

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES'
RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2012 and 2011
WATER AND POWER EMPLOYEES'
RETIREE HEALTH BENEFITS FUND
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2012 and 2011**



**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

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 plan net assets of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (Retirement Plan) and the Retiree Health Benefits Fund (RHBF), collectively known as the Plan, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years 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 an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Retirement Plan and RHBF as of June 30, 2012 and 2011, and the changes in net assets available for benefits of the Retirement Plan and RHBF for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 18, the Schedules of Funding Progress on pages 52, 54, and 55, and the Schedules of Employer Contributions on pages 53 and 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Retirement Plan and RHBF. The Death Benefit Fund's Schedule of Contribution Accounts and Estimated Liability for Family Allowances and the Retirement Fund's Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances and Schedule of Revenues by Source and Expenses by Type on pages 57 through 59 (Schedules), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'Simpson & Simpson', is written in a cursive style.

Los Angeles, California
November 16, 2012

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

**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) and the Retiree Health Benefits Fund (RHBF) for the years ended June 30, 2012 and 2011. The Retirement Plan and the RHBF are collectively known as the Plan.

FINANCIAL HIGHLIGHTS

- The net assets at the close of the fiscal year ending June 30, 2012 were \$7,384,143,876, \$47,634,252, \$24,756,553, and \$1,225,779,869 for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Funds, respectively. All of the nets assets were available to meet the Plan's obligations to Plan participants and their beneficiaries.
- Total net assets increased by \$574,524 or 1.22%, \$2,314,810 or 10.32% and \$51,034,438 or 4.34% for the Disability Fund, Death Benefit Fund, and Retiree Health Benefits Fund, respectively. Total net assets decreased by \$26,193,046 or 0.35% for Retirement Fund.
- As of July 1, 2012 the date of the Retirement Fund's last actuarial valuation, the funding ratio of the fund was approximately 78.14%.
- As of June 30, 2012, the date of the Retiree Health Benefits Fund's latest actuarial valuation, the funding ratio was approximately 79.44%.
- Additions to the Retirement Fund's Plan Net Assets decreased from \$1,546,461,410 to \$393,806,154 over the prior year or approximately 74.54% due mostly to the decrease in the fair value of investments in 2012 over 2011.
- Deductions from Retirement Fund's Plan Net Assets increased from \$402,399,857 to \$419,999,200 over the prior year, or approximately 4.37% due mostly to the cost of living allowance increase granted to pension benefits effective July 2011.
- The assets of the Retiree Health Benefits Fund were invested under the oversight of the Retirement Board. The RHBF assets were up 4.34% from \$1,174,745,431 to \$1,225,779,869.

**CITY OF LOS ANGELES
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

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

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.

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 27 to 51 of this report.

Required Supplementary Information: This report presents certain required supplementary information concerning the Retirement Fund, the Retiree Health Benefits Fund, and the Death Benefit Fund's progress in funding to provide pension, health benefits, and insured life benefits to members. The report also provides summary information on employer contributions. The required Supplementary Information is on pages 52 to 56 of this report.

Supplementary Information: The supplementary information is also available in this report for a better understanding of the Plan's financial activities. The supplementary information is on pages 57 to 59 of this report.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

FINANCIAL ANALYSIS

Retirement Fund

Plan Net Assets

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

	Condensed Statement of Plan Net Assets				
	(In Thousands)				
	2012	2011	2010	2011-12 % Change	2010 - 11 % Change
Cash	\$ 12,175	\$ 9,070	\$ 1,983	34.23%	357.39%
Prepaid expense	3	-	-	0.00%	0.00%
Receivables	211,953	517,730	285,650	-59.06%	81.25%
Investments	7,875,126	8,241,771	7,343,906	-4.45%	12.23%
 Total assets	 8,099,257	 8,768,571	 7,631,539	 -7.63%	 14.90%
Liabilities	715,113	1,358,234	1,365,264	-47.35%	-0.51%
 Total plan net assets	 <u>\$ 7,384,144</u>	 <u>\$ 7,410,337</u>	 <u>\$ 6,266,275</u>	 -0.35%	 18.26%

Fiscal year ended June 30, 2012

Net assets decreased by \$26.2 million, or 0.35% to \$7.4 billion over the prior fiscal year. Investments were down \$366.6 million or 4.45% due mostly to the decrease in investments associated with securities lending activities and the depreciation in the fair value of investments. Receivables were down \$305.8 million or 59.06% from fiscal year 2011 mainly because of a decrease in pending sales at year-end. Liabilities were down \$643.1 million or 47.35% due mostly to a decrease in pending investment purchases at year-end and decrease in liabilities associated with securities lending transactions.

Fiscal year ended June 30, 2011

Net assets increased by \$1.1 billion, or 18.26% to \$7.4 billion over the prior fiscal year. Investments were up \$897.9 million, or 12.23% due mostly to the appreciation in the fair value of investments. Receivables were up \$232.1 million or 81.25% from fiscal year 2010 mainly because of an increase in pending trades at year-end.

**CITY OF LOS ANGELES
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Retirement Fund (Continued)

Changes in Plan Net Assets

	Condensed Statement of Changes in Plan Net Assets (In Thousands)				
	2012	2011	2010	2011-12 % Change	2010 - 11 % Change
Additions					
Members' contributions	\$ 60,089	\$ 65,955	\$ 71,241	-8.89%	-7.42%
Employer contributions	325,997	291,268	205,497	11.92%	41.74%
Net investment income	7,720	1,189,239	674,440	-99.35%	76.33%
Total additions	<u>393,806</u>	<u>1,546,462</u>	<u>951,178</u>	-74.54%	62.58%
Deductions					
Benefit payment	410,814	396,125	377,047	3.71%	5.06%
Refund	5,527	2,382	3,007	132.03%	-20.78%
Administrative expenses	3,658	3,893	3,727	-6.04%	4.45%
Total deductions	<u>419,999</u>	<u>402,400</u>	<u>383,781</u>	4.37%	4.85%
Net increase (decrease) in plan net assets	(26,193)	1,144,062	567,397	-102.29%	101.63%
Net assets beginning	<u>7,410,337</u>	<u>6,266,275</u>	<u>5,698,878</u>	18.26%	9.96%
Net assets ending	<u>\$ 7,384,144</u>	<u>\$ 7,410,337</u>	<u>\$ 6,266,275</u>	-0.35%	18.26%

**CITY OF LOS ANGELES
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Retirement Fund (Continued)

Additions to Plan Net Assets

Additions needed to fund benefit payments are accumulated through contributions from the employees and the employer, and from income generated from the Plan's investing activities.

Fiscal year ended June 30, 2012

Member contributions for fiscal year 2012 were \$60.1 million, down \$5.9 million or 8.89% over the prior fiscal year. The decrease in contributions was due primarily to the decrease in number of employees hired by DWP. Department contributions for fiscal year 2012 were \$326.0 million, up \$34.7 million or 11.92% over the prior fiscal year. The main cause of this increase was the 3.37% increase in the actuarial contribution rate of the Department from 38.45% of covered compensation a year ago to 41.82% of covered compensation in fiscal year 2012.

Net investment income amounted to \$7.7 million, down 99.35% from fiscal year 2011. The decrease in net investment income was attributable to the net depreciation in the fair value of investments.

Fiscal year ended June 30, 2011

Member contributions for fiscal year 2011 were \$66.0 million, down \$5.3 million or 7.41% over the prior fiscal year. The decrease in contributions was due primarily to the decrease in number of active contributing employees. Department contributions for fiscal year 2011 were \$291.3 million, up \$85.8 million or 41.74% over the prior fiscal year. The main cause of this increase was the 12.33% increase in the actuarial contribution rate of the Department from 26.12% of covered compensation a year ago to 38.45% of covered compensation in fiscal year 2011.

Net investment income amounted to \$1.2 billion, up 76.33% from fiscal year 2010. The increase in net investment income was attributable to the realized earnings from investing activities and net appreciation in the fair value of investments.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Retirement Fund (Continued)

Deductions from Plan Net Assets

Costs associated with this Plan include benefit payments as designated by the Retirement Plan, refund of contributions due to terminations and member deaths, and administrative costs of operating the Plan.

Fiscal year ended June 30, 2012

Deductions for the fiscal year ended June 30, 2012 totaled \$420.0 million, up \$17.6 million or 4.37% over 2011. The increase was mostly due to the cost-of-living adjustments made to pension benefits starting July 2011.

Fiscal year ended June 30, 2011

Deductions for the fiscal year ended June 30, 2011 totaled \$402.4 million, up \$18.6 million or 4.85% over 2010. The increase was mostly due to the cost-of-living adjustments made to pension benefits starting July 2010.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Disability Fund

Plan Net Assets

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

	Condensed Statement of Plan Net Assets				
	(In Thousands)				
	2012	2011	2010	2011-12 % Change	2010-11 % Change
Cash	\$ 1,750	\$ 537	\$ 514	225.88%	4.47%
Receivables	7,337	6,804	5,700	7.83%	19.37%
Investments	38,681	39,859	42,013	-2.96%	-5.13%
 Total assets	 47,768	 47,200	 48,227	 1.20%	 -2.13%
Liabilities	134	141	192	-4.96%	-26.56%
 Total plan net assets	 \$ 47,634	 \$ 47,059	 \$ 48,035	 1.22%	 -2.03%

Fiscal year ended June 30, 2012

The Disability Insurance Plan's net assets increased by approximately \$0.6 million, or 1.22%, in fiscal year 2012. Cash increased by \$1.2 million or 225.88% from the prior fiscal year, to provide plan benefit payments.

Fiscal year ended June 30, 2011

The Disability Insurance Plan's net assets decreased by approximately \$1.0 million, or 2.03%, in fiscal year 2011. Investments decreased by \$2.2 million or 5.13% from the prior fiscal year, as portions were used to provide plan benefits.

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

Disability Fund (continued)

Changes in Plan Net Assets

	Condensed Statement of Changes in Plan Net Assets (In Thousands)			2011-12	2010-11
	2012	2011	2010	% Change	% Change
Additions					
Members' contributions	\$ 453	\$ 466	\$ 461	-2.79%	1.08%
Employer contributions	13,584	12,195	13,238	11.39%	-7.88%
Net investment income	3,375	2,011	4,194	67.83%	-52.05%
Total additions	17,412	14,672	17,893	18.68%	-18.00%
Deductions					
Benefit payment	16,005	14,798	14,013	8.16%	5.60%
Administrative expenses	832	850	717	-2.12%	18.55%
Total deductions	16,837	15,648	14,730	7.60%	6.23%
Net increase (decrease) in plan net assets	575	(976)	3,163	158.91%	-130.86%
Net assets beginning	47,059	48,035	44,872	-2.03%	7.05%
Net assets ending	\$ 47,634	\$ 47,059	\$ 48,035	1.22%	-2.03%

Additions to Plan Net Assets

Additions needed to fund benefits are accumulated through employer and employee contributions and investment income generated from the fund's investing activities.

Fiscal year ended June 30, 2012

Employer contributions for fiscal year 2012 totaled \$13.6 million, up approximately \$1.4 million or 11.39% from a year ago. The increase was due to the increase in the Department's actuarial contribution rate for temporary disability benefits. The Department's actuarial contribution rate for fiscal year 2012 was \$1.43 per \$100.00 of covered compensation, while the rate was \$1.29 per \$100.00 of covered compensation in fiscal year 2011.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Disability Fund (continued)

Net investment income totaled \$3.4 million, up 67.83% from fiscal year 2011. The difference is mainly attributed to the appreciation in the fair value of investments during fiscal year 2012.

Fiscal year ended June 30, 2011

Contributions for fiscal year 2011 totaled \$12.7 million, down by approximately \$1.0 million or 7.57% from a year ago. The decrease was due to the reduction in the Department's actuarial contribution rate for temporary disability benefits. The Department's actuarial contribution rate for fiscal year 2011 was \$1.29 per \$100.00 of covered compensation, while the rate was \$1.34 per \$100.00 of covered compensation in fiscal year 2010.

Net investment income totaled \$2.0 million, down 52.05% from fiscal year 2010. The difference is mainly attributed to smaller appreciation in the fair value of investments during fiscal year 2011 versus the appreciation in fiscal year 2010.

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, 2012

Fiscal year 2012 benefit payments increased \$1.2 million, up 8.16% from a year ago. The increase was attributable to an increase in the temporary disability benefits and industrial disability supplement paid.

Fiscal year ended June 30, 2011

Fiscal year 2011 deductions increased \$0.9 million, up 6.23% from a year ago. The increase was attributable to an increase in the temporary disability benefits paid and an increase in the number of members on permanent disability.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Death Benefit Insurance Fund

The Death Benefit Plan's net assets are summarized below:

	Condensed Statement of Plan Net Assets			2011-12 % Change	2010-11 % Change
	(In Thousands)				
	2012	2011	2010		
Cash	\$ 1,032	\$ 1,282	\$ 495	-19.50%	158.99%
Receivables	985	1,644	93	-40.09%	1667.74%
Investments	25,736	22,981	24,195	11.99%	-5.02%
 Total assets	 27,753	 25,907	 24,783	 7.13%	 4.54%
Liabilities	2,996	3,465	2,875	-13.54%	20.52%
 Total plan net assets	 <u>\$ 24,757</u>	 <u>\$ 22,442</u>	 <u>\$ 21,908</u>	 10.32%	 2.44%

Fiscal year ended June 30, 2012

The Fund's net assets increased by \$2.3 million or 10.32% when compared with prior year's net assets of \$22.4 million. Correspondingly, investments at June 30, 2012 were up \$2.8 million, or 11.99% against last year. Receivables were down \$0.7 million or 40.09% versus fiscal year 2011. This is mainly because of a decrease in pending investment sales at year end.

Fiscal year ended June 30, 2011

The Fund's net assets were slightly higher by \$0.5 million or 2.44% when compared with prior year's net assets of \$21.9 million. Investments at June 30, 2011 were down \$1.2 million, or 5.02% against last year. This is mostly attributable to the increase in net receivables at fiscal year end.

**CITY OF LOS ANGELES
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Death Benefit Insurance Fund (continued)

Changes in Plan Net Assets

	Condensed Statement of Changes in Plan Net Assets (In Thousands)			2011-12	2010-11
	2012	2011	2010	% Change	% Change
Additions					
Members' contributions	\$ 322	\$ 327	\$ 320	-1.53%	2.19%
Employer contributions	8,045	8,003	6,080	0.52%	31.63%
Net investment income	2,075	1,056	2,272	96.50%	-53.52%
Total additions	10,442	9,386	8,672	11.25%	8.23%
Deductions					
Benefit payment	7,235	7,834	7,287	-7.65%	7.51%
Administrative expenses	892	1,018	930	-12.38%	9.46%
Total deductions	8,127	8,852	8,217	-8.19%	7.73%
Net increase					
in plan net assets	2,315	534	455	333.52%	17.36%
Net assets beginning	22,442	21,908	21,453	2.44%	2.12%
Net assets ending	\$ 24,757	\$ 22,442	\$ 21,908	10.32%	2.44%

Additions to Plan Net Assets

Additions to fund the benefits are accumulated through contributions and investment income from invested funds.

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

Death Benefit Insurance Fund (continued)

Fiscal year ended June 30, 2012

Net investment income totaled \$2.1 million, up 96.50% from fiscal year 2011. The increase is attributed to the appreciation in the fair value of investments during fiscal year 2012.

Fiscal year ended June 30, 2011

Employer contributions increased \$1.9 million, or 31.63% compared to fiscal year 2010. It is mainly because of the reinstatement of the Department's contribution toward the Insured Life Death Benefit of active employees, as recommended by the actuary. The adopted Department contribution rate for this benefit was \$0.29 per \$100 of covered payroll, effective December 2010.

Net investment income totaled \$1.1 million, down 53.52% from fiscal year 2010. The difference is mainly attributed to smaller appreciation in the fair value of investments during fiscal year 2011 versus the appreciation in fiscal year 2010.

Deductions from Plan Net Assets

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

Fiscal year ended June 30, 2012

Benefit payments were down \$0.6 million, or 7.65%. The decrease was due to the decrease in the amount of insured life death benefit cases processed this fiscal year as compared with the previous fiscal year.

Fiscal year ended June 30, 2011

Deductions were up \$0.6 million, or 7.73%. The increase was due to the increase in the number and amount of insured life death benefit cases processed and paid this fiscal year as compared with the previous fiscal year.

**CITY OF LOS ANGELES
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Retiree Health Benefits Fund

The DWP Board of Water and Power commissioners approved the creation of the Retiree Health Benefits Fund in September 2006 to defray current and future retiree health benefit liabilities and related costs incurred by the fund. The Retirement Board has the fiduciary responsibility for investing the assets of the Health Fund and administering payments from it, while the DWP Board of Water and Power Commissioners continues to have the responsibility to set the funding policy and the funding levels of the RHBF.

Health Fund assets amounting to \$642.0 million were transferred to the Retirement Plan to establish the fund during fiscal year 2007. As of June 30, 2012 the net assets of the fund totaled \$1.2 billion and these assets included \$37.5 million in Department contributions received in June 2012. A condensed statement of the fund's plan net assets and a condensed statement of changes in plan net assets, is as follow:

Plan Net Assets

	Condensed Statement of Plan Net Assets				
	(In Thousands)				
	2012	2011	2010	2011-12 % Change	2010-11 % Change
Cash	\$ 918	\$ 509	\$ 377	80.35%	35.01%
Receivables	33,893	86,414	40,087	-60.78%	115.57%
Investments	1,317,756	1,335,831	1,023,070	-1.35%	30.57%
Total assets	1,352,567	1,422,754	1,063,534	-4.93%	33.78%
Liabilities	126,787	248,009	136,283	-48.88%	81.98%
Total plan net assets	\$ 1,225,780	\$ 1,174,745	\$ 927,251	4.34%	26.69%

Fiscal year ended June 30, 2012

Total receivables decreased by \$52.5 million or 60.78% mainly because of the decrease in pending investment sales at fiscal year end. Total liabilities decreased by \$121.2 million or 48.88%. This is due to a decrease in pending investment purchases at year-end and decrease in liabilities associated with securities lending transactions.

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

Retiree Health Benefits Fund (continued)

Fiscal year ended June 30, 2011

Total assets increased by \$247.5 million or 26.69% mainly because of the net appreciation in the fair value of investments in fiscal year 2011 over 2010 and additional contribution of \$75 million made by the Department towards the year end of 2011.

Changes in Plan Net Assets

	Condensed Statement of Changes in Plan Net Assets (In Thousands)			2011-12	2010-11
	2012	2011	2010	% Change	% Change
Additions					
Employer contributions	\$ 102,326	\$ 140,746	\$ 160,740	-27.30%	-12.44%
Net investment income	13,341	172,299	86,505	-92.26%	99.18%
Total additions	<u>115,667</u>	<u>313,045</u>	<u>247,245</u>	-63.05%	26.61%
Deductions					
Benefit payment	64,221	65,132	60,196	-1.40%	8.20%
Administrative expenses	412	419	362	-1.67%	15.75%
Total deductions	<u>64,633</u>	<u>65,551</u>	<u>60,558</u>	-1.40%	8.24%
Net increase					
in plan net assets	51,034	247,494	186,687	-79.38%	32.57%
Net assets beginning	<u>1,174,745</u>	<u>927,251</u>	<u>740,564</u>	26.69%	25.21%
Net assets ending	<u>\$ 1,225,779</u>	<u>\$ 1,174,745</u>	<u>\$ 927,251</u>	4.34%	26.69%

Additions to Plan Net Assets

Additions to fund the benefits are accumulated through contributions from the Department and investment income derived from invested funds.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

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

Retiree Health Benefits Fund (continued)

Fiscal year ended June 30, 2012

Employer contributions were down \$38.4 million or 27.30% due to a reduction in funding above the Annual Required Contribution in fiscal year 2012. Net investment income declined by \$159.0 million or 92.26%. This is attributed to the net depreciation in fair value of investments.

Fiscal year ended June 30, 2011

Total additions were up 26.61% to \$313 million. The increase in 2011 total additions was due mainly to the net appreciation in the value of investments and additional contribution of \$75 million by the Department.

Deductions from Plan Net Assets

Deductions represent medical and dental insurance premiums paid for the benefit of retirees and the cost associated with the operation of the fund.

Fiscal year ended June 30, 2012

Total deductions in fiscal year 2012 were fairly consistent compared to the prior year.

Fiscal year ended June 30, 2011

Insurance premiums paid from the fund for the benefit of retirees increased \$4.9 million or 8.20% in 2011 when compared with 2010.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

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

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 or requests for additional 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
INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREMENT FUND
STATEMENT OF PLAN NET ASSETS
As of June 30

ASSETS	2012	2011
Cash (Notes 2 and 3)	\$ 12,174,358	\$ 9,069,953
Prepaid Expense	3,310	-
Receivables		
Accrued investment income	21,919,418	24,749,545
Department of Water and Power	43,142,660	54,721,001
Pending investment sales	144,617,256	436,993,137
Other	2,273,310	1,265,822
Total receivables	211,952,644	517,729,505
Investments, at fair value (Notes 2, 3, and 4)		
Fixed income (amortized cost \$1,972,298,738 in 2012 and \$2,277,439,103 in 2011)	2,030,007,946	2,312,043,683
Common stock (cost of \$4,039,450,036 in 2012 and \$3,586,766,765 in 2011)	4,433,727,723	4,222,928,006
Short-term investments (cost approximates fair value)	240,293,599	354,654,072
Alternative investments	481,078,845	433,334,246
Real estate	199,990,468	127,660,322
Securities lending - short-term collateral investment pool	490,027,647	791,150,970
Total investments	7,875,126,228	8,241,771,299
Total assets	8,099,256,540	8,768,570,757
LIABILITIES		
Payables		
Pending investment purchases	213,476,355	549,488,823
Other	11,608,662	17,594,042
Securities lending - collateral payable (Note 4)	490,027,647	791,150,970
Total liabilities	715,112,664	1,358,233,835
Net Assets held in trust for pension benefits	\$ 7,384,143,876	\$ 7,410,336,922

The accompanying notes are an integral part of these financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREMENT FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30

	2012	2011
ADDITIONS		
Members' contributions	\$ 60,088,614	\$ 65,954,329
Department of Water and Power contributions towards:		
Benefit (net of reversions)	321,688,919	286,699,384
Administrative expenses	4,308,437	4,569,027
	386,085,970	357,222,740
Total contributions		
Investment income		
Net appreciation (depreciation) in fair value of investments	(166,352,568)	1,007,966,088
Interest	111,719,555	121,745,341
Dividends	72,539,059	69,527,276
Income from real estate investments	7,844,394	5,626,762
Income (loss) from alternative investments	(998,576)	2,455,365
Securities lending (Note 4)	3,398,752	3,688,288
	28,150,616	1,211,009,120
Total investment income		
Less: securities lending expenses (Note 4)	(575,204)	(1,385,889)
Less: investment expenses	(20,488,839)	(21,252,715)
	7,086,573	1,188,370,516
Net investment income		
Other income	633,611	868,154
	393,806,154	1,546,461,410
Total additions		
DEDUCTIONS		
Retirement benefits paid	410,814,067	396,124,862
Refund of members' contributions	5,526,896	2,381,657
Administrative expenses	3,658,237	3,893,338
	419,999,200	402,399,857
Total deductions		
Net increase (decrease) in plan net assets	(26,193,046)	1,144,061,553
Net assets held in trust for pension benefits		
Beginning of year	7,410,336,922	6,266,275,369
	7,384,143,876	7,410,336,922
End of year	\$ 7,384,143,876	\$ 7,410,336,922

The accompanying notes are an integral part of these financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

DISABILITY FUND
STATEMENT OF PLAN NET ASSETS
As of June 30

ASSETS	<u>2012</u>	<u>2011</u>
Cash (Notes 2 and 3)	\$ 1,749,930	\$ 537,360
Receivables		
Accrued investment income	97,593	108,097
Department of Water and Power	2,612,733	2,650,576
Other	1,315,872	735,360
Contingent disability benefit advance	<u>3,310,339</u>	<u>3,310,339</u>
Total receivables	<u>7,336,537</u>	<u>6,804,372</u>
Investments, at fair value (Notes 2 and 3)		
Fixed income (amortized cost \$33,080,525 in 2012 and \$36,240,059 in 2011)	38,063,938	39,442,169
Short-term investments (cost approximates fair value)	<u>617,372</u>	<u>416,795</u>
Total investments	<u>38,681,310</u>	<u>39,858,964</u>
Total assets	<u>47,767,777</u>	<u>47,200,696</u>
LIABILITIES		
Payables		
Pending investment purchases	97,510	107,986
Other	<u>36,015</u>	<u>32,982</u>
Total Liabilities	<u>133,525</u>	<u>140,968</u>
Net assets held in trust for disability benefits	<u>\$ 47,634,252</u>	<u>\$ 47,059,728</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND

DISABILITY FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30

	2012	2011
ADDITIONS		
Department of Water and Power contributions towards:		
Temporary disability benefits	\$ 11,050,295	\$ 10,279,898
Supplemental disability benefits	1,697,905	1,066,096
Administrative expenses	835,317	849,597
Total department contributions	13,583,517	12,195,591
Contributions from members for:		
Temporary disability benefits	227,353	233,982
Permanent total disability benefits	225,892	231,642
Total members' contributions	453,245	465,624
Net appreciation in fair value of investments	2,033,714	364,194
Investment income	1,388,604	1,692,226
Less: investment expenses	(47,676)	(45,280)
Net investment income	3,374,642	2,011,140
Total additions	17,411,404	14,672,355
DEDUCTIONS		
Benefits provided:		
Temporary disability	12,106,184	11,291,929
Extended temporary disability	363,648	428,496
Permanent total disability	1,837,781	2,012,392
Supplemental disability	1,697,355	1,065,120
Total benefits provided	16,004,968	14,797,937
Administrative expenses	831,912	849,597
Total deductions	16,836,880	15,647,534
Net increase (decrease) in plan net assets	574,524	(975,179)
Net assets held in trust for disability benefits		
Beginning of year	47,059,728	48,034,907
End of year	\$ 47,634,252	\$ 47,059,728

The accompanying notes are an integral part of these financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

DEATH BENEFIT FUND
STATEMENT OF PLAN NET ASSETS
As of June 30

ASSETS	2012	2011
Cash (Notes 2 and 3)	\$ 1,031,942	\$ 1,281,690
Receivables		
Department of Water and Power	901,230	1,171,939
Accrued investment income	63,446	60,178
Other	20,044	112,116
Pending investment sales	-	300,000
Total receivables	984,720	1,644,233
Investments, at fair value (Notes 2 and 3)		
Fixed income (amortized cost \$22,021,150 in 2012 and \$20,036,319 in 2011)	24,719,737	21,615,583
Short-term investments (cost approximates fair value)	1,016,499	1,365,382
Total investments	25,736,236	22,980,965
Total assets	27,752,898	25,906,888
LIABILITIES		
Payables		
Pending investment purchases	63,326	60,001
Other	455,570	357,618
Death claims in process - insured lives	2,477,449	3,047,526
Total liabilities	2,996,345	3,465,145
Net assets held in trust for death benefits	\$ 24,756,553	\$ 22,441,743

The accompanying notes are an integral part of these financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

DEATH BENEFIT FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the years ended June 30

	2012	2011
ADDITIONS		
Department of Water and Power contributions towards:		
Active members	\$ 2,148,545	\$ 1,336,786
Retired members (non-contributing)	5,001,416	5,552,771
Administrative expenses	894,757	1,113,493
Total department contributions	8,044,718	8,003,050
Contributions from members for:		
Insured lives death benefit	225,880	231,648
Supplemental family death benefit	96,631	95,952
Total members' contributions	322,511	327,600
Net appreciation in fair value of investments	1,228,991	126,058
Investment income	876,223	959,989
Less: investment expenses	(30,306)	(30,253)
Net investment income	2,074,908	1,055,794
Total additions	10,442,137	9,386,444
DEDUCTIONS		
Benefits provided for:		
Death benefits (active/retired members)	6,647,365	7,146,080
Family allowances	587,470	688,064
Total benefits provided	7,234,835	7,834,144
Administrative expenses	892,492	1,018,418
Total deductions	8,127,327	8,852,562
Net increase in plan net assets	2,314,810	533,882
Net assets held in trust for death benefits		
Beginning of year	22,441,743	21,907,861
End of year	\$ 24,756,553	\$ 22,441,743

The accompanying notes are an integral part of these financial statements.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND

RETIREE HEALTH BENEFITS FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

ASSETS	2012	2011
Cash and cash equivalents (Notes 2 and 3)	\$ 918,273	\$ 508,717
Receivables		
Accrued investment income	3,656,063	4,447,758
Department of Water and Power	13,201	37,398
Pending investment sales	30,223,292	81,929,545
Total receivables	33,892,556	86,414,701
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$363,133,218 in 2012 and \$432,368,897 in 2011)	374,656,408	438,934,643
Common stock (cost of \$675,387,702 in 2012 and \$525,199,244 in 2011)	726,702,077	604,139,151
Short-term investments (cost approximates fair value)	67,425,083	94,516,853
Alternative investments	67,767,651	74,777,200
Real estate	11,145,758	1,014,694
Securities lending - short-term collateral investment pool	70,058,948	122,448,889
Total investments	1,317,755,925	1,335,831,430
Total assets	1,352,566,754	1,422,754,848
LIABILITIES		
Payables		
Accounts payable	2,084,608	1,934,888
Pending investment purchases	54,643,329	123,625,640
Security lending - collateral payable (Note 4)	70,058,948	122,448,889
Total liabilities	126,786,885	248,009,417
Net assets held in trust for retiree health benefits	\$ 1,225,779,869	\$ 1,174,745,431

The accompanying notes are an integral part of these financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREE HEALTH BENEFITS FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30

	2012	2011
ADDITIONS		
Department of Water and Power contributions towards:		
Retiree health benefits	\$ 37,500,000	\$ 75,000,000
Insurance premiums	64,220,586	65,132,520
Administrative expenses	605,265	613,516
Total department contributions	102,325,851	140,746,036
Investment income		
Net appreciation (depreciation) in fair value of investments	(15,807,543)	144,130,600
Interest and dividends	31,289,123	30,630,303
Gain (loss) from alternative investments	(26,560)	2,100
Real estate income	290,768	28,243
Securities lending (Note 4)	502,167	437,487
Total investment income	16,247,955	175,228,733
Less: securities lending expenses (Note 4)	(86,768)	(159,049)
Less: investment expenses	(2,820,164)	(2,770,240)
Net investment income	13,341,023	172,299,444
Total additions	115,666,874	313,045,480
DEDUCTIONS		
Retiree health benefits paid (insurance premiums)	64,220,586	65,132,520
Administrative expenses	411,850	418,684
Total deductions	64,632,436	65,551,204
Net increase in plan net assets	51,034,438	247,494,276
Net assets held in trust for retiree health benefits		
Beginning of year	1,174,745,431	927,251,155
End of year	\$ 1,225,779,869	\$ 1,174,745,431

The accompanying notes are an integral part of these financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The Retirement Board of Administration (Retirement Board) is the administrator of the City of Los Angeles Water and Power Employees' Retirement, Disability, and Death Benefit Insurance Plan (Retirement Plan). The Retirement Plan is comprised of three separate funds – retirement fund, disability fund, and death benefit fund. Also, the Retirement Board has investment oversight of the Retiree Health Benefits Fund (RHBF), and together with the Retirement Plan are collectively known as the Plan. Each fund under the Retirement Plan and the RHBF is considered an independent trust fund of the Department of Water and Power (Department), which is a proprietary department of the City of Los Angeles (City).

The Retirement Plan was established in 1938 and is subject to the provisions of the City Charter and the plan document. The Retirement Plan operates as a single-employer defined benefit plan to provide pension benefits, including death and disability benefits, to eligible Department employees.

In 1986, the Board of Water and Power Commissioners (DWP Board) adopted the Department Health Plans Board Resolution. This resolution established provisions for the health, dental and other medical plans of the Department and its subsidiaries. This resolution is updated annually to approve changes in health plan carriers and subsidy amounts. This resolution and subsequent amendments have created the Department's Postretirement Health Care Benefit Plan (Retiree Health Benefits Plan), a single-employer postemployment healthcare benefit plan. On September 6, 2006, the Retirement Board approved the creation and establishment of the RHBF for the purpose of funding the benefits provided under the Retiree Health Benefits Plan.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

Retirement, Disability, and Death Benefit Insurance Plan (Retirement Plan)

Membership

The Retirement Plan's membership consisted of the following at June 30, 2012 and 2011:

	2012	2011
Retirees, beneficiaries*	8,709	8,639
Terminated vested	697	712
Terminated non-vested	971	874
Inactive-non-contributing employees	117	133
Active-contributing employees:		
Vested	8,777	8,753
Non-vested	319	279
Total	19,590	19,390

*Includes beneficiaries of the Survivorship account.

Benefit Provisions

Retirement/Disability Fund

The retirement fund consists of both defined contribution and defined benefit elements. The 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 and 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 employees' date for membership. 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

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

have been employed by the Department for at least five years before retirement and have been a contributing member of the Plan 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.

Death Benefit Fund

The Death Benefit Fund consists of the Insured Lives Death Benefit (IDB), Family Death Benefit (FDB), and Supplemental Family Death Benefit (SFDB).

- **Insured Lives Death Benefit**

For contributing active members, death benefit coverage begins after completion of 26 weeks of continuous Department service. If the death occurs while an active member of the Plan, the benefit includes a single lump sum distribution equal to fourteen times the member's monthly salary, and the retirement fund contributions plus accrued interest, payable to the beneficiary.

For retired members, the benefits include a single lump sum distribution equal to fourteen times the member's full retirement allowance not to exceed \$20,000, plus any unpaid retirement allowances due, and the unused portion of the retirement fund contributions upon death (if elected at retirement) payable to the beneficiary.

- **Family Death Benefit**

Coverage begins after completion of 26 weeks of continuous Department service. The Plan provides a monthly FDB allowance of \$416 to each qualified surviving child plus \$416 to the spouse, if the spouse has the care of one or more of the member's eligible children. The maximum monthly FDB allowance cannot exceed \$1,170.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

- Supplemental Family Death Benefit

The SFDB program supplements the FDB. Coverage begins after enrollment and payment of premiums for 39 consecutive biweekly payroll deductions. The Plan provides for an additional monthly SFDB allowance of \$520 to each qualified surviving child plus \$520 to the spouse, if the spouse has the care of one or more of the member's eligible children. The maximum SFDB allowance cannot exceed \$1,066.

Contributions

Retirement/Disability Fund

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 contribution plus credited interest is refundable. After one year of membership, the employee may leave his or her contribution on account with the Plan along with the Department's 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 Retirement Board upon the advice of the Plan actuary. Plan benefits are funded by earnings from investments and by contributions from the Department and members.

Each bi-weekly payroll period, eligible members contribute \$1.00 each for Temporary Disability and Permanent Total Disability.

Death Benefit Fund

- Insured Lives Death Benefit

Contributing active members contribute \$1.00 per bi-weekly payroll period. The Department contribution for the IDB for contributing active members was \$0.25 and \$0.29 per \$100 of payroll for fiscal years 2012 and 2011, respectively. In addition, the Department currently contributes to the IDB for non-contributing members at \$1.44 and \$1.48 per \$100 of retirement benefits paid for fiscal years 2012 and 2011, respectively.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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INCLUDING RETIREE HEALTH BENEFITS FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

- Family Death Benefit

The Department contributions have been suspended since July 1, 1993. The Department contributions will continue to be suspended as recommended by the Plan's actuary.

- Supplemental Family Death Benefit

Active members contribute \$2.25 per bi-weekly payroll period, and retired members contribute \$4.90 per month. Member contributions plus earnings from investments are intended to cover the cost of the benefits.

Retiree Health Benefits Plan

Membership

The Retiree Health Benefits Plan's membership consisted of the following at June 30, 2012 and 2011:

	2012	2011
Current retirees and beneficiaries	7,485	7,702
Current active members	8,855	9,056
Total	16,340	16,758

Benefit Provisions

Retired members of the Plan are eligible to receive a medical and dental subsidy based on their age and years of service at retirement. The retirees pay any health and dental plan premiums in excess of Department subsidy limits that they are eligible for.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

Contributions

The DWP Board establishes the funding policy and funding levels of the RHBF. The Department retains the responsibility and obligation to fund the RHBF to the extent necessary and appropriate as recommended by the Department's actuary, based on funding parameters set by the Department on advice of the actuary. During fiscal years 2012 and 2011, the Department contributed \$102.3 million and \$140.7 million, respectively, to fund current and future retiree health benefits liabilities and related costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Reporting

The Plan follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 50 for Retirement Fund and the Insured Lives portion of the Death Benefit Fund, and GASB Statement No. 43 for the RHBF. The financial statements are prepared using the accrual basis of accounting and reflect the overall financial operations of the Plan. Members' and Department's contributions are recognized as revenues in the period in which the employee services are performed and when due, and benefits and refunds are recognized when due and payable in accordance with the terms of each benefit fund.

Other expenses are recognized when 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.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Plan's investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. The fair value of securities is determined by the published market prices and quotations from major investment dealers. Securities traded on a national or international exchange are valued at the last reported sales price at current currency exchange rates in effect. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar investments. Hedge funds are initially recorded at cost and subsequently valued at fair value, and these are reported as "Alternative Investments" on the statement of plan net assets. The Plan has investments in commingled real estate funds in which real property is its primary underlying investment. These are reported as "Real Estate" at fair value on the statement of plan net assets. Fair values of real estate investments are estimated by fund managers based upon property appraisal reports both internally and externally. Purchases and sales of securities are recorded on a trade-date basis. Unsettled investment trades as of year end are reported in the financial statements as receivable for pending sales or payable for pending purchases.

Cash

Cash consists primarily of cash on deposits in the City Treasury under the City's general and special investment pool program.

Derivatives

To the extent permitted by policy and individual agreements, investment managers are authorized to use derivatives for risk management purposes. Accordingly, derivatives held are not held for trading purposes. Derivative securities are instruments whose value is derived from an underlying security or index. They include options, futures, swaps, forwards, structured notes, and stripped securities. These instruments offer unique characteristics and risks that assist the investment managers with meeting their investment strategies.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation 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.

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 financial statements presentation.

NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING

Investment authority is granted to the Plan by the Charter of the City of Los Angeles and is exercised in accordance with the Retirement Board's investment policy. The Charter authorizes the form and type of investment vehicles that may be purchased. The Retirement Board may invest in common and preferred stocks (including both domestic and international equities), convertible debt, fixed income, alternative investments, and real estate; and it may utilize stock covered call options and securities lending.

Cash

As of June 30, 2012 and 2011, the Plan's cash balances consist primarily of cash deposits in the City Treasury. The Plan's participation in the program is less than 1% at June 30, 2012 and 2011. The cash balance in the Retiree Health Benefit Fund is in the City's general investment pool program for the purpose of maximizing interest earnings through pooled investment activities. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period.

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NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)

Investments

As of June 30, 2012 and 2011, the Plan had the following investments:

<u>Investment Type</u>	<u>June 30, 2012 Fair Value</u>	<u>June 30, 2011 Fair Value</u>
Domestic equities	\$ 3,822,964,743	\$ 3,095,072,415
International equities	1,315,935,365	1,731,994,742
U.S. Treasuries	550,921,728	519,911,700
U.S. Agency notes	836,248,316	1,179,248,247
Medium term notes	218,528	223,640
Preferred securities/convertible bonds/other	40,793,943	32,124,546
Mortgage and asset backed securities	315,625,081	379,058,811
Corporate debt - domestic	674,468,710	627,924,514
Corporate debt - international	7,917,740	12,486,869
Mutual funds	372,136,228	512,010,853
Hedge funds	548,846,496	508,111,446
Real estate	211,136,226	128,675,016
Securities lending short-term collateral investment pool	560,086,595	913,599,859
Total investments	<u>\$ 9,257,299,699</u>	<u>\$ 9,640,442,658</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, the Plan can invest in both investment grade and high yield fixed income securities. Investment grade fixed income securities that are rated by Moody's, Standard & Poor's, and Fitch, should have a minimum rating of BBB- or Baa3 by two or more rating agencies. Investment managers for investment grade fixed income securities will notify Plan management of subsequent declines in ratings and

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NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)

will develop an investment strategy for investments rated below Baa3 or BBB-. Active high yield fixed income investment is composed primarily of non-investment grade securities as rated by Moody's, Standard & Poor's or Fitch.

The credit ratings of the Plan's investments at June 30, 2012 are as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 549,427,805	19.63%
	Not rated	1,493,923	0.05%
U.S. Agency notes	AAA	777,779,972	27.79%
	A or better	12,312,996	0.44%
	Not rated	46,155,348 *	1.65%
Medium term notes	B or better	218,528	0.01%
Preferred securities/convertible bonds/other	A or better	1,881,684	0.07%
	B or better	13,881,273	0.50%
	C or better	3,809,480	0.14%
	Not rated	21,221,506	0.76%
Mortgage and asset backed securities	AAA	211,100,159	7.54%
	A or better	33,656,720	1.20%
	B or better	62,181,943	2.22%
	C or better	2,373,700	0.08%
	Not rated	6,312,559	0.23%
Corporate debt - domestic	AAA	8,702,969	0.31%
	A or better	197,735,637	7.07%
	B or better	416,581,038	14.89%
	C or better	42,137,069	1.51%
	Not rated	9,311,997	0.33%
Corporate debt - international	AAA	347,425	0.01%
	A or better	1,653,569	0.06%
	B or better	5,916,746	0.21%
Mutual funds	Not rated	372,136,228 **	13.30%
Total		<u>\$ 2,798,330,274</u>	<u>100.00%</u>

* Consist of U.S. government agency securities.

** Consist of money market fund or short-term investment fund investing in the fixed income securities.

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Credit Risks (Continued)

The credit ratings of the Plan's investments at June 30, 2011 are as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 519,911,700	15.93%
U.S. Agency notes	AAA	3,126,087	0.10%
	A or better	14,009,256	0.43%
	B or better	779,202	0.02%
	Not rated	1,161,333,702 *	35.59%
Medium term notes	A or better	223,640	0.01%
Preferred securities/convertible bonds	A or better	3,595,964	0.11%
	B or better	21,158,590	0.65%
	C or better	3,734,933	0.11%
	Not rated	3,635,059	0.11%
Mortgage and asset backed securities	AAA	343,477,193	10.53%
	A or better	20,393,915	0.63%
	BB or better	6,682,669	0.20%
	C or better	850,692	0.03%
	Not rated	7,654,342	0.23%
Corporate debt - domestic	AAA	20,015,035	0.61%
	A or better	198,506,491	6.08%
	B or better	358,688,289	10.99%
	C or better	34,886,094	1.07%
	Not rated	15,828,605	0.49%
Corporate debt - international	AAA	2,368,020	0.07%
	A or better	4,809,565	0.15%
	B or better	4,841,813	0.15%
	C or better	467,470	0.01%
Mutual funds	Not rated	512,010,854 **	15.69%
Total		<u>\$ 3,262,989,180</u>	<u>100.00%</u>

* Consist of U.S. government agency securities.

** Consist of money market fund or short-term investment fund investing in the fixed income securities.

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NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)

Custodial Credit Risks

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned. As of June 30, 2012 and 2011, the Plan's cash balances consist primarily of cash deposits in the City Treasury.

Collateral received in securities lending transactions are cash collateral and marketable securities. See Note 4 for further disclosure on securities lending transactions.

Concentration of Credit Risk

According to the Plan's investment policy, no more than 5% of investments shall be invested in any one issue, except for investment in the fixed income asset class where no more than 10% of investment shall be invested in any one issue. United States Treasury or United States Agency issues are exempted from this limitation. As of June 30, 2012 and 2011, there were no investments holdings of more than 5% in any one issue of each fund's net assets or in the Plan aggregate, except investments issued or guaranteed by the U.S. Government and investments in commingled funds.

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NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)

Interest Rate Risk

As of June 30, 2012, the Plan's exposure to interest rate risk is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Treasuries	\$ 550,921,728	7.75
U.S. Agency notes	836,248,316	21.36
Medium term notes	218,528	2.67
Preferred securities/convertible bonds	40,793,943	5.48
Mortgage and asset backed securities	315,625,081	14.50
Corporate debt - domestic	674,468,710	9.52
Corporate debt - international	7,917,740	9.10
Mutual funds	<u>372,136,228</u>	0.06
Total	<u>\$ 2,798,330,274</u>	11.95

As of June 30, 2011 the Plan's exposure to interest rate risk is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Treasuries	\$ 519,911,700	7.73
U.S. Agency notes	1,179,248,247	22.00
Medium term notes	223,640	3.67
Preferred securities/convertible bonds	32,124,546	14.92
Mortgage and asset backed securities	379,058,811	20.69
Corporate debt - domestic	627,924,514	9.01
Corporate debt - international	12,486,868	7.50
Mutual funds	<u>512,010,854</u>	0.07
Total	<u>\$ 3,262,989,180</u>	13.51

The Plan has a long-term investment horizon and it utilizes an asset allocation that encompasses a long-run perspective of capital markets. The Plan maintains an interest rate risk consistent with its long-term investment horizon.

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NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)

Foreign Currency Risk

As of June 30, 2012 and 2011, the Plan's exposure to foreign currency risk is as follows:

<u>Currency</u>	<u>Investment Type</u>	June 30, 2012 <u>Fair Value</u>	June 30, 2011 <u>Fair Value</u>
Australian Dollar	Cash & cash equivalents	\$ 694,946	\$ 7,299,854
	Equities	73,205,420	99,529,037
	Corporate debt	674,008	4,754,586
Brazil Real	Corporate debt	2,330,705	1,948,741
Canadian Dollar	Cash & cash equivalents	1,026,149	20,036,664
	Equities	94,953,969	129,539,880
	Corporate debt	10,849,474	10,172,325
Danish Krone	Cash & cash equivalents	33,804	38,542
	Equities	15,051,948	14,077,611
Euro Currency Unit	Cash & cash equivalents	17,124,137	53,419,485
	Equities	286,009,681	405,692,595
	Corporate debt	88,958,842	143,335,976
Hong Kong Dollar	Cash & cash equivalents	208,337	380,740
	Equities	30,089,348	47,254,790
Indonesian Rupiah	Corporate debt	-	3,475,934
Israeli Shekel	Cash & cash equivalents	11,044	-
	Equities	1,965,633	-
Japanese Yen	Cash & cash equivalents	3,141,888	18,062,163
	Equities	316,796,078	328,881,517
	Corporate debt	10,539,660	10,560,041
Mexican New Peso	Cash & cash equivalents	65,698	282,029
	Corporate debt	1,865,818	1,567,496
New Zealand Dollar	Equities	694,603	975,485
Norwegian Krone	Cash & cash equivalents	205,967	336,406
	Equities	12,825,632	21,908,412
Philippines Peso	Corporate debt	782,190	728,602
Pound Sterling	Cash & cash equivalents	1,854,934	15,349,299
	Equities	304,356,623	229,648,893
	Corporate debt	83,553,933	73,431,605
Singapore Dollar	Cash & cash equivalents	1,255,461	111,378
	Equities	12,051,582	18,415,427
South Korean Won	Corporate debt	-	1,771,846
Swedish Krona	Cash & cash equivalents	380,151	9,341,544
	Equities	27,946,793	24,754,849
	Corporate debt	10,642,081	18,633,081
Swiss Franc	Cash & cash equivalents	2,943,399	2,763,757
	Equities	124,636,539	100,572,525
Uruguayan Peso	Corporate debt	381,721	893,636
Total		<u>\$ 1,540,108,196</u>	<u>\$ 1,819,946,751</u>

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NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING (Continued)

The Plan's investment policy permits it to invest up to 21 percent of total investments of the Plan in non-U.S. investments. The Plan's position is 16.64 percent and 18.88 percent as of June 30, 2012 and 2011, respectively.

Derivative Instruments

The fair value balances and notional amounts of derivatives instruments outstanding at June 30, 2012 and 2011, classified by type, and the changes in fair values of such derivative instruments for the years then ended as reported in the 2012 and 2011 financial statements are as follows:

Type	2012				
	Changes in Fair Value		Fair Value		Notional Amount
	Classification	Amount	Classification	Amount	
Forward Contracts	Investment Income / (Loss)	\$ 3,660,333	Investment	\$ 6,524,878	\$ 365,297,632
Swap	Investment Income / (Loss)	\$ -	Investment	\$ -	\$ -
Call Options	Investment Income / (Loss)	\$ (1,788,942)	Investment	\$ 12,003,620	\$ 466,402,994
Type	2011				
	Changes in Fair Value		Fair Value		Notional Amount
	Classification	Amount	Classification	Amount	
Forward Contracts	Investment Income / (Loss)	\$ 1,720,525	Investment	\$ 2,864,545	\$ 405,538,891
Swap	Investment Income / (Loss)	\$ 5,240	Investment	\$ -	\$ -

At June 30, 2012 and 2011, the Plan had direct commitments to purchase and/or sell foreign currency in the forms of swap and forward contracts as part of the strategy of hedging its currency risk. The fair values of the swap and forward contracts were based on the market price. At June 30, 2012, the Plan also had written S&P 500 call options as part of its asset allocation strategy. The fair value of the call options is based on market prices.

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NOTE 4 – SECURITIES LENDING PROGRAM

The Plan is authorized by the Charter of the City of Los Angeles and the Retirement 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 Net Assets. As of June 30, 2012 and 2011, the Plan has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan. Related borrower or lending agent default losses were recognized in the financial statements.

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 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 has an average maturity of 34 days and 32 days as of June 30, 2012 and 2011, respectively.

The fair values of the underlying securities on loan, collateralized by cash and securities as of June 30, 2012 and 2011 are:

<u>Securities on loan</u>	<u>2012</u>	<u>2011</u>
Common stock	\$ 104,535,382	\$ 406,198,166
Corporate debt	20,018,206	89,557,189
U.S. Treasuries	<u>421,866,810</u>	<u>394,802,839</u>
Total	<u>\$ 546,420,398</u>	<u>\$ 890,558,194</u>

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NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

The annual valuation performed as of June 30, 2012 and 2011 determined the funding status to be 78.14% and 80.29%, respectively.

The funded status of the retirement fund as of June 30, 2012, the most recent actuarial valuation date, is as follows:

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)
\$ 7,573,885,754	\$ 9,692,602,852	\$ 2,118,717,098	78.14%	\$ 886,539,366	238.99%

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NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar amortization
Remaining amortization period	The July 1, 2004 Unfunded Actuarial Accrued Liability is amortized over the 15-year period commencing July 1, 2004. Any subsequent changes in Unfunded Actuarial Accrued Liability are amortized over separate 15-year periods effective with that valuation.
Asset valuation method	The 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 returns and the expected returns on a market value basis, and is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.50%
Projected salary increases	5.35% to 10.50%, includes inflation at 3.50%, “across the board” increases of 0.75% plus merit and promotional increases
Cost-of-living adjustments (COLA)	Contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum

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NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Death Benefit Fund – Insured Lives

The funded status of the death benefit fund – insured lives as of July 1, 2011, the most recent actuarial valuation date, is as follows:

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)
\$ 8,273,263	\$ 94,627,428	\$ 86,354,165	8.74%	\$ 870,203,423	9.92%

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar amortization
Remaining amortization period	The July 1, 2007 Unfunded Actuarial Accrued Liability is amortized over a closed 15-year period commencing July 1, 2007. Any subsequent changes in Unfunded Actuarial Accrued Liability are amortized over separate closed 15-year periods effective with that valuation.
Asset valuation method	The market value of the Death Benefit Fund at valuation date, less the Reserves for Benefits Granted and Contribution Accounts for the Family Death Benefit and Supplemental Family Death Benefit, and the Insured Lives General Reserve for Contributing Members (Mean Funds).
Actuarial assumptions:	
Investment rate of return	5.00%
Inflation rate	3.50%
Projected salary increases	5.35% to 10.50%, including inflation at 3.50%, “across the board” increases of 0.75% plus merit and promotional increases
Cost of living adjustments (COLA)	Contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum

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NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Retiree Health Benefits Fund (RHBF)

The DWP Board of Water and Power Commissioners approved the creation of the RHBF to account for assets placed in an irrevocable trust for the provision of other post employment benefits (OPEB), in September 2006. The ARC of \$53.7 million and \$68.7 million for fiscal years 2011-12 and 2010-11 were determined by the actuarial valuation of OPEB as of June 30, 2011 and 2010, respectively. The Department contribution, excluding administrative expenses reimbursement, during the fiscal years 2011-12 and 2010-11, amounted to \$101.7 million and \$140.1 million, respectively. The June 30, 2012 actuarial valuation determines the annual required contribution (ARC) for the fiscal year 2012-13 to be \$49.5 million.

The funded status of the RHBF as of June 30, 2012, the most recent actuarial valuation date, is as follows:

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)
\$ 1,244,039,107	\$ 1,566,059,276	\$ 322,020,169	79.44%	\$ 886,539,366	36.32%

The Patient Protection and Affordable Care Act (Act) was signed into law in March 2010. One key provision of the legislation is the assessment of a 40% excise tax on the cost of health plans for plans that exceed certain threshold. The impact of this potential excise tax imposed by the Act was reflected in the June 30, 2012 and 2011 actuarial valuations. The thresholds in 2018 for non-Medicare retirees aged 55 through 64 are \$11,850 for single coverage and \$30,950 for family coverage. For all other retirees the thresholds in 2018 are \$10,200 for single coverage and \$27,500 for family coverage. Thresholds in 2019 are indexed and for the purpose of this valuation, they are assumed to increase by 4.5% over those in 2018. After 2019, the thresholds are assumed to increase by 3.5% (assumed CPI inflation) per year. Also in this valuation, the allocation of excise tax to the RHBF and retirees was approximately at 96% and 4%, respectively, based on the proportion of the health care cost expected to be paid by each party. The allocation is subject to future change based on composition of participant data. The Department's share of the projected excise tax increased the ARC by about 0.15% of payroll. The increase in the UAAL is approximately \$14.4 million and the decrease in the funded ratio attributable to the excise tax liability is approximately 1.2%. The impact of the excise tax in this valuation was lower than in the prior valuation because the projected subsidy levels dropped from those in the prior valuation.

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NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30-year amortization closed, level percent of pay
Remaining amortization period	23 years remaining as of June 30, 2012
Asset valuation method	Before June 30, 2008, the actuarial value of assets was defined as the market value of assets. After June 30, 2008 valuation, any actual investment gains and losses that are above or below 8% annual return assumed in the valuations prior to July 1, 2010 are recognized over 5-year periods. After the June 30, 2010 valuation, any actual investment gains or losses that are above or below the 7.75% assumption are recognized over 5-year periods.
Actuarial assumptions:	
Discount rate	7.75%
Projected salary increases	4.25%
Inflation rate	3.50%
Healthcare cost trend rates:	
Medical	8.50%, graded down to an ultimate rate of 5.00% over 7 years
Dental and Medicare part B	5.00%

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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INCLUDING RETIREE HEALTH BENEFITS FUND
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 – ACTUARIAL VALUATION – DISABILITY AND DEATH BENEFIT FUNDS

Actuarial studies are performed annually on the disability and death benefit funds to determine and recommend the appropriate contribution rates and the benefit reserves levels needed to fund the current and future benefit liabilities. The results of the most recent annual actuarial reviews (fiscal years ended June 30, 2011 and June 30, 2010) for the Death and Disability Funds found that both Funds' accumulated reserves had met the recommended reserve levels. The actuarial recommendations for the contribution rates, reserve levels, and general reserve transfers were approved by the Retirement Board.

Disability fund

For the Permanent Total Disability Fund, the Department's contribution rate remains at \$0 per \$100 of covered payroll. As for the Temporary Disability Fund, the Department's contribution rate was increased from \$1.29 per \$100 of covered payroll to \$1.43 of covered payroll. The rate change was approved by the Board in January 2012 and it was implemented the same month.

Death benefit fund

For fiscal year 2012, the Department's contribution rate for contributing active members' Insured Life Death Benefit decreased from \$0.29 to \$0.25 per \$100 of payroll. Furthermore, the Department's contribution rate for non-contributing members' Insured Life Death Benefit was lowered from \$1.48 to \$1.44 per \$100 of monthly retired payroll. The rate change was approved by the Board in January 2012 and it was implemented the same month.

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NOTE 7 – RESERVES AND DESIGNATED BALANCES

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

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 the reserve for retirement allowances and reserve for death benefit.

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.

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NOTE 7 – RESERVES AND DESIGNATED BALANCES (Continued)

The Retirement Plan reserves and designated balances at June 30, 2012 and 2011 are as follows:

	2012	2011
<u>Retirement Fund - Reserves and Designated Balances</u>		
Reserve for retirement allowances	\$ 5,064,085,844	\$ 4,816,565,276
Contributions:		
Members' contributions	1,258,944,366	1,174,202,075
Department contributions	(1,193,305,313)	(1,195,535,211)
Total contributions	65,639,053	(21,333,136)
Reserve for investments gains/(losses)	5,484,082	318,079,083
General reserve	1,791,501,931	1,643,253,697
Total reserves and designated balances	6,926,710,910	6,756,564,920
Unrealized appreciation/(depreciation) in the fair value of investments	457,432,966	653,772,002
Total reserves and designated balances at fair value	\$ 7,384,143,876	\$ 7,410,336,922
 <u>Disability Fund - Reserves and Designated Balances</u>		
Estimated liability for temporary & permanent disability cases	\$ 14,234,311	\$ 15,083,837
General reserve	28,416,527	28,773,781
Total reserves and designated balances	42,650,838	43,857,618
Unrealized appreciation in the fair value of investments	4,983,414	3,202,110
Total reserves and designated balances at fair value	\$ 47,634,252	\$ 47,059,728
 <u>Death Benefit Fund - Reserves and Designated Balances</u>		
Estimated liability for family allowances	\$ 4,244,926	\$ 4,406,825
Contribution account - family allowances	7,095,718	7,207,698
General reserve	10,717,323	9,247,957
Total reserves and designated balances	22,057,967	20,862,480
Unrealized appreciation in the fair value of investments	2,698,586	1,579,263
Total reserves and designated balances at fair value	\$ 24,756,553	\$ 22,441,743
 <u>Retiree Health Benefits Fund - Reserves and Designated Balances</u>		
Department contributions (net of insurance premiums payment)	\$ 1,037,604,927	\$ 1,000,104,927
General reserve	120,856,957	87,019,281
Total reserves and designated balances	1,158,461,884	1,087,124,208
Unrealized appreciation/(depreciation) in the fair value of investments	67,317,985	87,621,223
Total reserves and designated balances at fair value	\$ 1,225,779,869	\$ 1,174,745,431

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NOTE 8 – 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 fiscal years ended June 30, 2012 and 2011:

Fiscal year ended June 30, 2012

There were no significant Plan amendments for the fiscal year ended June 30, 2012.

Fiscal year ended June 30, 2011

The Retirement Board approved a plan amendment on April 13, 2011 to reflect a current "Regular Interest" of 7.75%.

NOTE 9 – RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit 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 that such changes could materially affect the amounts reported in the statements of net assets. Department's contributions and actuarial valuations are reported based on certain assumptions pertaining to interest rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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**RETIREMENT FUND – SCHEDULE OF FUNDING PROGRESS
(Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Projected Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* [(b) - (a)] / (c)
July 1, 2012	\$ 7,573,885,754	\$ 9,692,602,852	\$ 2,118,717,098	78.14%	\$ 886,539,366	238.99%
July 1, 2011	7,465,183,643	9,297,204,318	1,832,020,675	80.29%	870,203,423	210.53%
July 1, 2010	7,244,429,689	8,893,618,433	1,649,188,744	81.46%	856,089,559	192.64%
July 1, 2009	7,248,721,252	8,057,060,950	808,339,698	89.97%	805,137,795	100.40%
July 1, 2008	7,247,853,233	7,619,102,935	371,249,702	95.13%	708,731,840	52.38%
July 1, 2007	6,864,084,006	7,467,285,349	603,201,343	91.92%	670,372,663	89.98%
July 1, 2006	6,447,763,436	7,046,571,241	598,807,805	91.50%	635,728,131	94.19%
July 1, 2005	6,331,047,528	6,763,079,839	432,032,311	93.61%	616,270,095	70.10%
July 1, 2004	6,251,421,125	6,421,813,922	170,392,797	97.35%	581,038,783	29.33%
July 1, 2003	6,128,375,723	6,042,086,785	(86,288,938)	101.43%	527,787,469	0.00%

*Not less than zero

See accompanying independent auditor's report.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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RETIREMENT FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

<u>Plan Year Ended June 30</u>	<u>Annual Required Contributions (ARC)</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Percentage of APC Contributed</u>
2012	\$ 336,874,865	\$ 341,366,670	\$ 321,688,919	95.5%	94.2%
2011	304,431,910	309,794,712	286,699,384	94.2%	92.5%
2010	200,578,278	206,025,133	201,034,807	100.2%	97.6%
2009	141,291,589	146,768,606	145,941,276	103.3%	99.4%
2008	134,651,427	140,061,851	141,862,126	105.4%	101.3%
2007	134,504,482	140,328,366	129,154,539	96.0%	92.0%
2006	110,268,590	116,651,020	101,556,257	92.1%	87.1%
2005	80,784,677	87,615,788	75,490,143	93.4%	86.2%
2004	44,128,205	50,773,126	55,804,924	126.5%	109.9%
2003	40,910,999	47,823,973	40,560,882	99.1%	84.8%

See accompanying independent auditor's report.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

DEATH BENEFIT FUND (INSURED LIVES) – SCHEDULE OF FUNDING PROGRESS
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
July 1, 2011	\$ 8,273,263	\$ 94,627,428	\$ 86,354,165	8.74%	\$ 870,203,423	9.92%
July 1, 2010	7,186,971	92,173,753	84,986,782	7.80%	856,089,559	9.93%
July 1, 2009	5,261,536	95,302,626	90,041,090	5.52%	805,137,795	11.18%
July 1, 2008	4,732,078	94,445,113	89,713,035	5.01%	708,731,840	12.66%
July 1, 2007	6,528,962	79,024,241	72,495,279	8.26%	670,372,663	10.81%

See accompanying independent auditor's report.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREE HEALTH BENEFITS FUND – SCHEDULE OF FUNDING PROGRESS
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (b)	Unfunded Actuarial Accrued Liabilities UAAL/(Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL/(Surplus) As a Percentage of Covered Payroll [(b) - (a)] / (c)
June 30, 2012	\$1,244,039,107	\$ 1,566,059,276	\$ 322,020,169	79.44%	\$ 886,539,366	36.32%
June 30, 2011	\$1,132,928,966	\$ 1,550,895,584	\$ 417,966,618	73.05%	\$ 870,203,423	48.03%
June 30, 2010	\$ 987,475,976	\$ 1,631,916,204	\$ 644,440,228	60.51%	\$ 856,089,559	75.28%
June 30, 2009	\$ 849,955,427	\$ 1,390,810,591	\$ 540,855,164	61.11%	\$ 805,137,795	67.18%
June 30, 2008	\$ 719,636,742	\$ 1,358,103,498	\$ 638,466,756	52.99%	\$ 708,732,000	90.09%

See accompanying independent auditor's report.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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RETIREE HEALTH BENEFITS FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

Year Ended June 30	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
2012	\$ 53,691,399	\$ 101,720,586 ⁽¹⁾⁽²⁾	189.45%
2011	\$ 68,705,252	\$ 140,132,520 ⁽¹⁾⁽²⁾	203.96%
2010	\$ 58,502,789	\$ 160,236,897 ⁽¹⁾⁽²⁾	273.90%
2009	\$ 60,976,358	\$ 159,412,621 ⁽¹⁾⁽²⁾	261.43%
2008	\$ 40,144,629	\$ 157,359,628 ⁽²⁾	391.98%

(1) The Actual Contributions do not include interest adjustment to the end of the Plan year.

(2) The Actual Contributions do not include administrative expense reimbursement.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
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SUPPLEMENTARY INFORMATION**

**RETIREMENT FUND
SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES
For the Years Ended June 30, 2012 and 2011**

	Current Service	Minimum Pension	Cost of Living Adjustments	Continuance to Eligible Spouse	Department of Water and Power Total	Members' Total	Combined Total	Estimated Liabilities for Retirement Allowances
Balance at June 30, 2010	\$ 1,089,245,804	\$ (1,366,123,044)	\$ (882,217,612)	\$ (10,778,794)	\$ (1,169,873,646)	\$ 1,080,640,262	\$ (89,233,384)	\$ 4,577,013,183
Contributions received	63,049,332	225,693,511	-	-	288,742,843	65,954,329	354,697,172	-
Contributions refunded	(2,043,459)	-	-	-	(2,043,459)	(2,381,658)	(4,425,117)	-
Net Contributions	61,005,873	225,693,511	-	-	286,699,384	63,572,671	350,272,055	-
Transfers from contribution accounts for retiring members	(52,961,747)	(89,916,108)	(69,003,250)	(9,832,390)	(221,713,495)	(56,176,424)	(277,889,919)	277,889,919
Retirement allowances paid								(396,124,862)
Interest at 8% July 2010 - March 2011 & 7.75% per annum thereafter	86,721,838	(104,030,606)	(72,188,902)	(1,149,783)	(90,647,454)	86,165,566	(4,481,888)	357,787,036
Balance at June 30, 2011	1,184,011,768	(1,334,376,247)	(1,023,409,764)	(21,760,967)	(1,195,535,211)	1,174,202,075	(21,333,136)	4,816,565,276
Contributions received	54,244,321	272,723,289	-	-	326,967,610	60,088,614	387,056,224	-
Contributions refunded	(5,278,691)	-	-	-	(5,278,691)	(5,526,896)	(10,805,587)	-
Net Contributions	48,965,630	272,723,289	-	-	321,688,919	54,561,718	376,250,637	-
Transfers from contribution accounts for retiring members	(57,678,643)	(90,890,436)	(72,052,993)	(10,194,894)	(230,816,966)	(60,572,844)	(291,389,810)	291,389,810
Retirement allowances paid								(410,814,067)
Interest at 7.75% per annum	91,274,437	(96,616,504)	(81,340,054)	(1,959,934)	(88,642,055)	90,753,417	2,111,362	366,944,825
Balance at June 30, 2012	\$ 1,266,573,192	\$ (1,249,159,898)	\$ (1,176,802,811)	\$ (33,915,795)	\$ (1,193,305,313)	\$ 1,258,944,366	\$ 65,639,053	\$ 5,064,085,844

See accompanying independent auditor's report.

EXHIBIT VII

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND
DEATH BENEFIT INSURANCE PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND
SUPPLEMENTARY INFORMATION**

**DEATH BENEFIT FUND
SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR
FAMILY ALLOWANCES
For the Years Ended June 30, 2012 and 2011**

	Members'	Department of Water and Power	Combined Total	Estimated Liability for Family Allowances
Balances at June 30, 2010	\$ 5,744,352	\$ 5,841,390	\$ 11,585,742	\$ 590,218
Contributions received	95,952	-	95,952	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year	-	(28,599)	(28,599)	28,599
Family allowances paid	-	-	-	(688,064)
Adjusted estimated liability for family allowances for benefits outstanding as of June 30, 2011	(519,333)	(3,926,064)	(4,445,397)	4,445,397
Interest transferred from general reserve at 5% per annum	-	-	-	30,675
Balances at June 30, 2011	5,320,971	1,886,727	7,207,698	4,406,825
Contributions received	96,631	-	96,631	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year	-	(208,611)	(208,611)	208,611
Family allowances paid	-	-	-	(587,470)
Interest transferred from general reserve at 5% per annum	-	-	-	216,960
Balances at June 30, 2012	\$ 5,417,602	\$ 1,678,116	\$ 7,095,718	\$ 4,244,926

See accompanying independent auditor's report.

**CITY OF LOS ANGELES
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**RETIREMENT FUND
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE
June 30, 2012**

Revenues by Source

Fiscal Year	Members' Contributions	Department Contributions*	Investment Income**	Total
2012	\$ 60,088,614	\$ 331,276,047	\$ 193,927,979	\$ 585,292,640
2011	\$ 65,954,329	\$ 293,311,870	\$ 201,657,143	\$ 560,923,342
2010	\$ 71,240,553	\$ 208,518,237	\$ 180,881,790	\$ 460,640,580
2009	\$ 59,394,076	\$ 154,140,202	\$ 192,121,861	\$ 405,656,139
2008	\$ 48,683,048	\$ 148,295,728	\$ 206,722,244	\$ 403,701,020
2007	\$ 47,049,554	\$ 136,398,522	\$ 196,008,022	\$ 379,456,098
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

Expenses by Type

Fiscal Year	Benefits	Administrative Expenses***	Refunds****	Total
2012	\$ 410,814,067	\$ 24,147,076	\$ 10,805,587	\$ 445,766,730
2011	\$ 396,124,862	\$ 25,146,053	\$ 4,425,116	\$ 425,696,031
2010	\$ 377,051,650	\$ 20,790,611	\$ 6,028,583	\$ 403,870,844
2009	\$ 363,691,635	\$ 17,842,282	\$ 8,062,235	\$ 389,596,152
2008	\$ 353,178,785	\$ 22,960,041	\$ 12,666,556	\$ 388,805,382
2007	\$ 338,340,501	\$ 20,136,513	\$ 7,202,784	\$ 365,679,798
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

* Represents Department contributions before reversions and includes contributions towards administrative expenses.

** Represents "booked" investment income and excludes "net appreciation (depreciation) in fair value of investment."

*** Represents investment and administrative expenses.

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