

**AUDIT COMMITTEE MEETING
OF THE
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
BOARD OF ADMINISTRATION**

MINUTES

DECEMBER 14, 2011

Committee Members Present:

Barry Poole, Chair
Mario Ignacio
Robert Rozanski

Staff Present:

Monette Carranceja, Assistant Retirement Plan Manager
Mary Higgins, Assistant Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

Mr. Poole called the meeting to order at 9:16 a.m.

Ms. Carranceja indicated quorum of the Audit Committee was present.

1. Presentation by Simpson & Simpson CPAs of the Annual Audit Report and Related Financial Statements, as of June 30, 2011

Ms. Carranceja reported the external auditors, Simpson & Simpson, CPAs, concluded their audit of the Plan's financial statements for the fiscal year ended June 30, 2011, and she turned the presentation over to the representatives from Simpson & Simpson to present the results of their audit.

The Committee acknowledged Brainard Simpson, Partner, who introduced Grace Yuen, Field Partner/Engagement Auditor, and Frank Liu, Audit Manager.

Mr. Simpson reported the following key conclusions as a result of their audit:

- ▶ No significant unusual transaction and audit adjustments are being proposed;
- ▶ No major issues were discussed concerning the retention of Simpson & Simpson as auditors;
- ▶ No disagreements with management and no significant difficulties were encountered;
- ▶ No management consultation with other accountants regarding the audit and accounting matters was detected;
- ▶ No significant deficiencies in internal controls were discovered; and
- ▶ A standard unqualified opinion on the financial statements will be issued.

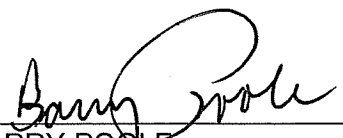
Mr. Simpson noted the total net assets of the Plan's four funds increased in FY2011, mainly as a result of the investment portfolio performance.

With regard to the new RSS or PenFax system, Mr. Simpson stated more effort should be made to refine the data used in the service credit calculations for the active member participants.

He also pointed out that one of the key provisions of the new Patient Protection & Affordable Care Act that was enacted in March 2010 is the assessment of a 40% excise tax on the cost of health care that exceeds a certain threshold. He stated the impact of the assessment was shown in the 2011 actuarial valuation as a net increase of approximately \$30 million in the Unfunded Liability for Fiscal Year ended June 30, 2011. Mr. Rozanski asked if the employer or a cost allocation between retirees and

employer would pay this cost, and Mr. Simpson stated the cost would be allocated between the Plan and the retirees based upon the current cost allocation. Mr. Rozanski asked what the employees' share of the excise tax will be, and Ms. Yuen said it would depend on whether the Department plans to absorb the cost or pass it along to the retirees.

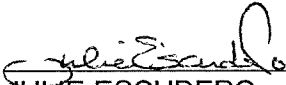
There being no further questions, concerns or comments, the meeting adjourned at 9:28 a.m.



BARRY POOLE
Chairperson



SANGEETA BHATIA
Retirement Plan Manager



JULIE ESCUDERO
Utility Executive Secretary