

**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, 2014 and 2013**

**WATER AND POWER EMPLOYEES'  
RETIREE HEALTH BENEFITS FUND  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
For the Years Ended June 30, 2014 and 2013**



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

TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report.....   | 1           |
| Management's Discussion and Analysis.....                                       | 3           |
| Financial Statements:   |             |
| Retirement Fund:  |             |
| Statement of Fiduciary Net Position .....                                       | 19          |
| Statement of Changes in Fiduciary Net Position .....                            | 20          |
| Disability Fund:  |             |
| Statement of Fiduciary Net Position .....                                       | 21          |
| Statement of Changes in Fiduciary Net Position .....                            | 22          |
| Death Benefit Fund:   |             |
| Statement of Fiduciary Net Position .....                                       | 23          |
| Statement of Changes in Fiduciary Net Position .....                            | 24          |
| Retiree Health Benefits Fund:   |             |
| Statement of Fiduciary Net Position .....                                       | 25          |
| Statement of Changes in Fiduciary Net Position .....                            | 26          |
| Notes to the Financial Statements.....  | 27          |
| Required Supplementary Information  |             |
| Exhibit I:  |             |
| Retirement Fund   |             |
| Schedule of Changes in Employer's Net Pension Liability and Related Ratios..... | 54          |
| Exhibit II:   |             |
| Retirement Fund   |             |
| Schedule of Employer Contributions.....   | 55          |
| Note to Schedule of Employer Contributions.....                                 | 56          |
| Exhibit III:  |             |
| Retirement Fund   |             |
| Schedule of Investment Returns .....  | 57          |

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

TABLE OF CONTENTS (Continued)

|                           |   |
|---------------------------|---|
| Exhibit IV:               |   |
|                           | Death Benefit Fund (Insured Lives)  |
|                           | Schedule of Change in Employer's Net Pension Liability and Related Ratios ..... 58                                |
| Exhibit V:                |   |
|                           | Death Benefit Fund (Insured Lives)  |
|                           | Schedule of Employer Contributions..... 59  |
|                           | Note to Schedule of Employer Contributions ..... 60   |
| Exhibit VI:               |   |
|                           | Death Benefit Fund (Insured Lives)  |
|                           | Schedule of Investment Returns ..... 61   |
| Exhibit VII:              |   |
|                           | Retiree Health Benefits Fund  |
|                           | Schedule of Funding Progress ..... 62   |
| Exhibit VIII:             |   |
|                           | Retiree Health Benefits Fund  |
|                           | Schedule of Employer Contributions..... 63  |
| Supplementary Information |   |
| Exhibit IX:               |   |
|                           | Retirement Fund – Schedule of Contribution Accounts and Estimated Liability<br>for Retirement Allowances ..... 64 |
| Exhibit X:                |   |
|                           | Death Benefit Fund – Schedule of Contribution Accounts and Estimated Liability<br>for Family Allowances..... 65   |
| Exhibit XI:               |   |
|                           | Retirement Fund – Schedule of Revenues by Source and Expenses by Type ..... 66                                    |



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position 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, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position available for benefits of the Retirement Plan and RHBF as of June 30, 2014 and 2013, and the changes in fiduciary net position available for benefits of the Retirement Plan and RHBF for the years then ended in accordance with accounting principles generally accepted in the United States of America.





## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, effective July 1, 2013, the Retirement Plan adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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 Changes in Employer's Net Pension Liability and Related Ratios on pages 54 and 58; the Schedule of Employer Contributions and related notes on pages 55, 56, 59, 60, and 63; the Schedules of Investment Returns on pages 57 and 61; and the Schedules of Funding Progress on page 62 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 audits 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.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the Plan's financial statements. The supplementary information as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Retirement Fund – Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances, Death Benefit Fund – Schedule of Contribution Accounts and Estimated Liability for Family Allowances, and Retirement Fund – Schedule of Revenues by Source and Expenses by Type are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 Retirement Fund – Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances, Death Benefit Fund – Schedule of Contribution Accounts and Estimated Liability for Family Allowances, and Retirement Fund – Schedule of Revenues by Source and Expenses by Type are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read 'Stimpson &amp; Stimpson'.

Los Angeles, California  
December 5, 2014

**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 (WPERP) and the Retiree Health Benefits Fund (RHBF) for the years ended June 30, 2014 and 2013. The WPERP and the RHBF are collectively known as the Plan.

**FINANCIAL HIGHLIGHTS**

- At June 30, 2014, the fiduciary net position were \$9.7 billion, \$45 million, \$26 million, and \$1.6 billion for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Funds, respectively. All of the fiduciary net positions were available to meet the Plan's obligations to Plan participants and their beneficiaries.
- Total fiduciary net position increased by \$1.4 billion or 16.85%, \$1.1 million or 4.20% and \$234.3 million or 17.01% for the Retirement Fund, Death Benefit Fund, and Retiree Health Benefits Fund, respectively. Total fiduciary net position decreased by \$1.4 million or 2.97% for the Disability Fund.
- Additions to the Retirement Fund's fiduciary net position increased from \$1.4 billion to \$1.9 billion over the prior year or approximately 37.07% due mostly to the increase in the fair value of investments in 2014 over 2013.
- Deductions from Retirement Fund's fiduciary net position increased from \$442.3 million to \$467.8 million over the prior year or approximately 5.78% due mostly to the increase in pension benefits paid.
- At June 30, 2014, the fiduciary net position as a percentage of total pension liability of the Retirement Fund and Insured Life Death Benefit Fund was 88.41% and 11.33%, respectively.
- At June 30, 2014, the funding ratio of the Retiree Health Benefits Fund was 76.24%.
- At June 30, 2014, the Department's net pension liability under the Retirement Fund and Insured Life Death Benefit Fund was \$1.3 billion and \$95.5 million, respectively.

**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)**

**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 Fiduciary Net Position
2. Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements

*The Statement of Fiduciary Net Position* 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 Fiduciary Net Position* reports additions to and deductions from the fiduciary net position 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 53 of this report.

*Required Supplementary Information:* This report presents certain required supplementary information concerning investment returns, changes in employer's net pension liability and related ratios of the Retirement Fund and the Insured Life Death Benefit Fund; and the funding progress of the Retiree Health Benefits Fund. In addition, the report provides summary information on employer contributions. The Required Supplementary Information is on pages 54 to 63 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 64 to 66 of this report.

WPERP adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 67, *Financial Reporting for Pension Plans* effective July 1, 2013. GASBS No. 67 establishes standards of financial reporting for defined benefit pension plans and specifies the required approach to measuring the net pension liability of employers for benefits provided through the pension plan. See Note 5 to the financial statements and Exhibit I through Exhibit VI in the required supplementary information for further information.

**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)**

**FINANCIAL ANALYSIS**

***Retirement Fund***

**Fiduciary Net Position**

A summary of the Retirement Fund's fiduciary net position is presented below:

|                              | Condensed Statement of Fiduciary Net Position |                            |                            |                     |                     |
|------------------------------|---|----------------------------|----------------------------|---------------------|---------------------|
|                              | (In Thousands)                                |                            |                            |                     |                     |
|                              | 2014  | 2013                       | 2012                       | 2013-14<br>% Change | 2012-13<br>% Change |
| Cash                         | \$ 13,264                                     | \$ 9,497                   | \$ 12,175                  | 39.67%              | -22.00%             |
| Prepaid expense              | 3   | 3                          | 3                          | 0.00%               | 0.00%               |
| Receivables                  | 234,128                                       | 360,275                    | 211,953                    | -35.01%             | 69.98%              |
| Investments                  | <u>10,726,380</u>                             | <u>8,637,738</u>           | <u>7,875,126</u>           | 24.18%              | 9.68%               |
| Total assets                 | 10,973,775                                    | 9,007,513                  | 8,099,257                  | 21.83%              | 11.21%              |
| Liabilities                  | <u>1,270,458</u>                              | <u>703,501</u>             | <u>715,113</u>             | 80.59%              | -1.62%              |
| Total fiduciary net position | <u><u>\$ 9,703,317</u></u>                    | <u><u>\$ 8,304,012</u></u> | <u><u>\$ 7,384,144</u></u> | 16.85%              | 12.46%              |

**Fiscal year ended June 30, 2014**

Fiduciary net position increased by \$1.4 billion, or 16.85% to \$9.7 billion over the prior fiscal year. Investments were up \$2.1 billion or 24.18% due to appreciation in the fair value of investments resulting from better market performance and increase in the security lending short-term collateral investment pool as a result of the acceptance of equities as non-cash collateral. As of result of the security lending program expansion, the security lending collateral payable was up \$686.8 million as compared to fiscal year 2013. Receivables were down \$126.1 million or 35.01% from fiscal year 2013 mainly because of a decrease in pending trades at year-end.

**Fiscal year ended June 30, 2013**

Fiduciary net position increased by \$919.9 million, or 12.46% to \$8.3 billion over the prior fiscal year. Investments were up \$762.6 million or 9.68% due mostly to the appreciation in the fair value of investments. Receivables were up \$148.3 million or 69.98% from fiscal year 2012 mainly because of an increase in pending trades at year-end.



**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)**

*Retirement Fund (Continued)*

**Changes in Fiduciary Net Position**

|  | Condensed Statement of Changes in<br>Fudiciary Net Position (In Thousands) |                     |                     | 2013-14       | 2012-13        |
|--|--|---------------------|---------------------|---------------|----------------|
|  | 2014   | 2013                | 2012                | % Change      | % Change       |
| <b>Additions</b>                                     |  |                     |                     |               |                |
| Members' contributions                               | \$ 72,300  | \$ 69,634           | \$ 60,089           | 3.83%         | 15.88%         |
| Employer contributions                               | 389,138  | 372,819             | 325,997             | 4.38%         | 14.36%         |
| Net investment income                                | 1,405,685  | 919,679             | 7,720               | 52.85%        | 11812.94%      |
| <b>Total additions</b>                               | <b>1,867,123</b>   | <b>1,362,132</b>    | <b>393,806</b>      | <b>37.07%</b> | <b>245.89%</b> |
| <b>Deductions</b>                                    |  |                     |                     |               |                |
| Benefit payments                                     | 457,558  | 432,708             | 410,814             | 5.74%         | 5.33%          |
| Refund   | 6,039  | 5,819               | 5,527               | 3.78%         | 5.28%          |
| Administrative expenses                              | 4,221  | 3,737               | 3,658               | 12.95%        | 2.16%          |
| <b>Total deductions</b>                              | <b>467,818</b>   | <b>442,264</b>      | <b>419,999</b>      | <b>5.78%</b>  | <b>5.30%</b>   |
| Net increase (decrease)<br>in fiduciary net position | 1,399,305  | 919,868             | (26,193)            | 52.12%        | 3611.88%       |
| Fiduciary net position beginning                     | 8,304,012  | 7,384,144           | 7,410,337           | 12.46%        | -0.35%         |
| <b>Fiduciary net position ending</b>                 | <b>\$ 9,703,317</b>  | <b>\$ 8,304,012</b> | <b>\$ 7,384,144</b> | <b>16.85%</b> | <b>12.46%</b>  |

**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)**

*Retirement Fund (Continued)*

**Additions to Fiduciary Net Position**

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, 2014**

The majority of the increase in additions to fiduciary net position was from investment income. Net investment income increased from \$919.7 million in fiscal year 2013 to \$1.4 billion in fiscal year 2014. The increase in net investment income was attributable to the net appreciation in the fair value of investments.

**Fiscal year ended June 30, 2013**

Member contributions for fiscal year 2013 were \$69.6 million, up \$9.5 million or 15.88% over the prior fiscal year. The increase in contributions was due primarily to the increase in number of employees transferred from the other City departments to DWP. Department contributions for fiscal year 2013 were \$372.8 million, up \$46.8 million or 14.36% over the prior fiscal year. The main cause of this increase was the 4.26% increase in the actuarial contribution rate of the Department from 41.82% of covered compensation a year ago to 46.08% of covered compensation in fiscal year 2013.

Net investment income increased from \$7.7 million to \$919.7 million in fiscal year 2013. The increase in net investment income was attributable to the net appreciation in the fair value of investments.

**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)**

*Retirement Fund (Continued)*

**Deductions from Fiduciary Net Position**

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

**Fiscal year ended June 30, 2014**

Deductions for the fiscal year ended June 30, 2014 totaled \$467.8 million, up \$25.6 million or 5.78% over 2013. Benefit payments increased by \$24.9 million or 5.74% over the prior fiscal year. The increase was due to rise in pension allowance paid.

**Fiscal year ended June 30, 2013**

Deductions for the fiscal year ended June 30, 2013 totaled \$442.3 million, up \$22.3 million or 5.30% over 2012. The increase was mostly due to the cost-of-living adjustments made to pension benefits starting July 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)**

***Disability Fund***

**Fiduciary Net Position**

The Disability Insurance Plan's fiduciary net position is summarized below:

| Condensed Statement of Fiduciary Net Position |                      |                      |                      |                     |                     |
|---|----------------------|----------------------|----------------------|---------------------|---------------------|
| (In Thousands)                                |                      |                      |                      |                     |                     |
|   | 2014                 | 2013                 | 2012                 | 2013-14<br>% Change | 2012-13<br>% Change |
| Cash  | \$ 1,675             | \$ 2,558             | \$ 1,750             | -34.52%             | 46.17%              |
| Receivables                                   | 6,938                | 6,457                | 7,337                | 7.45%               | -11.99%             |
| Investments                                   | 36,782               | 37,711               | 38,681               | -2.46%              | -2.51%              |
| <br>Total assets                              | <br>45,395           | <br>46,726           | <br>47,768           | <br>-2.85%          | <br>-2.18%          |
| Liabilities                                   | 318                  | 271                  | 134                  | 17.34%              | 102.24%             |
| <br>Total fiduciary net position              | <br><u>\$ 45,077</u> | <br><u>\$ 46,455</u> | <br><u>\$ 47,634</u> | <br>-2.97%          | <br>-2.48%          |

**Fiscal year ended June 30, 2014**

The Disability Insurance Plan's fiduciary net position decreased by approximately \$1.4 million, or 2.97%, in fiscal year 2014. Cash decreased by \$0.9 million or 34.52% from prior fiscal year based on projected liquidity needs.

**Fiscal year ended June 30, 2013**

The Disability Insurance Plan's fiduciary net position decreased by approximately \$1.2 million, or 2.48%, in fiscal year 2013. Cash increased by \$0.8 million or 46.17% from the prior fiscal year, to provide plan benefit payments.

**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)**

*Disability Fund (continued)*

**Changes in Fiduciary Net Position**

|  | Condensed Statement of Changes in<br>Fiduciary Net Position (In Thousands) |                  |                  | 2013-14  | 2012-13  |
|--|--|------------------|------------------|----------|----------|
|  | 2014   | 2013             | 2012             | % Change | % Change |
| <b>Additions</b>                                     |  |                  |                  |          |          |
| Members' contributions                               | \$ 442   | \$ 447           | \$ 453           | -1.12%   | -1.32%   |
| Employer contributions                               | 14,693   | 14,524           | 13,584           | 1.16%    | 6.92%    |
| Net investment income                                | 1,823  | 182              | 3,375            | 901.65%  | -94.61%  |
| Total additions                                      | <u>16,958</u>  | <u>15,153</u>    | <u>17,412</u>    | 11.91%   | -12.97%  |
| <b>Deductions</b>                                    |  |                  |                  |          |          |
| Benefit payment                                      | 17,546   | 15,577           | 16,005           | 12.64%   | -2.67%   |
| Administrative expenses                              | 790  | 755              | 832              | 4.64%    | -9.25%   |
| Total deductions                                     | <u>18,336</u>  | <u>16,332</u>    | <u>16,837</u>    | 12.27%   | -3.00%   |
| Net increase (decrease)<br>in fiduciary net position | (1,378)  | (1,179)          | 575              | -16.88%  | -305.04% |
| Fiduciary net position beginning                     | <u>46,455</u>  | <u>47,634</u>    | <u>47,059</u>    | -2.48%   | 1.22%    |
| Fiduciary net position ending                        | <u>\$ 45,077</u>   | <u>\$ 46,455</u> | <u>\$ 47,634</u> | -2.97%   | -2.48%   |

**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)**

*Disability Fund (continued)*

**Additions to Fiduciary Net Position**

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, 2014**

Net investment income increased by \$1.6 million, or 901.65%, from fiscal year 2013. The difference is mainly attributed to the net appreciation in the fair value of investments.

**Fiscal year ended June 30, 2013**

Employer contributions for fiscal year 2013 totaled \$14.5 million, up approximately \$0.9 million or 6.92% 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 2013 was \$1.52 per \$100.00 of covered compensation, while the rate was \$1.43 per \$100.00 of covered compensation in fiscal year 2012.

Net investment income declined by \$3.2 million, or 94.61%, from fiscal year 2012. The difference is mainly attributed to the decline in the fair value of investments during fiscal year 2013.

**Deductions from Fiduciary Net Position**

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

**Fiscal year ended June 30, 2014**

Fiscal year 2014 benefit payments increased by \$2.0 million, up 12.64% from a year ago. The increase was primarily due to an increase in the temporary disability benefits paid.

**Fiscal year ended June 30, 2013**

Fiscal year 2013 benefit payments decreased by \$0.4 million, down 2.67% from a year ago. The decrease was primarily due to a decrease in the temporary disability benefits paid.

**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)**

***Death Benefit Insurance Fund***

The Death Benefit Plan's fiduciary net position is summarized below:

|                              | Condensed Statement of Fiduciary<br>Net Position (In Thousands) |           |           | 2013-14  | 2012-13  |
|------------------------------|---|-----------|-----------|----------|----------|
|                              | 2014  | 2013      | 2012      | % Change | % Change |
| Cash                         | \$ 502  | \$ 920    | \$ 1,032  | -45.43%  | -10.85%  |
| Receivables                  | 1,038   | 880       | 985       | 17.95%   | -10.66%  |
| Investments                  | 27,792  | 26,927    | 25,736    | 3.21%    | 4.63%    |
| Total assets                 | 29,332  | 28,727    | 27,753    | 2.11%    | 3.51%    |
| Liabilities                  | 3,262   | 3,707     | 2,996     | -12.00%  | 23.73%   |
| Total fiduciary net position | \$ 26,070   | \$ 25,020 | \$ 24,757 | 4.20%    | 1.06%    |

**Fiscal year ended June 30, 2014**

The Fund's fiduciary net position increased by \$1.1 million or 4.20% when compared to prior year's fiduciary net position of \$25.0 million. Investment increased \$0.9 million due to the increase in net investment income. Cash decreased by \$0.4 million or 45.43% from prior fiscal year based on projected liquidity needs. Liabilities at June 30, 2014 were down \$0.4 million, or 12% against last year. This is mostly attributable to the lower inter-fund liabilities outstanding at fiscal year end.

**Fiscal year ended June 30, 2013**

The Fund's fiduciary net position increased slightly by \$0.3 million or 1.06% when compared to prior year's fiduciary net position of \$24.8 million. Liabilities at June 30, 2013 were up \$0.7 million, or 23.73% against last year. This is mostly attributable to the higher death benefit claims outstanding at fiscal year end.

**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)**

*Death Benefit Insurance Fund (continued)*

**Changes in Fiduciary Net Position**

|                                  | Condensed Statement of Changes in<br>Fiduciary Net Position (In Thousands) |                  |                  | 2013-14  | 2012-13  |
|----------------------------------|--|------------------|------------------|----------|----------|
|                                  | 2014   | 2013             | 2012             | % Change | % Change |
| <b>Additions</b>                 |  |                  |                  |          |          |
| Members' contributions           | \$ 318   | \$ 318           | \$ 322           | 0.00%    | -1.24%   |
| Employer contributions           | 7,929  | 7,972            | 8,045            | -0.54%   | -0.91%   |
| Net investment income            | 1,332  | 57               | 2,075            | 2236.84% | -97.25%  |
| Total additions                  | <u>9,579</u>   | <u>8,347</u>     | <u>10,442</u>    | 14.76%   | -20.06%  |
| <b>Deductions</b>                |  |                  |                  |          |          |
| Benefit payment                  | 7,644  | 7,179            | 7,235            | 6.48%    | -0.77%   |
| Administrative expenses          | 885  | 905              | 892              | -2.21%   | 1.46%    |
| Total deductions                 | <u>8,529</u>   | <u>8,084</u>     | <u>8,127</u>     | 5.50%    | -0.53%   |
| Net increase                     |  |                  |                  |          |          |
| in fiduciary net position        | 1,050  | 263              | 2,315            | 299.24%  | -88.64%  |
| Fiduciary net position beginning | <u>25,020</u>  | <u>24,757</u>    | <u>22,442</u>    | 1.06%    | 10.32%   |
| Fiduciary net position ending    | <u>\$ 26,070</u>   | <u>\$ 25,020</u> | <u>\$ 24,757</u> | 4.20%    | 1.06%    |



**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)**

*Death Benefit Insurance Fund (continued)*

**Additions to Fiduciary Net Position**

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

**Fiscal year ended June 30, 2014**

Net investment income increased by \$1.3 million, or 2236.84%, from fiscal year 2013. The increase is attributed to the net appreciation in the fair value of investments during fiscal year 2014.

**Fiscal year ended June 30, 2013**

Net investment income decreased by \$2.0 million, or 97.25%, from fiscal year 2012. The decrease is attributed to the decline in the fair value of investments during fiscal year 2013.

**Deductions from Fiduciary Net Position**

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

**Fiscal year ended June 30, 2014**

Deductions were up \$0.4 million or 5.50%. The increase was due to the rise in the amount of insured life death benefits incurred during this fiscal year.

**Fiscal year ended June 30, 2013**

Total deductions were consistent against prior fiscal year; it was only down 0.53% versus fiscal year 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)**

***Retiree Health Benefits Fund***

The DWP Board of Water and Power commissioners (DWP Board) 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 RHBF and administering payments from it, while the DWP Board continues to have the responsibility to set the funding policy and the funding levels of the RHBF. The RHBF assets amounting to \$642.0 million were transferred to the Retirement Plan to establish the fund during fiscal year 2007.

As of June 30, 2014 the fiduciary net position of the fund totaled approximately \$1.6 billion. A condensed statement of the fund's fiduciary net position and a condensed statement of changes in fiduciary net position are as follow:

**Fiduciary Net Position**

|                              | Condensed Statement of Fiduciary<br>Net Position (In Thousands) |              |              | 2013-14  | 2012-13  |
|------------------------------|---|--------------|--------------|----------|----------|
|                              | 2014  | 2013         | 2012         | % Change | % Change |
| Cash                         | \$ 1,059  | \$ 798       | \$ 918       | 32.71%   | -13.07%  |
| Receivables                  | 30,660  | 57,071       | 33,893       | -46.28%  | 68.39%   |
| Investments                  | 1,801,197   | 1,451,419    | 1,317,756    | 24.10%   | 10.14%   |
| Total assets                 | 1,832,916   | 1,509,288    | 1,352,567    | 21.44%   | 11.59%   |
| Liabilities                  | 220,768   | 131,468      | 126,787      | 67.93%   | 3.69%    |
| Total fiduciary net position | \$ 1,612,148  | \$ 1,377,820 | \$ 1,225,780 | 17.01%   | 12.40%   |

**Fiscal year ended June 30, 2014**

Fiduciary net position increased by \$234.3 million, or 17.01% to \$1.6 billion over the prior fiscal year. Investment were up \$349.8 million or 24.10% due primarily to the appreciation in the fair value of investments resulting from better market performance and increase in the security lending short-term collateral investment pool as a result of the acceptance of equities as non-cash collateral. As of result of the security lending program expansion, the security lending collateral payable was up \$121.2 million as compared to fiscal year 2013. Receivables were down \$26.4 million or 46.28% from fiscal year 2013 mainly because of decrease in pending trades at year-end.

**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, 2013**

Fiduciary net position increased by \$152.0 million or 12.40% to \$1.4 billion over the prior fiscal year. Investments were up \$133.7 million or 10.14% due mostly to the appreciation in the fair value of investments. Receivables were up \$23.2 million or 68.39% from fiscal year 2012 mainly because of an increase in pending trades at year-end.

**Changes in Fiduciary Net Position**

|                                  | Condensed Statement of Changes in<br>Fiduciary Net Position (In Thousands) |                     |                     | 2013-14  | 2012-13  |
|----------------------------------|--|---------------------|---------------------|----------|----------|
|                                  | 2014   | 2013                | 2012                | % Change | % Change |
| <b>Additions</b>                 |  |                     |                     |          |          |
| Employer contributions           | \$ 74,715  | \$ 68,180           | \$ 102,326          | 9.58%    | -33.37%  |
| Net investment income            | 234,219  | 151,941             | 13,341              | 54.15%   | 1038.90% |
| Total additions                  | <u>308,934</u>   | <u>220,121</u>      | <u>115,667</u>      | 40.35%   | 90.31%   |
| <b>Deductions</b>                |  |                     |                     |          |          |
| Benefit payment                  | 74,106   | 67,563              | 64,221              | 9.68%    | 5.20%    |
| Administrative expenses          | 500  | 517                 | 412                 | -3.29%   | 25.49%   |
| Total deductions                 | <u>74,606</u>  | <u>68,080</u>       | <u>64,633</u>       | 9.59%    | 5.33%    |
| Net increase                     |  |                     |                     |          |          |
| in fiduciary net position        | 234,328  | 152,041             | 51,034              | 54.12%   | 197.92%  |
| Fiduciary net position beginning | <u>1,377,820</u>   | <u>1,225,779</u>    | <u>1,174,745</u>    | 12.40%   | 4.34%    |
| Fiduciary net position ending    | <u>\$ 1,612,148</u>  | <u>\$ 1,377,820</u> | <u>\$ 1,225,779</u> | 17.01%   | 12.40%   |

**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)*

**Additions to Fiduciary Net Position**

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

**Fiscal year ended June 30, 2014**

Total additions were up \$88.8 million or 40.35% to \$308.9 million. The increase in 2014 total additions was mainly due to the net appreciation in the fair value of investments.

**Fiscal year ended June 30, 2013**

Employer contributions were down \$34.1 million or 33.37% due to a reduction in funding above the Annual Required Contribution in fiscal year 2013. Net investment income increased \$138.6 million to \$151.9 million. This is attributed to the net appreciation in fair value of investments.

**Deductions from Fiduciary Net Position**

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, 2014**

Total deductions were up \$6.5 million or 9.59% compared to fiscal year 2013. Insurance premiums paid from the fund for the benefit of retirees increased \$6.5 million or 9.68% in fiscal year 2014 when compared to fiscal year 2013.

**Fiscal year ended June 30, 2013**

Insurance premiums paid from the fund for the benefit of retirees increased \$3.3 million or 5.20% in fiscal 2013 when compared to fiscal year 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)**

**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:

Mary C. Higgins, Interim 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 FIDUCIARY NET POSITION  
As of June 30

|  | 2014             | 2013             |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Cash (Notes 2 and 3)   | \$ 13,263,953    | \$ 9,496,666     |
| Prepaid Expense  | 3,500            | 3,310            |
| Receivables  |                  |                  |
| Accrued investment income  | 18,388,786       | 19,076,213       |
| Department of Water and Power  | 53,102,730       | 51,374,267       |
| Pending investment sales   | 159,788,053      | 285,172,317      |
| Other  | 2,848,676        | 4,652,052        |
| Total receivables  | 234,128,245      | 360,274,849      |
| Investments, at fair value (Notes 2, 3, and 4)                                       |                  |                  |
| Fixed income (amortized cost \$1,977,872,926 in 2014<br>and \$2,021,799,390 in 2013) | 2,010,736,243    | 2,015,837,548    |
| Common stock (cost of \$4,692,112,325 in 2014<br>and \$4,229,927,905 in 2013)        | 6,448,966,735    | 5,189,194,044    |
| Short-term investments (cost approximates fair value)                                | 230,244,751      | 297,515,895      |
| Alternative investments  | 710,532,517      | 580,295,599      |
| Real estate  | 326,016,817      | 241,802,050      |
| Securities lending - short-term collateral investment pool                           | 999,882,392      | 313,092,487      |
| Total investments  | 10,726,379,455   | 8,637,737,623    |
| Total assets   | 10,973,775,153   | 9,007,512,448    |
| <b>LIABILITIES</b>   |                  |                  |
| Payables   |                  |                  |
| Pending investment purchases   | 256,872,241      | 377,554,033      |
| Other  | 13,703,217       | 12,854,499       |
| Securities lending - collateral payable (Note 4)                                     | 999,882,392      | 313,092,487      |
| Total liabilities  | 1,270,457,850    | 703,501,019      |
| Net position held in trust for pension benefits                                      | \$ 9,703,317,303 | \$ 8,304,011,429 |

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 FIDUCIARY NET POSITION

For the Years Ended June 30

|  | 2014             | 2013             |
|--|------------------|------------------|
| <b>ADDITIONS</b>                                     |                  |                  |
| Members' contributions                               | \$ 72,299,526    | \$ 69,633,449    |
| Department of Water and Power contributions towards: |                  |                  |
| Benefit (net of reversions)                          | 384,265,892      | 368,426,348      |
| Administrative expenses                              | 4,872,432        | 4,392,846        |
| Total contributions                                  | 461,437,850      | 442,452,643      |
| Investment income                                    |                  |                  |
| Net appreciation in fair value of investments        | 1,240,972,860    | 748,924,297      |
| Interest   | 74,307,486       | 88,458,815       |
| Dividends  | 96,747,720       | 86,760,743       |
| Income from real estate investments                  | 18,493,818       | 14,190,284       |
| Income from alternative investments                  | 206,985          | 836,711          |
| Securities lending (Note 4)                          | 2,541,704        | 1,597,698        |
| Total investment income                              | 1,433,270,573    | 940,768,548      |
| Less: securities lending expenses (Note 4)           | (560,646)        | (282,446)        |
| Less: investment expenses                            | (28,006,541)     | (23,496,492)     |
| Net investment income                                | 1,404,703,386    | 916,989,610      |
| Other income   | 982,812          | 2,689,537        |
| Total additions                                      | 1,867,124,048    | 1,362,131,790    |
| <b>DEDUCTIONS</b>                                    |                  |                  |
| Retirement benefits paid                             | 457,558,214      | 432,708,113      |
| Refund of members' contributions                     | 6,038,726        | 5,819,253        |
| Administrative expenses                              | 4,221,234        | 3,736,871        |
| Total deductions                                     | 467,818,174      | 442,264,237      |
| Net increase in plan net position                    | 1,399,305,874    | 919,867,553      |
| Net position held in trust for pension benefits      |                  |                  |
| Beginning of year                                    | 8,304,011,429    | 7,384,143,876    |
| End of year  | \$ 9,703,317,303 | \$ 8,304,011,429 |

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 FIDUCIARY NET POSITION  
As of June 30

| <b>ASSETS</b>   | 2014          | 2013          |
|---|---------------|---------------|
| Cash (Notes 2 and 3)  | \$ 1,674,914  | \$ 2,557,613  |
| Receivables   |               |               |
| Accrued investment income   | 109,786       | 72,851        |
| Department of Water and Power   | 2,470,971     | 2,412,467     |
| Other   | 1,046,811     | 660,949       |
| Contingent disability benefit advance                                       | 3,310,339     | 3,310,339     |
| Total receivables   | 6,937,907     | 6,456,606     |
| Investments, at fair value (Notes 2 and 3)                                  |               |               |
| Fixed income (amortized cost \$31,872,167 in 2014 and \$32,576,401 in 2013) | 36,563,077    | 36,692,449    |
| Short-term investments (cost approximates fair value)                       | 219,290       | 1,018,733     |
| Total investments   | 36,782,367    | 37,711,182    |
| Total assets  | 45,395,188    | 46,725,401    |
| <b>LIABILITIES</b>  |               |               |
| Payables  |               |               |
| Pending investment purchases  | 109,764       | 72,739        |
| Other   | 208,126       | 197,816       |
| Total Liabilities   | 317,890       | 270,555       |
| Net position held in trust for disability benefits                          | \$ 45,077,298 | \$ 46,454,846 |

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 FIDUCIARY NET POSITION  
For the Years Ended June 30

|   | 2014          | 2013          |
|---|---------------|---------------|
| <b>ADDITIONS</b>  |               |               |
| Department of Water and Power contributions towards:    |               |               |
| Temporary disability benefits                           | \$ 12,409,023 | \$ 12,173,356 |
| Supplemental disability benefits                        | 1,491,158     | 1,593,124     |
| Administrative expenses                                 | 792,780       | 757,910       |
| Total contributions                                     | 14,692,961    | 14,524,390    |
| Contributions from members for:                         |               |               |
| Temporary disability benefits                           | 222,479       | 224,649       |
| Permanent total disability benefits                     | 219,191       | 222,040       |
| Total members' contributions                            | 441,670       | 446,689       |
| Net appreciation (decline) in fair value of investments | 909,206       | (733,753)     |
| Investment income                                       | 961,890       | 963,654       |
| Less: Investment expenses                               | (47,408)      | (48,319)      |
| Net investment income                                   | 1,823,688     | 181,582       |
| Total additions   | 16,958,319    | 15,152,661    |
| <b>DEDUCTIONS</b>                                       |               |               |
| Benefit provided:                                       |               |               |
| Temporary disability                                    | 13,707,175    | 11,735,737    |
| Extended temporary disability                           | 463,946       | 394,778       |
| Permanent total disability                              | 1,883,397     | 1,853,493     |
| Supplemental  | 1,491,158     | 1,593,124     |
| Total benefits provided                                 | 17,545,676    | 15,577,132    |
| Administrative expenses                                 | 790,191       | 754,935       |
| Total deduction   | 18,335,867    | 16,332,067    |
| Net decrease in plan net position                       | (1,377,548)   | (1,179,406)   |
| Net position held in trust for disability benefits      |               |               |
| Beginning of year                                       | 46,454,846    | 47,634,252    |
| End of year   | \$ 45,077,298 | \$ 46,454,846 |

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 FIDUCIARY NET POSITION  
As of June 30

|  | 2014          | 2013          |
|--|---------------|---------------|
| <b>ASSETS</b>  |               |               |
| Cash (Notes 2 and 3)   | \$ 501,792    | \$ 919,762    |
| Receivables  |               |               |
| Department of Water and Power  | 937,866       | 807,853       |
| Accrued investment income  | 79,814        | 52,035        |
| Other  | 20,362        | 20,587        |
| Total receivables  | 1,038,042     | 880,475       |
| Investments, at fair value (Notes 2 and 3)                                     |               |               |
| Fixed income (amortized cost \$23,861,615 in 2014 and<br>\$23,988,712 in 2013) | 26,574,545    | 26,208,830    |
| Short-term investments (cost approximates fair value)                          | 1,218,119     | 717,742       |
| Total investments  | 27,792,664    | 26,926,572    |
| Total assets   | 29,332,498    | 28,726,809    |
| <b>LIABILITIES</b>   |               |               |
| Payables   |               |               |
| Pending investment purchases   | 79,778        | 51,956        |
| Other  | 336,815       | 745,578       |
| Death claims in process - insured lives  | 2,845,447     | 2,909,143     |
| Total liabilities  | 3,262,040     | 3,706,677     |
| Net position held in trust for death benefits                                  | \$ 26,070,458 | \$ 25,020,132 |

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 FIDUCIARY NET POSITION

For the years ended June 30

|   | 2014          | 2013          |
|---|---------------|---------------|
| <b>ADDITIONS</b>  |               |               |
| Department of Water and Power contributions towards:    |               |               |
| Active members  | \$ 2,049,810  | \$ 2,043,553  |
| Retired members (non-contributing)                      | 4,993,033     | 5,021,181     |
| Administrative expenses                                 | 886,356       | 907,307       |
| Total department contributions                          | 7,929,199     | 7,972,041     |
| Contributions from members for:                         |               |               |
| Insured lives death benefit                             | 219,200       | 222,040       |
| Supplemental family death benefit                       | 98,487        | 96,809        |
| Total members' contributions                            | 317,687       | 318,849       |
| Net appreciation (decline) in fair value of investments | 667,658       | (569,713)     |
| Investment income                                       | 698,391       | 660,008       |
| Less: investment expenses                               | (34,463)      | (33,232)      |
| Net investment income                                   | 1,331,586     | 57,063        |
| Total additions   | 9,578,472     | 8,347,953     |
| <b>DEDUCTIONS</b>                                       |               |               |
| Benefits provided for:                                  |               |               |
| Death benefits (active/retired members)                 | 7,141,427     | 6,643,747     |
| Family allowances                                       | 502,216       | 535,444       |
| Total benefits provided                                 | 7,643,643     | 7,179,191     |
| Administrative expenses                                 | 884,503       | 905,183       |
| Total deductions  | 8,528,146     | 8,084,374     |
| Net increase in plan net position                       | 1,050,326     | 263,579       |
| Net position held in trust for death benefits           |               |               |
| Beginning of year                                       | 25,020,132    | 24,756,553    |
| End of year   | \$ 26,070,458 | \$ 25,020,132 |

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 FIDUCIARY NET POSITION  
As of June 30

| <b>ASSETS</b>  | <u>2014</u>             | <u>2013</u>             |
|--|-------------------------|-------------------------|
| Cash and cash equivalents (Notes 2 and 3)  | \$ 1,059,009            | \$ 797,696              |
| Receivables  |                         |                         |
| Accrued investment income  | 3,182,540               | 3,278,342               |
| Department of Water and Power  | -                       | 1,318                   |
| Pending investment sales   | <u>27,477,591</u>       | <u>53,791,251</u>       |
| Total receivables  | <u>30,660,131</u>       | <u>57,070,911</u>       |
| Investments, at fair value (Notes 2, 3 and 4)                                    |                         |                         |
| Fixed income (amortized cost \$339,148,034 in 2014<br>and \$376,026,674 in 2013) | 344,005,011             | 374,845,086             |
| Common stock (cost of \$795,479,622 in 2014<br>and \$675,387,702 in 2013)        | 1,097,742,165           | 882,859,586             |
| Short-term investments (cost approximates fair value)                            | 36,213,349              | 40,996,180              |
| Alternative investments  | 111,586,634             | 79,875,069              |
| Real estate  | 36,780,086              | 19,158,536              |
| Securities lending - short-term collateral investment pool                       | <u>174,870,176</u>      | <u>53,684,636</u>       |
| Total investments  | <u>1,801,197,421</u>    | <u>1,451,419,093</u>    |
| Total assets   | <u>1,832,916,561</u>    | <u>1,509,287,700</u>    |
| <b>LIABILITIES</b>   |                         |                         |
| Payables   |                         |                         |
| Accounts payable   | 2,900,300               | 4,396,442               |
| Department of Water and Power  | 29,938                  | -                       |
| Pending investment purchases   | 42,967,869              | 73,387,034              |
| Security lending - collateral payable (Note 4)                                   | <u>174,870,176</u>      | <u>53,684,636</u>       |
| Total liabilities  | <u>220,768,283</u>      | <u>131,468,112</u>      |
| Net position held in trust for retiree health benefits                           | <u>\$ 1,612,148,278</u> | <u>\$ 1,377,819,588</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**

**RETIREE HEALTH BENEFITS FUND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Year Ended June 30**

|  | 2014             | 2013             |
|--|------------------|------------------|
| <b>ADDITIONS</b>                                       |                  |                  |
| Department of Water and Power contributions towards:   |                  |                  |
| Insurance premiums                                     | \$ 74,105,548    | \$ 67,562,881    |
| Administrative expenses                                | 609,234          | 616,670          |
| Total department contributions                         | 74,714,782       | 68,179,551       |
| Investment income                                      |                  |                  |
| Net appreciation in fair value of investments          | 208,396,566      | 123,583,536      |
| Interest and dividends                                 | 28,254,907       | 30,516,202       |
| Gain from alternative investments                      | 124,371          | 161,955          |
| Real estate income                                     | 1,630,376        | 1,026,738        |
| Securities lending (Note 4)                            | 381,834          | 216,757          |
| Total investment income                                | 238,788,054      | 155,505,188      |
| Less: securities lending expenses (Note 4)             | (84,068)         | (38,758)         |
| Less: investment expenses                              | (4,484,405)      | (3,525,813)      |
| Net investment income                                  | 234,219,581      | 151,940,617      |
| Total additions  | 308,934,363      | 220,120,168      |
| <b>DEDUCTIONS</b>                                      |                  |                  |
| Retiree health benefits paid (insurance premiums)      | 74,105,548       | 67,562,881       |
| Administrative expenses                                | 500,125          | 517,568          |
| Total deductions                                       | 74,605,673       | 68,080,449       |
| Net increase in plan net position                      | 234,328,690      | 152,039,719      |
| Net position held in trust for retiree health benefits |                  |                  |
| Beginning of year                                      | 1,377,819,588    | 1,225,779,869    |
| End of year  | \$ 1,612,148,278 | \$ 1,377,819,588 |

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, 2014 and 2013**

**NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION**

The Water and Power Employees' Retirement Plan of the City of Los Angeles (WPERP) was established by the Los Angeles Department of Water and Power (Department), a proprietary department of the City of Los Angeles (City), in 1938. WPERP is a single employer public employee retirement system whose main function is to provide pension benefits, including death and disability benefits, to eligible employees of the Department.

Under the provisions of the City Charter, the Retirement Board of Administration (Retirement Board) has the responsibility and authority to administer the WPERP and to invest its assets. The Retirement Board members serve as trustees and must act in the exclusive interest of the WPERP's members and beneficiaries. The Retirement Board has seven members: a member of the Board of Water and Power Commissioners (DWP Board), the Department's General Manager, the Department's Chief Accounting Employee, three employee members who are elected for a three-year term by active members of the WPERP, and a retiree who is appointed by the DWP Board for a three-year term.

The WPERP 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 WPERP are collectively known as the Plan. Each fund under the WPERP and the RHBF is considered an independent trust fund of the Department.

In 1986, the 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 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, 2014 and 2013**

**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, 2014 and 2013:

|                            | 2014   | 2013   |
|----------------------------|--------|--------|
| Retirees and beneficiaries | 8,739  | 8,642  |
| Terminated vested          | 1,484  | 1,555  |
| Active                     | 8,960  | 8,913  |
| Total                      | 19,183 | 19,110 |

Benefit Provisions

*Retirement/Disability Funds*

The retirement fund consists of both defined contribution and defined benefit elements. Members vest in the defined contribution element (annuity) after one year of service. Members vest in the defined benefit element (pension) only after qualifying for retirement and meeting the criteria for the formula pension. Generally, new 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.

During the fiscal year 2014, the City and the Department agreed to a new tier of retirement benefits for new hires to the Department. On December 11, 2013, The Retirement Board adopted a Plan amendment to create a new tier for the Department's new-hires on or after January 1, 2014. Major benefit provisions for each tier are described below.

Tier 1 members are eligible for normal retirement at age 60. Early retirement at age 55 is generally available if the member has been with the Department for 10 or more years of the last 12 years before retirement. Members with 30 or more years may retire at any age and receive unreduced benefits within a certain limited period (this option expired on October 31, 2005).

**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, 2014 and 2013**

**NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)**

Upon qualifying for retirement, Tier 1 members will also qualify for a formula pension if they 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 Tier 1 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 successive contributing payroll periods. Retirees who are receiving a formula pension are entitled to annual cost of living adjustment (COLA). Adjustments are applied each July 1 based on the Consumer Price Index (Los Angeles-Riverside-Orange County, CA – All Items) as published by the Bureau of Labor Statistics of the United States Department of Labor for each of the two immediately preceding calendar years. The maximum adjustment, positive or negative, is 3% in any one year.

Tier 2 members are eligible for normal retirement at age 60 with at least ten years of service (5 year must be as a contributing member and/or receiving either disability benefits under the Plan or payments under any Workers' Compensation Law). A reduced benefit for early retirement at any age is generally available if the member has at least thirty years of service. Members with 30 or more years of credited service may retire at age 55 and receive unreduced benefits.

Eligible Tier 2 members are entitled to an annual retirement benefit, payable monthly for life currently in an amount equal to a retirement factor multiplying each year of credited service, and then multiplying their final average salary. The specific retirement factor is based on the combination of member's age and credited service as follows:

- 1.5% at age 60 with 10 years
- 2.0% at age 55 with 30 years
- 2.0% at age 63 with 10 years
- 2.1% at age 63 with 30 years



**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, 2014 and 2013**

**NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)**

“Final average salary” is defined as the employee’s average salary, excluding overtime, over the highest 78 successive contributing payroll periods. A member’s monthly pension amount is capped at 80% of one’s final average salary. Retirees who are receiving a formula pension are entitled to annual COLA. Adjustments are applied each July 1 based on the Consumer Price Index (Los Angeles-Riverside-Orange County, CA – All Items) as published by the Bureau of Labor Statistics of the United States Department of Labor for each of the two immediately preceding calendar years. The maximum adjustment, positive or negative, is 2% in any one year. Members may purchase additional post-retirement COLA coverage, not to exceed an additional 1% per year, at full actuarial cost to the Plan.

*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.

- **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.

**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, 2014 and 2013**

**NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)**

Contributions

*Retirement/Disability Funds*

Retirement contributions are determined by a member's tier designation. Covered Tier 1 employees continue 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.

Covered Tier 2 employees are required to contribute 10% of their annual covered payroll upon becoming a Plan member. A Tier 2 member has the same benefits as a Tier 1 member upon termination or death while employed with a single exception. A Tier 2 member will not receive a money purchase allowance with vesting after one year. Instead a Tier 2 member will only receive a formula pension if one is at age 60 and has at least 15 years of credited service.

The Department contributes \$1.10 for each \$1.00 contributed by Tier 1 members, plus an actuarially determined percentage of covered payroll. The Department solely contributes an actuarially determined percentage of covered payroll for Tier 2 members. Contribution provisions are established and amended by the Retirement Board upon the advice of the Plan actuary. The average employer contribution rates for fiscal years 2014 and 2013 (based on the July 1, 2013 and 2012 valuations) were 47.30% and 46.08% of compensation, respectively.

Each bi-weekly payroll period, both eligible Tiers 1 and 2 members contribute \$1.00 each for Temporary Disability and Permanent Total Disability. The Department contribution rate for fiscal years 2014 and 2013 for the Temporary Disability (based on the July 1, 2013 and 2012 valuations) were \$1.51 and \$1.52 per \$100 of covered payroll, respectively. Department contribution for Permanent Total Disability continues to be suspended, as current reserve significantly exceeds the target reserve amount.

**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, 2014 and 2013**

**NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)**

*Death Benefit Fund*

- Insured Lives Death Benefit

Contributing active Tiers 1 and 2 members contribute \$1.00 per bi-weekly payroll period. The Department's contribution for the IDB for contributing active members was maintained at \$0.25 per \$100 of payroll for fiscal years 2014 and 2013. In addition, the Department's contribution to the IDB for non-contributing members was at \$1.27 and \$1.35 per \$100 of retirement benefits paid for fiscal years 2014 and 2013, respectively.

- 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, 2014 and 2013:

|                                    | 2014   | 2013   |
|------------------------------------|--------|--------|
| Current retirees and beneficiaries | 7,644  | 7,554  |
| Current active members             | 8,847  | 8,765  |
| Total                              | 16,491 | 16,319 |

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  
DEATH BENEFIT INSURANCE PLAN  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**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 2014 and 2013, the Department contributed \$74.7 million and \$68.2 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 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 (decline) in fair value of investments held by the Plan is recorded as an increase (decrease) to investment income based on the valuation of investments.

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 fiduciary net position. 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 fiduciary net position. 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.

**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, 2014 and 2013**

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

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.

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.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board (GASB) issued Statement No. 67, Financial Reporting for Pension Plans, which replaces the requirements of GASB Statement Nos. 25 and 50 for Retirement Fund and the Insured Lives portion of the Death Benefit Fund. Those elements of the financial statements for fiscal year ended June 30, 2014 have been prepared in accordance with GASB 67. The Plan continues to follow the accounting principles and reporting guidelines as set forth by GASB Statement No. 43 for the RHBF.

**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, 2014 and 2013**

**NOTE 3 – CASH, INVESTMENTS AND SECURITIES LENDING**

Investment Policy

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. The following is the asset allocation policy as of June 2014 and 2013:

| <u>Asset Class</u>             | <u>Target Allocation</u> |
|--------------------------------|--------------------------|
| Domestic equity                | 33.00%                   |
| Developed international equity | 21.00%                   |
| Fixed income                   | 24.00%                   |
| Real estate                    | 5.00%                    |
| Real return                    | 6.00%                    |
| Private equity                 | 5.00%                    |
| Covered calls                  | 5.00%                    |
| Cash and cash equivalents      | 1.00%                    |
| Total                          | <u>100.00%</u>           |

Cash

As of June 30, 2014 and 2013, 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, 2014 and 2013. 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.

**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, 2014 and 2013**

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

Investments

As of June 30, 2014 and 2013, the Plan had the following investments:

| <u>Investment Type</u>                                   | <u>June 30, 2014<br/>Fair Value</u> | <u>June 30, 2013<br/>Fair Value</u> |
|--|-------------------------------------|-------------------------------------|
| Domestic equities  | \$ 5,013,867,904                    | \$ 4,012,632,462                    |
| International equities                                   | 2,504,911,438                       | 2,040,420,231                       |
| U.S. Treasuries  | 628,239,926                         | 493,009,348                         |
| U.S. Agency notes  | 743,690,505                         | 780,819,458                         |
| Preferred securities/convertible bonds/other             | 43,715,370                          | 47,810,849                          |
| Mortgage and asset backed securities                     | 302,923,948                         | 394,012,708                         |
| Corporate debt - domestic                                | 658,281,504                         | 681,756,147                         |
| Corporate debt - international                           | 5,819,559                           | 12,275,059                          |
| Mutual funds   | 331,033,131                         | 403,149,831                         |
| Hedge funds  | 822,119,151                         | 660,170,668                         |
| Real estate  | 362,796,903                         | 260,960,586                         |
| Securities lending short-term collateral investment pool | 1,174,752,568                       | 366,777,123                         |
| Total investments  | <u>\$ 12,592,151,907</u>            | <u>\$ 10,153,794,470</u>            |

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on Retirement Fund investments, net of investment expense, was 17.05%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

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

**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, 2014 and 2013**

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

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 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, 2014 are as follows:

| <u>Investment Type</u>                       | <u>Credit Rating</u> | <u>Fair Value</u>       | <u>% of Portfolio</u> |
|--|----------------------|-------------------------|-----------------------|
| U.S. Treasuries                              | AA+                  | \$ 628,239,926          | 23.15%                |
| U.S. Agency notes                            | AA+ or better        | 642,760,270             | 23.69%                |
|  | A or better          | 14,821,266              | 0.55%                 |
|  | B or better          | 71,127                  | 0.00%                 |
|  | Not rated            | 86,037,842 *            | 3.17%                 |
| Preferred securities/convertible bonds/other | A or better          | 1,131,620               | 0.04%                 |
|  | B or better          | 14,938,625              | 0.55%                 |
|  | C or better          | 1,169,748               | 0.04%                 |
|  | Not rated            | 26,475,377              | 0.98%                 |
| Mortgage and asset backed securities         | AAA                  | 199,250,361             | 7.34%                 |
|  | AA+                  | 24,134,589              | 0.89%                 |
|  | A or better          | 24,837,346              | 0.92%                 |
|  | B or better          | 49,433,505              | 1.82%                 |
|  | C or better          | 2,091,399               | 0.08%                 |
|  | D or better          | 96,638                  | 0.00%                 |
| Corporate debt - domestic                    | Not rated            | 3,080,110               | 0.11%                 |
|  | AAA                  | 1,891,826               | 0.07%                 |
|  | A or better          | 198,101,912             | 7.30%                 |
|  | B or better          | 405,795,843             | 14.96%                |
|  | C or better          | 30,952,217              | 1.14%                 |
| Corporate debt - international               | Not rated            | 21,539,706              | 0.79%                 |
|  | AAA                  | 1,426,426               | 0.05%                 |
|  | A or better          | 3,927,273               | 0.14%                 |
| Mutual funds                                 | B or better          | 465,860                 | 0.02%                 |
|  | Not rated            | 331,033,131 **          | 12.20%                |
| Total  |                      | <u>\$ 2,713,703,943</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.



**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, 2014 and 2013**

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

Credit Risks (Continued)

The credit ratings of the Plan's investments at June 30, 2013 are as follows:

| <u>Investment Type</u>                       | <u>Credit Rating</u> | <u>Fair Value</u>       | <u>% of Portfolio</u> |
|--|----------------------|-------------------------|-----------------------|
| U.S. Treasuries                              | AAA                  | \$ 493,009,348          | 17.53%                |
| U.S. Agency notes                            | AAA                  | 714,630,335             | 25.41%                |
|  | A or better          | 13,790,654              | 0.49%                 |
|  | Not rated            | 52,398,469 *            | 1.86%                 |
| Preferred securities/convertible bonds/other | A or better          | 2,089,376               | 0.07%                 |
|  | B or better          | 20,284,936              | 0.72%                 |
|  | C or better          | 4,567,803               | 0.16%                 |
|  | Not rated            | 20,868,734              | 0.74%                 |
| Mortgage and asset backed securities         | AAA                  | 318,333,669             | 11.32%                |
|  | A or better          | 16,593,219              | 0.59%                 |
|  | B or better          | 51,377,702              | 1.83%                 |
|  | C or better          | 2,146,669               | 0.08%                 |
|  | D or better          | 364,396                 | 0.01%                 |
|  | Not rated            | 5,197,053               | 0.18%                 |
| Corporate debt - domestic                    | AAA                  | 2,648,311               | 0.09%                 |
|  | A or better          | 187,632,281             | 6.67%                 |
|  | B or better          | 437,608,306             | 15.55%                |
|  | C or better          | 43,747,320              | 1.56%                 |
|  | Not rated            | 10,119,929              | 0.36%                 |
| Corporate debt - international               | AAA                  | 705,945                 | 0.03%                 |
|  | A or better          | 1,860,825               | 0.07%                 |
|  | B or better          | 9,708,289               | 0.35%                 |
| Mutual funds                                 | Not rated            | 403,149,831 **          | 14.33%                |
| Total  |                      | <u>\$ 2,812,833,400</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.

**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, 2014 and 2013**

**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, 2014 and 2013, 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, 2014 and 2013, there were no investments holdings of more than 5% in any one issue of each fund's net position or in the Plan's aggregate net position, except investments issued or guaranteed by the U.S. Government and investments in commingled funds.

**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, 2014 and 2013**

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

Interest Rate Risk

As of June 30, 2014, the Plan's exposure to interest rate risk is as follows:

| <u>Investment Type</u>                       | <u>Fair Value</u>              | <u>Weighted<br/>Average Maturity<br/>(Years)</u> |
|--|--------------------------------|--|
| U.S. Treasuries                              | \$ 628,239,926                 | 6.23   |
| U.S. Agency Notes                            | 743,690,505                    | 19.23  |
| Preferred securities/convertible bonds/other | 43,715,370                     | 3.53   |
| Mortgage and asset backed securities         | 302,923,948                    | 11.64  |
| Corporate debt - domestic                    | 658,281,504                    | 10.06  |
| Corporate debt - international               | 5,819,559                      | 11.45  |
| Mutual funds                                 | 331,033,131                    | 0.06   |
| <b>Total</b>                                 | <b><u>\$ 2,713,703,943</u></b> | <b>10.54</b>                                     |

As of June 30, 2013 the Plan's exposure to interest rate risk is as follows:

| <u>Investment Type</u>                       | <u>Fair Value</u>              | <u>Weighted<br/>Average Maturity<br/>(Years)</u> |
|--|--------------------------------|--|
| U.S. Treasuries                              | \$ 493,009,348                 | 5.72   |
| U.S. Agency Notes                            | 780,819,459                    | 22.18  |
| Preferred securities/convertible bonds/other | 47,810,850                     | 5.41   |
| Mortgage and asset backed securities         | 394,012,707                    | 12.69  |
| Corporate debt - domestic                    | 681,756,146                    | 9.45   |
| Corporate debt - international               | 12,275,060                     | 11.97  |
| Mutual funds                                 | 403,149,830                    | 0.00   |
| <b>Total</b>                                 | <b><u>\$ 2,812,833,400</u></b> | <b>11.37</b>                                     |

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.

**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, 2014 and 2013**

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

Foreign Currency Risk

As of June 30, 2014 and 2013, the Plan's exposure to foreign currency risk is as follows:

| <u>Currency</u>      | <u>Investment Type</u>  | <u>June 30, 2014</u>    | <u>June 30, 2013</u>    |
|----------------------|-------------------------|-------------------------|-------------------------|
| Australian Dollar    | Cash & cash equivalents | \$ 93,058               | \$ 46,288               |
|                      | Equities                | 65,102,511              | 45,103,378              |
|                      | Corporate debt          | 2,477,094               | 3,862,187               |
| Brazil Real          | Cash & cash equivalents | 57,824                  | 3,560                   |
|                      | Equities                | 28,432,179              | 14,867,408              |
|                      | Corporate debt          | 1,773,024               | 2,191,220               |
| Canadian Dollar      | Cash & cash equivalents | 270,883                 | 406,329                 |
|                      | Equities                | 69,139,366              | 49,215,797              |
|                      | Corporate debt          | 4,984,566               | 11,645,711              |
| Chilean Peso         | Corporate debt          | 509,884                 | 198,186                 |
| Danish Krone         | Cash & cash equivalents | 2,275                   | -                       |
|                      | Equities                | 22,480,080              | 15,865,001              |
|                      | Cash & cash equivalents | 26,035,516              | 25,482,234              |
| Euro Currency Unit   | Equities                | 357,979,662             | 269,953,541             |
|                      | Corporate debt          | 68,053,678              | 93,705,341              |
|                      | Cash & cash equivalents | 96,914                  | 71,013                  |
| Hong Kong Dollar     | Equities                | 50,452,254              | 42,300,355              |
|                      | Cash & cash equivalents | -                       | 3,006                   |
|                      | Equities                | 10,062,982              | 6,870,603               |
| Israeli Shekel       | Equities                | 2                       | 1                       |
| Japanese Yen         | Cash & cash equivalents | 845,093                 | 2,413,706               |
|                      | Equities                | 290,260,838             | 292,342,200             |
|                      | Corporate debt          | 2,723,364               | 8,528,696               |
| Malaysian Ringgit    | Equities                | 12,454,141              | 14,508,287              |
| Mexican New Peso     | Cash & cash equivalents | 203,487                 | 115,766                 |
|                      | Equities                | 13,646,406              | 11,414,773              |
|                      | Corporate debt          | 5,493,749               | 3,145,531               |
| New Taiwan Dollar    | Equities                | 3,903,541               | -                       |
| New Turkish Lira     | Equities                | 755,110                 | 1,083,535               |
| New Zealand Dollar   | Cash & cash equivalents | 10,956                  | 3,092                   |
|                      | Equities                | 3,367,906               | 504,188                 |
|                      | Cash & cash equivalents | 136                     | -                       |
| Norwegian Krone      | Equities                | 8,266,958               | 9,466,920               |
|                      | Equities                | -                       | 2,257,898               |
|                      | Corporate debt          | -                       | 1,372,025               |
| Philippines Peso     | Cash & cash equivalents | 811,786                 | 619,087                 |
|                      | Equities                | 284,891,113             | 252,262,474             |
|                      | Corporate debt          | 64,798,775              | 100,056,211             |
| S. African Comm Rand | Cash & cash equivalents | 25,560                  | 8,486                   |
|                      | Equities                | 41,909,513              | 29,704,719              |
|                      | Cash & cash equivalents | 25,559                  | 59,804                  |
| Singapore Dollar     | Equities                | 7,960,393               | 11,871,340              |
|                      | Equities                | 5,264,724               | 7,281,187               |
|                      | Cash & cash equivalents | 11,065                  | 45,695                  |
| South Korean Won     | Equities                | 29,117,121              | 22,881,088              |
|                      | Corporate debt          | 3,851,383               | 17,591,960              |
|                      | Cash & cash equivalents | 1,069,563               | 1,143,453               |
| Swedish Krona        | Equities                | 156,667,014             | 115,337,495             |
|                      | Equities                | 11,279,188              | 9,247,683               |
|                      | Corporate debt          | -                       | 474,515                 |
| Swiss Franc          | Cash & cash equivalents | 1,069,563               | 1,143,453               |
| Thailand Baht        | Equities                | 156,667,014             | 115,337,495             |
|                      | Equities                | 11,279,188              | 9,247,683               |
|                      | Corporate debt          | -                       | 474,515                 |
| Uruguayan Peso       | Corporate debt          | -                       | 474,515                 |
| Total                |                         | <u>\$ 1,657,618,194</u> | <u>\$ 1,497,532,973</u> |

**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, 2014 and 2013**

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

The Plan's investment policy permits it to invest up to 21% of total investments of the Plan in non-U.S. investments. The Plan's position is 13.16% and 14.75% as of June 30, 2014 and 2013, respectively.

**Derivative Instruments**

The fair value balances and notional amounts of derivatives instruments outstanding at June 30, 2014 and 2013, classified by type, and the changes in fair values of such derivative instruments for the years then ended as reported in the 2014 and 2013 financial statements are as follows:

| Type                 | 2014                          |                |                |               |                    |
|----------------------|-------------------------------|----------------|----------------|---------------|--------------------|
|                      | Changes in Fair Value         |                | Fair Value     |               | Notional<br>Amount |
|                      | Classification                | Amount         | Classification | Amount        |                    |
| Forward<br>Contracts | Investment<br>Income / (Loss) | \$ (5,164,184) | Investment     | \$ 107,416    | \$ 197,123,444     |
| Call<br>Options      | Investment<br>Income / (Loss) | \$ (1,876,937) | Investment     | \$ 11,089,250 | \$ 800,557,932     |
| Type                 | 2013                          |                |                |               |                    |
|                      | Changes in Fair Value         |                | Fair Value     |               | Notional<br>Amount |
|                      | Classification                | Amount         | Classification | Amount        |                    |
| Forward<br>Contracts | Investment<br>Income / (Loss) | \$ (1,253,278) | Investment     | \$ 5,271,600  | \$ 418,163,095     |
| Call<br>Options      | Investment<br>Income / (Loss) | \$ (661,055)   | Investment     | \$ 9,207,240  | \$ 494,734,240     |

At June 30, 2014 and 2013, the Plan had direct commitments to purchase and/or sell foreign currency in the forms of forward contracts as part of the strategy of hedging its currency risk. The fair values of forward contracts were based on the market price. At June 30, 2014, 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.

**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, 2014 and 2013**

**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. Prior to August 2013, 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. In August 2013, the Retirement Board adopted an amendment to the securities lending program to expand the acceptance of equities as non-cash collateral. Equities received are required to be collateralized at 110% with respect to loaned securities' value. The custodial bank will assume the equity risk and indemnify the Plan 100% for any shortfall if a loan position is not returned, and proceeds from the sale of equity collateral were insufficient to replace the loan position.

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 Fiduciary Net Position. As of June 30, 2014 and 2013, the Plan has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan.

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 24 days and 28 days as of June 30, 2014 and 2013, respectively.

The fair values of the underlying securities on loan, collateralized by cash and securities as of June 30, 2014 and 2013 are:

| Securities on loan   | 2014             | 2013           |
|----------------------|------------------|----------------|
| Common stock         | \$ 778,758,869   | \$ 88,674,729  |
| Corporate debt       | 112,553,442      | 17,026,385     |
| U.S. Agency notes    | 1,023,780        | -              |
| U.S. Treasuries      | 285,770,467      | 251,257,332    |
| U.S. Treasury STRIPs | 43,005,908       | -              |
| U.S. TIPS            | 120,336,289      | -              |
| Total                | \$ 1,341,448,755 | \$ 356,958,446 |

**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, 2014 and 2013**

**NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT**

Retirement Fund

The components of the net pension liability (NPL) of the retirement fund as of June 30, 2014 are as follows:

| <u>Total Pension Liability</u> | <u>Retirement Fund Fiduciary Net Position</u> | <u>Net Pension Liability</u> | <u>Fiduciary Net Position as % of Total Pension Liability</u> |
|--------------------------------|---|------------------------------|---|
| \$10,975,550,617               | \$9,703,317,303                               | \$1,272,233,314              | 88.41%  |

The Plan engages an independent actuarial firm to conduct an annual actuarial valuation to determine the total pension liability as of June 30, 2014. The NPL as of June 30, 2014 was determined by actuarial valuation as of July 1, 2014. The actuarial assumptions used in the June 30, 2014 measurement were based on the results of an actuarial experience study for the period from July 1, 2009 through June 30, 2012. In particular, the following assumptions were applied in the measurement.

|                                   |  |
|-----------------------------------|--|
| Inflation rate                    | 3.25%  |
| Projected salary increases        | 4.75% to 10.00%, includes inflation at 3.25%, “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 for Tier 1 members and 2.00% maximum for Tier 2 members. |
| Investment rate of return         | 7.50% net of investment expense, including inflation   |
| Mortality                         | RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.                             |

**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, 2014 and 2013**

**NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT (Continued)**

The long-term expected rate of return on Retirement Fund's investments was determined using a building-block method in which expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Retirement Fund's target asset allocation as of June 30, 2014 and the projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| Asset Class                    | Target<br>Allocation | Long-Term Expected<br>Real Rate of Return |
|--------------------------------|----------------------|---|
| Domestic equity                | 33.00%               | 6.13%                                     |
| Developed international equity | 21.00%               | 7.00%                                     |
| Fixed income                   | 24.00%               | 0.77%                                     |
| Real estate                    | 5.00%                | 4.90%                                     |
| Real return                    | 6.00%                | 2.85%                                     |
| Private equity                 | 5.00%                | 9.00%                                     |
| Covered calls                  | 5.00%                | 4.88%                                     |
| Cash and cash equivalents      | 1.00%                | 0.00%                                     |
| Total                          | <u>100.00%</u>       |   |

*Discount rate:* The discount rate used to measure the total pension liability was 7.50% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that Department contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only Department contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected Department contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Retirement Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Retirement Fund's investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.



**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, 2014 and 2013**

**NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT (Continued)**

*Sensitivity of the net pension liability to changes in the discount rate:* The following presents the Retirement Fund's NPL as of June 30, 2014, calculated using the discount rate of 7.50%, as well as what the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

|                         | <u>1% Decrease<br/>(6.50%)</u> | <u>Current Discount<br/>Rate (7.50%)</u> | <u>1% Increase<br/>(8.50%)</u> |
|-------------------------|--------------------------------|--|--------------------------------|
| NPL as of June 30, 2014 | \$2,683,222,999                | \$1,272,233,314                          | \$87,350,054                   |

**Death Benefit Fund – Insured Lives**

The components of the net pension liability (NPL) of the death benefit fund – insured lives as of June 30, 2014 are as follows:

| <u>Total Pension<br/>Liability</u> | <u>Insured Life<br/>Benefit Fiduciary<br/>Net Position</u> | <u>Net Pension<br/>Liability</u> | <u>Fiduciary Net<br/>Position as % of<br/>Total Pension<br/>Liability</u> |
|------------------------------------|--|----------------------------------|---|
| \$107,730,290                      | \$12,211,148   | \$95,519,142                     | 11.33%  |

The Insured Life Death Benefit Fund's NPL as of June 30, 2014 was determined by actuarial valuation as of July 1, 2014. The actuarial assumptions used in the June 30, 2014 measurement were based on the results of an actuarial experience study for the period from July 1, 2009 through June 30, 2012. In particular, the following assumptions were applied in the measurement.

|                                   |  |
|-----------------------------------|--|
| Inflation rate                    | 3.25%  |
| Projected salary increases        | 4.75% to 10.00%, including inflation at 3.25%, “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 for Tier 1 members and 2.00% maximum for Tier 2 members. |
| Investment rate of return         | 4.00% net of investment expense, including inflation   |
| Mortality                         | RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.                             |

**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, 2014 and 2013**

**NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT (Continued)**

The long-term expected rate of return on Insured Life Death Benefit Fund's investments was determined using a building-block method in which expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Death Benefit Fund's target asset allocation as of June 30, 2014 and the projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| <u>Asset Class</u>        | <u>Target<br/>Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|---------------------------|------------------------------|---|
| Fixed income              | 96.00%                       | 0.85%   |
| Cash and cash equivalents | 4.00%                        | -0.13%  |
| Total                     | <u>100.00%</u>               |   |

*Discount rate:* The discount rate used to measure the total pension liability was 4.00% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed Department contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only Department contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected Department contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Insured Life Death Benefit Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

*Sensitivity of the net pension liability to changes in the discount rate:* The following presents the Insured Life Death Benefit Fund's NPL as of June 30, 2014, calculated using the discount rate of 4.00%, as well as what the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (3.00%) or 1-percentage-point higher (5.00%) than the current rate:

|                         | <u>1% Decrease<br/>(3.00%)</u> | <u>Current Discount<br/>Rate (4.00%)</u> | <u>1% Increase<br/>(5.00%)</u> |
|-------------------------|--------------------------------|--|--------------------------------|
| NPL as of June 30, 2014 | \$112,548,017                  | \$95,519,142                             | \$81,682,233                   |

**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, 2014 and 2013**

**NOTE 6 – ACTUARIAL VALUATION – RETIREE HEALTH BENEFITS FUND (RHBF)**

The DWP Board 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 \$60.7 million and \$49.5 million for fiscal years 2013-14 and 2012-13 were determined by the actuarial valuation of OPEB as of June 30, 2013 and 2012, respectively. The Department contribution, excluding administrative expenses reimbursement, during the fiscal years 2013-14 and 2012-13, amounted to \$74.1 million and \$67.6 million, respectively. The June 30, 2014 actuarial valuation determines the annual required contribution (ARC) for the fiscal year 2014-15 to be \$73.4 million.

The funded status of the RHBF as of June 30, 2014, the most recent actuarial valuation date, is as follows:

| Actuarial<br>Value of Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>- Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b)-(a)]/(c) |
|-------------------------------------|---|--|----------------------------|---------------------------|---|
| \$ 1,485,139,934                    | \$ 1,947,912,233  | \$ 462,772,299                         | 76.24%                     | \$ 900,126,274            | 51.41%  |

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, 2014 and 2013 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 4.25% (i.e., 1% over the assumed 3.25% CPI assumption used in the retirement valuation) over those in 2018. After 2019, the thresholds are assumed to increase by 3.25% (assumed CPI inflation) per year. Also in this valuation, the allocation of excise tax to the RHBF and retirees was 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 estimated impact of any potential excise tax imposed by the Act is continually reflected in the actuarial valuation.

**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, 2014 and 2013**

**NOTE 6 – ACTUARIAL VALUATION – RETIREE HEALTH BENEFITS FUND (RHBF)**  
**(Continued)**

Additional information as of the latest actuarial valuation follows:

|   |  |
|---|--|
| Valuation date                              | June 30, 2014  |
| Actuarial cost method                       | Entry age normal, level percent of pay   |
| Amortization method                         | 30-year amortization closed, level percent of pay  |
| Remaining amortization period               | 21 years remaining as of June 30, 2014   |
| 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:                      |  |
| Discount rate                               | 7.50%  |
| Projected salary increases                  | 4.00%  |
| Inflation rate                              | 3.25%  |
| Healthcare cost trend rates:                |  |
| Medical                                     | 7.00%, graded down to an ultimate rate of 5.00% over 8 years   |
| Dental and Medicare part B                  | 5.00%  |
| Mortality:                                  |  |
| After service retirement and pre-retirement | RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.   |
| After disability retirement                 | RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.   |

**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, 2014 and 2013**

**NOTE 7 – ACTUARIAL VALUATION – DISABILITY FUND**

Actuarial studies are performed annually on the disability fund 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 (as of July 1, 2013 and July 1, 2012) for the disability fund found that the Fund's accumulated reserves had met the recommended reserve level. The actuarial recommendations for the contribution rates, reserve levels, and general reserve transfers were approved by the Retirement Board.

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 decreased from \$1.52 per \$100 of covered payroll to \$1.51 of covered payroll. The rate change was approved by the Retirement Board in December 2013 and it was implemented the same month.

**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, 2014 and 2013**

**NOTE 8 – 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.

**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, 2014 and 2013**

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

The Retirement Plan reserves and designated balances at June 30, 2014 and 2013 are as follows:

|  | 2014             | 2013             |
|--|------------------|------------------|
| <u>Retirement Fund - Reserves and Designated Balances</u>              |                  |                  |
| Reserve for retirement allowances                                      | \$ 5,707,710,238 | \$ 5,374,580,442 |
| Contributions:   |                  |                  |
| Members' contributions   | 1,424,395,594    | 1,344,895,376    |
| Department contributions   | (1,189,110,780)  | (1,194,768,340)  |
| Total contributions  | 235,284,814      | 150,127,036      |
| Reserve for investments gains and losses                               | 5,484,082        | 5,484,082        |
| General reserve  | 1,928,372,515    | 1,830,298,150    |
| Total reserves and designated balances                                 | 7,876,851,649    | 7,360,489,710    |
| Unrealized appreciation in the fair value of investments               | 1,826,465,654    | 943,521,719      |
| Total reserves and designated balances at fair value                   | \$ 9,703,317,303 | \$ 8,304,011,429 |
| <u>Disability Fund - Reserves and Designated Balances</u>              |                  |                  |
| Estimated liability for temporary and permanent disability cases       | \$ 13,504,137    | \$ 13,473,287    |
| General reserve  | 26,882,251       | 28,865,511       |
| Total reserves and designated balances                                 | 40,386,388       | 42,338,798       |
| Unrealized appreciation in the fair value of investments               | 4,690,910        | 4,116,048        |
| Total reserves and designated balances at fair value                   | \$ 45,077,298    | \$ 46,454,846    |
| <u>Death Benefit Fund - Reserves and Designated Balances</u>           |                  |                  |
| Estimated liability for family allowances                              | \$ 4,398,429     | \$ 4,303,031     |
| Contribution account - family allowances                               | 6,532,956        | 6,816,833        |
| General reserve  | 12,426,186       | 11,680,192       |
| Total reserves and designated balances                                 | 23,357,571       | 22,800,056       |
| Unrealized appreciation in the fair value of investments               | 2,712,887        | 2,220,076        |
| Total reserves and designated balances at fair value                   | \$ 26,070,458    | \$ 25,020,132    |
| <u>Retiree Health Benefits Fund - Reserves and Designated Balances</u> |                  |                  |
| Department contributions (net of insurance premiums payment)           | \$ 1,037,604,927 | \$ 1,037,604,927 |
| General reserve  | 260,472,084      | 169,707,743      |
| Total reserves and designated balances                                 | 1,298,077,011    | 1,207,312,670    |
| Unrealized appreciation in the fair value of investments               | 314,071,267      | 170,506,918      |
| Total reserves and designated balances at fair value                   | \$ 1,612,148,278 | \$ 1,377,819,588 |

**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, 2014 and 2013**

**NOTE 9 – PLAN AMENDMENTS**

The Plan is periodically amended to meet changes in economic conditions and sound business practices. An amendment, which creates Tier 1 benefits for all existing members and retirees and Tier 2 benefits for new employees hired on or after January 1, 2014, was adopted by the Retirement Board on December 11, 2013. Major benefit provisions for each tier are described in Note 1. In addition, the suspension of the reciprocity program between the Plan and the City Employees' Retirement System became effective on January 1, 2014.

There were no significant Plan amendments for the fiscal year ended June 30, 2013.

**NOTE 10 – 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 fiduciary net position. 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.

**NOTE 11 – SUBSEQUENT EVENTS**

The Plan has evaluated subsequent events through December 5, 2014, the date the financial statements were available to be issued, and has determined that no other significant subsequent events have occurred through that date.



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

**RETIREMENT FUND  
SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED  
RATIOS  
(Unaudited)**

|   | <b>2014</b>              | <b>2013</b>              |
|---|--------------------------|--------------------------|
| <b>Total pension liability</b>  |                          |                          |
| Service cost  | \$ 193,661,118           | \$ 189,950,104           |
| Interest  | 779,396,615              | 748,904,919              |
| Change of benefit terms   | --                       | --                       |
| Differences between expected and<br>actual experience                   | (154,221,968)            | (98,062,638)             |
| Changes of assumptions  | 525,443,921              | --                       |
| Benefit payments, including<br>refund of member contributions           | <u>(463,596,940)</u>     | <u>(438,527,366)</u>     |
| <b>Net change in total pension liability</b>                            | 880,682,746              | 402,265,019              |
| <b>Total pension liability - beginning</b>                              | <u>10,094,867,871</u>    | <u>9,692,602,852</u>     |
| <b>Total pension liability - ending</b>                                 | <u>\$ 10,975,550,617</u> | <u>\$ 10,094,867,871</u> |
| <br><b>Plan fiduciary net position</b>                                  |                          |                          |
| Contributions- employer, including<br>those for administrative expenses | \$ 389,138,324           | \$ 372,819,194           |
| Contributions- employees  | 72,299,526               | 69,633,449               |
| Net investment income   | 1,405,686,198            | 919,679,147              |
| Benefit payments, including<br>refund of member contributions           | (463,596,940)            | (438,527,366)            |
| Administrative expense  | <u>(4,221,234)</u>       | <u>(3,736,871)</u>       |
| <b>Net change in fiduciary net position</b>                             | 1,399,305,874            | 919,867,553              |
| <b>Fiduciary net position - beginning</b>                               | <u>8,304,011,429</u>     | <u>7,384,143,876</u>     |
| <b>Fiduciary net position - ending</b>                                  | <u>\$ 9,703,317,303</u>  | <u>\$ 8,304,011,429</u>  |
| <br><b>Employer's Net pension liability</b>                             | <u>\$ 1,272,233,314</u>  | <u>\$ 1,790,856,442</u>  |
| <br><b>Fiduciary net position as % of total pension liability</b>       | 88.41%                   | 82.26%                   |
| <b>Covered employee payroll</b>   | \$ 819,923,866           | \$ 817,421,028           |
| <b>Net pension liability as % of covered<br/>employee payroll</b>       | 155.16%                  | 219.09%                  |

**Note to Schedule:**

This schedule is presented for those years for which information is available.

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

**RETIREMENT FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(Unaudited)**

| Plan Year<br>Ended June 30 | Actuarially<br>Determined<br>Contributions | Actual<br>Contributions | Contribution<br>Deficiency/<br>(Excess) | Covered<br>Employee<br>Payroll | Contribution<br>as Percentage<br>of Covered<br>Payroll |
|----------------------------|--|-------------------------|---|--------------------------------|--|
| 2014                       | \$ 387,823,989                             | \$ 384,265,892          | \$ 3,558,097                            | \$ 819,923,866                 | 46.87%   |
| 2013                       | 376,667,610                                | 368,426,348             | 8,241,262                               | 817,421,028                    | 45.07%   |
| 2012                       | 336,874,865                                | 321,688,919             | 15,185,946                              | 805,607,436                    | 39.93%   |
| 2011                       | 304,431,910                                | 286,699,384             | 17,732,526                              | 791,760,493                    | 36.21%   |
| 2010                       | 200,578,278                                | 201,034,807             | (456,529)                               | 767,912,436                    | 26.18%   |
| 2009                       | 141,291,589                                | 145,941,276             | (4,649,687)                             | 696,704,083                    | 20.95%   |
| 2008                       | 134,651,427                                | 141,862,126             | (7,210,699)                             | 623,674,973                    | 22.75%   |
| 2007                       | 134,504,482                                | 129,154,539             | 5,349,943                               | 604,514,525                    | 21.37%   |
| 2006                       | 110,268,590                                | 101,556,257             | 8,712,333                               | 574,315,572                    | 17.68%   |
| 2005                       | 80,784,677                                 | 75,490,143              | 5,294,534                               | 554,839,816                    | 13.61%   |

See Notes to Schedule on page 56.

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**

**RETIREMENT FUND  
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(Unaudited)**

|                                       |   |
|---------------------------------------|---|
| Valuation date                        | Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported  |
| Actuarial cost method                 | Entry age actuarial cost method   |
| Amortization method                   | Level dollar amortization   |
| Remaining amortization period         | The July 1, 2004 Unfunded Actuarial Accrued Liability is amortized over a 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. As directed by the Retirement Office, the actuarial valuation of assets may be reduced by an amount classified as a non-valuation reserve. |
| Other information                     | All members hired on or after January 1, 2014 enter Tier 2.   |
| Actuarial assumptions:                |   |
| Investment rate of return             | 7.50%   |
| Inflation rate                        | 3.25%   |
| Real across-the-board salary increase | 4.75% to 10.00%   |
| Projected salary increases            | 3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)  |
| Mortality                             | Healthy: RP-2000 Combined Healthy Mortality Table with ages set back one year projected to 2030 with Scale AA   |
| Other assumptions                     | Same as those used in the July 1, 2014 funding actuarial valuation  |

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**

**RETIREMENT FUND  
SCHEDULE OF INVESTMENT RETURNS  
(Unaudited)**

2014

|  |        |
|--|--------|
| Annual money-weighted rate of return,<br>net of investment expense | 17.05% |
|--|--------|

**Note to schedule:**

This schedule is presented for the year for which information is available.

**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 CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED  
RATIOS  
(Unaudited)**

|   | <u>2014</u>              | <u>2013</u>              |
|---|--------------------------|--------------------------|
| <b>Total pension liability</b>  |                          |                          |
| Service cost  | \$ 1,584,909             | \$ 1,551,788             |
| Interest  | 4,812,858                | 4,756,292                |
| Change of benefit terms   | --                       | --                       |
| Differences between expected and<br>actual experience                   | (879,072)                | (740,142)                |
| Changes of assumptions  | 9,676,044                | --                       |
| Benefit payments, including<br>refund of member contributions           | (4,273,388)              | (4,666,084)              |
| <b>Net change in total pension liability</b>                            | <u>10,921,351</u>        | <u>901,854</u>           |
| <b>Total pension liability - beginning</b>                              | <u>96,808,939</u>        | <u>95,907,085</u>        |
| <b>Total pension liability - ending</b>                                 | <u>\$ 107,730,290</u>    | <u>\$ 96,808,939</u>     |
| <br><b>Plan fiduciary net position</b>                                  |                          |                          |
| Contributions- employer, including<br>those for administrative expenses | \$ 5,362,342             | \$ 5,399,923             |
| Contributions- employees  | --                       | --                       |
| Net investment income   | 1,045,534                | (265,969)                |
| Benefit payments, including<br>refund of member contributions           | (4,273,388)              | (4,666,084)              |
| Administrative expense  | (370,083)                | (379,631)                |
| <b>Net change in fiduciary net position</b>                             | <u>1,764,405</u>         | <u>88,239</u>            |
| <b>Fiduciary net position - beginning</b>                               | <u>10,446,743</u>        | <u>10,358,504</u>        |
| <b>Fiduciary net position - ending</b>                                  | <u>\$ 12,211,148</u>     | <u>\$ 10,446,743</u>     |
| <br><b>Employer's Net pension liability</b>                             | <br><u>\$ 95,519,142</u> | <br><u>\$ 86,362,196</u> |
| <br><b>Fiduciary net position as % of total<br/>pension liability</b>   | <br>11.33%               | <br>10.79%               |
| <b>Covered employee payroll</b>   | \$ 819,923,866           | \$ 817,421,028           |
| <b>Net pension liability as % of covered<br/>employee payroll</b>       | 11.65%                   | 10.57%                   |

**Notes to Schedule:**

Administrative expenses –Employer contributions toward the administrative expense and the administrative expense itself have been allocated to the Insured Lives Death Benefit Fund for Noncontributing Members. This allocation is based on the proportion of the plan fiduciary net position shown above as compared to the total plan fiduciary net position of the death benefit fund, both as of the beginning of the plan year.

This schedule is presented for the year for which information is available.

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 EMPLOYER CONTRIBUTIONS  
(Unaudited)**

| <u>Plan Year<br/>Ended June 30</u> | <u>Actuarially<br/>Determined<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency/<br/>(Excess)</u> | <u>Covered<br/>Employee<br/>Payroll</u> | <u>Contribution<br/>as Percentage<br/>of Covered<br/>Payroll</u> |
|------------------------------------|---|---------------------------------|--|---|--|
| 2014                               | \$ 4,993,032  | \$ 4,993,032                    | \$ -   | \$ 819,923,866                          | 0.61%  |
| 2013                               | 5,021,181   | 5,021,181                       | -  | 817,421,028                             | 0.61%  |
| 2012                               | 5,001,416   | 5,001,416                       | -  | 805,607,436                             | 0.62%  |
| 2011                               | 5,552,771   | 5,552,771                       | -  | 791,760,493                             | 0.70%  |
| 2010                               | 5,133,632   | 5,133,632                       | -  | 767,912,436                             | 0.67%  |
| 2009                               | 4,445,208   | 4,445,208                       | -  | 696,704,083                             | 0.64%  |
| 2008                               | 3,825,394   | 3,825,394                       | -  | 623,674,973                             | 0.61%  |
| 2007                               | 3,671,046   | 3,671,046                       | -  | 604,514,525                             | 0.61%  |
| 2006                               | 3,537,698   | 3,537,698                       | -  | 574,315,572                             | 0.62%  |
| 2005                               | 3,384,830   | 3,384,830                       | -  | 554,839,816                             | 0.61%  |

See Notes to Schedule on page 60.

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)  
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(Unaudited)**

|  |  |
|--|--|
| Valuation date                             | Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported   |
| Actuarial cost method                      | Pay as you go, subject to modification by the Retirement Board's funding policy  |
| Funding policy                             | Recommend a contribution rate that maintains the general reserve at a target level of the average of the benefits paid for the last five years   |
| Asset valuation method                     | The market value of the Death Benefit Fund at valuation date, less the following: <ul style="list-style-type: none"> <li>• Reserves for benefits granted and contribution Accounts for the Family Death Benefit and Supplement Family Death Benefit; and</li> <li>• Insured Lives General Reserve for Contributing Members (Mean Funds)</li> </ul> |
| Actuarial assumptions as of June 30, 2013: |  |
| Investment rate of return                  | 5.00%  |

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 INVESTMENT RETURNS  
(Unaudited)

2014

|  |       |
|--|-------|
| Annual money-weighted rate of return,<br>net of investment expense | 4.00% |
|--|-------|

**Note to Schedule:**

This schedule is presented for those years for which information is available.



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

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

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of Assets<br>(a) | Actuarial<br>Accrued<br>Liabilities<br>(b) | Unfunded Actuarial<br>Accrued Liabilities<br>UAAL/(Surplus)<br>(b) - (a) | Funded<br>Ratio<br>(a) / (b) | Annual<br>Covered<br>Payroll<br>(c) | UAAL/(Surplus)<br>As a Percentage of<br>Covered Payroll<br>[(b) - (a)] / (c) |
|--------------------------------|-------------------------------------|--|--|------------------------------|-------------------------------------|--|
| June 30, 2014                  | \$ 1,485,139,934                    | \$ 1,947,912,233                           | \$ 462,772,299   | 76.24%                       | \$ 900,126,274                      | 51.41%   |
| June 30, 2013                  | 1,332,135,662                       | 1,743,726,715                              | 411,591,053  | 76.40%                       | 900,254,454                         | 45.72%   |
| 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%   |
| June 30, 2007                  | 649,115,755                         | 1,041,721,989                              | 392,606,234  | 62.31%                       | 670,400,000                         | 58.56%   |

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**

**RETIREE HEALTH BENEFITS FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(Unaudited)**

| <u>Year<br/>Ended<br/>June 30</u> | <u>Annual Required<br/>Contributions<br/>(ARC)</u> | <u>Actual<br/>Contributions</u> | <u>Percentage<br/>Contributed</u> |
|-----------------------------------|--|---------------------------------|-----------------------------------|
| 2014                              | \$ 60,676,014                                      | \$ 74,105,548 <sup>(1)(2)</sup> | 122.13%                           |
| 2013                              | 49,496,185   | 67,562,881 <sup>(1)(2)</sup>    | 136.50%                           |
| 2012                              | 53,691,399   | 101,720,586 <sup>(1)(2)</sup>   | 189.45%                           |
| 2011                              | 68,705,252   | 140,132,520 <sup>(1)(2)</sup>   | 203.96%                           |
| 2010                              | 58,502,789   | 160,236,897 <sup>(1)(2)</sup>   | 273.90%                           |
| 2009                              | 60,976,358   | 159,412,621 <sup>(1)(2)</sup>   | 261.43%                           |
| 2008                              | 40,144,629   | 157,359,628                     | 391.98%                           |
| 2007                              | 78,040,857   | 641,989,342                     | 822.63%                           |

(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.

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  
SUPPLEMENTARY INFORMATION**

**RETIREMENT FUND  
SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES  
For the Years Ended June 30, 2014 and 2013**

|  | Current<br>Service | Minimum<br>Pension | Cost of Living<br>Adjustments | Continuance to<br>Eligible Spouse | Department of<br>Water and Power<br>Total | Members'<br>Total | Combined<br>Total | Estimated Liabilities<br>for Retirement<br>Allowances |
|--|--------------------|--------------------|-------------------------------|-----------------------------------|---|-------------------|-------------------|---|
| 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                                      |
| Contributions received                                       | 61,764,192         | 311,958,537        | -                             | -                                 | 373,722,729                               | 69,633,449        | 443,356,178       | -   |
| Contributions refunded                                       | (5,296,382)        | -                  | -                             | -                                 | (5,296,382)                               | (5,819,253)       | (11,115,635)      | -   |
| Net Contributions  | 56,467,810         | 311,958,537        | -                             | -                                 | 368,426,347                               | 63,814,196        | 432,240,543       | -   |
| Transfers from contribution accounts<br>for retiring members | (70,060,980)       | (111,656,020)      | (87,286,291)                  | (12,087,292)                      | (281,090,583)                             | (74,548,361)      | (355,638,944)     | 355,638,944   |
| Retirement allowances paid                                   | -                  | -                  | -                             | -                                 | -   | -                 | -                 | (432,708,113)   |
| Interest at 7.75% per annum                                  | 97,009,941         | (89,079,570)       | (93,739,980)                  | (2,989,182)                       | (88,798,791)                              | 96,685,175        | 7,886,384         | 387,563,767   |
| Balance at June 30, 2013                                     | 1,349,989,963      | (1,137,936,951)    | (1,357,829,082)               | (48,992,269)                      | (1,194,768,340)                           | 1,344,895,376     | 150,127,036       | 5,374,580,442   |
| Contributions received                                       | 63,507,176         | 326,431,772        | -                             | -                                 | 389,938,948                               | 72,299,526        | 462,238,474       | -   |
| Contributions refunded                                       | (5,673,056)        | -                  | -                             | -                                 | (5,673,056)                               | (6,038,727)       | (11,711,783)      | -   |
| Net Contributions  | 57,834,120         | 326,431,772        | -                             | -                                 | 384,265,892                               | 66,260,799        | 450,526,691       | -   |
| Transfers from contribution accounts<br>for retiring members | (84,798,225)       | (98,588,009)       | (92,818,027)                  | (13,326,384)                      | (289,530,645)                             | (89,366,684)      | (378,897,329)     | 378,897,329   |
| Retirement allowances paid                                   | -                  | -                  | -                             | -                                 | -   | -                 | -                 | (457,558,215)   |
| Interest at 7.75% per annum                                  | 102,735,232        | (79,584,868)       | (108,014,270)                 | (4,213,782)                       | (89,077,688)                              | 102,606,102       | 13,528,414        | 411,790,682   |
| Balance at June 30, 2014                                     | \$ 1,425,761,090   | \$ (989,678,056)   | \$ (1,558,661,379)            | \$ (66,532,435)                   | \$ (1,189,110,781)                        | \$ 1,424,395,593  | \$ 235,284,812    | \$ 5,707,710,238                                      |

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  
SUPPLEMENTARY INFORMATION**

**DEATH BENEFIT FUND  
SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR  
FAMILY ALLOWANCES  
For the Years Ended June 30, 2014 and 2013**

|   | Members'     | Department of<br>Water<br>and Power | Combined<br>Total | Estimated<br>Liability for<br>Family<br>Allowances |
|---|--------------|-------------------------------------|-------------------|--|
| Balances at June 30, 2012   | \$ 5,417,602 | \$ 1,678,116                        | \$ 7,095,718      | \$ 4,244,926                                       |
| Contributions received  | 96,809       | -                                   | 96,809            | -  |
| Transfers to estimated liability<br>for family allowances from<br>contribution accounts for<br>members deceased during the year | (109,043)    | (266,651)                           | (375,694)         | 375,694  |
| Family allowances paid  | -            | -                                   | -                 | (535,444)  |
| Interest transferred from general<br>reserve at 5% per annum  | -            | -                                   | -                 | 217,855  |
| Balances at June 30, 2013   | \$ 5,405,368 | \$ 1,411,465                        | \$ 6,816,833      | \$ 4,303,031                                       |
| Contributions received  | 98,487       | -                                   | 98,487            | -  |
| Transfers to estimated liability<br>for family allowances from<br>contribution accounts for<br>members deceased during the year | (108,897)    | (273,466)                           | (382,364)         | 382,364  |
| Family allowances paid  | -            | -                                   | -                 | (502,216)  |
| Interest transferred from general<br>reserve at 5% per annum  | -            | -                                   | -                 | 215,250  |
| Balances at June 30, 2014   | \$ 5,394,958 | \$ 1,137,999                        | \$ 6,532,956      | \$ 4,398,429                                       |

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  
SUPPLEMENTARY INFORMATION**

RETIREMENT FUND  
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE  
June 30, 2014

## Revenues by Source

| <b>Fiscal<br/>Year</b> | <b>Members'<br/>Contributions</b> | <b>Department<br/>Contributions*</b> | <b>Investment<br/>Income**</b> | <b>Total</b>   |
|------------------------|-----------------------------------|--------------------------------------|--------------------------------|----------------|
| 2014                   | \$ 72,299,526                     | \$ 394,811,381                       | \$ 191,737,068                 | \$ 658,847,975 |
| 2013                   | \$ 69,633,449                     | \$ 378,115,576                       | \$ 191,561,805                 | \$ 639,310,830 |
| 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 |

## Expenses by Type

| <b>Fiscal<br/>Year</b> | <b>Benefits</b> | <b>Administrative<br/>Expenses***</b> | <b>Refunds****</b> | <b>Total</b>   |
|------------------------|-----------------|---------------------------------------|--------------------|----------------|
| 2014                   | \$ 457,558,214  | \$ 32,227,775                         | \$ 11,711,783      | \$ 501,497,772 |
| 2013                   | \$ 432,708,113  | \$ 27,233,363                         | \$ 11,115,635      | \$ 471,057,111 |
| 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 |

\* 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.

See accompanying independent auditor's report.