

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**

**(A Component Unit of the
East Bay Municipal Utility District)**

Financial Statements and Supplementary Information

For The Year Ended June 30, 2011

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**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)
For The Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
East Bay Municipal Utility District
Employees' Retirement System

We have audited the accompanying basic financial statements of the East Bay Municipal Utility District Employees' Retirement System (the System), a component unit of the East Bay Municipal Utility District as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2010 financial statements and, in our report dated August 20, 2010, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the East Bay Municipal Utility District Employees' Retirement System as of June 30, 2011, and changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedules of employer contributions and funding progress 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 the information and express no opinion on it.

Maze & Associates

August 19, 2011

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**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2011

This section presents management's analysis of the East Bay Municipal Utility District Employees' Retirement System's (the System) financial condition and activities as of and for the year ended June 30, 2011. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the System's basic financial statements. The MDA represents management's examination and analysis of the System's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis: *Financial Highlights*
- Financial Analysis: *Financial Condition*
- Factors Impacting Future Periods
- Request for Information

Organization and Business

The East Bay Municipal Utility District (the District) is the governing body of the System and provides for its funding. The System is 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 statement of plan net assets, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The System administers a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and postemployment 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, 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 Number 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. Plan defined benefits vest in part with members after completion of five years of continuous, full-time employment.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The basic financial statements include a *statement of plan net assets*, a *statement of changes in plan net assets*, and *notes to basic financial statements*. The report also contains other required supplementary information in addition to the financial statements.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2011

The system's financial statements include:

The *Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets* report information to assist readers in determining whether the System's finances as a whole are better off or worse off as a result of the year's activities. These two statements report the net assets of the System and changes in them, respectively.

The *Statement of Plan Net Assets* presents information on all assets and liabilities of the System, 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 System is improving or deteriorating.

The *Statement of Changes in Plan Net Assets* presents the results of the System's activities over the course of the fiscal year and information as to how the *net assets* changed during the year. This statement measures the results of the System's investment performance as well as the System's income from contributions and expenses, including the payment of benefits, refunds of contributions, and administrative and investment expense. All changes in net assets are reported during the period 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.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 to 28 of this report.

Other Information. In addition to the financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's contributions and the System's progress in funding its obligation to provide pension and postemployment healthcare benefits to the employees of the District. Such required supplementary information can be found on pages 29 to 32 of this report.

Financial Analysis: Financial Highlights

- The total assets of the System exceeded the total liabilities by \$968,239 at June 30, 2011 (Table 1). All of the net assets are available to meet the System's ongoing obligations to Plan participants and their beneficiaries.
- Net assets increased by \$199,187 or 25.9% during the fiscal year ended June 30, 2011, primarily due to net investment gain of \$193,107. Contributions from the District of \$58,481 and employee contributions of \$10,850 were offset in part by the cost of pension, health insurance benefits, refunds of contributions, and administrative expenses of \$63,251.
- As of June 30, 2011, 24.6% of the System's investments were in fixed income securities, 51.3% were in domestic equities, 21.1% were in international equities, 1.8% was in Real Estate, and 1.2% were in cash and cash equivalents. As of June 30, 2010, 27.2% of the System's investments were in fixed income securities, 50.2% were in domestic equities, 19.9% were in international equities, 1.9% was in Real Estate, and 0.8% were in cash and cash equivalents.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2010, the date of the last actuarial valuation, the Pension Plan's funded ratio was 65.6 % and the Post-employment Health Care plan funded ratio was 7.4%.

**EAST BAY MUNICIPAL UTILITY DISTRICT
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Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2011

- During the fiscal year ended June 30, 2011, combined District and employee contributions increased by \$6,657 or 10.6% to \$69,331 (Table 2). The District's average contribution rate increased by 4.43% to 36.58% and the employees' contribution rate remained at 6.83% for FY 2011.
- Retirement, Disability, and Survivor Benefit payments increased by \$4,022 or 7.7% to \$55,792 (Table 3). Along with the 0.7%-3.0% cost-of-living increase in July 2010, there was an additional 9.4% increase from June 30, 2010 to June 30, 2011, in the service retirement payroll due to net increases in the number of retirees and their average monthly benefit, a decrease of 1.6% in the disability retirement payroll, and an additional 11.9% increase in the surviving spouse and beneficiaries payroll due to net increases in their average monthly benefit.
- Health Insurance Benefits increased by \$109, or 1.8%, to \$6,070 (Table 3), primarily due to the increase in the number of retirees receiving health benefits.
- Refunds of Contributions to terminated or deceased employees decreased by \$126, or 33.3%, to \$252 from the prior year.
- Administrative expenses (not including Investment Advisors' Fees or Custodial Asset Management Fees) increased by \$87, or 8.3%, to \$1,137, primarily due to additional investment performance evaluations and special actuarial studies that were performed in the current fiscal year, as well as additional staff time due to special studies.
- Investment Advisors' Fees increased by \$316, or 13.1%, to \$2,734 principally due to increased average investment fund balances, as compared to the previous fiscal year.

Financial Analysis: Financial Condition

The System's financial condition reflects an increase of \$78,051 in the Projected Benefit Obligation (PBO) as of the June 30, 2010, versus the previous actuarial report of June 30, 2009. Because of the increased contributions and market performance, the market value of assets at June 30, 2010, increased \$100,302 during the same period based on the actuarial reports. The PBO funded percentage at the end of the previous fiscal year is used to determine the cost-of-living adjustment (COLA) at the end of the current fiscal period. The Funded PBO percentage was 53.2% as of June 30, 2010, versus 48.9% as of June 30, 2009. Whenever the PBO funded percentage is less than 85.0%, the COLA for pension beneficiaries is limited to 3.0%.

The overall Actuarial Accrued Liability funding ratio for the System increased from 61.4% to 62.1% as of the June 30, 2010 actuarial report versus the previous actuarial report of June 30, 2009. The component Plans of Pension and Health Insurance Benefit changed from 65.1% to 65.6% and 8.0% to 10.5% funded, respectively.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2011

During the year ended June 30, 2011, the System assets increased \$199,187 versus a \$100,302 increase in 2010.

(Table 1)

Net Assets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Other assets	\$205,989	\$131,394	\$74,595
Investments at fair value	930,928	747,113	183,815
Total assets	1,136,917	878,507	258,410
Total liabilities	168,678	109,455	59,223
Net assets	<u>\$968,239</u>	<u>\$769,052</u>	<u>\$199,187</u>

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Other assets	\$131,394	\$106,912	\$24,482
Investments at fair value	747,113	659,170	87,943
Total assets	878,507	766,082	112,425
Total liabilities	109,455	97,332	12,123
Net assets	<u>\$769,052</u>	<u>\$668,750</u>	<u>\$100,302</u>

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(A Component Unit of the East Bay Municipal Utility District)

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2011

The financial reserves needed to fund retirement and health benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income. As Table 2 shows, the System experienced net investment gain for 2011.

(Table 2)
Additions to Net Assets
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Employer contributions	\$58,481	\$51,756	\$6,725
Members' contributions	10,850	10,918	(68)
Total contributions	<u>\$69,331</u>	<u>\$62,674</u>	<u>\$6,657</u>
Net investment gain/(loss)*	<u>\$193,107</u>	<u>\$96,787</u>	<u>\$96,320</u>
Total additions, net	<u>\$262,438</u>	<u>\$159,461</u>	<u>\$102,977</u>

* Net of investment expenses and borrower's rebates and other agent fees on securities lending transactions of \$2,913 for June 30, 2011, and \$2,507 for June 30, 2010.

(Table 2)
Additions to Net Assets
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Employer contributions	\$51,756	\$45,803	\$5,953
Members' contributions	10,918	10,740	178
Total contributions	<u>\$62,674</u>	<u>\$56,543</u>	<u>\$6,131</u>
Net investment gain/(loss)*	<u>\$96,787</u>	<u>(\$170,933)</u>	<u>\$267,720</u>
Total additions, net	<u>\$159,461</u>	<u>(\$114,390)</u>	<u>\$273,851</u>

* Net of investment expenses and borrower's rebates and other agent fees on securities lending transactions of \$2,507 for June 30, 2010, and \$2,744 for June 30, 2009.

**EAST BAY MUNICIPAL UTILITY DISTRICT
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(A Component Unit of the East Bay Municipal Utility District)

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2011

As summarized in Table 3, the Plan provides retirement, disability, survivor, and health insurance benefits to qualified members and their beneficiaries. The Plan must also provide refunds of employee contributions with interest to terminated employees who do not choose or are not qualified to vest.

(Table 3)
Deductions in Net Assets
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Pension benefits paid	\$55,792	\$51,770	\$4,022
Health insurance			
benefits paid	6,070	5,961	109
Refunds of contributions	252	378	(126)
Administrative expenses	1,137	1,050	87
Total deductions	<u>\$63,251</u>	<u>\$59,159</u>	<u>\$4,092</u>

(Table 3)
Deductions in Net Assets
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Pension benefits paid	\$51,770	\$48,322	\$3,448
Health insurance			
benefits paid	5,961	5,823	138
Refunds of contributions	378	357	21
Administrative expenses	1,050	972	78
Total deductions	<u>\$59,159</u>	<u>\$55,474</u>	<u>\$3,685</u>

Factors Impacting Future Periods

The District's contribution rate to the System increased from 36.58% in FY2010 to 37.74% effective June 20, 2011. The employee contribution rate will remain unchanged at 6.83%, for a total combined contribution rate of 44.57%.

Request for Information

This financial report is designed to provide viewers with a general overview of the East Bay Municipal Utility District Employees' Retirement System's finances and demonstrate the District's accountability for the monies it manages. If you have any questions about this report or need additional information, please contact: the Controller, Accounting Division MS #402, P.O. Box 24055, Oakland, CA 94623-1055.

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EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the East Bay Municipal Utility District)
STATEMENTS OF PLAN NET ASSETS

June 30, 2011

(With summarized comparative financial information as of June 30, 2010)

(DOLLARS IN THOUSANDS)

	2011			2010 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
Assets:				
Cash and cash equivalents, at fair value (Note 5)	\$47,888	\$574	\$48,462	\$27,604
Invested securities lending collateral (Notes 5 and 2B)	128,023	1,530	129,553	84,132
Prepaid expenses		430	430	403
Receivables:				
Brokers, securities sold	23,058	275	23,333	15,457
Employer	1,566	230	1,796	1,628
Plan members	336		336	302
Interest and dividends	2,054	25	2,079	1,868
Total receivables	27,014	530	27,544	19,255
Investments, at fair value (Note 5):				
U.S. government obligations	139,688	1,684	141,372	41,922
Municipal Bonds	3,055	22	3,077	
Domestic corporate bonds	71,531	855	72,386	52,773
International bonds	7,670	92	7,762	9,099
Domestic stocks	480,350	5,741	486,091	476,371
International stocks	200,119	2,391	202,510	152,470
Real estate	17,521	209	17,730	14,478
Total investments	919,934	10,994	930,928	747,113
Total assets	1,122,859	14,058	1,136,917	878,507
Liabilities:				
Accounts payable and accrued expenses	1,346	16	1,362	655
Payables to brokers, securities purchased	37,317	446	37,763	24,668
Securities lending collateral (Note 2B)	128,023	1,530	129,553	84,132
Total liabilities	166,686	1,992	168,678	109,455
Net assets held in trust for pension benefits and post-employment healthcare benefits	\$956,173	\$12,066	\$968,239	\$769,052

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the East Bay Municipal Utility District)
STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Year Ended June 30, 2011

(With summarized comparative financial information for the year ended June 30, 2010)

(DOLLARS IN THOUSANDS)

	2011			2010 Total
	Pension plan benefits	Post- employment healthcare benefits	Total	
Additions:				
Contributions (Note 3):				
Employer	\$50,987	\$7,494	\$58,481	\$51,756
Plan members	10,707	143	10,850	10,918
Total contributions	<u>61,694</u>	<u>7,637</u>	<u>69,331</u>	<u>62,674</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments:				
Traded securities	174,375	1,971	176,346	80,999
Real estate	2,337	26	2,363	(3,087)
Interest	8,923	100	9,023	6,173
Dividends	7,316	82	7,398	14,580
Real estate operating income, net	880	10	890	629
Total investment income (loss)	<u>193,831</u>	<u>2,189</u>	<u>196,020</u>	<u>99,294</u>
Less:				
Investment expense	(2,703)	(31)	(2,734)	(2,418)
Borrowers' rebates and other agent fees on securities lending transactions	(177)	(2)	(179)	(89)
Net investment income (loss)	<u>190,951</u>	<u>2,156</u>	<u>193,107</u>	<u>96,787</u>
Total additions (reductions), net	<u>252,645</u>	<u>9,793</u>	<u>262,438</u>	<u>159,461</u>
Deductions:				
Benefits paid (Notes 1C & 1E)	55,792	6,070	61,862	57,731
Refund of contributions (Note 4)	252		252	378
Administrative expenses	1,123	14	1,137	1,050
Total deductions	<u>57,167</u>	<u>6,084</u>	<u>63,251</u>	<u>59,159</u>
Change in net assets	195,478	3,709	199,187	100,302
Net assets:				
Beginning of year	<u>760,695</u>	<u>8,357</u>	<u>769,052</u>	<u>668,750</u>
End of year	<u><u>\$956,173</u></u>	<u><u>\$12,066</u></u>	<u><u>\$968,239</u></u>	<u><u>\$769,052</u></u>

See accompanying notes to financial statements

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**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 1 – PLAN DESCRIPTION

A. General

The East Bay Municipal Utility District (the District) Employees' Retirement System (the System) was established in 1937 to administer a single-employer, contributory, defined benefit pension plan (the Plan). The System provides retirement, disability, survivorship, and post-employment health insurance benefits for eligible directors, officers, and employees of the District. The System is administered by a Retirement Board composed of three members appointed by the board of directors of the District, two members elected by and from the active membership, and one (nonvoting) member elected by and from the retired membership of the System. Retirement Ordinance No. 40 (Ordinance) assigns the authority to establish Plan benefit provisions to the District's board of directors.

The System is exempt from the regulations of the Employee Retirement Income Security Act of 1974. The System is also exempt from federal income taxes and California franchise taxes.

The System is an integral part of the District and the District appoints the majority of the governing body of the System and provides for its funding. Accordingly, the System's operations have been reported as a Pension and Other Employee Benefit Trust Fund in the District's basic financial statements.

B. Membership

All regular full-time employees of the District are members of the Plan in addition to certain job share and intermittent employees. In accordance with the ordinance governing the System, eligible employees become members on the first day they are physically on the job. Members become vested in the Plan after five years of continuous full-time employment. Vested members who terminate employment may elect a refund of their contributions or leave them in the Plan until eligible to receive benefits.

Investment income is credited semiannually to the accounts of the members using a rate of interest approved by the Retirement Board and determined as the lower of the latest five year average of the plan or the actuarial assumed earnings rate of the plan (8.00%). Interest was credited at an annual rate 2.1% for the six months ended December 31, 2010, and 4.2% for the six months ended June 30, 2011.

Membership in the Plan consisted of the following as of June 30, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,270
Terminated plan members entitled to but not yet receiving benefits	222
Active plan members	1,756
Total	3,248

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 1 – PLAN DESCRIPTION (Continued)

C. *Retirement Benefits and Allowances*

Members may elect voluntary reduced service retirement upon attaining the age of 54 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 62 and completing 5 years of continuous full-time employment or age 65 without restriction. Members who continue to work upon attaining the normal retirement age of 65 continue to contribute to the Plan, and at the time they retire, computation of their retirement allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on date of employment, length of employment, age at date of retirement, and compensation earned during employment.

D. *Disability and Death Benefits and Allowances*

Members may receive disability retirement benefits prior to age 65 if the member is determined to be physically or mentally incapacitated, provided the member has 8 or more years of continuous full-time employment. The allowance for disability retirement is computed by a formula specified in the Ordinance and is based upon compensation earnable during employment, years of continuous service, and date upon which the retiring individual became a member. There is a guaranteed minimum disability benefit equal to the greater of one-third of terminal compensation (final average salary) or the retirement allowance, based on the disability formula.

Death benefits are payable to the estate or beneficiary of a member who dies before retirement. Survivorship benefits are payable to the spouse of a member who dies after retirement, or who was eligible but had not retired from service, provided the spouse was married to the member at the date of retirement and for at least one year prior to the member's death.

E. *Post-Employment Healthcare Benefits*

Post-employment healthcare and similar benefit allowances are provided to eligible employees who retire from the District or to their surviving spouses. Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Eligible participants are reimbursed up to \$450 per month for service members and up to \$550 for members with a spouse or registered domestic partner for any combined health, dental, or long-term care insurance premiums paid by the participant or his/her surviving spouse. Effective July 1, 1999, retirees may be reimbursed up to the designated maximum for the combined health insurance premiums for themselves, their current spouses, or registered domestic partners. The benefits were funded entirely by the District on an actuarial basis up until June 17, 2002. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions. The actual benefits paid in cash to retirees were \$6,070 and \$5,961 for the years ended June 30, 2011 and 2010, respectively.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
--

A. *Basis of Accounting and Presentation*

The System's activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits, refunds, and other liabilities are recognized when due and payable in accordance with the terms of the Plan.

The basic financial statements include partial prior year comparative information. A complete presentation of the prior year information can be found in the System's financial statements for the year ended June 30, 2010.

B. *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.

The System invests in a combination of stocks, bonds, fixed income securities, real estate, and other investment securities. These investments are exposed to various risks, such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statement of plan net assets.

Retirement Board policies permit the System to use investments of the 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 and 105% for international securities lent.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2011, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Contracts with the lending agent require them to indemnify the 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, 2011, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2011, had a weighted average maturity of 21 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 case the maturity of the collateral investment generally matches the term of the loan. Noncash 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 72 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, 2011, the fair value of securities on loan was \$129,553. The total cash and noncash collateral held by the System's custodian to secure these securities on loan was valued at \$128,681 consisting of \$126,742 cash collateral and \$1,939 non-cash collateral.

C. *Allocation of Income and Expenses*

Contributions and benefit expenses are booked against the separate trusts as incurred. The recognition of investment income/loss is based on a pro rata share of total income/loss allocated quarterly on the basis of net assets held in trust for pension benefits and post-employment healthcare benefits of the previous quarter. General expenses of the trust are allocated consistent with investment income/loss based on asset balances of the previous quarter.

D. *Use of Estimates*

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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Reclassification

For the year ended June 30, 2011, 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 2011 presentation.

NOTE 3 – CONTRIBUTION INFORMATION

The System is funded by contributions from its members and from the District. District contribution percentages are recommended by the Retirement Board, and employee contribution rates are established by the Board of Directors pursuant to the Retirement Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding. Each member contributes to the Plan based upon a percentage of his or her covered compensation, which was 6.83% effective April 17, 2006. The District's contribution is based upon the aggregate amount of members' covered compensation, at an actuarially determined rate.

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 payroll over 30 years. District contributions for the year ended June 30, 2011, to cover normal cost and to amortize the unfunded actuarial accrued liability approximated 14.79% and 21.79%, respectively; of covered payroll, inclusive of post-employment healthcare benefits. Effective June 20, 2011, District contributions to cover normal cost and to amortize the unfunded actuarial accrued liability will increase to 15.50% and 22.24%, respectively.

Significant assumptions used to compute contribution requirements are disclosed in the notes to the supplementary information.

Contributions for the years ended June 30, 2011 and June 30, 2010, based on the June 30, 2010, actuarial valuation (latest available and includes amounts for post-employment healthcare benefits), were as follows:

	2011	2010
Regular contributions:		
District contributions	\$58,481	\$51,756
Member contributions	10,823	10,848
Subtotal	69,304	62,604
Other contributions:		
Member buybacks	27	70
Subtotal	27	70
Total contributions	\$69,331	\$62,674

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
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NOTE 3 – CONTRIBUTION INFORMATION (Continued)

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

The total District contribution as of June 30, 2011 of \$58,481 consisted of \$23,644 for normal cost and \$34,837 for amortization of the unfunded actuarial accrued liability.

Regular District and member contributions in fiscal 2010 represent an aggregate of 32.58% and 6.86% of covered payroll, respectively. The District's contributions include amounts for post-employment healthcare benefits at a rate of 4.91% of covered payroll, determined by an actuarial dated June 30, 2009. The payroll for the District employees covered by the Plan for the year ended June 30, 2010, was \$158,845, which was 92.79% of the total District payroll of \$171,190.

The total District contribution of \$51,756 as of June 30, 2010 consisted of \$25,460 for normal cost and \$26,296 for amortization of the unfunded actuarial 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 which did not qualify for membership in the System, to establish retirement service credit for prior service with payments over a period of two to eight years.

The schedule of employer contributions to is shown below:

Retirement Plan:

	<u>Actual Contribution</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Fiscal year ended June 30:			
2009	\$39,485	\$39,114	101%
2010	44,031	44,031	100%
2011	50,987	50,987	100%

Health Insurance Benefit Plan:

	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
Fiscal year ended June 30:				
2009	\$9,510	\$6,318	66%	3,192
2010	11,871	8,000	67%	3,871
2011	11,037	7,802	71%	3,235

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

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(Dollars in Thousands)
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NOTE 3 – CONTRIBUTION INFORMATION (Continued)

During the fiscal year ended June 30, 2011, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to \$7,494, which represented 4.36% of the \$171,957 total District payroll. During the fiscal year ended June 30, 2010, the District made contributions toward the ARC amounting to \$7,725 to the plan which represented 4.51% of the \$171,190 total District payroll. As a result, the District has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

Net OPEB obligation at June 30, 2009		\$5,153
Annual required contribution (ARC)	\$11,775	
Interest on net OPEB obligation	374	
Adjustments to the ARC	(278)	
Annual OPEB cost - fiscal 2009/2010	11,871	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,725)	
Interest on Contributions to Northern Trust	(275)	
Contributions less than ARC	3,871	
Net OPEB obligation at June 30, 2010		9,024
Annual required contribution (ARC)	10,870	
Interest on net OPEB obligation	654	
Adjustments to the ARC	(487)	
Annual OPEB cost - fiscal 2010/2011	11,037	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,494)	
Interest on Contributions to Northern Trust	(308)	
Increase in net OPEB obligations	3,235	
Net OPEB obligation at June 30, 2011		\$12,259

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
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NOTE 4 – CONTRIBUTION REFUNDS

When a member's District service is terminated, except by death or retirement, and prior to five years of continuous full-time employment, the amount of that member's accumulated contributions, plus interest, is refunded and membership is terminated. After a member has completed five years of continuous full-time employment, upon termination, except death or retirement, the member has the option of (a) ceasing to be a member and receiving the amount of his accumulated contributions, plus interest, or (b) remaining as a member and leaving his accumulated contributions, plus interest, in the Plan. After termination, a member cannot make additional contributions to the Plan.

If a member with fewer than five years of employment terminates employment and within six months becomes a member of the Public Employees' Retirement System or another reciprocal system, the individual may elect to remain a member, leaving his accumulated contributions, plus interest, in the Plan.

NOTE 5 – CASH AND INVESTMENTS

A. *Authorized Investment Strategy*

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

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

Fixed Income	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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

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(Dollars in Thousands)
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NOTE 5 - CASH AND INVESTMENTS (Continued)

The Director of Finance is authorized to transfer assets from any asset class which varies 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 domestic 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 capitalized securities, and 20% in international securities. The international equity allocation target will consist of approximately 17% international equities and 3% emerging markets.

The equity and fixed income asset allocations may vary by up to + 5% from the long-range asset allocation goals.

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

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

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

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

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

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.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
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Notes to Basic Financial Statements
(Dollars in Thousands)
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NOTE 5 - CASH AND INVESTMENTS (Continued)

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

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

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

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value. Structured notes issued by the U.S. Government (treasuries and agencies) will be considered allowable investments, and are exempt from the 5% restriction.

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

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
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NOTE 5 - CASH AND INVESTMENTS (Continued)

B. Financial Statement Presentation

Total cash and investments at fair value as of June 30, consisted of the following:

	2011			2010
	Pension plan benefits	Post- employment healthcare benefits	Total	
Cash and cash equivalents	\$47,888	\$574	\$48,462	\$27,604
Invested securities lending collateral	128,023	1,530	129,553	84,132
Investments	919,934	10,994	930,928	747,113
Total cash and investments	<u>\$1,095,845</u>	<u>\$13,098</u>	<u>\$1,108,943</u>	<u>\$858,849</u>

C. Interest Rate Risk

Interest rate risk is the risk that changes in market 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 system generally manages its interest rate risk by holding investments to maturity.

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		\$225	\$337	\$4,186		\$4,748
Equity Securities	\$654,933					654,933
Commercial Mortgage - Backed Securities				9,059		9,059
Corporate Bonds	96	11,121	31,129	11,000	\$2,690	56,036
Government Agencies	917	14,913	15,115	36,163		67,108
Government Bonds		801	7,328	3,856		11,985
Government Mortgage Backed Securities		31	470	27,091	5,385	32,977
Government Issued Commercial Mortgage-Backed Securities				511		511
Index Linked Government Bonds		11,853	6,986	9,478		28,317
Short Term Investment Funds					26,727	26,727
Municipal Bonds			186	2,891		3,077
Mutual Funds				5,488		5,488
Real Estate					17,730	17,730
Other Fixed Income					9,241	9,241
Short Term Bills and Notes	2,991					2,991
Total System Investments	<u>\$658,937</u>	<u>\$38,944</u>	<u>\$61,551</u>	<u>\$109,723</u>	<u>\$61,773</u>	<u>\$930,928</u>

**EAST BAY MUNICIPAL UTILITY DISTRICT
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(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
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NOTE 5 - CASH AND INVESTMENTS (Continued)

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

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Backed Securities	\$9,059
Government Mortgage - Backed Securities	32,977
Government Issued Commercial Mortgage -Backed Securities	511

D. 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, 2011:

Foreign Currency	Equity Securities Investment Type
Euro	\$64,488
British Pound Sterling	25,939
Japanese Yen	15,201
Swiss Franc	11,916
Hong Kong Dollar	10,250
South Korean Won	9,998
Canadian Dollar	7,111
Norwegian Krone	4,207
Australian Dollar	3,976
Swedish Krona	3,899
Singapore Dollar	3,305
Mexican Peso	2,276
Danish Krone	2,247
Indonesian Rupiah	1,593
Malaysia Ringgit	1,366
Polish Zloty	1,024
Thai Baht	746
Czech Republic Koruna	411
Brazilian Real	287
South African Rand	272
Total	\$170,512

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

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(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 5 - CASH AND INVESTMENTS (Continued)

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

E. 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 rating organization. Presented below is the actual rating as of June 30, 2011, for each investment type as provided by Moody's or Standard and Poor.

Investment Type	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C	U.S.		Total
										Government Guaranteed	Not Rated	
Asset Backed Securities	\$1,003	\$856	\$140	\$10	\$424	\$545	\$981	\$713	\$76			\$4,748
Equity Securities											\$654,933	654,933
Commercial Mortgage - Backed Securities	6,763										2,296	9,059
Corporate Bonds	1,400	15,629	\$22,701	8,538	\$1,949						5,819	56,036
Government Agencies	51,253	1,384	1,867	92						\$2,033	10,479	67,108
Government Bonds	7,369			205						4,411		11,985
Government Mortgage Backed Securities	762									32,215		32,977
Government Issued Commercial Mortgage-Backed Securities										511		511
Index Linked Government Bonds	28,317											28,317
Short Term Investment Funds											26,727	26,727
Municipal Bonds		1,976	1,101									3,077
Mutual Funds	16		120	959	40	967	2,229	409	49		699	5,488
Real Estate											17,730	17,730
Other Fixed Income											9,241	9,241
Short Term Bills and Notes	820									2,171		2,991
Total System Investments	\$97,703	\$19,845	\$25,929	\$9,804	\$2,413	\$1,512	\$3,210	\$1,122	\$125	\$41,341	\$727,924	\$930,928

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 5 - CASH AND INVESTMENTS (Continued)
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F. Concentration Risk

The market value of investments in any one organization exceeding 5% of the System's net assets as of June 30, 2011 are as follows:

Nature of investment	Fair Value at Year End
Northern Trust Collective Daily Russell 1000 Equity Index Fund	\$215,876

The District held demand deposits amounting to \$1,274 and \$199 on behalf of the System as of June 30, 2011 and 2010, respectively. The financial institution which holds these deposits is required by state law to maintain collateral pools against all public deposits they hold.

G. 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 System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the System'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 System's name and places the System ahead of general creditors of the institution.

The System invests 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 System employs the Trust Department of a bank or trustee as the custodian of certain System investments, regardless of their form.

As of June 30, 2011 and 2010, the System's brokers/dealers held \$80 and \$1, respectively, in cash exposed to custodial credit risk.

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 6 – BENEFIT GUARANTY

A. *Pension Plan*

The District may, at any time, change or repeal the ordinance governing the Plan. The District's obligations to those members receiving or eligible for a retirement allowance prior to such change or repeal shall continue in full force. The District is obligated to those members neither receiving nor eligible for a retirement allowance at the time of such change or repeal. This allowance will be a retirement allowance at retirement age equal to the actuarial equivalent of the accumulated value of the member's contributions standing to the member's credit at the date of retirement and the accumulated value of the District's contribution for current service to the date of such change or repeal, increased by the accumulation of interest to date of retirement.

B. *Post-Employment Healthcare Benefits*

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees' Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2011, there were 1,241 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement 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 his or her self, and current spouse or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$6,070 in the year ended June 30, 2011. Effective June 18, 2002, a portion of the post-employment healthcare benefits costs is recovered through employee contributions.

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

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Basic Financial Statements
(Dollars in Thousands)
For the Year Ended June 30, 2011

NOTE 7 – RELATED PARTY TRANSACTIONS

The District provides the System with accounting, treasury, and other administrative services, which are reimbursed by the System on a monthly basis. Total reimbursements in 2011 and 2010 were \$891 and \$775, respectively, of which \$0 and \$18 are included in accrued liabilities as of June 30, 2011 and 2010, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Required Supplementary Information – Scheduled Funding Programs

(Dollars in Thousands)

For the Year Ended June 30, 2011

(1) **Pension Plan**

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

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a Percentage of covered payroll ((b-a)/c)</u>
06/30/00	\$556,759	\$611,441	\$54,682	91.1%	\$118,798	46.0%
06/30/01	606,896	663,763	56,867	91.4%	125,313	45.4%
06/30/02	631,700	719,660	87,960	87.8%	129,791	67.8%
06/30/03	639,382	838,385	199,003	76.3%	133,678	148.9%
06/30/04	662,387	886,663	224,276	74.7%	137,138	163.5%
06/30/05	692,945	946,616	253,671	73.2%	139,514	181.8%
06/30/06	740,622	1,039,750	299,128	71.2%	142,373	210.1%
06/30/07	827,098	1,126,106	299,008	73.4%	153,394	194.9%
06/30/08	900,917	1,244,993	344,076	72.4%	158,499	217.1%
06/30/09	862,021	1,323,555	461,534	65.1%	161,893	285.1%
06/30/10	915,845	1,396,003	480,158	65.6%	164,085	292.6%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Required Supplementary Information – Scheduled Funding Programs

(Dollars in Thousands)

For the Year Ended June 30, 2011

(2) Post-Employment Healthcare Plan

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
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%
6/30/2008	7,010	137,055	130,045	5.1%	158,499	82.0%
6/30/2009	7,354	130,245	122,891	5.6%	161,893	75.9%
6/30/2010	10,061	135,379	125,318	7.4%	164,085	76.4%

Unaudited

**EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM**
(A Component Unit of the East Bay Municipal Utility District)

Notes to Required Supplementary Information

(Dollars in Thousands)

For the Year Ended June 30, 2011

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

Valuation date	June 30, 2010
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	8.00%
Average projected salary increases	0.50%
Inflation rate	3.50%
Cost-of-living adjustments	3.25%

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

Unaudited.