

***CITY OF LOS ANGELES***

***WATER AND POWER EMPLOYEES'  
RETIREMENT, DISABILITY AND  
DEATH BENEFIT INSURANCE PLAN  
REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION***

***JUNE 30, 2004***

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

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

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## ***INDEPENDENT AUDITOR'S REPORT***

The Board of Administration  
City of Los Angeles Water and Power  
Employees' Retirement, Disability and  
Death Benefit Insurance Plan

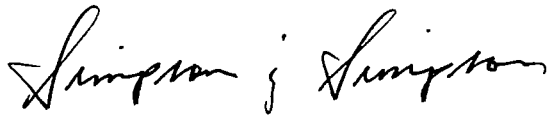
We have audited the accompanying statements of plan net assets of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (Plan) as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 to 14, Schedule of Funding Progress on page 32, and Schedule of Employer Contributions on page 33 are not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basis financial statements taken as a whole. The Statement of Contribution Accounts and Estimated Liability for Retirement Allowances, Statement of Contribution Accounts and Estimated Liability for Family Allowances, Statement of Changes in Cash Balances for All Funds, and Statement of Revenues by Source and Expenses by Type for the Retirement Fund on pages 36 to 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Statement of Contribution Accounts and Estimated Liability for Retirement Allowances, Statement of Contribution Accounts and Estimated Liability for Family Allowances, Statement of Changes in Cash Balances for All Funds, and Statement of Revenues by Source and Expenses by Type for the Retirement Fund have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basis financial statements taken as a whole.



Los Angeles, California  
September 10, 2004, except for Note 11  
as to which date is November 17, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Department of Water and Power (Department) Employees' Retirement, Disability, and Death Benefit Insurance Plan (Plan) for the years ended June 30, 2004 and 2003.

**Financial Highlights**

- The net assets at the close of the year 2004 were \$5,961,400,238, \$45,651,014 and \$32,808,024 for the Retirement, Disability, and Death Benefit Funds, respectively. All of the net assets were available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- Total net assets increased \$402,634,269 or 7% for the Retirement Fund; decreased by \$3,644,921 or 7% for the Disability Fund and decreased by \$4,588,722 or 12% for the Death Benefit Fund.
- As of June 30, 2004, the date of the Retirement Plan's last actuarial valuation, the funding ratio of the Plan was approximately 97.34%.
- Additions to Retirement Fund's Plan Net Assets for the year were \$710,617,222, which include member and employer contributions of \$96,303,216, and investment income of \$614,314,006.
- Deductions from Retirement Fund's Plan Net Assets increased from \$301,186,002 to \$307,982,953 over the prior year, or approximately 2%.

**Overview of the Financial Statements**

The following discussion and analysis is intended to serve as an introduction to the financial statements of the Retirement, Disability and Death Benefit Insurance Plans. These financial statements are composed of:

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

*The Statement of Changes in Plan Net Assets*, on the other hand, provides a view of current year additions to and deductions from the plan net assets.

The Statement of Plan Net Assets and the Statement of Changes in Plan Nets Assets report information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, similar to those used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. Both realized and unrealized gains and losses on investments are also recognized.

These two statements report the Plan's net assets available for pension, disability, and death benefits (net assets) – the difference between assets and liabilities – as a way to measure the Plan's financial position. Over time, increases and decreases in the Plan's net assets could indicate its financial health. Other factors, such as market conditions, should also be considered in measuring the Plan's overall health. The Plan's financial statements are on pages 15 to 20 of this report.

*Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These Notes are presented on pages 21 to 31 of this report.

*Other Information.* In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Retirement Fund's progress in funding its obligations to provide pension benefits to members and summary information on employer contributions. The Required Supplementary Information is on pages 32 to 35 of this report.

The Statement of Contribution Accounts and Estimated Liability for Retirement Allowances, Statement of Contribution Accounts and Estimated Liability for Family Allowances, Statement of Changes in Cash Balances for All Funds, and Statement of Revenues by Source and Expenses by Type for the Retirement Fund are presented immediately following the required supplementary information.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Analysis**

**Retirement Plan**

In 2004, Additions (consisting of members and Department contributions and investment income) in the amount of \$710,617,222 exceeded Deductions from net assets (including retirement benefits payments, members' contribution refund, and administrative expenses) in the amount of \$307,982,953 by \$402,634,269. The net increase in net assets brought the Retirement Plan's net asset base to \$5,961,400,238. For annual actuarial calculation, the actuary recognizes the unrecognized returns in each of the last five years (but not before July 1, 2001) over a five-year period. This process prevents extreme volatility in employer contribution rate due to short-term fluctuations in the investment markets. As of June 30, 2004, the actuarial value of assets was \$6,251 million, and the aggregate actuarial liability was \$6,422 million. On an actuarial basis, the assets currently fund 97.34 percent of this liability, compared to the funding ratio of 101.42 percent in 2003.

**Plan Net Assets**

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

Condensed Statements of Plan Net Assets (In thousands)				
	2004	2003	Dollar Change	Percent Change
Cash	\$ 562	\$ 258	\$ 304	117.83%
Receivables	30,069	43,250	(13,181)	-30.48%
Investments	6,037,743	5,969,003	68,740	1.15%
Total assets	6,068,374	6,012,511	55,863	0.93%
Liabilities	106,974	453,745	(346,771)	-76.42%
Total plan net assets	\$ 5,961,400	\$ 5,558,766	\$ 402,634	7.24%

As the above table shows, Retirement Plan's net assets increased by \$403 million (7.24%) in fiscal year 2004. This increase was due to the appreciation in the fair value of investments and overall decrease in liabilities. Another factor that contributed to this increase was the re-investment of more than \$1.3 billion in capital gains that were realized when certain assets were sold when transitioning to new investment mandates approved by the Board.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Changes in Plan Net Assets***

Condensed Statements of Changes in Plan Net Assets (In thousands)				
	2004	2003	Dollar Change	Percent Change
<b>Additions</b>				
Members' contributions	\$ 38,050	\$ 36,502	\$ 1,548	4.24%
Employer contributions	58,253	43,173	15,080	34.93%
Net investment income (loss)	614,314	109,136	505,178	462.89%
Total additions	<u>710,617</u>	<u>188,811</u>	<u>521,806</u>	276.36%
<b>Deductions</b>				
Benefits	302,064	295,587	6,477	2.19%
Refund	3,585	3,968	(383)	-9.65%
Administrative expenses	<u>2,334</u>	<u>1,631</u>	<u>703</u>	43.10%
	<u>307,983</u>	<u>301,186</u>	<u>6,797</u>	2.26%
Net increase (decrease) in plan net assets	\$ <u>402,634</u>	\$ <u>(112,375)</u>	\$ <u>515,009</u>	458.29%

***Additions to Plan Net Assets***

Additions needed to fund benefits are accumulated through contributions and realized earnings from invested funds. Contributions for fiscal year 2004 totaled \$96.3 million. This represents an increase of approximately 21 percent or \$16.6 million. The investment income totaled \$614 million, an increase of \$505.1 million from prior year.

The increase in members' and Department contributions was due to the increase in the Department's manpower complement. The members' contribution rate remained at approximately 6 percent of annual covered payroll, and the Department contributes \$1.10 for each \$1.00 contributed by members plus an actuarially determined percentage of covered payroll. The total Department contribution for the year ended June 30, 2004 was approximately 11.33% of covered payroll.

The increase in net investment income in 2004 was due to net realized gains on sales of investments and increase in book and market values of equity stock investments as a consequence of the Plan's transition to new investment strategies approved by the Board.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Deductions from Plan Net Assets***

The Retirement Plan was created to provide retirement annuities to qualified members and their beneficiaries. The cost includes benefit payments as designated by the Retirement Plan, refund of contributions to terminated and deceased employees, and administrative costs of operating the Plan.

The Deductions for the year ended June 30, 2004 totaled \$308.0 million, an increase of \$6.8 million over the prior year. The increase was due mainly to the increase in retiree benefit payments due to the cost of living adjustment for the year.

**Disability Insurance Plan**

In 2004, Deductions (consisting of disability benefits and administrative expenses) in the amount of \$8.8 million exceeded Additions to the Disability Fund's net assets (including members and Department contributions and investment income) in the amount of \$5.2 million by \$3.6 million. This brought the Disability Insurance Plan's net asset base to \$45.7 million.

***Plan Net Assets***

A summary of the Disability Insurance Plan's net assets is presented below.

Condensed Statements of Plan Net Assets (In thousands)				
	2004	2003	Dollar Change	Percent Change
Cash	\$ 26	\$ 32	\$ (6)	-18.75%
Receivables	4,989	5,436	(447)	-8.22%
Investments	40,673	43,876	(3,203)	-7.30%
Total assets	45,688	49,344	(3,656)	-7.41%
Liabilities	37	48	(11)	-22.92%
Total plan net assets	\$ 45,651	\$ 49,296	\$ (3,645)	-7.39%

As the above table shows, the Disability Insurance Plan's net assets decreased by \$3.6 million (7.39%) in fiscal year 2004. This decrease was due to the decline in the fair value of investments, coupled by an overall increase of approximately \$1.2 million in the amount of disability benefits paid this year compared to last year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Changes in Plan Net Assets***

Condensed Statements of Changes in Plan Net Assets (In thousands)				
	2004	2003	Dollar Change	Percent Change
<b>Additions</b>				
Members' contributions	\$ 397	\$ 383	\$ 14	3.66%
Employer contributions	4,765	4,174	591	14.16%
Net investment income	53	4,774	(4,721)	-98.89%
Total additions	<u>5,215</u>	<u>9,331</u>	<u>(4,116)</u>	-44.11%
<b>Deductions</b>				
Benefits	8,416	7,224	1,192	16.50%
Administrative expenses	444	389	55	14.14%
	<u>8,860</u>	<u>7,613</u>	<u>1,247</u>	16.38%
Net increase (decrease) in plan net assets	\$ <u>(3,645)</u>	\$ <u>1,718</u>	\$ <u>(5,363)</u>	-312.17%

***Additions to Plan Net Assets***

The Additions needed to fund the benefits are accumulated through contributions and realized earnings from invested funds. The contributions for the fiscal year 2004 totaled \$5.2 million, an increase of approximately 13.28 percent or \$0.6 million from a year ago. The net investment income totaled \$53 thousand, a decrease of 98.89 percent or \$4.7 million from prior year.

The increase in Department and members' contributions was due to the increase in the Department's number of employees.

The decrease in investment income in 2004 was caused primarily by the decline in the fair value of investments.

***Deductions from Plan Net Assets***

The Disability Insurance Plan was created to provide temporary, and/or permanent total disability benefit payments to qualified members. The cost includes disability benefit payments and administrative expenses incurred in operating the Plan.

The Deductions for the year ended June 30, 2004 totaled \$8.9 million, an increase of \$1.3 million over the prior year. This increase was attributable to the increase in temporary disability benefit payments.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Death Benefit Insurance Plan**

In 2004, the Deductions from the net assets (including benefits payments and administrative expenses) in the amount of \$8.9 million exceeded the Additions (consisting of members and Department contributions and investment income) in the amount of \$4.3 million by \$4.6 million. The net decrease in net assets brought the Death Benefit Insurance Plan's net asset base to \$32.8 million.

**Plan Net Assets**

A summary of the Death Benefit Insurance Plan's net assets is presented below.

Condensed Statements of Plan Net Assets (In thousands)				
	2004	2003	Dollar Change	Percent Change
Cash	\$ 22	\$ 33	\$ (11)	-33.33%
Receivables	524	1,036	(512)	-49.42%
Investments	33,799	37,735	(3,936)	-10.43%
Total assets	34,345	38,804	(4,459)	-11.49%
Liabilities	1,537	1,407	130	9.24%
Total plan net assets	\$ 32,808	\$ 37,397	\$ (4,589)	-12.27%

As the above table shows, the plan net assets decreased by \$4.6 million (12.27%) in the fiscal year 2004. This decrease was due to the decline in the fair value of investments, decrease in realized income from the Fund's investing activities, and overall increase in the benefits provided from the Fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Changes in Plan Net Assets***

Condensed Statements of Changes in Plan Net Assets (In thousands)				
	2004	2003	Dollar Change	Percent Change
<b>Additions</b>				
Members' contributions	\$ 283	\$ 276	\$ 7	2.54%
Employer contributions	3,877	3,771	106	2.81%
Net investment income	179	3,389	(3,210)	-94.72%
Total additions	<u>4,339</u>	<u>7,436</u>	<u>(3,097)</u>	-41.65%
<b>Deductions</b>				
Benefits	8,342	7,206	1,136	15.76%
Administrative expenses	586	437	149	34.10%
	<u>8,928</u>	<u>7,643</u>	<u>1,285</u>	16.81%
Net increase (decrease) in plan net assets	\$ <u>(4,589)</u>	\$ <u>(207)</u>	\$ <u>(4,382)</u>	-2116.91%

***Additions to Plan Net Assets***

Additions needed to fund death benefits are accumulated through contributions and realized earnings from invested funds. Contributions for fiscal year 2004 totaled \$4.2 million. This represents an increase of approximately 2.79 percent or \$0.2 million. The investment income totaled \$0.2 million, which represents a decrease of \$3.2 million or 94.72 percent over last year.

The decrease in investment income in 2004 was due to the net depreciation in the fair value of investments and lower interest income generated by the Fund's investing activities.

***Deductions from Plan Net Assets***

Death Benefit Insurance Plan was created to provide payments to beneficiaries of deceased members. The cost includes benefits provided and administrative costs of operating the Plan.

Deductions for the year ended June 30, 2004 totaled \$8.9 million, an increase of \$1.3 million over prior year. This increase was due to increase in benefit paid to beneficiaries of deceased active and retired members.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Request for Information**

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

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

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

RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 561,545	\$ 258,068
Receivables		
Accrued investment income	25,383,421	32,249,120
Other	4,686,071	11,000,796
Total receivables	30,069,492	43,249,916
Investments, at fair market value (Notes 2, 3 and 4)		
Bonds (amortized cost \$871,251,977 in 2004 and \$1,003,758,778 in 2003)	967,055,785	1,215,209,134
Common stock (cost of \$2,937,165,652 in 2004 and \$1,407,970,749 in 2003)	3,872,738,548	3,065,296,752
Mortgage-backed securities (amortized cost \$212,021,305 in 2004 and \$162,495,453 in 2003)	216,208,065	175,783,774
Short-term investments (cost approximates market)	876,826,520	1,067,452,121
Securities lending – short-term collateral investment pool (Notes 4 and 5)	104,913,701	445,260,999
Total investments	6,037,742,619	5,969,002,780
Total assets	6,068,373,656	6,012,510,764
<b>LIABILITIES</b>		
Payables – Department of Water and Power	(149,483)	(7,770,046)
Accounts payable	(1,910,234)	(713,750)
Securities lending – collateral payable (Note 5)	(104,913,701)	(445,260,999)
Total liabilities	(106,973,418)	(453,744,795)
Net assets	\$ 5,961,400,238	\$ 5,558,765,969

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

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

**RETIREMENT FUND**

**STATEMENT OF CHANGES IN PLAN NET ASSETS**

For the Years Ended June 30

	<u>2004</u>	<u>2003</u>
<b>ADDITIONS</b>		
Members' contributions	\$ 38,045,999	\$ 36,490,767
Installment payment from early retired employees	3,901	11,015
Department of Water & Power contributions towards:		
Benefit (net of reversions)	55,804,924	40,560,882
Administrative expenses	2,448,392	2,612,142
	<hr/>	<hr/>
Total contributions	96,303,216	79,674,806
	<hr/>	<hr/>
Investment income		
Net appreciation (decline) in fair value of investments	485,511,426	(74,499,398)
Interest	93,648,885	118,909,630
Dividends	36,284,134	65,489,292
Securities lending (Note 5)	378,361	217,588
	<hr/>	<hr/>
Total investment income	615,822,806	110,117,112
Less: investment expense	(1,508,800)	(981,147)
	<hr/>	<hr/>
Net investment income and market appreciation	614,314,006	109,135,965
	<hr/>	<hr/>
Total additions	710,617,222	188,810,771
	<hr/>	<hr/>
<b>DEDUCTIONS</b>		
Retirement benefits paid	302,063,849	295,587,105
Refund of members' contributions	3,585,343	3,967,902
Administrative expenses	2,333,761	1,630,995
	<hr/>	<hr/>
Total deductions	307,982,953	301,186,002
	<hr/>	<hr/>
Net increase (decrease)	402,634,269	(112,375,231)
	<hr/>	<hr/>
Net assets – Beginning of year	5,558,765,969	5,671,141,200
	<hr/>	<hr/>
Net assets – End of year	\$ 5,961,400,238	\$ 5,558,765,969
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*The notes are an integral part of these financial statements.*

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

**DISABILITY FUND**

**STATEMENT OF PLAN NET ASSETS**

As of June 30

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 25,679	\$ 31,553
Receivables		
Accrued investment income	661,185	851,756
Department of Water and Power	687,613	597,418
Other	330,255	676,294
Contingent disability benefit advance	3,310,339	3,310,339
Total receivables	<u>4,989,392</u>	<u>5,435,807</u>
Investments, at fair market value (Notes 2, 3 and 4)		
Bonds (amortized cost \$15,559,083 in 2004 and \$19,322,601 in 2003)	17,599,587	24,469,010
Mortgage-backed securities (amortized cost \$5,803,513 in 2004 and \$4,247,943 in 2003)	5,918,322	4,559,668
Short-term investments (cost approximates market)	17,155,548	14,847,480
Total investments	<u>40,673,457</u>	<u>43,876,158</u>
Total assets	<u>45,688,528</u>	<u>49,343,518</u>
<b>LIABILITIES</b>		
Accounts payable	<u>(37,514)</u>	<u>(47,583)</u>
Total liabilities	<u>(37,514)</u>	<u>(47,583)</u>
Net assets	<u>\$ 45,651,014</u>	<u>\$ 49,295,935</u>

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

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

**DISABILITY FUND**

**STATEMENT OF CHANGES IN PLAN NET ASSETS**

For the Years Ended June 30

	<u>2004</u>	<u>2003</u>
<b>ADDITIONS</b>		
Department of Water & Power contributions towards:		
Temporary disability benefits	\$ 3,335,673	\$ 3,009,891
Supplemental disability benefits	978,470	763,977
Administrative expenses	450,608	400,443
	<hr/>	<hr/>
Total department contributions	4,764,751	4,174,311
	<hr/>	<hr/>
Contributions from members for:		
Temporary disability benefits	199,874	192,441
Permanent total disability benefits	197,434	190,834
	<hr/>	<hr/>
Total members' contribution	397,308	383,275
	<hr/>	<hr/>
Net appreciation (decline) in the fair value of investments	(1,669,654)	2,386,488
Investment income	1,729,192	2,399,374
Less: investment expense	(6,599)	(11,712)
	<hr/>	<hr/>
Net investment income and market appreciation	52,939	4,774,150
	<hr/>	<hr/>
Total additions	5,214,998	9,331,736
	<hr/>	<hr/>
<b>DEDUCTIONS</b>		
Benefits provided:		
Temporary disability	6,210,253	5,306,242
Permanent total disability	1,235,285	1,154,061
Supplemental disability	970,372	763,977
	<hr/>	<hr/>
Total benefits provided	8,415,910	7,224,280
	<hr/>	<hr/>
Administrative expenses	444,009	388,731
	<hr/>	<hr/>
Total deductions	8,859,919	7,613,011
	<hr/>	<hr/>
Net increase (decrease)	(3,644,921)	1,718,725
	<hr/>	<hr/>
Net assets – Beginning of year	49,295,935	47,577,210
	<hr/>	<hr/>
Net assets – End of year	\$ 45,651,014	\$ 49,295,935
	<hr/>	<hr/>

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

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

**DEATH BENEFIT FUND**

**STATEMENT OF PLAN NET ASSETS**

As of June 30

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 21,810	\$ 32,755
Receivables		
Accrued investment income	159,837	281,166
Department of Water and Power	72,353	20,660
Other	292,219	733,795
Total receivables	524,409	1,035,621
Investments, at fair market value (Notes 2, 3 and 4)		
Bonds (amortized cost \$10,681,206 in 2004 and \$10,288,316 in 2003)	10,778,127	11,554,988
Mortgage-backed securities (amortized cost \$5,627,126 in 2004 and \$9,200,961 in 2003)	5,675,745	9,762,562
Short-term investments (cost approximates market)	17,344,893	16,417,930
Total investments	33,798,765	37,735,480
Total assets	34,344,984	38,803,856
<b>LIABILITIES</b>		
Accounts payable	(115,888)	(93,086)
Death claims in process – insured lives	(1,421,072)	(1,314,024)
Total liabilities	(1,536,960)	(1,407,110)
Net assets	\$ 32,808,024	\$ 37,396,746

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

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

**DEATH BENEFIT FUND**

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

	<u>2004</u>	<u>2003</u>
<b>ADDITIONS</b>		
Department of Water & Power contributions towards:		
Retired members (non-contributing)	\$ 3,286,097	\$ 3,324,504
Administrative expenses	<u>591,057</u>	<u>446,806</u>
Total department contributions	<u>3,877,154</u>	<u>3,771,310</u>
Contributions from members for:		
Insured lives' death benefit	200,558	190,894
Supplemental family death benefits	<u>82,603</u>	<u>84,488</u>
Total members' contribution	<u>283,161</u>	<u>275,382</u>
Net appreciation (decline) in the fair value of investments	(1,105,472)	1,553,155
Investment income	1,289,277	1,846,129
Less: investment expense	<u>(5,195)</u>	<u>(9,844)</u>
Net investment income and market appreciation	<u>178,610</u>	<u>3,389,440</u>
Total additions	<u>4,338,925</u>	<u>7,436,132</u>
<b>DEDUCTIONS</b>		
Benefits provided:		
Death benefit (active/retired members)	7,503,037	5,853,562
Family allowances (Note 8)	<u>838,748</u>	<u>1,353,039</u>
Total benefits provided	<u>8,341,785</u>	<u>7,206,601</u>
Administrative expenses	<u>585,862</u>	<u>436,962</u>
Total deductions	<u>8,927,647</u>	<u>7,643,563</u>
Net increase (decrease)	<u>(4,588,722)</u>	<u>(207,431)</u>
Net assets – Beginning of year	<u>37,396,746</u>	<u>37,604,177</u>
Net assets – End of year	\$ <u><u>32,808,024</u></u>	\$ <u><u>37,396,746</u></u>

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

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

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 – PLAN DESCRIPTION**

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

**Membership**

The Plan's membership consisted of the following at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Retirees, beneficiaries*	8,972	9,162
Terminated vested	703	703
Terminated non-vested	647	630
Inactive-non-contributing employees	263	233
Active-contributing employees:		
Vested	7,457	7,150
Non-vested	<u>466</u>	<u>742</u>
Total	<u><u>18,508</u></u>	<u><u>18,620</u></u>

\* The number of retirees, beneficiaries for the fiscal year ended June 30, 2004 and 2003 includes beneficiaries of the survivorship account.

**Benefit Provisions**

The retirement fund consists of both defined contribution and defined benefit elements. Members vest in the defined contribution element (annuity) after one year of service. Members vest in the defined benefit element (pension) only after qualifying for retirement and meeting the criteria for the formula pension. Generally, new or returning employees of the Department become eligible for Plan membership on the first day of the payroll period following entry into Department service. New eligible employees must

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

complete 26 weeks of continuous service before becoming entitled to disability and/or death benefits. The right to death benefits is effective upon an employee's date of membership.

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

Members are eligible for normal retirement at age 60 with at least five years of service. Early retirement at age 55 is generally available if the member has been with the Department for 10 of the last 12 years before retirement. Members with 30 or more years may retire at age 50 and receive unreduced benefits. Upon qualifying for retirement, 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 the five years immediately preceding retirement or while eligible to retire (or during any of those four years if they were receiving either disability benefits under the Plan or payments under any Workers' Compensation law). Eligible members are entitled to an annual retirement benefit, payable monthly for life, currently in an amount equal to a retirement factor of 2.1% of their highest average salary, for each year of credited service, or \$9.50 times their years of service. Members who have at least 30 years of service credit and are at least 55 years of age (and represented by a bargaining unit that has negotiated this benefit) are entitled to a retirement factor of 2.3% in the calculation of their retirement allowance. "Highest average salary" is defined as the employee's average salary, excluding overtime, over the highest 26 consecutive payroll periods.

**Contributions**

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

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

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

The Plan adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* beginning fiscal year ended June 30, 2003. GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* have also been implemented in the basic financial statements and accompanying notes.

**Method of Reporting**

The Plan follows the accounting principles and reporting guidelines as set forth in the Statement 25 of the Governmental Accounting Standards Board. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the Plan. Members' and Department's contributions were recognized as revenues in the period in which the employee services are performed, and benefits and refunds are recognized when due and payable in accordance with the terms of each benefit fund.

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

**Cash**

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

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

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

**Investments**

The Plan's investments were reported at fair value. The Plan generally holds bond and mortgage-backed security investments to maturity. The fair values were derived by various methods. The stated fair value of investments was based on published market prices and quotations from major investment dealers. Short-term investments were reported at cost, which approximates market value. Securities traded on a national or international exchanges are valued at the last reported sales price at current exchange rates in effect at June 30. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar investments. Private placement bonds were valued at the face value of the security subject to adjustments.

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

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – SUMMARY OF INVESTMENT POLICIES**

Investment authority is granted to the Plan by the Charter of the City of Los Angeles and is exercised in accordance with the Board's investment policy. The Charter authorizes the form and type of investment vehicles which may be purchased. The Board may invest in bonds, treasury bills, stocks, mortgage-backed securities, short-term instruments and real estate, and it may utilize stock covered call options and securities lending. Real estate is the only authorized investment vehicle in which the Plan is not currently invested. There are no investment holdings of five (5) percent or more in any organization of each fund's net assets or in the aggregate, other than issued or guaranteed securities by the U.S. Government.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Three categories of risk level have been developed by the Government Accounting Standards Board Statement 3 to disclose the various custodial risks associated with the cash and investments of the Plan.

**Cash**

Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized.

As of June 30, 2004 and 2003, the Plan's cash balances consist primarily of cash deposit with the Treasurer of the City of Los Angeles. Cash on deposit with another government agency is not required to be categorized for the purpose of custodial risk classification.

**Investments**

Category 1 – Insured or registered, or securities held by the entity or by its agent in the entity's name.

Category 2 – Uninsured or unregistered, with securities held by the counter-party, or by its trust department or agent but not in the entity's name.

Category 3 – Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the entity's name.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Investments by category, at June 30, 2004 and 2003 are composed of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
<b><u>Category 1</u></b>				
Bonds:				
Not on securities loan	\$ 995,433,499	\$ 897,492,266	\$ 897,399,710	\$ 767,544,695
Common Stock:				
Not on securities loan	3,751,501,443	2,849,487,113	2,973,623,605	1,344,319,330
Mortgage-backed securities	227,802,132	223,451,944	190,106,004	175,944,357
Short-term investments	911,326,961	911,326,961	1,098,717,531	1,098,717,531
	<u>5,886,064,035</u>	<u>4,881,758,284</u>	<u>5,159,846,850</u>	<u>3,386,525,913</u>
<b><u>Category 2</u></b>				
The Plan has no securities in this category	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Category 3</u></b>				
The plan has no securities in this category	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Not Categorized (See Note 5)</u></b>				
Investments held by broker under securities loan with cash collateral:				
Bonds	-	-	353,833,422	265,825,000
Common Stock	121,237,105	87,678,539	91,673,147	63,651,419
Securities lending—Short-term collateral investment pool	<u>104,913,701</u>	<u>104,913,701</u>	<u>445,260,999</u>	<u>445,260,999</u>
	<u>226,150,806</u>	<u>192,592,240</u>	<u>890,767,568</u>	<u>774,737,418</u>
	<u>\$ 6,112,214,841</u>	<u>\$ 5,074,350,524</u>	<u>\$ 6,050,614,418</u>	<u>\$ 4,161,263,331</u>

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**NOTE 5 – SECURITIES LENDING**

The Plan is authorized by the Charter of the City of Los Angeles and the Board's investment policy to lend its investment securities to various brokers. The lending is managed by the Plan's custodial bank. The Plan or the borrowers can terminate the contract with advance notice. The lending arrangements are collateralized by cash and marketable securities (guaranteed by the full faith and credit of the U.S. Government) at 102% of the underlying securities' market value. These arrangements provide for the return of the investments and a share of the interest earned on the collateral. The securities on loan to brokers remain the property of the Plan and continue to be included in their respective accounts on the Statement of Plan Assets. Securities on loan at year-end with cash received as collateral are itemized as "not categorized" in the Schedule of Custodial Credit Risk in Note 4; and securities on loan with securities received as collateral are categorized in accordance with the category of the collateral received. At June 30, 2004, the Plan has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan and there were no borrower or lending agent default losses.

The Plan's custodian is the authorized agent to handle the Plan's securities' lending activity. The Plan's custodian may invest the cash collateral received in connection with loaned securities in investments permitted by the Plan. Effective December 1, 1994, the Plan bears sole risk of all losses of the invested collateral, including losses incurred in the event of liquidation of the permitted investments. The custodian bank is responsible for the return of loaned securities from the borrowers. The Plan does not have the ability to pledge or sell collateral assets unless the borrower is in default of its obligation.

The fair value of the underlying securities on loan, collateralized by cash and securities (backed by the full faith and credit of the U.S. Government), as of June 30, 2004 and 2003 is:

Securities on Loan	2004	2003
Bonds – U.S. Govt. & Agencies	\$ -	\$ 277,379,818
Bonds – Domestic corporate	-	76,453,604
Equities – Domestic stocks	121,237,105	91,673,147
	\$ <u>121,237,105</u>	\$ <u>445,506,569</u>

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

The annual valuation performed as of June 30, 2004 and 2003 determined the funding status to be 97.34% and 101.42%, respectively.

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

Actuarial studies are performed bi-annually on the Death Benefit and Disability Funds to determine the appropriate contribution rates and the benefit reserves levels needed to fund the current and future benefit liabilities. The results of the most recent bi-annual actuarial reviews (fiscal years ended June 30, 2003 and June 30, 2004) for the Death and Disability Benefit Funds, respectively, found that both Funds' accumulated reserves had met the recommended reserve levels. The actuarial recommendations for the contribution rates, reserve levels, and general reserve transfers were approved by the Board.

**Death Benefit Fund**

For the Death Benefit Fund, the actuary recommended to suspend contributions to the contributing members' death benefits and change the contribution rate for non-contributing members' death benefits to \$1.30 per \$100 of retired payroll.

**Disability Fund**

For the Permanent and Total Disability Fund, the actuary recommended that the Department's contribution rate to remain at zero cents per \$100 of covered payroll. As for the Temporary Disability Fund, the actuary recommended an increase in contribution rate (members and Department) to \$0.74 cents per \$100 of covered payroll.

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**NOTE 8 – RESERVES AND DESIGNATED BALANCES**

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

Member contribution accounts represent the balance of member contributions. Additions include member contributions and interest and deductions include refunds of member contributions and transfers to the Reserve for Retirement Allowances, Death Benefit Reserves and transfers to 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; and deductions include transfers to Retirement Reserves and Death Benefit Reserves.

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

General Reserves represent reserves accumulated for future earning 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 to the estimated benefit liabilities reserves accounts.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Reserves and designated balances for the years ended June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
<u>Retirement Fund – Reserves and Designated Balances</u>		
Reserve for retirement allowances	\$ 3,607,116,305	\$ 3,521,712,710
Members' contributions	624,801,662	562,002,102
Department contributions	(619,997,826)	(544,306,611)
Total contributions	<u>4,803,836</u>	<u>17,695,491</u>
Reserve for investment gains & losses	<u>5,760,208</u>	<u>5,547,909</u>
General reserve	<u>1,308,156,425</u>	<u>131,745,179</u>
Total reserves and designated balances	4,925,836,774	3,676,701,289
Unrealized appreciation (decline) in the fair value of investments	<u>1,035,563,464</u>	<u>1,882,064,680</u>
Total reserves and designated balances at market value	<u>\$ 5,961,400,238</u>	<u>\$ 5,558,765,969</u>
<u>Disability Fund – Reserves and Designated Balances</u>		
Estimated liability for temporary and permanent disability cases	\$ 12,869,010	\$ 11,517,627
General reserve	<u>30,626,691</u>	<u>32,320,174</u>
Total reserves and designated balances	43,495,701	43,837,801
Unrealized appreciation (decline) in the fair value of investments	<u>2,155,313</u>	<u>5,458,134</u>
Total reserves and designated balances at market value	<u>\$ 45,651,014</u>	<u>\$ 49,295,935</u>
<u>Death Benefit Fund – Reserves and Designated Balances</u>		
Estimated liability for:		
Family allowances	\$ 2,137,156	\$ 2,259,135
Total estimated liability	<u>2,137,156</u>	<u>2,259,135</u>
Contribution accounts:		
Family allowances	<u>9,974,699</u>	<u>9,690,374</u>
Total contribution accounts	<u>9,974,699</u>	<u>9,690,374</u>
General reserve	<u>20,550,629</u>	<u>23,618,964</u>
Total reserves and designated balances	32,662,484	35,568,473
Unrealized appreciation (decline) in the fair value of investments	<u>145,540</u>	<u>1,828,273</u>
Total reserves and designated balances at market value	<u>\$ 32,808,024</u>	<u>\$ 37,396,746</u>

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

**NOTES TO FINANCIAL STATEMENTS  
(Continued)**

**NOTE 9 – PLAN AMENDMENTS**

The Plan is periodically amended to meet changes in economic conditions and sound business practices. The following is a summary of the more significant Plan amendments approved during the years ended June 30, 2004 and 2003.

**Year Ended June 30, 2004**

There were no significant Plan amendments for the year ended June 30, 2004.

**Year Ended June 30, 2003**

The Plan increased the retirement factor used in the calculation of the retirement benefit for 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) from 2.1% to 2.3%.

In addition, the Plan increased the monthly family death benefit from \$160 per eligible minor/person, with a maximum of \$450 per family to \$416 per eligible minor/person, with a maximum of \$1,170 per family. Supplemental family benefit was also increased from \$200 per eligible minor/person, with a maximum of \$410 per family to \$520 per eligible minor/person, with a maximum of \$1,066 per family.

**NOTE 10 – CONTINGENT LIABILITIES**

At June 30, 2004, several legal actions/divorces were pending against the Plan as codefendant. Counsel for the Department and the Plan has indicated that adverse decisions in these cases would not materially affect the financial statements. In the event of legal settlement, costs would be refunded by increased charges to the Department.

**NOTE 11 – SUBSEQUENT EVENT**

The Board adopted the actuary report on November 17, 2004.

**EXHIBIT I**

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

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liabilities	(3) Unfunded Actuarial Accrued Liabilities UAAL/(Surplus) (2) - (1)	(4) Funded Ratio (1) Divided by (2)	(5) Annual Covered Payroll	(6) UAAL/(Surplus) As a Percentage of Covered Payroll (3) Divided by (5)
2004	\$6,251	\$6,422	\$171	97.34%	\$581	29.43%
2003	\$6,128	\$6,042	(\$86)	101.42%	\$528	(16.29%)
2002	\$5,790	\$5,715	(\$75)	101.31%	\$430	(17.44%)
2001	\$5,833	\$5,306	(\$527)	109.93%	\$403	(130.77%)
2000	\$5,606	\$5,083	(\$523)	110.29%	\$368	(142.12%)
1999	\$5,254	\$4,911	(\$343)	106.98%	\$355	(96.62%)
1998	\$4,514	\$4,340	(\$174)	104.01%	\$431	(40.37%)
1997	\$3,851	\$3,812	(\$39)	101.02%	\$430	(9.07%)
1996	\$3,400	\$3,699	\$299	91.92%	\$431	69.37%
1995	\$3,066	\$3,501	\$435	87.57%	\$469	92.75%
1994	\$2,756	\$3,309	\$553	83.29%	\$470	117.66%

See Independent Auditor's Report.

**EXHIBIT II**

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

**RETIREMENT FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30	(1) Actual Covered Payroll	(2) Actuarial Determined Percentage	(3) Annual Required Contribution (1) times (2)	(4) Benefit Contribution Made	Percentage Contributed (4) divided by (3)
2004	\$522,227,280	10.83%	\$56,557,214	\$55,804,924	98.67%
2003	\$472,432,303	10.89%	\$51,447,878	\$40,560,882	78.84%
2002	\$430,397,884	10.64%	\$45,794,335	\$27,241,801	59.49%
2001	\$403,265,472	10.59%	\$42,705,813	\$25,763,218	60.33%
2000	\$369,509,233	10.57%	\$39,057,126	\$24,426,465	62.54%
1999	\$355,148,948	9.64%	\$34,236,359	\$57,440,383	167.78% (A)
1998	\$430,526,044	7.32%	\$31,514,506	\$124,470,502	394.96% (B)
1997	\$429,971,528	21.81%	\$93,776,790	\$103,836,661	110.73%
1996	\$430,962,812	25.81%	\$111,231,502	\$108,871,249	97.88%
1995	\$468,527,110	27.19%	\$127,392,521	\$141,224,937	110.86%
1994	\$470,154,117	30.04%	\$141,234,297	\$141,041,193	99.86%

- (A) The benefit contribution made (Column 4) exceeded the required contribution (Column 3) in 1998-99 because the Retirement Board made the normal cost contribution determined by the Actuary based on its action in September 1998 after the stock market had declined and significantly reduced the market valuation of the assets. The Retirement Board reduced the contribution amount to zero for the defined benefit element of the Plan in March 1999 after the actuary confirmed that the cost of the Plan after the separation package would still be zero. The defined contribution employer match was still contributed after the defined contribution rate was reduced to zero.
- (B) The benefit contribution made (Column 4) exceeded the required contribution (Column 3) in 1997-98 because the Retirement Board determined that the rate adopted for 1996-97 would be continued until the full cost of the separation package was determined.

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

Actuarial cost method	Entry-age normal
Amortization method and remaining amortization period	The June 30, 2000 Surplus Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2000. Any subsequent changes in Surplus or Unfunded Actuarial Accrued Liability are amortized over separate fifteen-year periods.
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years (but not before July 1, 2001). Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	A rate of return on the investment of present and future assets of 8% per year compounded annually,
Projected salary increase	Projected salary increases of 4.5% per year compounded annually, inflation plus real increases; additional projected salary increases of 1% per year, attributable to seniority/merit, and
Cost of living adjustment	Post-retirement benefit increases based on changes in the Consumer Price Index to a maximum of 3% per year.

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

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(Continued)

The June 30, 2000 Surplus Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2000. Any subsequent changes in Surplus or Unfunded Actuarial Accrued Liability are amortized over separate fifteen-year periods.

The Department contribution for the fiscal year ended June 30, 2004 was made in accordance with the contribution requirements determined through the actuarial valuations performed at June 30, 2003. The contribution rate is equal to the rate needed to satisfy the matching employer contribution.

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**EXHIBIT III**

RETIREMENT FUND

STATEMENT OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES  
For the Years Ended June 30, 2004 and 2003

	Contribution Accounts								
	Department of Water & Power								Est. Liabilities for Retirement Allowances
	Current Service	Minimum Pensions	Cost-of-Living Adjustments	Continuance to Eligible Spouse	Dept. of Water & Power Total	Members' Total	Combined Total		
Balance at June 30, 2002	\$ 490,965,027	\$ (764,650,099)	\$ (246,940,354)	\$ 24,515,255	\$ (496,110,171)	\$ 498,930,163	\$ 2,819,992	\$	3,480,765,363
Contributions received	38,368,332	6,296,713	-	-	44,665,045	36,490,767	81,155,812		-
Contributions refunded	(4,104,163)	-	-	-	(4,104,163)	(3,967,902)	(8,072,065)		-
Net contributions	34,264,169	6,296,713	-	-	40,560,882	32,522,865	73,083,747		-
Transfers from contribution accounts for retiring members	(9,531,968)	(21,757,319)	(15,394,103)	(1,706,032)	(48,389,422)	(10,018,132)	(58,407,554)		58,407,554
Installment payment from early retired employees	-	-	-	-	-	-	-		11,015
Transfers to / (from) reserve for retirement allowances (from) / to contribution accounts for actuarial adjustments	-	-	-	-	-	-	-		-
Retirement allowances paid	-	-	-	-	-	-	-		(295,587,105)
Transfers (to) / from general reserve	-	-	-	-	-	-	-		-
Interest at 8% per annum	40,017,945	(61,914,033)	(20,367,099)	1,895,287	(40,367,900)	40,567,206	199,306		278,115,883
Balance at June 30, 2003	555,715,173	(842,024,738)	(282,701,556)	24,704,510	(544,306,611)	562,002,102	17,695,491		3,521,712,710
Contributions received	39,584,698	19,893,739	-	-	59,478,437	38,045,999	97,524,436		-
Contributions refunded	(3,673,514)	-	-	-	(3,673,514)	(3,585,343)	(7,258,857)		-
Net contributions	35,911,184	19,893,739	-	-	55,804,923	34,460,656	90,265,579		-
Transfers from contribution accounts for retiring members	(16,292,576)	(39,992,079)	(26,984,736)	(3,370,346)	(86,639,737)	(17,320,666)	(103,960,403)		103,960,403
Installment payment from early retired employees	-	-	-	-	-	-	-		3,901
Transfers to / (from) reserve for retirement allowances (from) / to contribution accounts for actuarial adjustments	-	-	-	-	-	-	-		-
Retirement allowances paid	-	-	-	-	-	-	-		(302,063,848)
Transfers (to) / from general reserve	-	-	-	-	-	-	-		-
Interest at 8% per annum	45,279,778	(68,311,401)	(23,667,138)	1,842,360	(44,856,401)	45,659,570	803,169		283,503,139
Balance at June 30, 2004	\$ 620,613,559	\$ (930,434,479)	\$ (333,353,430)	\$ 23,176,524	\$ (619,997,826)	\$ 624,801,662	\$ 4,803,836	\$	3,607,116,305

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**CITY OF LOS ANGELES**  
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**DEATH BENEFIT FUND – FAMILY ALLOWANCES**

**STATEMENT OF CONTRIBUTION ACCOUNTS AND  
ESTIMATED LIABILITY FOR FAMILY ALLOWANCES**  
For the Years Ended June 30, 2004 and 2003

	<u>Members</u>	<u>Department of Water &amp; Power</u>	<u>Combined Total</u>	<u>Estimated Liability for Family Allowances</u>
Balances at June 30, 2002	\$ 2,954,214	6,041,566	8,995,780	3,290,034
Contributions received	84,488	-	84,488	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the Year	-	(108,711)	(108,711)	108,711
Family allowances paid	-	-	-	(1,353,039)
Interest transferred from general reserve at 8% per annum	239,983	478,834	718,817	213,429
Balances at June 30, 2003	3,278,685	6,411,689	9,690,374	2,259,135
Contributions received	82,603	-	82,603	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the Year	-	(547,681)	(547,681)	547,681
Family allowances paid	-	-	-	(838,748)
Interest transferred from general reserve at 8% per annum	265,748	483,655	749,403	169,088
Balances at June 30, 2004	\$ 3,627,036	\$ 6,347,663	\$ 9,974,699	\$ 2,137,156

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**EXHIBIT V**

ALL FUNDS  
STATEMENT OF CHANGES IN CASH BALANCES  
For the Years Ended June 30, 2004 and 2003

	Retirement Fund		Disability Fund		Death Benefit Fund	
	2004	2003	2004	2003	2004	2003
<i>Source of Cash:</i>						
Contributions from Department of Water & Power for:						
Current service (net of reversions during year)	\$ 35,911,184	\$ 34,264,169	\$ -	\$ -	\$ -	\$ -
Minimum pensions	19,893,739	6,296,713	-	-	-	-
Cost-of-living adjustments	-	-	-	-	-	-
Continuance to eligible spouse	-	-	-	-	-	-
Operating expenses	2,448,392	2,612,142	450,608	400,443	591,057	446,806
Disability and death benefits	-	-	4,314,143	3,780,136	3,286,097	3,324,504
Contributions from members (net of withdrawals)	34,460,656	32,522,865	397,308	383,275	283,161	275,382
Installment payment from early retired employees	3,901	11,015	-	-	-	-
Interest and dividends collected on investments	137,177,080	193,206,653	1,919,763	2,535,065	1,410,606	1,849,250
Decrease in investments (net)	76,424,289	29,780,211	1,533,047	934,266	2,831,243	2,458,120
Accounts receivable at beginning of year -						
collected during year	11,000,796	7,291,289	1,273,712	872,949	733,795	392,770
Deduct accounts receivable at end of year	(4,686,071)	(11,000,796)	(1,017,868)	(1,273,712)	(292,219)	(733,795)
Total Sources of Cash	<u>312,633,966</u>	<u>294,984,261</u>	<u>8,870,713</u>	<u>7,632,422</u>	<u>8,843,740</u>	<u>8,013,037</u>
<i>Uses of Cash:</i>						
Allowances and benefits to members or						
beneficiaries	302,063,849	295,587,105	8,415,910	7,224,280	8,234,737	7,185,205
Operating expenses	3,842,561	2,612,142	450,608	400,443	591,057	446,806
Increase in investments (net)						
Accounts payable at beginning of year -						
paid during the year	8,483,796	5,156,099	47,583	27,777	72,426	424,213
Deduct accounts payable at end of year	(2,059,717)	(8,483,796)	(37,514)	(47,583)	(43,535)	(72,426)
Total Uses of Cash	<u>312,330,489</u>	<u>294,871,550</u>	<u>8,876,587</u>	<u>7,604,917</u>	<u>8,854,685</u>	<u>7,983,798</u>
<i>Increases (decreases) in cash during the year</i>	303,477	112,711	(5,874)	27,505	(10,945)	29,239
<i>Cash balances at beginning of year</i>	<u>258,068</u>	<u>145,357</u>	<u>31,553</u>	<u>4,048</u>	<u>32,755</u>	<u>3,516</u>
<i>Cash balances at end of year</i>	\$ <u>561,545</u>	\$ <u>258,068</u>	\$ <u>25,679</u>	\$ <u>31,553</u>	\$ <u>21,810</u>	\$ <u>32,755</u>

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**CITY OF LOS ANGELES**  
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**RETIREMENT FUND**

**STATEMENT OF REVENUES BY SOURCE AND EXPENSES BY TYPE**

**Revenues by Source**

<u>Fiscal Year</u>		<u>Members' Contributions</u>		<u>Department Contributions*</u>		<u>Investment Income**</u>		<u>Total</u>
2004	\$	38,045,999	\$	61,926,829	\$	130,311,380	\$	230,284,208
2003	\$	36,490,767	\$	47,277,187	\$	184,616,510	\$	268,384,464
2002	\$	30,002,271	\$	33,837,427	\$	208,529,336	\$	272,369,034
2001	\$	27,688,883	\$	30,813,290	\$	235,096,893	\$	293,599,066
2000	\$	26,128,536	\$	31,042,231	\$	224,680,749	\$	281,851,516
1999	\$	24,781,774	\$	68,848,769	\$	205,607,813	\$	299,238,356
1998	\$	25,732,201	\$	129,347,361	\$	253,236,351	\$	408,315,913
1997	\$	22,061,056	\$	107,559,632	\$	211,293,953	\$	340,914,641
1996	\$	20,943,835	\$	115,390,112	\$	218,629,777	\$	354,963,724
1995	\$	22,258,209	\$	146,830,695	\$	208,557,506	\$	377,646,410
1994	\$	23,120,805	\$	146,539,832	\$	176,359,452	\$	346,020,089

**Expenses by Type**

<u>Fiscal Year</u>		<u>Benefits</u>		<u>Administrative Expenses***</u>		<u>Refunds****</u>		<u>Total</u>
2004	\$	302,063,849	\$	3,842,561	\$	7,258,857	\$	313,165,267
2003	\$	295,587,105	\$	2,612,142	\$	8,072,065	\$	306,271,312
2002	\$	290,243,650	\$	2,202,790	\$	8,618,684	\$	301,065,124
2001	\$	275,870,558	\$	2,282,401	\$	5,641,742	\$	283,794,701
2000	\$	271,559,094	\$	2,374,325	\$	8,085,954	\$	282,019,373
1999	\$	254,253,462	\$	2,660,477	\$	17,374,946	\$	274,288,885
1998	\$	198,859,447	\$	2,025,373	\$	9,739,210	\$	210,624,030
1997	\$	196,142,682	\$	2,030,872	\$	7,148,793	\$	205,322,347
1996	\$	189,840,150	\$	1,788,958	\$	9,877,886	\$	201,506,994
1995	\$	163,261,490	\$	1,831,603	\$	7,404,815	\$	172,497,908
1994	\$	156,574,928	\$	1,739,533	\$	7,897,802	\$	166,212,263

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

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

\*\*\* Represents investment and administrative expenses.

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

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