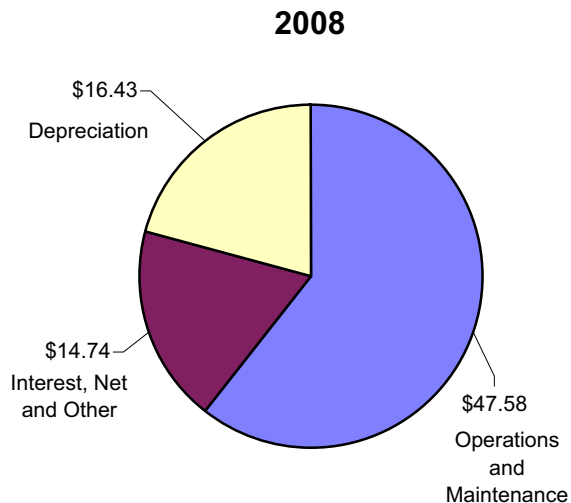
Fiscal Year 2008 and 2007

### Wastewater System

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



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



**Financial Trends**  
**Ten-Year Summary of Financial Data**

Fiscal Years 1999 to 2008  
(in Millions)

	Fiscal Year Ended June 30									
	2008	2007*	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999*
<b>Water System</b>										
Revenues										
Water Revenue	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9	\$ 223.2	\$ 214.0	\$ 206.8	The District implemented GASB 34 for the fiscal year ended June 30, 2001. Information for fiscal years prior to the implementation of GASB 34 are unavailable.	
Taxes	22.7	21.7	19.1	18.3	17.4	16.5	15.6	14.3		
Investment	40.4	21.8	18.4	7.7	11.1	13.3	25.4	20.8		
Power	3.1	4.2	11.0	7.0	2.8	4.1	3.1	7.3		
Capital Contributions	50.5	64.1	67.3	44.9	39.3	44.1	37.9	54.4		
Other	29.4	7.8	5.3	6.2	2.7	12.9	5.3	3.0		
Total Revenues	416.7	380.2	365.4	319.8	315.4	314.1	301.3	306.6		
Expenses										
Operations and Maintenance	213.0	183.2	178.7	166.4	156.4	145.3	132.7	133.4		
Depreciation	67.6	67.7	60.5	62.3	54.6	51.9	49.1	46.9		
Interest, Net and Other	93.2	77.2	76.5	69.3	64.4	64.9	63.9	52.1		
Total Expenses	373.8	328.1	315.7	298.1	275.4	262.0	245.8	232.5		
<b>Changes in Net Assets</b>	\$ 42.9	\$ 52.1	\$ 49.7	\$ 21.8	\$ 40.0	\$ 52.0	\$ 55.5	\$ 74.1		

\* Restated to meet current formatting.

**Financial Trends**  
**Ten-Year Summary of Financial Data**

Fiscal Years 1999 to 2008  
(in Millions)

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Wastewater System</b>										
Revenues										
Wastewater Revenue	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6	\$ 39.9	\$ 38.7	The District implemented GASB 34 for the fiscal year ended June 30, 2001. Information for fiscal years prior to the implementation of GASB 34 are unavailable.	
Wet Weather										
Facilities Charges	13.7	13.7	13.8	13.9	13.9	13.9	13.5	13.2		
Taxes	7.2	6.8	5.3	4.7	6.3	5.8	5.9	5.3		
Investment	5.8	2.7	2.1	1.9	2.6	3.0	4.3	4.9		
Capital Contributions	2.8	7.0	2.5	1.7	2.1	2.5	5.9	8.7		
Other	7.6	7.2	5.2	4.1	(0.9)	0.3	0.2	1.0		
Total Revenues	83.3	82.0	71.5	68.5	66.8	67.0	69.6	71.7		
Expenses										
Operations and Maintenance	47.6	42.2	40.0	38.4	36.8	35.6	35.3	35.3		
Depreciation	16.4	16.8	16.4	16.4	15.9	15.9	15.4	14.0		
Interest, Net and Other	15.1	12.6	13.5	15.7	13.8	16.1	13.3	14.1		
Total Expenses	79.1	71.6	69.9	70.5	66.5	67.5	64.0	63.4		
<b>Changes in Net Assets</b>	\$ 4.2	\$ 10.4	\$ 1.6	\$ (1.9)	\$ 0.2	\$ (0.5)	\$ 5.6	\$ 8.3		



**Financial Trends**  
**Changes in Net Assets**

Fiscal Years 1999 to 2008  
 (In Millions)

	Fiscal Year Ended June 30									
	2008	2007*	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999*
Operating Revenues										The District implemented GASB 34 for the fiscal year ended June 30, 2001. Information for fiscal years prior to the implementation of GASB 34 are unavailable.
Charges for services:										
Water	\$ 270.6	\$ 260.7	\$ 244.3	\$ 235.8	\$ 241.9	\$ 223.2	\$ 214.0	\$ 206.8		
Wastewater	59.8	58.3	56.4	56.1	56.7	55.5	53.4	51.9		
Power	3.1	4.2	11.0	7.0	2.8	4.1	3.1	7.3		
Total Operating Revenues	333.5	323.2	311.7	299.0	301.4	282.8	270.5	265.9		
Operating Expenses										
Water	280.5	250.9	239.2	228.7	211.0	197.2	181.8	180.3		
Wastewater	64.0	59.0	56.4	54.8	52.7	51.4	50.7	49.2		
Total Operating Expenses	344.6	309.9	295.6	283.5	263.7	248.6	232.6	229.6		
Operating Activities	(11.1)	13.3	16.1	15.5	37.8	34.2	38.0	36.4		

The District implemented GASB 34 for the fiscal year ended June 30, 2001. Information for fiscal years prior to the implementation of GASB 34 are unavailable.

\* Restated to meet current formatting.

**Financial Trends**  
**Changes in Net Assets (continued)**

Fiscal Years 1999 to 2008  
 (In Millions)

	Fiscal Year Ended June 30									
	2008	2007*	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999*
General Revenues and										
Other Changes in Net Assets										
Non-Operating Activites										The District implemented GASB 34 for the fiscal year ended June 30, 2001. Information for fiscal years prior to the implementation of GASB 34 are unavailable.
Investment income	46.3	24.4	20.5	9.6	13.7	16.3	29.7	25.7		
Taxes and subventions	29.9	28.5	24.5	22.9	23.7	22.2	21.4	19.5		
Interest and amortization										
of bond expenses	(106.7)	(88.9)	(88.9)	(84.1)	(72.2)	(74.9)	(75.6)	(66.3)		
Other income (expense)	35.3	14.1	9.3	9.4	(4.2)	7.1	3.9	4.0		
Capital grants										
and contributions	53.3	71.0	69.8	46.5	41.4	46.4	43.7	63.1		
Total Non-Operating Activities	58.1	49.1	35.2	4.3	2.4	17.1	23.1	46.1		
Changes in Net Assets	\$ 47.1	\$ 62.5	\$ 51.3	\$ 19.8	\$ 40.2	\$ 51.4	\$ 61.1	\$ 82.4		

\* Restated to meet current formatting.

Financial Trends  
Net Assets by Component

Fiscal Years 1999 to 2008  
(In Millions)

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001*	2000*	1999*
<b><u>Business-type activities</u></b>										
Invested in capital assets, net of related debt	\$ 1,182.8	\$ 1,174.5	\$ 1,226.1	\$ 1,213.2	\$ 1,090.0	\$ 1,006.5	\$ 998.2	\$ 942.1	\$ 850.5	\$ 866.8
Restricted for construction	85.4	89.6	78.6	54.0	64.4	65.8	61.2	59.7	101.0	65.5
Restricted for debt service	55.1	38.1	37.7	35.2	0.1	-	0.8	0.8	0.8	4.5
Restricted-other	3.0	2.9	2.9	2.9	2.9	2.9	2.8	2.5	-	142.2
Unrestricted	275.2	249.2	146.5	135.3	263.4	305.4	266.2	262.9	233.3	50.4
Total business-type activities net assets	\$ 1,601.5	\$ 1,554.4	\$ 1,491.9	\$ 1,440.6	\$ 1,420.8	\$ 1,380.5	\$ 1,329.1	\$ 1,268.0	\$ 1,185.6	\$ 1,129.4

\* Restated to meet current formatting.

## Revenue Capacity Section

Ten-Year Summary of Revenue by Source

Rate History

Ten-Year Summary of Net Revenue and  
Debt Service Coverage

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

Fiscal Years 1999 to 2008

**Water System**

(In Millions)

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Water	\$270.6	\$260.7	\$244.3	\$235.8	\$241.9	\$223.1	\$214.0	\$206.8	\$197.8	\$184.0
Taxes	22.7	21.7	19.1	18.3	17.5	16.5	15.6	14.3	13.5	12.6
Construction from SCC	0.0	19.7	13.7	12.8	12.9	12.3	11.6	11.8	12.0	11.4
Interest	40.6	20.3	16.5	7.6	11.1	13.3	25.4	20.8	17.5	21.3
Power	3.1	4.2	11.0	7.0	2.8	4.0	3.1	7.3	5.6	5.5
Rental & Other	27.7	8.4	6.3	5.5	2.1	7.2	4.4	4.3	7.8	7.7
Total	\$364.7	\$335.0	\$310.9	\$287.0	\$288.3	\$276.4	\$274.1	\$265.3	\$254.2	\$242.5

**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 1999 to 2008

**Wastewater System**  
(In Millions)

	<b>Fiscal Year Ended June 30</b>									
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Wastewater	\$ 46.2	\$ 44.6	\$ 42.6	\$ 42.2	\$ 42.8	\$ 41.6	\$ 39.8	\$ 38.7	\$ 37.5	\$ 37.4
Wet Weather Facilities	13.7	13.7	13.8	13.9	13.9	13.9	13.5	13.2	13.8	13.3
Taxes	7.2	6.8	5.3	4.7	6.2	5.8	5.9	5.2	5.1	5.3
Interest	5.7	2.1	1.8	2.1	2.6	2.9	4.3	4.9	4.0	4.9
Other	7.8	7.8	5.2	4.0	(0.9)	0.3	0.2	1.0	(1.0)	0.1
Total	\$ 80.6	\$ 75.0	\$ 68.7	\$ 66.9	\$ 64.6	\$ 64.5	\$ 63.7	\$ 63.0	\$ 59.4	\$ 61.0

**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 1999 to 2008

Fiscal Year	Water		Wastewater	
	Monthly Base Rate	Rate per 748 (1ccf) Gallons	Monthly Base Rate	Rate per 748 (1ccf) Gallons
1999	6.44	1.23	6.86	0.41
2000	6.67	1.27	6.86	0.41
2001	6.92	1.32	7.45	0.39
2002	7.20	1.37	7.45	0.39
2003	7.47	1.42	7.45	0.39
2004	7.75	1.47	8.23	0.44
2005	8.04	1.53	8.56	0.46
2006	8.34	1.59	8.93	0.47
2007	8.65	1.65	9.27	0.49
2008	9.08	1.73	9.64	0.51

**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 1999 to 2008

**Water System**

(In Millions)

<b>Fiscal Year</b>	<b>Total Revenue (1)</b>	<b>Operations &amp; Maintenance Expense (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>
1999	229.9	114.2	115.7	60.6	1.91
2000	251.9	118.2	133.7	65.9	2.03
2001	267.9	114.2	153.7	68.4	2.25
2002	273.1	109.3	163.8	75.1	2.18
2003	279.5	119.1	160.4	79.0	2.03
2004	285.5	132.7	152.8	81.3	1.88
2005	283.6	136.1	147.5	81.7	1.81
2006	298.2	143.9	154.3	88.2	1.75
2007	328.5	146.1	182.4	98.6	1.90
2008	378.0	155.9	222.1	119.5	1.86

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

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



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

Fiscal Years 1999 to 2008

**Wastewater System**

(In Millions)

<b>Fiscal Year</b>	<b>Total Revenue (1)</b>	<b>Operations &amp; Maintenance Expense (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service</b>	<b>Coverage Ratio</b>
1999	55.7	26.8	28.9	11.1	2.60
2000	54.2	28.2	26.0	15.1	1.72
2001	57.9	28.9	29.0	17.3	1.67
2002	57.9	28.9	29.0	17.0	1.71
2003	58.7	29.4	29.3	17.4	1.69
2004	58.4	30.6	27.8	15.5	1.79
2005	62.2	33.2	29.0	15.9	1.82
2006	63.6	34.2	29.4	15.8	1.86
2007	68.2	35.3	32.9	16.0	2.05
2008	73.3	37.7	35.6	20.2	1.77

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

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

## Debt Capacity Section

Debt Ratings

Outstanding Debt by Type

Authorized but Unissued Revenue Bonds  
and Outstanding Short-Term Debt

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

Assessed Valuation of Taxable Property

Summary of Debt Outstanding

### Debt Capacity

### Debt Ratings

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

**Debt Capacity**  
**Outstanding Debt by Type**

Fiscal Years 1999 to 2008

**Water System**

(In thousands)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Loans Payable</b>	<b>Total</b>
1999	8,310	996,148	24,289	1,028,747
2000	7,679	981,020	23,140	1,011,839
2001	7,017	1,189,102	21,954	1,218,073
2002	6,274	1,182,044	20,616	1,208,934
2003	5,540	1,163,796	21,363	1,190,699
2004	4,757	1,141,046	22,054	1,167,857
2005	3,922	1,540,834	20,476	1,565,232
2006	0	1,516,562	18,855	1,535,417
2007	0	1,970,254	17,189	1,987,443
2008	0	1,935,620	15,480	1,951,100

**Wastewater System**

(In thousands)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Loans Payable</b>	<b>Total</b>
1999	45,392	212,309	60,088	317,789
2000	44,974	208,985	60,498	314,457
2001	44,526	197,359	57,945	299,830
2002	42,787	193,457	54,307	290,551
2003	42,079	241,613	50,543	334,235
2004	41,380	238,373	46,668	326,421
2005	40,031	238,237	42,668	320,936
2006	38,252	234,345	38,539	311,136
2007	34,298	315,863	34,277	384,438
2008	32,165	311,070	29,879	373,114

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

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As of June 30, 2008  
(In Thousands)

**Water System**

Authorized but unissued revenue bonds	\$	1,100,000
Outstanding short-term debt (due within one year)	\$	36,620

**Wastewater System**

Authorized but unissued revenue bonds	\$	169,370
Outstanding short-term debt (due within one year)	\$	8,285

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

Fiscal Years 1999 to 2008  
(In Millions)

<b>Water System</b>					
<b>Fiscal Year</b>	<b>Accounts (1)</b>	<b>General Obligation Bonded Debt (2)</b>	<b>General Bonded Debt Per Account (In Dollars)</b>	<b>Annual Billings (2)</b>	<b>Percentage of General Bonded Debt To Annual Billings</b>
1999	364,000	7,679	21	183,965	4.17%
2000	366,000	7,017	19	197,772	3.55%
2001	368,000	6,274	17	206,791	3.03%
2002	370,000	5,541	15	214,000	2.59%
2003	373,000	4,757	13	223,126	2.13%
2004	375,000	3,922	10	241,927	1.62%
2005	376,000	0	0	235,790	0.00%
2006	379,000	0	0	244,280	0.00%
2007	381,000	0	0	260,678	0.00%
2008	381,000	0	0	270,564	0.00%

<b>Wastewater System</b>					
<b>Fiscal Year</b>	<b>Accounts (1)</b>	<b>General Obligation Bonded Debt (2)</b>	<b>General Bonded Debt Per Account (In Dollars)</b>	<b>Annual Billings (2)</b>	<b>Percentage of General Bonded Debt To Annual Billings</b>
1999	175,000	44,974	257	37,426	120.17%
2000	176,000	44,526	253	37,518	118.68%
2001	177,000	42,787	242	38,666	110.66%
2002	177,000	42,078	238	39,862	105.56%
2003	177,000	41,333	234	41,590	99.38%
2004	177,000	40,031	226	42,822	93.48%
2005	177,000	38,252	216	42,244	90.55%
2006	177,000	36,338	205	42,581	85.34%
2007	178,000	34,298	193	44,593	76.91%
2008	178,000	32,165	181	46,161	69.68%

**Debt Capacity**  
**Assessed Valuation of Taxable Property**

Fiscal Year 2008

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**EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1**

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<b>2007-08 Assessed Valuation:</b>	<b>\$ 72,631,369,134</b>
<b>Redeveloped Incremental Valuation:</b>	<b>14,663,798,370</b>
<b>Adjusted Assessed Valuation:</b>	<b>\$ 57,967,570,764</b>

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/08</u>
Bay Area Rapid Transit District	13.650 %	\$ 63,789,180
Peralta Community College District	100.000	361,690,000
Alameda Unified School District	100.000	85,575,326
Albany Unified School District	100.000	36,925,000
Berkeley Unified School District	100.000	215,570,000
Oakland Unified School District	100.000	563,990,000
Piedmont Unified School District	100.000	46,064,934
West Contra Costa Unified School District	18.390	96,918,321
Other School Districts	Various	25,504,095
City of Alameda	100.000	9,960,000
City of Albany	100.000	18,885,000
City of Berkeley	100.000	64,255,000
City of Oakland	99.975	225,391,953
<b>East Bay Municipal Utility District, Special District No. 1</b>	<b>100.000</b>	<b>32,165,000</b>
East Bay Regional Park District	19.830	29,634,944
West Contra Costa Healthcare District Parcel Tax Obligations	16.998	4,184,908
City of El Cerrito Lease Tax Obligations	99.829	3,608,818
City of Alameda Community Facilities District Nos. 1 and 2	100.000	14,880,000
City of Berkeley Community Facilities District No. 1	100.000	7,865,000
1915 Act bonds	100.000	57,975,000
<b>Total Direct and Overlapping Tax and Assessment Debt</b>		<b>\$ 1,964,832,479</b>

(continued)

**Table 18 (Continued)**  
**Assessed Valuation of Taxble Property**

Fiscal Year 2008

<u>Overlapping General Fund Debt:</u>	<u>(1) % Applicable</u>	<u>Debt 6/30/08</u>
Alameda County General Fund Obligations	32.347 %	\$ 148,695,277
Alameda County Pension Obligations	32.347	73,919,404
Alameda County Board of Education Certificates of Participation	32.347	80,868
Contra Costa County General Fund Obligations	2.671	9,667,017
Contra Costa County Pension Obligations	2.671	13,167,629
Contra Costa County Board of Education Certificates of Participation	2.671	12,554
Alameda-Contra Costa Transit District Certificates of Participation	41.496	5,601,960
Peralta Community College District Pension Obligations	100.000	148,844,832
Oakland Unified School District Certificates of Participation	100.000	78,845,000
Other School District Certificates of Participation	Various	6,661,260
City of Alameda Cetificates of Participation	100.000	14,595,000
City of Berkeley General Fund Obligations and Pension Obligations	100.000	39,110,000
City of Oakland General Fund Obligations	99.975	503,559,079
City of Oakland Pension Obligations	99.975	282,634,166
Other City General Fund Obligations	Various	27,934,363
<b>Total Overlapping General Fund Debt</b>		<b>\$ 1,353,328,409</b>
Combined Total Debt	(2)	\$ 3,318,160,888

(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 2007-08 Assessed Valuation:**

<b>Direct Debt (\$32,165,000)</b>	<b>0.04 %</b>
Total Direct and Overlapping Tax and Assessment Debt	2.71 %

**Ratios to Adjusted Assessed Valuation:**

Combined Total Debt	5.72 %
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<b><u>State School Building Aid Repayable as of 6/30/08:</u></b>	<b>\$ 33,574</b>
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**Debt Capacity**  
**Summary of Debt Outstanding\***

As of June 30, 2008  
(Thousands of Dollars)

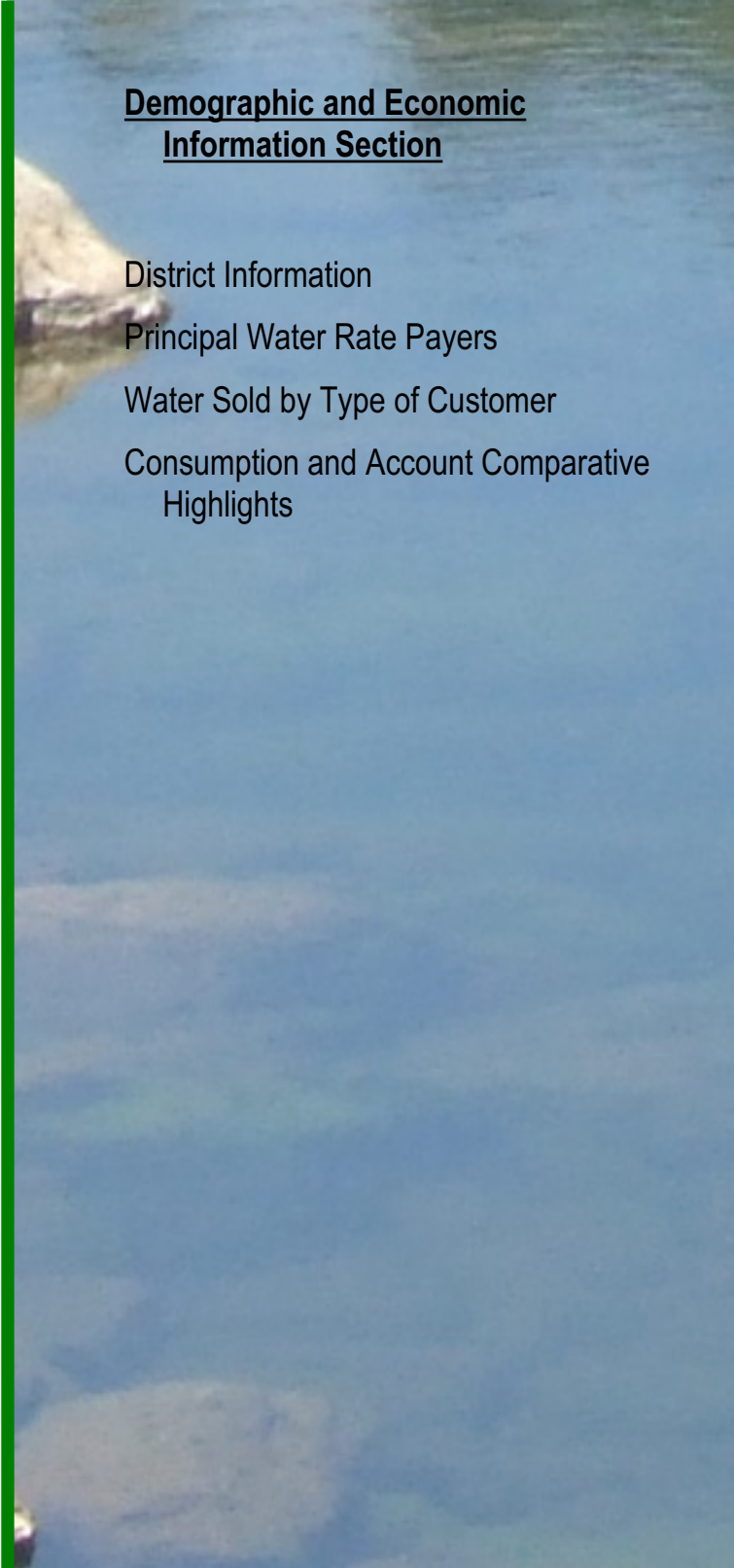
**Water System**

<b>General Obligation Bonds</b>	None Outstanding
<b>Revenue Bonds</b>	
Series 1998	\$ 4,380
Series 2001	10,845
Series 2002	230,410
Series 2003	73,795
Series 2005A	300,000
Series 2007A	450,000
Series 2007B	54,790
Series 2008A	321,250
Series 2008B	159,725
Series 2008C	330,425
<b>Senior Lien Revenue Bonds</b>	None Outstanding
<b>Total Water System Debt Outstanding</b>	<u><u>\$ 1,935,620</u></u>

**Wastewater System**

<b>General Obligation Bonds</b>	
Series F	\$ 32,165
<b>Revenue Bonds</b>	
Series 1998	2,275
Series 2007A	80,630
Series 2007B	46,670
Series 2008A	50,000
Series 2008B	68,925
Series 2008C	62,570
<b>Senior Lien Revenue Bonds</b>	None Outstanding
<b>Total Wastewater System Debt Outstanding</b>	<u><u>\$ 343,235</u></u>

\*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

## Demographic and Economic Information

### District Information

Fiscal Year 2008

		<u>Water System</u>	<u>Wastewater System</u>
<b>Established</b>		1923	1944
<b>Service Area</b>	(square miles)	331	88
<b>Population Served</b>	(in thousands)	1,300	650
<b>Unemployment Rate</b>	(Alameda County - %)	6.2	6.2
<b>Facilities:</b>			
Miles of aqueducts		91.5	
Miles of pipeline		4,110	
Miles of tunnels		23.6	
Miles of interceptors			29
Number of treatment plants		13	
Number of pumping stations		142	24
Number of treated water reservoirs		154	
Number of reservoirs		161	
Total District untreated water reservoir capacity	(acre feet)	766,740	
<b>Water demand per fiscal year</b>			
District-provided water	(acre feet)	230,345	
<b>Water recycling per day</b>	(in million gallons)		6
<b>Wastewater treatment capacity</b>			
Primary treatment			320
Secondary treatment			168
<b>Energy Recovery</b>	(%)		82
<b>Number of employees</b>		1,615	262
<b>Average years of service of employees</b>		13.3	14.4

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 2008  
(In Thousands)

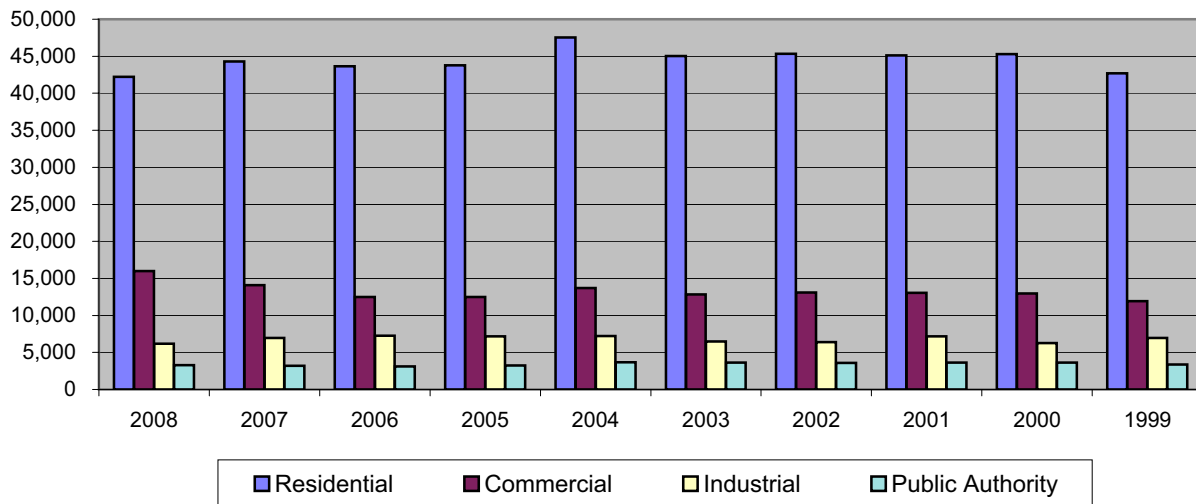
	<b>2008</b>		<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>Billings</b>	<b>%</b>	<b>Billings</b>	<b>%</b>	<b>Billings</b>	<b>%</b>	<b>Billings</b>	<b>%</b>
Chevron USA	\$ 11,380	4.21%	\$ 12,457	4.78%	\$ 11,940	4.89%	\$ 12,343	5.49%
ConocoPhillips	5,639	2.08%	4,893	1.88%	5,207	2.13%	4,402	1.96%
C & H Sugar	2,058	0.76%	2,331	0.89%	2,064	0.84%	2,104	0.94%
Golden Rain Foundation	1,863	0.69%	1,766	0.68%	1,477	0.60%	1,436	0.64%
University of California	1,569	0.58%	3,244	1.24%	2,728	1.12%	2,498	1.11%
UC Berkeley*	1,473	0.54%	-	-	-	-	-	-
Blackhawk Corporation	910	0.34%	750	0.29%	650	0.27%	594	0.26%
City of San Ramon	857	0.32%	-	-	-	-	-	-
Oakland Housing Authority	790	0.29%	789	0.30%	778	0.32%	720	0.32%
San Ramon Valley School District	637	0.24%	-	-	524	0.21%	524	0.23%
Oakland Unified School District	620	0.23%	670	0.26%	-	-	-	-
Coca Cola Bottling Company	587	0.22%	608	0.23%	550	0.23%	-	-
Port of Oakland	568	0.21%	757	0.29%	694	0.28%	675	0.30%
Alameda County Medical Center	483	0.18%	-	-	524	0.21%	527	0.23%
Total annual billing	\$ 29,434	10.88%	\$ 28,265	10.84%	\$ 27,136	11.11%	\$ 25,823	11.50%
<b>Total annual billings</b>	<b>\$ 270,564</b>		<b>\$ 260,678</b>		<b>\$ 244,280</b>		<b>\$ 224,631</b>	

Source data not available for Fiscal Years 1999-2004.

\* Listed individually from University of California beginning in 2008

**Demographic and Economic Information**
**Water Sold by Type of Customer**

Fiscal Years 1999 to 2008  
(In millions of gallons)



Fiscal	Type of Customer				Total
	Residential	Commercial	Industrial	Public Authority	
1999	42,680	11,929	6,937	3,390	64,936
2000	45,285	12,981	6,248	3,619	68,133
2001	45,107	13,061	7,159	3,614	68,941
2002	45,350	13,106	6,409	3,583	68,448
2003	45,034	12,838	6,488	3,610	67,970
2004	47,555	13,702	7,199	3,681	72,137
2005	43,796	12,483	7,177	3,254	66,710
2006	43,660	12,495	7,270	3,102	66,527
2007	44,300	14,084	6,973	3,178	68,535
2008	42,172	15,971	6,198	3,280	67,621

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

Fiscal Years 2008 and 2007

---

<b>Water System</b>	<b>2008</b>	<b>2007</b>
<b>During the Year:</b>		
Total Water Consumption, millions of gallons	76,925	78,357
Average Daily Water Consumption, MGD*	210	214
Maximum Daily Water Consumption, MGD	296	336
Minimum Daily Water Consumption, MGD	144	139
<b>At Year End:</b>		
Number of Accounts	381,258	381,415
Number of Employees	1,615	1,640
Miles of Water Distribution Pipe	4,108	4,110
Operating Distribution Storage Capacity, millions of gallons	812	774

<b>Wastewater System</b>		
<b>During the Year:</b>		
Average Daily Wastewater Flow, MGD	69	67
<b>At Year End:</b>		
Number of Accounts	177,852	177,831
Number of Employees	262	261

\*=millions of gallons per day

## 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 1999 to 2008

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b><u>Function/Program</u></b>										
System Operations and Maintenance	603.5	611.5	574.5	578.5	567.5	567.5	545.5	537.5	533.5	867.0
Water Operations and Maintenance	279.5	278.5	309.5	311.5	312.5	314.5	328.5	334.5	331.5	N/A
Water Resources	42.0	42.0	42.0	43.0	45.0	45.0	47.0	47.0	47.0	48.0
Natural Resources	68.0	68.0	68.0	63.0	63.0	63.0	62.0	62.0	64.0	60.0
Engineering and Construction	254.5	260.5	266.5	275.5	274.5	275.5	267.5	267.5	266.5	258.5
Office of the General Manager	33.5	34.5	34.5	37.5	40.0	39.5	47.0	49.0	49.0	51.0
Finance	54.0	65.0	67.0	68.0	112.5	111.5	112.5	113.5	108.0	112.5
Information Systems	93.0	91.0	92.0	79.0	75.0	75.0	73.0	74.0	73.0	71.0
Administration Department	107.5	99.5	100.5	103.5	40.5	39.5	40.0	40.0	40.0	38.0
Customer and Community Services	137.0	137.0	138.0	130.0	149.0	152.0	149.0	151.5	154.5	154.5
Human Resources	49.5	49.5	49.5	50.5	50.5	50.5	48.5	48.5	49.5	47.5
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	9.0	9.0	9.0	11.0	11.0	11.0	11.0
Wastewater	284.5	286.5	284.5	281.0	278.0	284.5	284.5	292.5	296.0	299.0
<b>Total</b>	<u>2,031.0</u>	<u>2,048.0</u>	<u>2,051.0</u>	<u>2,046.5</u>	<u>2,033.5</u>	<u>2,043.5</u>	<u>2,032.5</u>	<u>2,045.0</u>	<u>2,040.0</u>	<u>2,034.5</u>

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



**Operating Information**  
**Assessed Valuation of Taxable Property**

Fiscal Years 1999 to 2008  
(In Millions)

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Water System</b>										
Alameda County	\$ 74,483	\$ 71,515	\$ 67,322	\$ 62,405	\$ 58,190	\$ 55,508	\$ 51,866	\$ 49,437	\$ 46,919	\$ 44,199
Contra Costa County	76,573	74,565	70,724	64,099	60,592	55,475	51,916	48,479	43,849	41,091
<b>Total</b>	<b>\$ 151,056</b>	<b>\$ 146,080</b>	<b>\$ 138,046</b>	<b>\$ 126,504</b>	<b>\$ 118,782</b>	<b>\$ 110,983</b>	<b>\$ 103,782</b>	<b>\$ 97,916</b>	<b>\$ 90,768</b>	<b>\$ 85,290</b>
<b>Wastewater System</b>										
Alameda County	\$ 56,428	\$ 53,954	\$ 43,534	\$ 41,216	\$ 38,517	\$ 36,135	\$ 33,389	\$ 31,115	\$ 29,651	\$ 29,000
Contra Costa County	3,808	3,697	2,898	2,677	2,469	2,314	2,119	1,982	1,842	1,768
<b>Total</b>	<b>\$ 60,236</b>	<b>\$ 57,651</b>	<b>\$ 46,432</b>	<b>\$ 43,893</b>	<b>\$ 40,986</b>	<b>\$ 38,449</b>	<b>\$ 35,508</b>	<b>\$ 33,097</b>	<b>\$ 31,493</b>	<b>\$ 30,768</b>

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

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

Fiscal Years 1999 to 2008

**Water System**  
(In Millions)

**Fiscal Year Ended June 30**

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Structures, Buildings and Equipment	\$ 3,591.6	\$ 3,470.3	\$ 3,221.5	\$ 3,037.4	\$ 2,824.3	\$ 2,533.9	\$ 2,338.0	\$ 2,211.6	\$ 2,039.7	\$ 1,891.2
Less Accumulated Depreciation	<u>(1,035.0)</u>	<u>(965.3)</u>	<u>(917.9)</u>	<u>(857.1)</u>	<u>(801.3)</u>	<u>(744.9)</u>	<u>(695.4)</u>	<u>(645.6)</u>	<u>(600.5)</u>	<u>(563.1)</u>
Subtotal	<u>2,556.6</u>	<u>2,505.0</u>	<u>2,303.6</u>	<u>2,180.3</u>	<u>2,023.0</u>	<u>1,789.0</u>	<u>1,642.6</u>	<u>1,566.0</u>	<u>1,439.2</u>	<u>1,328.1</u>
Land and Rights-of-Way	49.9	48.9	49.0	49.0	48.9	48.9	48.8	46.1	39.0	38.4
Construction in Progress	<u>422.7</u>	<u>243.7</u>	<u>314.1</u>	<u>295.8</u>	<u>322.2</u>	<u>421.0</u>	<u>419.8</u>	<u>341.6</u>	<u>354.8</u>	<u>373.4</u>
Total Capital Assets, Net	<u>\$ 3,029.2</u>	<u>\$ 2,797.6</u>	<u>\$ 2,666.7</u>	<u>\$ 2,525.1</u>	<u>\$ 2,394.1</u>	<u>\$ 2,258.9</u>	<u>\$ 2,111.2</u>	<u>\$ 1,953.7</u>	<u>\$ 1,833.0</u>	<u>\$ 1,739.9</u>

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

Fiscal Years 1999 to 2008

**Wastewater System**  
(In Millions)

	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Structures, Buildings and Equipment	\$ 744.8	\$ 711.6	\$ 703.6	\$ 677.7	\$ 662.7	\$ 653.4	\$ 633.7	\$ 603.1	\$ 529.7	\$ 485.6
Less Accumulated Depreciation	<u>(255.6)</u>	<u>(239.2)</u>	<u>(224.9)</u>	<u>(208.3)</u>	<u>(192.4)</u>	<u>(176.5)</u>	<u>(160.7)</u>	<u>(144.9)</u>	<u>(130.8)</u>	<u>(116.5)</u>
Subtotal	<u>489.2</u>	<u>472.4</u>	<u>478.7</u>	<u>469.4</u>	<u>470.3</u>	<u>476.9</u>	<u>473.0</u>	<u>458.2</u>	<u>398.9</u>	<u>369.1</u>
Land and Rights-of-Way	19.5	16.1	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Construction in Progress	<u>46.3</u>	<u>50.9</u>	<u>30.0</u>	<u>21.3</u>	<u>20.3</u>	<u>14.1</u>	<u>23.9</u>	<u>38.1</u>	<u>89.2</u>	<u>106.5</u>
Total Capital Assets, Net	<u>\$ 555.0</u>	<u>\$ 539.4</u>	<u>\$ 514.3</u>	<u>\$ 496.3</u>	<u>\$ 496.2</u>	<u>\$ 496.6</u>	<u>\$ 502.5</u>	<u>\$ 501.9</u>	<u>\$ 493.7</u>	<u>\$ 481.2</u>

## Operating Information Capital Asset Statistics by Function/Program

Fiscal Years 1999 to 2008

<u>Function/Program</u>	Fiscal Year Ended June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Water System</b>										
Water mains (miles)	4,110	4,110	4,085	4,065	4,033	4,032	4,031	4,018	3,996	3,981
Fire hydrants	30,050	29,916	29,532	28,817	28,499	28,380	Data not available for 2002 and prior.			
Storage capacity (thousands of gallons)	812,000	774,000	833,000	785,000	848,000	840,000	847,000	843,000	829,000	824,000
<b>Wastewater System</b>										
Sanitary sewers (miles)	Owned by various communities									
Storm sewers (miles)	Owned by various communities									
Treatment capacity (thousands of gallons per day)	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000

**Operating Information**  
**Operating Indicators by Function/Program**

Fiscal Years 1999 to 2008

		Fiscal Year Ended June 30									
		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<u>Function/Program</u>											
<b>Water System</b>											
New connections		1,535	1,994	2,230	1,928	1,925	2,455	1,164	1,612	1,336	1,978
Water main breaks		916	938	842	855	876	747	793	795	704	812
Average daily consumption*		205,000	211,000	211,000	205,000	224,000	213,000	211,000	216,000	216,000	211,000
(thousands of gallons)											
Peak daily consumption*		296,000	336,000	311,000	310,000	310,000	338,000	310,000	311,000	341,000	322,000
(thousands of gallons)											
<b>Wastewater System</b>											
Average daily sewage treatment		69,000	67,000	82,000	76,000	72,000	73,000	74,000	73,000	81,000	79,000
(thousands of gallons)											

\* Revised due to typographical error.

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

Fiscal Years 1999 to 2008  
(In Millions)

Fiscal Year Ended June 30										
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Interest and Amortization of Bonds <sup>(1)</sup>	\$ 106.7	\$ 88.9	\$ 88.9	\$ 84.1	\$ 72.2	\$ 74.9	\$ 75.6	\$ 66.3	\$ 65.0	\$ 62.9
Depreciation on Utility Plant	84.0	84.5	76.9	78.7	70.4	67.7	64.5	60.9	58.4	48.8
Water Treatment and Distribution	80.8	77.0	76.0	72.7	72.5	62.3	61.2	58.8	61.0	59.7
General Administration <sup>(2)</sup>	61.9	37.2	34.7	28.9	21.2	26.2	19.1	21.7	18.2	15.2
Raw Water	29.6	25.3	24.2	23.1	22.8	22.9	21.7	24.2	24.0	22.0
Sewer Treatment Plant Operations	24.8	23.0	22.1	20.9	19.8	19.3	20.0	18.9	19.7	18.8
Financial and Risk Management	17.9	15.7	17.5	15.2	15.5	13.1	11.2	11.2	11.4	11.4
Customer Accounting and Collecting	14.8	14.0	13.3	13.0	12.6	11.7	11.4	10.7	10.9	9.2
Facilities Management	10.0	11.6	10.9	12.5	10.2	9.0	7.8	8.0	8.5	7.4
Sewer Lines and Pumping	12.0	12.3	11.7	10.7	10.9	9.4	8.8	8.7	9.3	8.9
Recreation Areas, Net	<u>8.6</u>	<u>9.4</u>	<u>8.3</u>	<u>7.8</u>	<u>7.8</u>	<u>7.0</u>	<u>6.9</u>	<u>6.4</u>	<u>6.2</u>	<u>6.8</u>
<b>Total:</b>	<b>\$ 451.1</b>	<b>\$ 398.9</b>	<b>\$ 384.5</b>	<b>\$ 367.6</b>	<b>\$ 335.9</b>	<b>\$ 323.5</b>	<b>\$ 308.2</b>	<b>\$ 295.8</b>	<b>\$ 292.6</b>	<b>\$ 271.1</b>

<sup>(1)</sup> The 2008 increase of \$17.8 in Interest and Amortization of Bonds primarily reflects the issuance of Series 2007 Revenue Bonds, of which \$450.0 is new borrowing.

<sup>(2)</sup> The 2008 increase in General administration primarily reflects a \$14.9 increase in liability reserve balance.

