

**CITY OF LOS ANGELES**

**WATER AND POWER EMPLOYEES'  
RETIREMENT, DISABILITY AND  
DEATH BENEFIT INSURANCE PLAN**

**REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2006**

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	3
Financial Statements:	
Retirement Fund:	
Statement of Plan Net Assets .....	13
Statement of Changes in Plan Net Assets .....	14
Disability Fund:	
Statement of Plan Net Assets .....	15
Statement of Changes in Plan Net Assets .....	16
Death Benefit Fund:	
Statement of Plan Net Assets .....	17
Statement of Changes in Plan Net Assets .....	18
Notes to the Financial Statements .....	19
Required Supplementary Information	
Exhibit I:	
Retirement Fund	
Schedule of Funding Progress .....	34
Exhibit II:	
Retirement Fund	
Schedule of Employer Contributions .....	35
Notes to Required Supplementary Information .....	36
Supplementary Information	
Exhibit III:	
Retirement Fund Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances .....	37

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Exhibit IV:	
Death Benefit Fund – Family Allowances Schedule of Contribution Accounts and Estimated Liability for Family Allowances .....	38
Exhibit V:	
Retirement Fund Schedule of Revenues by Source and Expenses by Type .....	39



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Administration  
City of Los Angeles Water and Power  
Employees' Retirement, Disability and  
Death Benefit Insurance Plans

We have audited the accompanying statements of net assets available for benefits of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (Plan), as of June 30, 2006 and the related statements of changes in net assets available for benefits, for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Plan as of June 30, 2005 were audited by other auditors whose report dated October 14, 2005, expressed an unqualified opinion on those 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 net assets available for benefits of the Plan as of June 30, 2006, and the changes in net assets available for benefits, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 12, the Schedule of Funding Progress on page 34 and the Schedule of Employer Contributions on page 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Contribution Accounts and Estimated Liability for Family Allowances for the Death Benefit Fund, the Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances and the Schedule of Revenues by Source and Expenses by Type for the Retirement Fund on pages 37 through 39, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Contribution Accounts and Estimated Liability for Family Allowances for the Death Benefit Fund, the Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances and the Schedule of Revenues by Source and Expenses by Type for the Retirement Fund, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Macias Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
September 26, 2006

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(unaudited)**

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Department of Water and Power (Department) Employees' Retirement, Disability and Death Benefit Insurance Plan (Plan) for the fiscal years ended June 30, 2006 and 2005.

**Financial Highlights**

- The net assets at the close of the fiscal year ending June 30, 2006 were \$6,513,239,533, \$37,017,645 and \$26,259,412 for the Retirement, Disability, and Death Benefit Funds, respectively. All of the net assets were available to meet the Plan's obligations to Plan participants and their beneficiaries.
- Total net assets increased \$331,024,643 or 5.35% for the Retirement Fund, decreased by \$6,017,505 or 13.98% for the Disability Fund, and decreased by \$4,415,940 or 14.40% for the Death Benefit Fund.
- As of June 30, 2006, the date of the Retirement Fund's last actuarial valuation, the funding ratio of the fund was approximately 91.50%.
- Additions to the Retirement Fund's Plan Net Assets for the fiscal year 2006 were up \$110,209,991 or 49.91%. This change was a result of increase in member and employer contributions of \$28,915,997 and increase in net investment income of \$95,156,273 over the prior fiscal year 2005.
- Deductions from Retirement Fund's Plan Net Assets increased from \$317,644,868 to \$331,507,147 over the prior fiscal year 2005, or approximately 4.4%.

**Overview of the Financial Statements**

The following discussion and analysis is intended to serve as an introduction to the financial statements of the Plan, which are:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

Supplementary financial information is also available in this report for a better understanding of the Plan's financial activities.

*The Statement of Plan Net Assets* is a snapshot of account balances at year-end. It indicates the amount of assets available for payment to retirees, beneficiaries, and any current liabilities owed at this time.

*The Statement of Changes in Plan Net Assets* reports additions to and deductions from the plan net assets during the year.

The above statements are on a full accrual basis of accounting. Investment gains and losses are shown at trade date, and account balances are based on market values recognizing both realized and unrealized gains and losses on investments.

These two statements report the Plan's net assets and changes in them. The Plan's net assets or the difference between assets and liabilities is one way to measure the Plan's financial health, or financial position. Over time, increases or decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating.

*Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 19 to 33 of this report.

*Other Information.* This report presents certain required supplementary information concerning the Retirement Fund's progress in funding to provide pension benefits to members, and summary information on employer contributions. The required Supplementary Information is on pages 34 to 36 of this report.

## Financial Analysis

### Retirement Plan

#### Plan Net Assets

A summary of the Retirement Plan's net assets is presented below:

	Condensed Statement of Plan Net Assets (In Thousands)			2006/05	2005/04
	2006	2005	2004	% Change	% Change
Cash	\$ 822	\$ 891	\$ 562	-7.74%	58.54%
Receivables	299,831	396,470	30,069	-24.37%	1218.53%
Investments	<u>7,368,087</u>	<u>7,180,273</u>	<u>6,037,743</u>	2.62%	18.92%
Total assets	7,668,740	7,577,634	6,068,374	1.20%	24.87%
Liabilities	<u>1,155,500</u>	<u>1,395,419</u>	<u>106,974</u>	-17.19%	1204.45%
Total plan net assets	<u>\$6,513,240</u>	<u>\$6,182,215</u>	<u>\$5,961,400</u>	5.35%	3.70%

#### **Fiscal year-ended June 30, 2006**

Net assets increased \$331.0 million (5.35%) up to \$6.5 billion in fiscal year 2006 over the prior year net assets of \$6.2 billion. Investments increased \$187.8 million due primarily to appreciation in the fair market value of those investments. Receivables and liabilities decreased from the prior year and represent pending trades and settlements at year-end, as well as a decrease in securities lending activities.

#### **Fiscal year-ended June 30, 2005**

Net assets increased \$221.0 million (3.70%) up to \$6.2 billion over the prior fiscal year. Investments increased \$1.1 billion due primarily to an increase in investing activities as well as an increase in the fair value of those investments. Receivables and liabilities increased from fiscal year 2004 and represent pending trades and settlements at year-end and an increase in securities lending for the fiscal year.



## Changes in Plan Net Assets

Condensed Statement of Change in Plan Net Assets					
(In Thousands)					
	2006	2005	2004	2006/05 % Change	2005/04 % Change
<b>Additions</b>					
Members' contributions	\$ 41,330	\$ 38,856	\$ 38,050	6.37%	2.12%
Employer contributions	104,465	78,024	58,253	33.89%	33.94%
Net investment income	516,736	421,580	614,314	22.57%	-31.37%
Total additions	662,531	538,460	710,617	23.04%	-24.23%
<b>Deductions</b>					
Benefits	325,873	311,551	302,064	4.60%	3.14%
Refund	3,424	3,977	3,585	-13.90%	10.93%
Administrative expenses	2,209	2,117	2,334	4.35%	-9.30%
Total deductions	331,506	317,645	307,983	4.36%	3.14%
Net increase in plan net assets	331,025	220,815	402,634	49.91%	-45.16%
Net assets beginning	6,182,215	5,961,400	5,558,766		
Net assets ending	\$6,513,240	\$6,182,215	\$5,961,400		

### Additions to Plan Net Assets

Additions needed to fund benefits are accumulated through contributions and income from investments.

### Fiscal year-ended June 30, 2006

Contributions for fiscal year 2006 totaled \$145.8 million, up \$28.9 million or 24.74% from a year ago. The increase in contributions was due to the following: a) an increase in the Department's employees; b) a 3.8% cost-of-living-adjustment added to the base pay of most Department employees, and c) an increase in the Department's required contribution rate for fiscal year 2006 to 19.20% of pay from 14.56% for fiscal year 2005.

Investment income increased by \$95.2 million or 22.57% compared with the prior fiscal year 2005. This was caused by the increase in the fair value of investments, an increase in earnings from fixed income investments and an increase in income from securities lending.

Investment expense for fiscal year 2006 increased 41.9% to \$14.4 million from \$10.2 million in fiscal year 2005. The increase is due primarily to an increase in the number of investment managers used by the Plan.

**Fiscal year-ended June 30, 2005**

Contributions for fiscal year 2005 totaled \$116.9 million, an increase of approximately 21.37% or \$20.6 million over the prior year, and is due primarily to an increase in the Department's manpower complement. Net investment income in 2005 was down \$192.0 million when compared with 2004. This was caused by a decrease in the net realized gains on investments and lower interest earned on fixed income investments.

**Deductions from Plan Net Assets**

Costs associated with this Plan include benefit payments as designated by the Retirement Plan, refund of contributions to terminated and deceased employees, and administrative costs of operating the Plan.

**Fiscal year-ended June 30, 2006**

Deductions for fiscal year 2006 totaled \$332.0 million, an increase of \$13.9 million or 4.36% from fiscal year 2005. The increase was due to the increase in the amount of benefits paid as a result of a cost-of-living adjustment and the rise in the number of employees retiring in fiscal year 2006 compared with fiscal year 2005.

**Fiscal year-ended June 30, 2005**

Deductions for the fiscal year-ended June 30, 2005 totaled \$317.6 million, an increase of \$9.7 million over the prior year. The increase was due mainly to the increase in retiree benefit payments as result of a cost-of-living adjustment.

***Disability Insurance Plan*****Plan Net Assets**

The Disability Insurance Plan's net assets is summarized below:

	Condensed Statement of Plan Net Assets (In Thousands)			2006/05	2005/04
	2006	2005	2004	% Change	% Change
Cash	\$ 230	\$ 83	\$ 26	177.11%	219.23%
Receivables	4,867	4,402	4,989	10.56%	-11.77%
Investments	32,113	38,613	40,673	-16.83%	-5.06%
Total assets	37,210	43,098	45,688	-13.66%	-5.67%
Liabilities	192	63	37	204.76%	70.27%
Total plan net assets	\$ 37,018	\$ 43,035	\$ 45,651	-13.98%	-5.73%

**Fiscal year-ended June 30, 2006**

The table above shows that the plan net assets declined by \$6.0 million (13.98%) in 2006 over the prior year net assets of \$43.0 million. Investments decreased \$6.5 million from 2005 as a result of an overall decline in the fair market value of the investments. Receivables and liabilities increased over the prior year and represent pending trades and settlements at year-end.

**Fiscal year-ended June 30, 2005**

The Disability Insurance Plan's net assets decreased by \$2.6 million (5.73%) in fiscal year 2005. Investments decreased \$2.0 million from the prior year due primarily from changes in the fair value of those investments. Receivables decreased from the prior year and liabilities increased. Receivables and liabilities represent pending trades and settlements at year-end.

**Changes in Plan Net Assets**

	Condensed Statement of Change in Plan Net Assets				
	(In Thousands)			2006/05	2005/04
	2006	2005	2004	% Change	% Change
<b>Additions</b>					
Members' contributions	\$ 397	\$ 399	\$ 397	-0.50%	0.50%
Employer contributions	5,108	5,073	4,765	0.69%	6.46%
Net investment income	(152)	2,074	53	-107.33%	3813.20%
Total additions	5,353	7,546	5,215	-29.06%	44.70%
<b>Deductions</b>					
Benefits	10,920	9,682	8,416	12.79%	15.04%
Administrative expenses	450	480	444	-6.25%	8.11%
Total deductions	11,370	10,162	8,860	11.89%	14.70%
Net (decrease) in plan net assets	(6,017)	(2,616)	(3,645)	130.01%	-28.23%
Net assets beginning	43,035	45,651	49,296		
Net assets ending	\$ 37,018	\$ 43,035	\$ 45,651		

## **Additions to Plan Net Assets**

### **Fiscal year-ended June 30, 2006**

Contributions for the fiscal year 2006 totaled \$5.5 million or 0.6% above prior year's level, as a result of increased payroll costs. Investment income dropped 107.33% or \$1.9 million, because of the decrease in the fair market value of investments and a decrease in the income generated from these investments.

### **Fiscal year-ended June 30, 2005**

Contributions for the fiscal year 2005 totaled \$5.5 million, an increase of approximately 6.0% or \$0.3 million from a year ago. The increase was due to an increase in the number of Department employees over the prior year. The increase in investment income of 3,813.0 % was caused primarily by net realized gains over the prior year and the increase in the fair value of the investments.

## **Deductions from Plan Net Assets**

The costs associated with this Plan include disability benefit payments and administrative expenses incurred to operate the Plan.

### **Fiscal year-ended June 30, 2006**

Deductions for the fiscal year 2006 total \$11.4 million, up 11.9%. This increase is attributable to the increase in the temporary disability payments in 2006 due to increases in the number of disability cases as well as increased payroll costs.

### **Fiscal year-ended June 30, 2005**

Deductions for the year-ended June 30, 2005 totaled \$10.2 million, an increase of \$1.3 million over the prior year. This increase was attributable to the increase in temporary disability benefit payments as a result of an increase in cases.

## ***Death Benefit Insurance Plan***

### **Plan Net Assets**

	Condensed Statement of Plan Net Assets (In Thousands)			2006/05	2005/04
	2006	2005	2004	% Change	% Change
Cash	\$ 187	\$ 92	\$ 22	103.26%	318.18%
Receivables	633	231	524	174.03%	-55.92%
Investments	<u>27,048</u>	<u>31,527</u>	<u>33,799</u>	-14.21%	-6.72%
Total assets	27,868	31,850	34,345	-12.50%	-7.26%
Liabilities	<u>1,609</u>	<u>1,175</u>	<u>1,537</u>	36.94%	-23.55%
Total plan net assets	<u>\$ 26,259</u>	<u>\$ 30,675</u>	<u>\$ 32,808</u>	-14.40%	-6.50%

#### **Fiscal year-ended June 30, 2006**

The table above reflects the Plan net assets decreased \$4.4 million or 14.4% when compared with the prior year net assets of \$30.7 million. Investments decreased \$4.4 million from 2005 due to a decrease in the fair market value of those investments. Receivables and liabilities both increased from the prior year and represent pending trades and settlements at year-end.

#### **Fiscal year-ended June 30, 2005**

Plan net assets decreased \$2.1 million (6.5%) from fiscal year 2004. Investments decreased \$2.3 million as a result of a decrease in the fair value of these investments. Receivables and liabilities both decreased compared to 2004 and represent pending trades and settlements at year-end.

## Changes in Plan Net Assets

Condensed Statement of Change in Plan Net Assets					
(In Thousands)					
	2006	2005	2004	2006/05 % Change	2005/04 % Change
<b>Additions</b>					
Members' contributions	\$ 287	\$ 287	\$ 283	0.00%	1.41%
Employer contributions	4,194	4,092	3,877	2.49%	5.55%
Net investment income	(104)	2,064	179	-105.04%	1053.07%
Total additions	4,377	6,443	4,339	-32.07%	48.49%
<b>Deductions</b>					
Benefits	8,156	7,871	8,342	3.62%	-5.65%
Administrative expenses	637	705	586	-9.65%	20.31%
Total deductions	8,793	8,576	8,928	2.53%	-3.94%
Net (decrease) in plan net assets	(4,416)	(2,133)	(4,589)	107.03%	53.52%
Net assets beginning	30,675	32,808	37,397		
Net assets ending	\$ 26,259	\$ 30,675	\$ 32,808		

### Additions to Plan Net Assets

Additions to death benefits are funded with the members' and Department's contributions and the income generated on the Plan's investing activities.

### Fiscal year-ended June 30, 2006

The levels of member and Department contributions for the two years in review are almost at par, with an increase of 2.5%. Investment income was lower by \$2.2 million or 105.0% due to the decrease in the fair value of investments.

### Fiscal year-ended June 30, 2005

Contributions for fiscal year 2005 totaled \$4.4 million. This represents an increase of approximately 5.3% or \$0.2 million over the prior year. Investment income totaled \$2.1 million, which represents an increase of \$1.9 million or 1,053.0% over 2004 due to the net appreciation in fair value of the investments.

## **Deductions from Plan Net Assets**

The costs associated with this Plan include the benefits provided and administrative cost to operate the Plan.

### **Fiscal year-ended June 30, 2006**

Deductions for the year ended 2006 totaled \$8.8 million, a slight increase of \$0.2 million or 2.5% from 2005. There was an increase in death benefit payments in fiscal year 2006 compared to the prior fiscal year 2005 due to increased cases as well as increased payroll costs.

### **Fiscal year-ended June 30, 2005**

Deductions for the year ended June 30, 2005 totaled \$8.6 million, a decrease of \$0.3 million over the prior year. This decrease was attributable to the decrease in death benefit payments resulting from fewer cases than in 2004.

## **Request for Information**

This financial report is designed to provide the Retirement Board, members, investment managers, and creditors with a general overview of the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Sangeeta Bhatia, Retirement Plan Manager  
Water and Power Employees' Retirement Plan  
111 N. Hope Street, Room 357  
Los Angeles, CA 90012

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 821,517	\$ 890,571
Receivables		
Accrued investment income	22,462,930	20,816,999
Department of Water and Power	10,388,845	5,185,870
Other	266,979,176	370,467,270
Total receivables	<u>299,830,951</u>	<u>396,470,139</u>
Investments, at fair value (Notes 2, 3, and 4)		
Fixed income (amortized cost \$2,398,334,123 in 2006 and \$2,379,618,539 in 2005)	2,356,006,126	2,391,029,462
Common stock (cost of \$3,537,472,139 and and \$3,528,669,144 in 2005)	4,217,097,899	3,912,058,377
Short-term investments (cost approximates market)	240,965,010	194,433,444
Alternative investments	1,191,537	-
Securities lending - short term collateral investment pool (Notes 4 and 5)	<u>552,826,601</u>	<u>682,751,744</u>
Total investments	<u>7,368,087,173</u>	<u>7,180,273,027</u>
Total assets	<u>7,668,739,641</u>	<u>7,577,633,737</u>
<b>LIABILITIES</b>		
Accounts payable	602,673,507	712,667,103
Securities lending - collateral payable (Note 5)	<u>552,826,601</u>	<u>682,751,744</u>
Total liabilities	<u>1,155,500,108</u>	<u>1,395,418,847</u>
Net assets held in trust for pension benefits (See Schedule of Funding Progress on page 34)	<u>\$ 6,513,239,533</u>	<u>\$ 6,182,214,890</u>

The notes are an integral part of these financial statements.



**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

RETIREMENT FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30

	2006	2005
<b>ADDITIONS</b>		
Members' contributions	\$ 41,324,895	\$ 38,855,089
Installment payment from early retired employees	4,897	1,167
Department of Water and Power contributions towards:		
Benefit (net of reversions)	101,556,257	75,490,143
Administrative expenses	2,909,277	2,532,930
Total contributions	145,795,326	116,879,329
Investment income		
Net appreciation in fair value of investments	371,692,751	305,200,361
Interest	118,403,796	87,003,103
Dividends	37,921,365	38,440,719
Securities lending (Note 5 )	28,837,313	6,115,288
Total investment income	556,855,225	436,759,471
Less: securities lending expenses	(25,711,940)	(5,027,812)
Less: other investment expenses	(14,406,821)	(10,151,468)
Net investment income	516,736,464	421,580,191
Total additions	662,531,790	538,459,520
<b>DEDUCTIONS</b>		
Retirement benefits paid	325,873,101	311,551,053
Refund of members' contributions	3,424,377	3,977,223
Administrative expenses	2,209,669	2,116,592
Total deductions	331,507,147	317,644,868
Net increase	331,024,643	220,814,652
Net assets held in trust for pension benefits		
Beginning of year	6,182,214,890	5,961,400,238
End of year	\$ 6,513,239,533	\$ 6,182,214,890

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

DISABILITY FUND

STATEMENT OF PLAN NET ASSETS  
As of June 30

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 229,688	\$ 83,241
Receivables		
Accrued investment income	151,557	146,376
Department of Water and Power	573,979	739,701
Other	830,648	205,674
Contingent disability benefit advance	<u>3,310,339</u>	<u>3,310,339</u>
Total receivables	<u>4,866,523</u>	<u>4,402,090</u>
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$31,856,032 in 2006 and \$37,462,145 in 2005)	30,668,609	37,999,033
Short-term investments (cost approximates market)	<u>1,444,825</u>	<u>614,307</u>
Total investments	<u>32,113,434</u>	<u>38,613,340</u>
Total assets	<u>37,209,645</u>	<u>43,098,671</u>
<b>LIABILITIES</b>		
Accounts payable	<u>192,000</u>	<u>63,521</u>
Total liabilities	<u>192,000</u>	<u>63,521</u>
Net assets held in trust for disability benefits	<u>\$ 37,017,645</u>	<u>\$ 43,035,150</u>

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

DISABILITY FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS  
For the Years Ended June 30

	2006	2005
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Temporary disability benefits	\$ 4,043,308	\$ 3,556,885
Supplemental disability benefits	607,639	1,041,440
Administrative expenses	457,218	474,488
Total department contributions	5,108,165	5,072,813
Contributions from members for:		
Temporary disability benefits	199,445	200,561
Permanent total disability benefits	197,458	198,562
Total members' contribution	396,903	399,123
Net appreciation (depreciation) in the fair value of investments	(1,843,292)	635,103
Investment income	1,708,578	1,442,362
Less: investment expenses	(17,098)	(3,092)
Net investment income	(151,812)	2,074,373
Total additions	5,353,256	7,546,309
<b>DEDUCTIONS</b>		
Benefits provided:		
Temporary disability	8,577,782	7,298,197
Extended temporary disability	320,038	-
Permanent total disability	1,416,598	1,344,393
Supplemental disability	605,622	1,039,157
Total benefits provided	10,920,040	9,681,747
Administrative expenses	450,721	480,426
Total deductions	11,370,761	10,162,173
Net decrease	(6,017,505)	(2,615,864)
Net assets held in trust for disability benefits		
Beginning of year	43,035,150	45,651,014
End of year	\$ 37,017,645	\$ 43,035,150

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

DEATH BENEFIT FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	2006	2005
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 187,173	\$ 92,461
Receivables		
Accrued investment income	128,249	117,886
Department of Water and Power	-	112,981
Other	504,954	-
Total receivables	633,203	230,867
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$26,938,461 in 2006 and \$29,824,138 in 2005)	25,935,575	30,254,346
Short-term investments (cost approximates market)	1,112,408	1,273,169
Total investments	27,047,983	31,527,515
Total assets	27,868,359	31,850,843
<b>LIABILITIES</b>		
Payable - Department of Water & Power	12,891	-
Accounts payable	278,265	87,095
Death claims in process - insured lives	1,317,791	1,088,396
Total liabilities	1,608,947	1,175,491
Net assets held in trust for death benefits	\$ 26,259,412	\$ 30,675,352

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

DEATH BENEFIT FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS  
For the Years Ended June 30

	<u>2006</u>	<u>2005</u>
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Retired members (non-contributing)	\$ 3,537,698	\$ 3,384,830
Administrative expenses	<u>656,498</u>	<u>707,509</u>
Total department contributions	<u>4,194,196</u>	<u>4,092,339</u>
Contributions from members for:		
Insured lives' death benefit	197,820	198,669
Supplemental family death benefits	<u>88,784</u>	<u>88,088</u>
Total members' contribution	<u>286,604</u>	<u>286,757</u>
Net appreciation (depreciation) in the fair value of investments	(1,508,917)	560,701
Investment income	1,432,191	1,512,392
Less: investment expenses	<u>(26,823)</u>	<u>(8,900)</u>
Net investment income	<u>(103,549)</u>	<u>2,064,193</u>
Total additions	<u>\$ 4,377,251</u>	<u>\$ 6,443,289</u>
<b>DEDUCTIONS</b>		
Benefits provided:		
Death benefit (active/retired members)	7,375,665	7,030,791
Family allowances (Note 8)	<u>779,888</u>	<u>839,930</u>
Total benefits provided	<u>8,155,553</u>	<u>7,870,721</u>
Administrative expenses	<u>637,638</u>	<u>705,240</u>
Total deductions	<u>8,793,191</u>	<u>8,575,961</u>
Net decrease	<u>(4,415,940)</u>	<u>(2,132,672)</u>
Net assets held in trust for death benefits		
Beginning of year	<u>30,675,352</u>	<u>32,808,024</u>
End of year	<u>\$ 26,259,412</u>	<u>\$ 30,675,352</u>

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – PLAN DESCRIPTION**

The Retirement Board of Administration (Board) is the administrator of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (Plan). The Plan was established in 1938 and is subject to the provisions of the Charter of the City of Los Angeles and the regulations and instructions of the Board of Water and Power Commissioners. The Plan is considered an independent pension trust fund of the Department of Water and Power (Department), which is a proprietary department of the City of Los Angeles (City). The Plan operates as a single-employer benefit plan to provide pension benefits to eligible Department employees and also to provide disability and death benefits from the respective insurance funds. The Plan is comprised of three separate plans (funds) with the Retirement plan being a defined benefit pension plan.

Membership

The Plan's membership consisted of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Retirees, beneficiaries*	8,807	8,873
Terminated vested	700	706
Terminated non-vested	693	644
Inactive-non-contributing employees	134	152
Active-contributing employees:		
Vested	7,689	7,446
Non-vested	295	398
Total	<u>18,318</u>	<u>18,219</u>

\*The number of retirees, beneficiaries for the fiscal year ended June 30, 2006 and 2005 includes beneficiaries of the survivorship account.

Benefit Provisions

The retirement fund consists of both defined contribution and defined benefit elements. Members vest in the defined contribution element (annuity) after one year of service. Members vest in the defined benefit element (pension) only after qualifying for retirement and meeting the criteria for the formula pension. Generally, new or returning employees of the Department become eligible for Plan membership on the first day of the payroll period following entry into Department service. New eligible employees must complete 26 weeks of continuous service before becoming entitled to disability and/or death benefits. The right to death benefits is effective upon an employee's date for membership.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 1 – PLAN DESCRIPTION (Continued)**

Qualification for disability benefits occurs one day after an employee's effective membership date and payment of premium.

Members are eligible for normal retirement at age 60 with at least five years of service. Early retirement at age 55 is generally available if the member has been with the Department for 10 of the last 12 years before retirement. Members with 30 or more years may retire at age 50 and receive unreduced benefits within a certain limited period (this option expired on October 31, 2005). Upon qualifying for retirement, members will also qualify for a formula pension if they have been employed by the Department for at least four of five years immediately preceding retirement or while eligible to retire (or during any of those four years if they were receiving either disability benefits under the Plan or payments under any Workers' Compensation law). Eligible members are entitled to an annual retirement benefit, payable monthly for life currently in an amount equal to a retirement factor of 2.1% of their highest average salary, for each year of credited service. Members who have at least 30 years of service credit and are at least 55 years of age (and represented by a bargaining unit that has negotiated this benefit) are entitled to a retirement factor of 2.3% in the calculation of their retirement allowance. "Highest average salary" is defined as the employee's average salary, excluding overtime, over the highest 26 consecutive payroll periods.

**Contributions**

Covered employees are required to contribute 6% of their annual covered payroll upon becoming a Plan member on or after June 1, 1984. Employees entering the Plan before June 1, 1984 contribute an amount based upon an entry-age percentage rate. If an employee leaves or dies while employed, employee contributions plus credited interest is refundable. After one year of membership, the employee may leave his or her contributions on account with the Plan along with the Department matching contributions and receive a money purchase allowance at retirement age. A surviving spouse of an employee who dies while eligible to retire or with at least 25 years of service may elect to receive a monthly allowance from the Retirement Fund for life rather than a refund of the employee's contributions and interest.

The Department contributes \$1.10 for each \$1.00 contributed by members, plus an actuarially determined percentage of covered payroll. Contribution provisions are established and amended by the Board of Administration, upon the advice of the actuaries. Plan benefits are funded by earnings from investments and by contributions from the Department and members.

Each biweekly payroll period eligible members contribute \$1.00 each for Temporary Disability, Permanent Total Disability, and Insured – Life Death Benefits.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3, for the year ended June 30, 2005.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Method of Reporting

The Plan follows the accounting principles and reporting guidelines as set forth in GASB Statement No. 25. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the Plan. Members' and Department's contributions were recognized as revenues in the period in which the employee services are performed and when due and payable in accordance with the terms of the Plan, and benefits and refunds are recognized when due and payable in accordance with the terms of each benefit fund.

Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by the Plan is recorded as an increase (decrease) to investment income based on the valuation of investments.

Cash

Cash consists primarily of cash on deposit with the Treasurer of the City of Los Angeles.

Investments

The Plan's investments were reported at fair value and were derived by various methods. The stated fair value of investments was based on published market prices and quotations from major investment dealers. Short-term investments were reported at cost, which approximates market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates in effect at June 30, 2006. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar investments. The Plan did not have any investments in mortgages for the fiscal years ended June 30, 2006 and 2005. Private placement bonds are valued at the face value of the security subject to adjustments and are reported as alternative investments on the statement of plan net assets.

Unsettled investment trades as of the year-end were reported in the financial statements on an accrual basis and reported in accounts receivable for a sale or accounts payable for a purchase.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. Actual results could differ from those estimates.



**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 3 – SUMMARY OF INVESTMENT POLICIES**

Investment authority is granted to the Plan by the Charter of the City of Los Angeles and is exercised in accordance with the Board's investment policy. The Charter authorizes the form and type of investment vehicles that may be purchased. The Board may invest in common stocks (including both domestic and international equities), fixed income, alternative investments, and real estate; and it may utilize stock covered call options and securities lending. Real estate securities are the only authorized investment vehicles in which the Plan is not currently invested.

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING**

The Plan implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, for the year ended June 30, 2005. This statement establishes and modifies disclosure requirements related to investment and deposit risks: accordingly the note disclosure on cash, investments, and securities lending has been revised to conform to the provisions of GASB Statement No. 40.

Cash

As of June 30, 2006, the Plan's cash balances consist primarily of cash deposit with the Treasurer of the City of Los Angeles.

Investments

As of June 30, 2006, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic Equities	\$ 3,045,994,099
International Equities	1,171,103,800
U.S. Treasuries	214,979,528
U.S. Treasury STRIPS	4,738,282
U.S. Treasury TIPS	24,661,816
U.S. Agency Notes	156,236,859
Municipal Bonds	9,704,447
Medium Term Notes	49,076,495
Mortgage and Asset Backed Securities	1,335,592,766
Corporate Debt - Domestic	622,603,578
Corporate Debt - International	15,727,058
Money Market Mutual Funds	224,003,261
Securities lending short-term collateral investment pool	552,826,601
Total Investments	<u>\$ 7,427,248,590</u>

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Investments

As of June 30, 2005, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic Equities	\$ 2,983,619,612
International Equities	928,438,765
U.S. Treasuries	369,754,535
U.S. Treasury STRIPS	6,767,165
U.S. Treasury TIPS	10,162,999
U.S. Agency Notes	183,495,760
Municipal Bonds	5,214,577
Medium Term Notes	22,921,207
Mortgage and Asset Backed Securities	1,253,817,458
Corporate Debt - Domestic	535,346,365
Corporate Debt - International	10,022,555
Money Market Mutual Funds	258,101,140
Securities lending short-term collateral investment pool	682,751,744
Total Investments	<u>\$ 7,250,413,882</u>

Credit Risk

The Plan's investment policy is to apply the "prudent-person" standards. Investments are made with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Plan's investment policy has been designed to produce the most favorable long-term total portfolio return consistent with reasonable levels of risks. Prudent risk-taking is warranted within the context of overall portfolio diversification.

According to the Plan's investment policy for fixed income securities, the Plan can invest in investment grade fixed income securities (a credit rating of Baa3 or better by Moody's Investor Services or BBB- or better by Standard & Poor's Corporation). As of June 30, 2006 and 2005, the credit ratings on the Plan's investments are as follows:

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Credit Risk

June 30, 2006:

<u>Investment Type</u>	<u>Credit Rating by Standard &amp; Poor's</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 214,979,528	8.09%
U.S. Treasury STRIPS	AAA	4,738,282	0.18%
U.S. Treasury TIPS	AAA	24,661,816	0.93%
U.S. Agency Notes	AAA	156,236,859	5.88%
Municipal Bonds	AAA	2,578,970	0.10%
	AA	407,508	0.02%
	BBB	6,717,969	0.25%
Medium Term Notes	AAA	6,241,960	0.23%
	A or better	34,523,429	1.30%
	B or better	8,311,106	0.31%
Mortgage and Asset Backed Securities	AAA	1,288,173,497	48.48%
	A or better	29,412,662	1.11%
	BB or better	2,654,546	0.10%
	Not rated	15,352,061	0.58%
Corporate Debt - Domestic	AAA	16,184,822	0.61%
	A or better	180,904,171	6.81%
	B or better	325,643,054	12.25%
	C or better	16,296,658	0.61%
	Not rated	83,574,873	3.15%
Corporate Debt - International	AAA	1,487,562	0.06%
	A or better	9,165,306	0.34%
	BB	2,963,059	0.11%
	Not rated	2,111,131	0.08%
Money Market Mutual Funds	Not rated	224,003,261	8.43%
Total		<u>\$ 2,657,324,090</u>	<u>100.00%</u>

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Credit Risk

June 30, 2005:

<u>Investment Type</u>	<u>Credit Rating by Standard &amp; Poor's</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 369,754,535	13.92%
U.S. Treasury STRIPS	AAA	6,767,165	0.25%
U.S. Treasury TIPS	AAA	10,162,999	0.38%
U.S. Agency Notes	AAA AA	169,808,651 13,687,109	6.39% 0.52%
Municipal Bonds	AAA AA	3,802,956 1,411,621	0.14% 0.05%
Medium Term Notes	AAA A BB or better	4,510,336 11,169,280 7,241,591	0.17% 0.42% 0.27%
Mortgage and Asset Backed Securities	AAA A or better BB or better Not rated	1,203,503,506 14,346,972 722,163 35,244,817	45.32% 0.54% 0.03% 1.33%
Corporate Debt - Domestic	AAA A or better BBB B or better CCC C or better D Not rated	10,428,573 125,337,871 183,272,780 167,417,463 32,741,538 1,827,778 808,581 13,511,781	0.39% 4.72% 6.90% 6.30% 1.23% 0.07% 0.03% 0.51%
Corporate Debt - International	A or better B or better	4,649,446 5,373,109	0.18% 0.20%
Money Market Mutual Funds	Not rated	258,101,140	9.72%
Total		<u>\$ 2,655,603,761</u>	<u>100.00%</u>

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. As of June 30, 2006, the Plan's cash balances consist primarily of cash deposit with the Treasurer's Office of the City of Los Angeles.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment of collateral securities that are in the possession of an outside party. All investments are held by the Plan's custodian in the Plan's name.

Collaterals received in securities lending transactions are cash collateral and marketable securities guaranteed by the full faith and credit of the U. S. Government. See Note 5 for further disclosure on securities lending transactions.

Concentration of Credit Risk

According to the Plan's investment policy, except for investment in the fixed income asset class where no more than 10% of investments shall be invested in any one issue, no more than 5% of investments shall be invested in any one issue. United States Treasury or Federal Agency issues are exempted from this limitation. The Plan is not exposed to concentration of credit risk as of June 30, 2006. There are no investment holdings of more than five (5) percent in any one issue of each fund's net assets or in the aggregate, except investments issued or guaranteed by the U.S. Government and investments in mutual funds.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Interest Rate Risk

As of June 30, 2006, the Plan's exposure to interest rate risk is as follow:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S Treasuries	\$ 214,979,528	12.86
U.S. Treasury STRIPS	4,738,282	9.88
U.S. Treasury TIPS	24,661,816	6.65
U.S. Agency Notes	505,048,480	16.72
Municipal Bonds	9,704,447	23.52
Medium Term Notes	49,076,495	8.43
Mortgage & Asset Backed Securities	986,781,145	24.64
Corporate Debt - Domestic	622,603,578	14.53
Corporate Debt - International	15,727,058	5.54
Money Market Mutual Funds	224,003,261	0.09
Total	<u>\$ 2,657,324,090</u>	17.13

As of June 30, 2005, the Plan's exposure to interest rate risk is as follow:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Treasuries	\$ 369,754,535	10.28
U.S. Treasury STRIPS	6,767,165	10.88
U.S. Treasury TIPS	10,162,999	8.55
U.S. Agency Notes	183,495,760	3.97
Municipal Bonds	5,214,577	8.76
Medium Term Notes	22,921,207	10.39
Mortgage & Asset Backed Securities	1,253,817,458	23.33
Corporate Debt - Domestic	535,346,365	14.37
Corporate Debt - International	10,022,555	8.88
Money Market Mutual Funds	261,940,772	0.07
Total	<u>\$ 2,659,443,393</u>	15.80

Since the Plan has a long-term investment horizon, and utilizes an asset allocation which encompasses a long-run perspective of capital markets, the Plan maintains the interest rate risk consistent with its long-term investment horizon.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Foreign Currency Risk

As of June 30, 2006 and 2005 the Plan's exposure to foreign currency risk is as follows:

<u>Currency</u>	<u>Investment Type</u>	<u>2006</u>	<u>2005</u>
Argentina Peso	Government obligations	\$ 1,143,756	\$ -
Australian Dollar	Equities	15,140,891	10,124,974
	Cash & cash equivalents	177,063	6,510
Brazil Real	Corporate debt	1,445,043	1,169,716
British Pound Sterling	Equities	150,760,643	113,671,469
	Corporate debt	-	2,775,774
	Cash & cash equivalents	1,853,801	1,130,293
Canadian Dollar	Equities	16,589,762	15,896,989
	Corporate debt	2,396,009	2,103,645
	Cash & cash equivalents	88,554	353,985
Danish Krone	Equities	6,012,599	5,826,588
	Cash & cash equivalents	8,513	68,680
Euro Currency Unit	Equities	205,983,348	172,898,011
	Cash & cash equivalents	1,956,159	1,194,325
Hong Kong Dollar	Equities	11,339,808	7,161,198
	Cash & cash equivalents	-	6,433
Indonesian Rupiah	Corporate debt	1,745,255	-
Japanese Yen	Equities	164,212,817	134,100,200
	Cash & cash equivalents	2,111,610	384,621
Mexican New Peso	Corporate debt	3,270,999	3,479,729
New Zealand Dollar	Equities	-	386,183
	Corporate debt	566,948	493,470
	Cash & cash equivalents	-	53,923
Norwegian Krone	Equities	2,867,636	3,499,939
Singapore Dollar	Equities	7,921,157	6,410,708
	Cash & cash equivalents	116,499	95,681
Swedish Krona	Equities	6,635,428	6,410,708
	Cash & cash equivalents	30,024	98,681
Swiss France	Equities	61,712,717	47,173,019
	Cash & cash equivalents	114,745	124,431
		<u>\$ 666,201,784</u>	<u>\$ 537,099,883</u>

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)**

Foreign Currency Risk

The Plan's investment policy permits it to invest up to 15 percent of total investments of the Plan in foreign currency-dominated investments. The Plan's position is 9.69 percent and 8.13 percent as of June 30, 2006 and 2005, respectively.

**NOTE 5 – SECURITIES LENDING**

The Plan is authorized by the Charter of the City of Los Angeles and the Board's investment policy to lend its investment securities to various brokers, without limit. The lending is managed by the Plan's custodial bank. The Plan or the borrowers can terminate the contract with advance notice. The lending arrangements are collateralized by cash and marketable securities (guaranteed by the full faith and credit of the U.S. Government) at (i) 102% with respect to U.S. securities; (ii) 105% with respect to foreign securities; or (iii) a percentage mutually agreed of the underlying securities' market value. These arrangements provide for the return of the investments and a share of the interest earned on the collateral. The securities on loan to brokers remain the property of the Plan and continue to be included in their respective accounts on the Statement of Plan Assets. At June 30, 2006, the Plan has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan and there were no borrower or lending agent default losses.

The Plan's custodian is the authorized agent to handle the Plan's securities lending activity. The Plan's custodian may invest the cash collateral received in connection with securities on loan in investments permitted by the Plan. The Plan bears sole risk of all losses of the invested collateral, including losses incurred in the event of liquidation of the permitted investments. The custodian bank is responsible for the return of loaned securities from the borrowers. The Plan does not have the ability to pledge or sell collateral assets unless the borrower is in default of its obligation. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at June, 30, 2006 has an average maturity of 50 days.

The fair value of the underlying securities on loan, collateralized by cash and securities (backed by the full faith and credit of the U.S. Government), as of June 30, 2006 and 2005 is:

<u>Securities on loan</u>	<u>2006</u>	<u>2005</u>
Common Stock	\$ 192,489,676	\$ 156,298,103
Corporate Debt	62,077,551	76,134,403
U.S. Agency Notes	57,923,558	81,746,274
U.S. Treasuries	211,794,257	346,255,947
U.S. Treasury STRIPS	4,738,282	6,229,860
U.S. Treasury TIPS	8,660,871	-
Total	<u>\$ 537,684,195</u>	<u>\$ 666,664,587</u>



**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 6 – ACTUARIAL VALUATION – RETIREMENT FUND**

The Plan engages an independent actuarial firm to conduct annual actuarial valuations to monitor the Plan's funding status for the Retirement Fund. On December 17, 2003, the Board adopted a change in the actuarial asset valuation method from the four-year smoothing method to recognizing the unrecognized returns for each of the last five years (but not before July 1, 2001) over a five-year period.

The annual valuation performed as of June 30, 2006 and 2005 determined the funding status to be 91.50%\* and 93.61%, respectively.

\*This is the funding status percentage from the draft actuary report.

**NOTE 7 – ACTUARIAL VALUATION – DISABILITY AND DEATH BENEFIT FUNDS**

Actuarial studies are performed bi-annually on the Death Benefit and Disability Funds to determine the appropriate contribution rates and the benefit reserves levels needed to fund the current and future benefit liabilities. The results of the most recent bi-annual actuarial reviews for the Death Benefit Fund as of June 30, 2005 and Disability Fund as of June 30, 2004 found that both Funds' accumulated reserves had met the recommended reserve levels. The actuarial recommendations for the contributions rates, reserve levels, and general reserve transfers were approved by the Board.

**Death Benefit Fund**

For the Death Benefit Fund, the actuary recommended in FY05 to suspend contributions to the contributing members' death benefits and change the contribution rate for non-contributing members' death benefits to \$1.30 per \$100 of retired payroll. For the fiscal year ended June 30, 2006, the contribution rate remained unchanged at \$1.30 per \$100 of retired payroll.

**Disability Fund**

For the Permanent and Total Disability Fund, the actuary recommended in FY05 that the Department's contribution rate remain at zero cents per \$100 of covered payroll. As for the Temporary Disability Fund, the actuary recommended in FY05 an increase in the contribution rate (members and Department) to \$0.74 cents per \$100 of covered payroll. For the fiscal year ended June 30, 2006, the contribution rates remained unchanged.

**NOTE 8 – RESERVES AND DESIGNATED BALANCES**

Reserve accounts are established to cover all deferred liabilities as those liabilities accrued. Reserves are established from members' and Department's contributions and the accumulation of investment income after satisfying investment and administrative expenses. The Plan has four major classes of reserves and designated accounts.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 8 – RESERVES AND DESIGNATED BALANCES (Continued)**

Member contribution accounts represent the balance of member contributions. Additions include member contributions and interest. Deductions include refunds of member contributions and transfers to the Reserve for Retirement Allowances, the Reserve for Death Benefit, and the members' account at the City Employees' Retirement System under the Plan's reciprocity provision.

Department contribution accounts represent the balance of department contributions for future retirement payments to current active members. Additions include contributions from the Department and related earnings. Deductions include transfers to Retirement Reserves and Death Benefit Reserves.

Estimated Benefit Liabilities Reserves represent the balance of transfers from member contribution and/or department contribution accounts and related earnings less payments to retired members, members on disability and beneficiaries.

General Reserves represent reserves accumulated for future earnings deficiencies, investment losses and other contingencies. Additions include investment income and other revenue. Deductions include investment expense, interest allocated to member and department contribution accounts, and interest allocated to the estimated benefits liabilities reserves accounts.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 8 – RESERVES AND DESIGNATED BALANCES (Continued)**

Reserves and designated balances for the years ended June 30, 2006 and 2005 are as follows:

	2006	2005
<b><u>Retirement Fund - Reserves and Designated Balances</u></b>		
Reserve for retirement allowances	\$ 3,938,183,417	\$ 3,773,274,190
Members' contributions	738,918,305	681,193,104
Department contributions	(866,865,319)	(742,644,395)
Total contributions	(127,947,014)	(61,451,291)
Reserve for investment gains & losses	5,866,217	5,428,560
General reserve	2,059,839,151	2,070,184,891
Total reserves and designated balances	5,875,941,771	5,787,436,350
Unrealized appreciation in the fair value of investments	637,297,762	394,778,540
Total reserves and designated balances at fair value	\$ 6,513,239,533	\$ 6,182,214,890
<b><u>Disability Fund - Reserves and Designated Balances</u></b>		
Estimated liability for temporary and permanent disability case	\$ 12,342,649	\$ 12,936,187
General reserve	25,862,419	29,562,076
Total reserves and designated balances	38,205,068	42,498,263
Unrealized appreciation in the fair value of investments	(1,187,423)	536,887
Total reserves and designated balances at fair value	\$ 37,017,645	\$ 43,035,150
<b><u>Death Benefit Fund - Reserves and Designated Balances</u></b>		
Estimated liability for:		
Family allowances	\$ 1,965,243	\$ 1,928,547
Total estimated liability	1,965,243	1,928,547
Contribution accounts:		
Family allowances	10,390,601	10,364,048
Total contribution accounts	10,390,601	10,364,048
General reserve	14,906,454	17,952,549
Total reserves and designated balances	27,262,298	30,245,144
Unrealized appreciation in the fair value of investments	(1,002,886)	430,208
Total reserves and designated balances at fair value	\$ 26,259,412	\$ 30,675,352

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 9 – PLAN AMENDMENTS**

The Plan is periodically amended to meet changes in economic conditions and sound business practices. The following is a summary of the more significant Plan amendments approved during the years ended June 30, 2006 and 2005.

Year ended June 30, 2006

There were no significant Plan amendments for the year ended June 30, 2006.

Year ended June 30, 2005

There were no significant Plan amendments for the year ended June 30, 2005.

**NOTE 10 - CONTINGENT LIABILITIES**

At June 30, 2006, several legal actions/ divorces were pending against the Plan as codefendent. Counsel for the Department and the Plan has indicated that adverse decisions in these cases would not materially affect the financial statements. In the event of legal settlement, costs would be refunded by increased charges to the Department.

**NOTE 11 – EFFECT OF NEW PRONOUNCEMENTS**

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and is effective for fiscal periods beginning after June 30, 2006. The approach followed in this statement reflects differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, stand-alone financial reports of OPEB plans, the public employee retirement systems, or third parties that administer them. GASB No. 43 will require the Plan to obtain actuarial valuations for the Death and Disability Funds and report on the funding status of and contributions to both plans. The Plan intends to implement the new reporting requirements for the Disability and Death Benefit funds for the fiscal year 2006-07 financial statements.

**EXHIBIT I**

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

RETIREMENT FUND – SCHEDULE OF FUNDING PROGRESS  
(Amounts in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liabilities	(3) Unfunded Actuarial Accrued Liabilities UAAL/(Surplus) (2) - (1)	(4) Funded Ratio (1) Divided by (2)	(5) Annual Covered Payroll	(6) UAAL/(Surplus) As a Percentage of Covered Payroll (3) Divided by (5)
2006	\$6,448	\$7,047	\$599	91.50%	\$636	94.18%
2005	\$6,331	\$6,763	\$432	93.61%	\$616	70.13%
2004	\$6,251	\$6,422	\$171	97.34%	\$581	29.43%
2003	\$6,128	\$6,042	(\$86)	101.42%	\$528	-16.29%
2002	\$5,790	\$5,715	(\$75)	101.31%	\$430	-17.44%
2001	\$5,833	\$5,306	(\$527)	109.93%	\$403	-130.77%
2000	\$5,606	\$5,083	(\$523)	110.29%	\$368	-142.12%
1999	\$5,254	\$4,911	(\$343)	106.98%	\$355	-96.62%
1998	\$4,514	\$4,340	(\$174)	104.01%	\$431	-40.37%
1997	\$3,851	\$3,812	(\$39)	101.02%	\$430	-9.07%
1996	\$3,400	\$3,699	\$299	91.92%	\$431	69.37%

See accompanying notes to the required supplementary information

**EXHIBIT II**

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

RETIREMENT FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	(1) Actual Covered Payroll	(2) Actuarial Determined Percentage	(3) Annual Required Contribution (1) times (2)	(4) Benefit Contribution Made	Percentage Contributed (4) divided by (3)
2006	\$574,315,572	10.82%	\$62,140,945	\$101,556,257	163.43%
2005	\$554,839,816	10.77%	\$59,756,248	\$75,490,141	126.33%
2004	\$522,227,280	10.83%	\$56,557,214	\$55,804,924	98.67%
2003	\$472,432,303	10.89%	\$51,447,878	\$40,560,882	78.84%
2002	\$430,397,884	10.64%	\$45,794,335	\$27,241,801	59.49%
2001	\$403,265,472	10.59%	\$42,705,813	\$25,763,218	60.33%
2000	\$369,509,233	10.57%	\$39,057,126	\$24,426,465	62.54%
1999	\$355,148,948	9.64%	\$34,236,359	\$57,440,383	167.78% (A)
1998	\$430,526,044	7.32%	\$31,514,506	\$124,470,502	394.96% (B)
1997	\$429,971,528	21.81%	\$93,776,790	\$103,836,661	110.73%

(A) The benefit contribution made (Column 4) exceeded the required contribution (Column 3) in 1998-99 because the Retirement Board made the normal cost contribution determined by the Actuary based on its action in September 1998 after the stock market had declined and significantly reduced the market valuation of the assets. The Retirement Board reduced the contribution amount to zero for the defined benefit element of the Plan in March 1999 after the actuary confirmed that the cost of the Plan after the separation package would still be zero. The defined contribution employer match was still contributed after the defined contribution rate was reduced to zero.

(B) The benefit contribution made (Column 4) exceeded the required contribution (Column 3) in 1997-98 because the Retirement Board determined that the rate adopted for 1996-97 would be continued until the full cost of the separation package was determined.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial cost method	Entry-age normal
Amortization method and remaining amortization period	The June 30, 2004 Unfunded Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2004. Any subsequent changes in Surplus or Unfunded Actuarial Accrued Liability are amortized over separate fifteen-year periods.
Asset Valuation Method	The market value of assets less unrecognized returns in each of the last five years (but not before July 1, 2001). Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a five-year period. Prior to December 13, 2003, this was calculated on a four year smoothing method.
Actuarial assumptions:	
Investment rate of return	A rate of return on the investment of present and future assets of 8% per year compounded annually.
Project salary increase	Projected salary increases of 5.5% per year compounded annually, inflation plus real increases; additional projected salary increases of 1% per year, attributable to seniority/merit.
Cost of living adjustment	Post-retirement benefit increases based on changes in the Consumer Price Index to a maximum of 3% per year.

The Plan is comprised of defined contribution and defined benefit elements. In the defined contribution element, the Department matches employee contribution at \$1.10 for each \$1.00 of employee contribution. In the defined benefit element, the Plan's funding policy provides for periodic Department contribution at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay the defined benefits when due based upon a level percentage of payroll. Department contribution rates to the defined benefit element are determined using the entry-age normal actuarial funding method.

The Department contribution for the fiscal year ended June 30, 2006 was made in accordance with the contribution requirements determined through the actuarial valuations performed as of July 1, 2005. The contribution rate is equal to the rate needed to satisfy the matching employer contribution.

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## DEATH BENEFIT FUND - FAMILY ALLOWANCES

SCHEDULE OF CONTRIBUTION ACCOUNTS AND  
ESTIMATED LIABILITY FOR FAMILY ALLOWANCES

For the Years Ended June 30, 2006 and 2005

	Members	Department of Water & Power	Combined Total	Estimated Liability for Family Allowances
Balances at June 30, 2004	\$ 3,627,036	\$ 6,347,663	\$ 9,974,699	\$ 2,137,156
Contributions received	88,088	-	88,088	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year.	-	(475,106)	(475,106)	475,106
Family allowances paid	-	-	-	(839,930)
Interest transferred from general reserve at 8% per annum	294,047	482,320	776,367	156,215
Balances at June 30, 2005	\$ 4,009,171	\$ 6,354,877	\$ 10,364,048	\$ 1,928,547
Contributions received	88,784	-	88,784	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year.	-	(694,362)	(694,362)	694,362
Family allowances paid	-	-	-	(779,888)
Interest transferred from general reserve at 8% per annum	253,833	378,299	632,132	122,222
Balances at June 30, 2006	\$ 4,351,788	\$ 6,038,814	\$ 10,390,601	\$ 1,965,243

Water & Power Employees' Retirement Fund  
 Schedule of Revenues by Source and Expenses by Type  
 June 30, 2006

Revenues by Source

Fiscal Year	Members' Contributions	Department Contributions*	Investment Income**	Total
2006	\$ 41,324,895	\$ 108,020,866	\$ 159,450,534	\$ 308,796,295
2005	\$ 38,855,089	\$ 82,287,706	\$ 126,531,298	\$ 247,674,093
2004	\$ 38,045,999	\$ 61,926,829	\$ 130,311,380	\$ 230,284,208
2003	\$ 36,490,767	\$ 47,277,187	\$ 184,616,510	\$ 268,384,464
2002	\$ 30,002,271	\$ 33,837,427	\$ 208,529,336	\$ 272,369,034
2001	\$ 27,688,883	\$ 30,813,290	\$ 235,096,893	\$ 293,599,066
2000	\$ 26,128,536	\$ 31,042,231	\$ 224,680,749	\$ 281,851,516
1999	\$ 24,781,774	\$ 68,848,769	\$ 205,607,813	\$ 299,238,356
1998	\$ 25,732,201	\$ 129,347,361	\$ 253,236,351	\$ 408,315,913
1997	\$ 22,061,056	\$ 107,559,632	\$ 211,293,953	\$ 340,914,641

Expenses by Type

Fiscal Year	Benefits	Administrative Expenses***	Refunds****	Total
2006	\$ 325,873,101	\$ 16,612,880	\$ 6,979,706	\$ 349,465,688
2005	\$ 311,551,053	\$ 12,268,060	\$ 8,241,859	\$ 332,060,972
2004	\$ 302,063,849	\$ 3,842,561	\$ 7,258,857	\$ 313,165,267
2003	\$ 295,587,105	\$ 2,612,142	\$ 8,072,065	\$ 306,271,312
2002	\$ 290,243,650	\$ 2,202,790	\$ 8,618,684	\$ 301,065,124
2001	\$ 275,870,558	\$ 2,282,401	\$ 5,641,742	\$ 283,794,701
2000	\$ 271,559,094	\$ 2,374,325	\$ 8,085,954	\$ 282,019,373
1999	\$ 254,253,462	\$ 2,660,477	\$ 17,374,946	\$ 274,288,885
1998	\$ 198,859,447	\$ 2,025,373	\$ 9,739,210	\$ 210,624,030
1997	\$ 196,142,682	\$ 2,030,872	\$ 7,148,793	\$ 205,322,347

\* Represents Department contribution before reversions and includes contributions towards administrative expenses

\*\* Represents "booked" investment income and excludes "net appreciation in fair value of investment"

\*\*\* Represents investment and administrative expenses

\*\*\*\* Represents both refunds on members' contributions and reversions on Department contributions