

**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, 2010 and 2009  
WATER AND POWER EMPLOYEES'  
RETIREE HEALTH BENEFITS FUND  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2010 and 2009**

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

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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

We have audited the accompanying statements of plan net assets of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (Retirement Plan) and the Retiree Health Benefits Fund (RHBF), collectively known as the Plan, as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of June 30, 2010 and 2009, and the changes in net assets available for benefits of the Plan 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 3 through 17, the Schedules of Funding Progress on pages 51, 53, and 54, and the Schedules of Employer Contributions on pages 52 and 55, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Plan's financial statements taken as a whole. The Retirement Fund Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances, the Death Benefit Fund Schedule of Contribution Accounts and Estimated Liability for Family Allowances, and the Retirement Fund Schedule of Revenues by Source and Expenses by Type on pages 56 through 58 (Schedules), are presented for purposes of additional analysis and are not a required part of the Plan's basic financial statements. The Schedules have been subjected to the auditing



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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 Plan's basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read 'Simpson &amp; Simpson'.

Los Angeles, California  
November 30, 2010

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

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

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Department of Water and Power (Department) Employees' Retirement, Disability, and Death Benefit Insurance Plan (Plan) and the Retiree Health Benefits Fund (RHBF) for the years ended June 30, 2010 and 2009. The Retirement Plan and the RHBF are collectively known as the Plan.

**FINANCIAL HIGHLIGHTS**

- The net assets at the close of the fiscal year ending June 30, 2010 were \$6,266,275,369, \$48,034,907, \$21,907,861, and \$927,251,155 for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Funds, respectively. All of the nets assets were available to meet the Plan's obligations to Plan participants and their beneficiaries.
- Total net assets increased by \$567,397,586 or 9.96%, \$3,163,371 or 7.05%, \$455,154 or 2.12%, and \$186,686,750 or 25.21% for the Retirement Fund, Disability Fund, Death Benefit Fund, and Retiree Health Benefits Fund, respectively.
- As of June 30, 2010, the date of the Retirement Fund's last actuarial valuation, the funding ratio of the fund was approximately 81.46%.
- As of June 30, 2010, the date of the Retiree Health Benefits Fund's latest actuarial valuation, the funding ratio was approximately 60.51%.
- Additions to the Retirement Fund's Plan Net Assets increased from (\$854,085,047) to \$951,183,166 over the prior year, or approximately 211.37% due mostly to the increase in both member and employer's contributions and the increase in the net appreciation in the fair value of investments in 2010 over 2009.
- Deductions from Retirement Fund's Plan Net Assets increased from \$370,967,985 to \$383,785,580 over the prior year, or approximately 3.46% due mostly to the cost of living allowance increase granted to pension benefits effective July 2009.
- The assets of the Retiree Health Benefits Fund were invested under the oversight of the Retirement Board. The RHBF assets were up 25.21% from \$740,564,405 to \$927,251,155.

**CITY OF LOS ANGELES  
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DEATH BENEFIT INSURANCE PLAN  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

*Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 26 to 50 of this report.

*Required Supplementary Information:* This report presents certain required supplementary information concerning the Retirement Fund, the Retiree Health Benefits Fund, and the Death Benefit Fund's progress in funding to provide pension, health benefits, and insured life benefits to members. The report also provides summary information on employer contributions. The required Supplementary Information is on pages 51 to 55 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 56 to 58 of this report.

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

**FINANCIAL ANALYSIS**

***Retirement Fund***

**Plan Net Assets**

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

Condensed Statement of Plan Net Assets					
(In Thousands)					
	2010	2009	2008	2010/09 % Change	2009/08 % Change
Cash	\$ 1,983	\$ 4,670	\$ 1,008	-57.54%	363.29%
Receivables	285,650	739,966	713,152	-61.40%	3.76%
Investments	7,343,906	6,719,374	7,835,952	9.29%	-14.25%
Total assets	7,631,539	7,464,010	8,550,112	2.24%	-12.70%
Liabilities	1,365,264	1,765,132	1,626,181	-22.65%	8.54%
Total plan net assets	\$ 6,266,275	\$ 5,698,878	\$ 6,923,931	9.96%	-17.69%

**Fiscal year ended June 30, 2010**

Net assets increased by \$567.4 million, or 9.96% to \$6.3 billion over the prior fiscal year. Investments were up \$624.5 million, or 9.29% due to realized earnings from investing activities and appreciation in the fair value of investments. Liabilities were down \$400 million or 22.65% from fiscal year 2009 basically because of a decrease in pending trades at year-end.

**Fiscal year ended June 30, 2009**

Net assets decreased by \$1.225 billion (17.69%) to \$5.7 billion over the prior fiscal year. Investments decreased by \$1.117 billion (14.25%) due to realized losses from investing activities and depreciation in the fair value of investments through the fiscal year ended June 30, 2009. Liabilities increased by \$139 million from fiscal year 2008 due mostly to an increase in pending trades at year end.



**CITY OF LOS ANGELES  
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DEATH BENEFIT INSURANCE PLAN  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

***Retirement Fund (Continued)***

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets (In Thousands)					
	2010	2009	2008	2010/09 % Change	2009/08 % Change
<b>Additions</b>					
Members' contributions	\$ 71,246	\$ 59,405	\$ 48,694	19.93%	22.00%
Employer contributions	205,497	150,030	146,057	36.97%	2.72%
Net investment income (loss)	674,440	(1,063,520)	(325,839)	163.42%	-226.39%
Total additions (deductions)	951,183	(854,085)	(131,088)	211.37%	-551.54%
<b>Deductions</b>					
Benefit payment	377,052	363,692	353,179	3.67%	2.98%
Refund	3,007	3,952	6,233	-23.91%	-36.60%
Administrative expenses	3,727	3,324	3,397	12.12%	-2.15%
Total deductions	383,786	370,968	362,809	3.46%	2.25%
Net increase (decrease) in plan net assets	567,397	(1,225,053)	(493,897)	146.32%	-148.04%
Net assets beginning	5,698,878	6,923,931	7,417,828	-17.69%	-6.66%
Net assets ending	\$ 6,266,275	\$ 5,698,878	\$ 6,923,931	9.96%	-17.69%

**Additions to Plan Net Assets**

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

**Fiscal year ended June 30, 2010**

Member and Department contributions for fiscal year 2010 was \$276.7 million, up \$67.3 million or 32.14% over the prior fiscal year. The increase in contributions was due to: (a) increase in the Department's number of employees attributable to personnel transfers from the other City departments to DWP, and (b) the 5.84% increase in the actuarial contribution rate of the Department from 20.28% of covered compensation a year ago to 26.12% of covered compensation in fiscal year 2010.

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

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

***Retirement Fund (Continued)***

Net investment income amounted to \$674.4 million, up 163.42% when compared with a loss of \$1,063.5 million from fiscal year 2009. The increase in net investment income was attributable to the realized earnings from investing activities and net appreciation in the fair value of investments.

**Fiscal year ended June 30, 2009**

Contributions for fiscal year 2009 totaled \$209.4 million, up \$14.7 million or 7.5% over the prior fiscal year. The increase in the contributions was due to: a) increase in the Department's number of employees that is attributable to personnel transfers from the other City departments to the DWP, and b) a 5.90% cost-of-living adjustment added to the base salary of most Department employees.

Net investment loss amounted to \$1,063.5 million, up by \$737.7 million or 226.4% when compared with a loss of \$326.0 million from the prior fiscal year. The decline in net investment income is mostly attributed to the realized loss from investing activities and net depreciation in the fair value of investments.

**Deductions from Plan Net Assets**

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

**Fiscal year ended June 30, 2010**

Deductions for the fiscal year ended June 30, 2010 totaled \$383.8 million, up approximately \$12.8 million or 3.46% over 2009. The increase was mostly due to the 3% cost-of-living adjustments granted pension benefits starting July 2009.

**Fiscal year ended June 30, 2009**

Deductions for the fiscal year ended June 30, 2009 totaled \$371.0 million, up approximately \$8.2 million or 2.25% over 2008. The increase was due mainly to the increase in retiree benefit payments as a result of the 3% cost-of-living adjustment granted starting July 2008.

**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***

**Plan Net Assets**

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

Condensed Statement of Plan Net Assets (In Thousands)				
	2010	2009	2008	
				2010/09 % Change
				2009/08 % Change
Cash	\$ 514	\$ 325	\$ 163	58.15%
Receivables	5,700	6,540	6,530	-12.84%
Investments	42,013	38,207	33,099	9.96%
Total assets	48,227	45,072	39,792	7.00%
Liabilities	192	200	156	-4.00%
Total plan net assets	\$ 48,035	\$ 44,872	\$ 39,636	7.05%

**Fiscal year ended June 30, 2010**

The Disability Insurance Plan's net assets increased by \$3.2 million or 7.05% in fiscal year 2010. Investments increased by \$3.8 million or 9.96% from the prior fiscal year, and this increase was brought about mainly by the increase in the market value of investments.

**Fiscal year ended June 30, 2009**

The Disability Insurance Plan's net assets increased by \$5.2 million or 13.21% in fiscal year 2009. Investments increased by \$5.1 million or 15.43% from the prior fiscal year. This increase was brought about by several factors: a) slight increase in Department Contributions for temporary and supplemental disability benefits because of increased Department personnel, b) decrease in disability benefits paid, and c) increase in the market value of investments compared to the prior year.

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

***Disability Fund (continued)***

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets (In Thousands)					
	2010	2009	2008	2010/09 % Change	2009/08 % Change
<b>Additions</b>					
Members' contributions	\$ 461	\$ 435	\$ 425	5.98%	2.35%
Employer contributions	13,238	14,826	14,224	-10.71%	4.23%
Net investment income	4,194	2,430	2,169	72.59%	12.03%
Total additions	17,893	17,691	16,818	1.14%	5.19%
<b>Deductions</b>					
Benefit payment	14,013	11,800	12,226	18.75%	-3.48%
Administrative expenses	717	655	482	9.47%	35.89%
Total deductions	14,730	12,455	12,708	18.27%	-1.99%
Net increase (decrease) in plan net assets	3,163	5,236	4,110	-39.59%	27.40%
Net assets beginning	44,872	39,636	35,526	13.21%	11.57%
Net assets ending	\$ 48,035	\$ 44,872	\$ 39,636	7.05%	13.21%

**Additions to Plan Net Assets**

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

**Fiscal year ended June 30, 2010**

Contributions for fiscal year 2010 totaled \$13.7 million, down by approximately 10.23% or \$1.6 million from a year ago. The decrease was due to the reduction in the Department's actuarial contribution rate to the temporary disability benefits fund. The Department's actuarial contribution rate for fiscal year 2010 was \$1.34 per \$100.00 of covered compensation while in fiscal year 2009, the rate was \$1.70 per \$100.00 of covered compensation.

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

***Disability Fund (continued)***

**Fiscal year ended June 30, 2009**

Contributions for fiscal year 2009 totaled \$15.3 million, up approximately 4.18% or \$0.6 million from a year ago. The increase was due to an increase in the number of employees and an increase in the basic compensation of active employees due to cost of living adjustments. Net investment income was slightly higher in 2009 than in fiscal year 2008 by approximately \$0.3 million.

**Deductions from Plan Net Assets**

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

**Fiscal year ended June 30, 2010**

Fiscal year 2010 deductions increased to \$14.7 million, up 18.27% from a year ago. The increase was attributable to an increase in the number and amounts of temporary disability cases this fiscal year compared with the number and amounts of disability cases last fiscal year.

**Fiscal year ended June 30, 2009**

Fiscal year 2009 deductions decreased slightly to \$12.5 million, a reduction of approximately 1.99% when compared with fiscal year 2008. Basically, this was caused by lower amounts of disability benefits claimed by covered employees this year.

**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 net assets are summarized below:

Condensed Statement of Plan Net Assets					
(In Thousands)					
	2010	2009	2008	2010/09 % Change	2009/08 % Change
Cash	\$ 495	\$ 255	\$ 211	94.12%	20.85%
Receivables	93	242	101	-61.57%	139.60%
Investments	24,195	23,028	24,028	5.07%	-4.16%
Total assets	24,783	23,525	24,340	5.35%	-3.35%
Liabilities	2,875	2,072	2,245	38.75%	-7.71%
Total plan net assets	\$ 21,908	\$ 21,453	\$ 22,095	2.12%	-2.91%

**Fiscal year ended June 30, 2010**

The Fund's net assets were slightly higher by \$0.4 million or 2.12% when compared with prior year's net assets of \$21.5 million. Investments at June 30, 2010 were \$24.2 million, or 5.07% higher than last year, and this is mostly attributable to the slight increase in the market value of the invested assets.

**Fiscal year ended June 30, 2009**

The Fund's net assets were down by \$0.6 million or 2.91% when compared with prior year's net assets of \$22.1 million. Investments at June 30, 2009 were \$23.03 million, down \$1.0 million or 4.16% from a year ago.

**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 Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets (In Thousands)					
	2010	2009	2008	2010/09 % Change	2009/08 % Change
<b>Additions</b>					
Members' contributions	\$ 320	\$ 306	\$ 304	4.58%	0.66%
Employer contributions	6,080	5,326	4,605	14.16%	15.66%
Net investment income	2,272	1,462	1,833	55.40%	-20.24%
Total additions	8,672	7,094	6,742	22.24%	5.22%
<b>Deductions</b>					
Benefit payment	7,287	6,875	8,538	5.99%	-19.48%
Administrative expenses	930	861	774	8.01%	11.24%
Total deductions	8,217	7,736	9,312	6.22%	-16.92%
Net increase (decrease) in plan net assets	455	(642)	(2,570)	170.87%	75.02%
Net assets beginning	21,453	22,095	24,665	-2.91%	-10.42%
Net assets ending	\$ 21,908	\$ 21,453	\$ 22,095	2.12%	-2.91%

**Additions to Plan Net Assets**

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

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

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

***Death Benefit Insurance Fund (continued)***

**Fiscal year ended June 30, 2010**

Additions this fiscal year were higher than the year 2009 mainly because of: (a) an increase in the Department's actuarial contribution to the Insured Life Death Benefit Fund of retired employees. The contribution rate of the Department was increased by \$0.34 from \$1.30 to \$1.64 per \$100 of covered retirement benefits effective December 2008, (b) an increase in net investment income by \$0.8 million or 55.4% when compared with 2009. The increase was mostly attributable to the net appreciation in the value of investments in 2010.

**Fiscal year ended June 30, 2009**

Additions this fiscal year were slightly higher than the year 2008. The increase in employer contributions of \$0.7 million was attributable to the 3% cost-of-living allowance increase added to the retired employees' benefits effective in July 2008 and increase in the Department's contribution rate effective in December 2008.

**Deductions from Plan Net Assets**

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

**Fiscal year ended June 30, 2010**

Deductions were up \$0.5 million, or 6.22%. The increase was due to the increase in the number and amount of insured life death benefit cases processed and paid this fiscal year as compared with the previous fiscal year.

**Fiscal year ended June 30, 2009**

Deductions were down \$1.6 million, or 16.92% to \$7.7 million. The number of death benefit cases occurring, processed and paid during the fiscal year 2009 were lower than that of the prior year.



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

***Retiree Health Benefits Fund***

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

Health Fund assets amounting to \$642.0 million were transferred to the Retirement Plan to establish the fund during fiscal year 2007. As of June 30, 2010, the net assets of the fund totaled \$927 million, and these assets included \$100 million in Department contributions received in June 2010. A condensed statement of the fund's plan net assets and condensed statement of changes in plan net assets follow:

**Plan Net Assets**

	Condensed Statement of Plan Net Assets (In Thousands)				
	2010	2009	2008	2010/09 % Change	2009/08 % Change
Cash	\$ 377	\$ 26	\$ 134	1350.00%	-80.60%
Receivables	40,087	129,043	118,851	-68.94%	8.58%
Investments	1,023,070	820,113	792,876	24.75%	3.44%
Total assets	1,063,534	949,182	911,861	12.05%	4.09%
Liabilities	136,283	208,618	192,224	-34.67%	8.53%
Total plan net assets	\$ 927,251	\$ 740,564	\$ 719,637	25.21%	2.91%

**Fiscal year ended June 30, 2010**

Total assets increased by \$186.7 million or 25.21% mainly because of the net appreciation in the fair value of investments in fiscal year 2010 over 2009 and additional contribution of \$100 million made by the Department towards the year end of 2010.

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

***Retiree Health Benefits Fund (continued)***

**Fiscal year ended June 30, 2009**

Total assets increased by \$37.3 million, or 4.09% due to the increase in investments and trade receivables, which in turn were brought about by an increase in the fund's actual realized income and additional contributions of \$100 million made by the Department towards the year end of 2009.

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets (In Thousands)					
	2010	2009	2008	2010/09 % Change	2009/08 % Change
<b>Additions</b>					
Employer contributions	\$ 160,740	\$ 159,819	\$ 157,611	0.58%	1.40%
Net investment income (loss)	86,505	(79,180)	(29,730)	209.25%	-166.33%
Total additions	<u>247,245</u>	<u>80,639</u>	<u>127,881</u>	206.61%	-36.94%
<b>Deductions</b>					
Benefit payment	60,196	59,413	57,360	1.32%	3.58%
Administrative expenses	362	299	-	21.07%	N/A
Total deductions	<u>60,558</u>	<u>59,712</u>	<u>57,360</u>	1.42%	4.10%
Net increase (decrease) in plan net assets	186,687	20,927	70,521	792.09%	-70.33%
Net assets beginning	<u>740,564</u>	<u>719,637</u>	<u>649,116</u>	2.91%	10.86%
Net assets ending	<u>\$ 927,251</u>	<u>\$ 740,564</u>	<u>\$ 719,637</u>	25.21%	2.91%

**Additions to Plan Net Assets**

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

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

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

***Retiree Health Benefits Fund (continued)***

**Fiscal year ended June 30, 2010**

Total additions were up 206.61% to \$247.2 million, while 2009's total additions stood at \$80.6 million. The increase in 2010 total additions was due mainly to the net appreciation in the value of investments and additional contribution of \$100 million by the Department, while 2009's total additions declined to \$80.6 million due mostly to the net depreciation in the fair value of investments.

**Fiscal year ended June 30, 2009**

Total additions were down by \$47.2 million or 36.94% when compared with the additions of fiscal year 2008. The Department contributions for 2009 increased by \$2.2 million or 1.4% when compared with fiscal year 2008. Net investment income for 2009 was a negative \$79.2 million or 166.33% less than fiscal year 2008. The Department made a total contribution of approximately \$160 million this fiscal year.

**Deductions from Plan Net Assets**

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

**Fiscal year ended June 30, 2010**

Insurance premiums paid from the fund for the benefit of retirees were slightly higher by \$0.8 million or 1.32% in 2010 when compared with 2009. Administrative expenses were also slightly higher this year because of hiring of additional investment managers to diversify the investment portfolio of the Fund. Administrative expenses rose 21.07% or approximately \$63 thousand in 2010 when compared with the prior fiscal year.

**Fiscal year ended June 30, 2009**

Payments for insurance premiums for retirees were slightly higher by \$2.1 million or 3.58% when compared with the prior fiscal year. The year 2009 was the first year the fund began charging for administrative expenses, which contributed to the increase in deductions.

**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 for additional information should be addressed to:

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

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

**RETIREMENT FUND**  
**STATEMENT OF PLAN NET ASSETS**  
**As of June 30**

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
Cash (Notes 2 and 3)	\$ 1,983,081	\$ 4,669,737
Receivables		
Accrued investment income	25,045,490	26,091,859
Department of Water and Power	37,179,178	23,385,426
Pending investment sales	222,813,141	688,878,962
Other	612,329	1,609,687
Total receivables	<u>285,650,138</u>	<u>739,965,934</u>
Investments, at fair value (Notes 2, 3, and 4)		
Fixed income (amortized cost \$2,607,272,107 in 2010 and \$2,716,462,861 in 2009)	2,678,046,188	2,689,997,609
Common stock (cost of \$3,060,604,439 in 2010 and \$2,799,714,869 in 2009)	3,002,736,601	2,683,145,102
Short-term investments (cost approximates fair value)	344,715,251	413,066,042
Alternative investments	252,494,193	116,843,383
Real estate	90,105,773	95,703,599
Securities lending - short-term collateral investment pool	975,807,835	720,618,144
Total investments	<u>7,343,905,841</u>	<u>6,719,373,879</u>
Total assets	<u>7,631,539,060</u>	<u>7,464,009,550</u>
<b>LIABILITIES</b>		
Payables		
Pending investment purchases	377,472,059	1,033,804,705
Other	11,983,797	10,708,918
Securities lending - collateral payable (Note 4)	975,807,835	720,618,144
Total liabilities	<u>1,365,263,691</u>	<u>1,765,131,767</u>
Net Assets held in trust for pension benefits	<u>\$ 6,266,275,369</u>	<u>\$ 5,698,877,783</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**

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

	<u>2010</u>	<u>2009</u>
<b>ADDITIONS</b>		
Members' contributions	\$ 71,240,553	\$ 59,394,076
Installment payment from early retired employees	5,500	10,936
Department of Water and Power contributions towards:		
Benefit (net of reversions)	201,033,238	145,941,275
Administrative expenses	4,463,141	4,088,598
	<u>276,742,432</u>	<u>209,434,885</u>
Total contributions		
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	509,797,037	(1,241,330,342)
Interest	117,506,242	128,804,687
Dividends	55,682,956	51,070,342
Income from real estate investments	4,597,110	6,250,783
Income (Loss) from alternative investments	502,573	(864,925)
Securities lending (Note 4)	2,712,273	11,287,941
	<u>690,798,191</u>	<u>(1,044,781,514)</u>
Total investment income (loss)		
Less: securities lending expenses (Note 4)	(119,364)	(4,273,125)
Less: investment expenses	(17,063,405)	(14,517,838)
	<u>673,615,422</u>	<u>(1,063,572,477)</u>
Net investment income (loss)		
Other income	825,312	52,545
	<u>951,183,166</u>	<u>(854,085,047)</u>
Total additions (deductions)		
<b>DEDUCTIONS</b>		
Retirement benefits paid	377,051,650	363,691,635
Refund of members' contributions	3,006,724	3,951,906
Administrative expenses	3,727,206	3,324,444
	<u>383,785,580</u>	<u>370,967,985</u>
Total deductions		
Net increase / (decrease) in plan net assets	567,397,586	(1,225,053,032)
Net assets held in trust for pension benefits		
Beginning of year	5,698,877,783	6,923,930,815
	<u>5,698,877,783</u>	<u>6,923,930,815</u>
End of year	<u>\$ 6,266,275,369</u>	<u>\$ 5,698,877,783</u>

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

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

**DISABILITY FUND  
STATEMENT OF PLAN NET ASSETS  
As of June 30**

ASSETS	<u>2010</u>	<u>2009</u>
Cash (Notes 2 and 3)	\$ 514,101	\$ 324,552
Receivables		
Accrued investment income	148,315	161,029
Department of Water and Power	1,836,934	2,586,407
Other	404,527	482,531
Contingent disability benefit advance	<u>3,310,339</u>	<u>3,310,339</u>
Total receivables	<u>5,700,115</u>	<u>6,540,306</u>
Investments, at fair value (Notes 2 and 3)		
Fixed income (amortized cost \$35,200,202 in 2010 and \$33,388,770 in 2009)	37,990,423	33,748,542
Short-term investments (cost approximates fair value)	<u>4,022,232</u>	<u>4,458,187</u>
Total investments	<u>42,012,655</u>	<u>38,206,729</u>
Total assets	<u>48,226,871</u>	<u>45,071,587</u>
LIABILITIES		
Payables		
Pending investment purchases	148,315	153,269
Other	<u>43,649</u>	<u>46,782</u>
Total Liabilities	<u>191,964</u>	<u>200,051</u>
Net assets held in trust for disability benefits	<u>\$ 48,034,907</u>	<u>\$ 44,871,536</u>

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

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

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

	<u>2010</u>	<u>2009</u>
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Temporary disability benefits	\$ 11,121,929	\$ 12,838,282
Supplemental disability benefits	1,393,995	1,328,063
Administrative expenses	<u>722,483</u>	<u>659,547</u>
Total department contributions	<u>13,238,407</u>	<u>14,825,892</u>
Contributions from members for:		
Temporary disability benefits	231,814	218,252
Permanent total disability benefits	<u>229,478</u>	<u>216,681</u>
Total members' contributions	<u>461,292</u>	<u>434,933</u>
Net appreciation in fair value of investments	2,430,515	568,618
Investment income	1,817,651	1,892,040
Less: investment expenses	<u>(54,352)</u>	<u>(30,123)</u>
Net investment income	<u>4,193,814</u>	<u>2,430,535</u>
Total additions	<u>17,893,513</u>	<u>17,691,360</u>
<b>DEDUCTIONS</b>		
Benefits provided:		
Temporary disability	10,602,925	8,297,701
Extended temporary disability	344,847	592,237
Permanent total disability	1,671,993	1,577,666
Supplemental disability	<u>1,393,272</u>	<u>1,332,925</u>
Total benefits provided	14,013,037	11,800,529
Administrative expenses	<u>717,105</u>	<u>655,428</u>
Total deductions	<u>14,730,142</u>	<u>12,455,957</u>
Net increase in plan net assets	3,163,371	5,235,403
Net assets held in trust for disability benefits		
Beginning of year	<u>44,871,536</u>	<u>39,636,133</u>
End of year	<u>\$ 48,034,907</u>	<u>\$ 44,871,536</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**

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

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
Cash (Notes 2 and 3)	\$ 494,942	\$ 254,766
Receivables		
Department of Water and Power	-	129,154
Accrued investment income	73,143	92,490
Other	20,045	20,045
Total receivables	93,188	241,689
Investments, at fair value (Notes 2 and 3)		
Fixed income (amortized cost \$17,287,044 in 2010 and \$19,799,166 in 2009)	18,735,230	20,031,038
Short-term investments (cost approximates fair value)	5,459,864	2,997,509
Total investments	24,195,094	23,028,547
Total assets	24,783,224	23,525,002
 <b>LIABILITIES</b>		
Payables		
Department of Water and Power	15,207	-
Pending investment purchases	73,143	94,684
Other	400,368	242,024
Death claims in process - insured lives	2,386,645	1,735,587
Total liabilities	2,875,363	2,072,295
Net assets held in trust for death benefits	\$ 21,907,861	\$ 21,452,707

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

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

**DEATH BENEFIT FUND**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**For the years ended June 30**

	<u>2010</u>	<u>2009</u>
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Retired members (non-contributing)	\$ 5,133,632	\$ 4,445,208
Administrative expenses	945,907	880,454
Total department contributions	<u>6,079,539</u>	<u>5,325,662</u>
Contributions from members for:		
Insured lives death benefit	229,658	216,987
Supplemental family death benefit	90,804	89,307
Total members' contributions	<u>320,462</u>	<u>306,294</u>
Net appreciation (depreciation) in fair value of investments	1,328,666	279,246
Investment income	986,362	1,219,226
Less: investment expenses	<u>(42,861)</u>	<u>(36,333)</u>
Net investment income	<u>2,272,167</u>	<u>1,462,139</u>
Total additions	<u>8,672,168</u>	<u>7,094,095</u>
<b>DEDUCTIONS</b>		
Benefits provided for:		
Death benefits (active/retired members)	6,588,967	6,162,351
Family allowances	698,099	713,086
Total benefits provided	7,287,066	6,875,437
Administrative expenses	929,948	861,309
Total deductions	<u>8,217,014</u>	<u>7,736,746</u>
Net increase / (decrease) in plan net assets	455,154	(642,651)
Net assets held in trust for death benefits		
Beginning of year	<u>21,452,707</u>	<u>22,095,358</u>
End of year	<u>\$ 21,907,861</u>	<u>\$ 21,452,707</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 PLAN NET ASSETS**

As of June 30

ASSETS	<u>2010</u>	<u>2009</u>
Cash (Notes 2 and 3)	\$ 377,126	\$ 25,712
Receivables		
Accrued investment income	3,249,253	2,629,935
Department of Water and Power	72,165	93,015
Other	76,969	-
Pending investment sales	<u>36,688,357</u>	<u>126,320,504</u>
Total receivables	<u>40,086,744</u>	<u>129,043,454</u>
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$371,859,090 in 2010 and \$384,018,169 in 2009)	380,912,197	392,453,479
Common stock (cost of \$504,774,375 in 2010 and \$493,302,790 in 2009)	446,590,652	359,444,585
Short-term investments (cost approximates fair value)	122,412,450	18,086,090
Alternative Investments	16,178,232	881,374
Real Estate	136,982	-
Securities lending - short-term collateral investment pool	<u>56,839,350</u>	<u>49,247,688</u>
Total investments	<u>1,023,069,863</u>	<u>820,113,216</u>
Total assets	<u>1,063,533,733</u>	<u>949,182,382</u>
 <b>LIABILITIES</b>		
Payables		
Accounts payable	1,258,737	715,456
Pending investment purchases	78,184,491	158,654,833
Security lending - collateral payable (Note 4)	<u>56,839,350</u>	<u>49,247,688</u>
Total liabilities	<u>136,282,578</u>	<u>208,617,977</u>
Net assets held in trust for retiree health benefits	<u>\$ 927,251,155</u>	<u>\$ 740,564,405</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 PLAN NET ASSETS**  
**For the Year Ended June 30**

	<u>2010</u>	<u>2009</u>
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Retiree health benefits	\$ 100,000,000	\$ 100,000,000
Insurance premiums	60,236,897	59,412,621
Administrative expenses	<u>503,057</u>	<u>406,515</u>
Total department contributions	<u>160,739,954</u>	<u>159,819,136</u>
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	65,720,968	(95,502,822)
Interest and dividends	22,131,274	16,649,018
Gain (loss) from alternative investments	11,389	(11,599)
Securities lending (Note 4)	<u>229,921</u>	<u>520,392</u>
Total investment income (loss)	88,093,552	(78,345,011)
Less: securities lending expenses (Note 4)	26,558	(244,967)
Less: investment expenses	<u>(1,614,769)</u>	<u>(589,822)</u>
Net investment income (loss)	<u>86,505,341</u>	<u>(79,179,800)</u>
Total additions	<u>247,245,295</u>	<u>80,639,336</u>
<b>DEDUCTIONS</b>		
Retiree health benefits paid (insurance premiums)	60,195,926	59,412,621
Administrative expenses	<u>362,619</u>	<u>299,052</u>
Total deductions	<u>60,558,545</u>	<u>59,711,673</u>
Net increase in plan net assets	186,686,750	20,927,663
Net assets held in trust for retiree health benefits		
Beginning of year	<u>740,564,405</u>	<u>719,636,742</u>
End of year	<u>\$ 927,251,155</u>	<u>\$ 740,564,405</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  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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

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

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

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

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND  
DEATH BENEFIT INSURANCE PLAN  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

**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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Retirees, beneficiaries*	8,629	8,584
Terminated vested	675	681
Terminated non-vested	866	731
Inactive-non-contributing employees	142	143
Active-contributing employees:		
Vested	8,933	8,168
Non-vested	<u>535</u>	<u>879</u>
Total	<u><u>19,780</u></u>	<u><u>19,186</u></u>

\*Includes beneficiaries of the Survivorship account.

Benefit Provisions

*Retirement/Disability Fund*

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

Members are eligible for normal retirement at age 60 with at least five years of service. Early retirement at age 55 is generally available if the member has been with the Department for 10 of the last 12 years before retirement. Members with 30 or more years may retire at age 50 and receive unreduced benefits within a certain limited period (this option expired on October 31, 2005). Upon qualifying for retirement, members will also qualify for a formula pension if they

**CITY OF LOS ANGELES  
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NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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

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

Effective October 1, 2008, eligibility for the Optional Survivor Death Benefit for survivors of members who died while performing work within the scope of their duties was expanded. See Note 8.

*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 balance of the retirement fund contributions (if Option A was elected at retirement) payable to the beneficiary.

- **Family Death Benefit**

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

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY, AND  
DEATH BENEFIT INSURANCE PLAN  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

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

- Supplemental Family Death Benefit

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

**Contributions**

*Retirement/Disability Fund*

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

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

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

*Death Benefit Fund*

- Insured Lives Death Benefit

Contributing active members contribute \$1.00 per bi-weekly payroll period. The Department contribution for the IDB for contributing active members has been suspended since August 1, 1999 as recommended by the Plan actuary.

The Department currently contributes to the IDB for non-contributing members at \$1.64 per \$100 of retirement benefits paid.



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

- **Family Death Benefit**

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

- **Supplemental Family Death Benefit**

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

**Retiree Health Benefits Plan**

**Membership**

The Retiree Health Benefits Plan's membership consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Current retirees and beneficiaries	7,701	7,703
Current active members	9,118	8,998
	<u>16,819</u>	<u>16,701</u>

**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.

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**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 2010 and 2009, the Department contributed \$160.7 million and \$159.8 million, respectively, to fund current and future retiree health benefits liabilities and related costs.

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

**Basis of Accounting and Reporting**

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

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

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

Investments

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

Cash

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

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.

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

Adoption of New Accounting Guidance

GASB Statement No 53, "*Accounting and Financial Reporting for Derivative Instruments*," (GASB No. 53) (issued in June 2008) establishes accounting guidance to addresses the recognition, measurement, and disclosure of information regarding derivative instruments. The Plan has adopted the GASB No. 53 in the fiscal year 2009-10. The adoption has no impact on the Plan's financial statements except for additional disclosure.

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 financial statements presentation.

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

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

**Cash**

As of June 30, 2010 and 2009, the Plan's cash balances consist primarily of cash deposit with the Treasurer of the City of Los Angeles.

**Investments**

As of June 30, 2010, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic equities	\$ 2,301,583,890
International equities	1,147,743,362
U.S. Treasuries	1,016,699,266
U.S. Agency notes	876,835,137
Medium term notes	13,113,280
Preferred securities/convertible bonds/other	23,512,764
Mortgage and asset backed securities	415,488,068
Corporate debt - domestic	703,226,473
Corporate debt - international	10,083,398
Mutual funds	533,335,450
Hedge funds	268,672,425
Real estate	90,242,755
Securities lending short-term collateral investment pool	1,032,647,185
Total investments	<u>\$ 8,433,183,453</u>

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

As of June 30, 2009, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic equities	\$ 2,068,749,647
International equities	973,840,040
U.S. Treasuries	451,255,801
U.S. Agency notes	944,733,641
Medium term notes	26,871,628
Preferred securities/convertible bonds/other	8,051,205
Mortgage and asset backed securities	816,181,716
Corporate debt - domestic	826,568,698
Corporate debt - international	8,788,399
Mutual funds	492,387,408
Hedge funds	117,724,757
Real estate	95,703,599
Securities lending short-term collateral investment pool	769,865,832
Total investments	<u>\$ 7,600,722,371</u>

**Credit Risk**

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

According to the Plan's investment policy for fixed income, the Plan can invest in both investment grade and high yield fixed income securities. Investment grade fixed income securities that are rated by Moody's, S&P, and Fitch, should have a minimum rating of BBB- or Baa3 by two or more rating agencies. Investment managers will notify Plan management of subsequent declines in ratings and will develop an investment strategy for investments rated below Baa3 or BBB-.

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

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, 2010 are as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 1,016,699,266	28.30%
U.S. Agency notes	AAA	5,444,448	0.15%
	A or better	5,895,303	0.16%
	Not rated	865,495,386 *	24.09%
Medium term notes	A or better	7,380,307	0.21%
	B or better	5,732,973	0.16%
Preferred securities/convertible bonds	A or better	951,681	0.03%
	B or better	6,529,205	0.18%
	C or better	12,669,950	0.35%
	Not rated	3,361,928	0.09%
Mortgage and asset backed securities	AAA	384,124,966	10.69%
	A or better	5,794,714	0.16%
	BB or better	2,069,095	0.06%
	C or better	4,186,066	0.12%
	Not rated	19,313,227	0.54%
Corporate debt - domestic	AAA	16,239,108	0.45%
	A or better	198,374,799	5.52%
	B or better	418,017,299	11.64%
	C or better	46,995,635	1.31%
	Not rated	23,599,632	0.66%
Corporate debt - international	AAA	3,419,454	0.10%
	A or better	365,170	0.01%
	B or better	6,298,774	0.18%
Mutual funds	Not rated	533,335,450 **	14.85%
Total		<u>\$ 3,592,293,836</u>	<u>100.00%</u>

\* Guaranteed by U.S. government agencies.

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

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

**Credit Risks (Continued)**

The credit ratings of the Plan's investments at June 30, 2009 are as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 451,255,801	12.62%
U.S. Agency notes	AAA	159,538,212	4.46%
	Not rated	785,195,429 *	21.96%
Medium term notes	AAA	6,526,244	0.18%
	A or better	9,933,033	0.28%
	B or better	10,412,351	0.29%
Preferred securities/convertible bonds	B or better	1,130,810	0.03%
	Not rated	6,920,395	0.19%
Mortgage and asset backed securities	AAA	409,148,582	11.45%
	A or better	17,894,360	0.50%
	BB or better	31,811,118	0.89%
	C or better	7,669,408	0.21%
	Not rated	349,658,248	9.78%
Corporate debt - domestic	AAA	9,582,471	0.27%
	A or better	273,338,820	7.65%
	B or better	475,026,783	13.29%
	C or better	38,917,333	1.09%
	Not rated	29,703,291	0.83%
Corporate debt - international	AAA	2,272,104	0.06%
	A or better	2,962,760	0.08%
	B or better	2,958,215	0.08%
	Not rated	595,320	0.02%
Mutual funds	AAA	846,380	0.02%
	Not rated	491,541,028 **	13.75%
Total		<u>\$ 3,574,838,496</u>	<u>100.00%</u>

\* Guaranteed by U.S. government agencies.

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



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

**Custodial Credit Risks**

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned. As of June 30, 2010 and 2009, the Plan's cash balances consist primarily of cash deposits with the Treasurer of the City of Los Angeles.

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

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, 2010 and 2009, there were no investments holdings of more than five (5) percent in any one issue of each fund's net assets or in the Plan aggregate, except investments issued or guaranteed by the U.S. Government and investments in commingled funds.

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

**Interest Rate Risk**

As of June 30, 2010, the Plan's exposure to interest rate risk is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Treasuries	\$ 1,061,699,266	7.28
U.S. Agency notes	876,835,137	21.94
Medium term notes	13,113,280	10.03
Preferred securities/convertible bonds	23,512,764	13.53
Mortgage and asset backed securities	415,488,068	20.60
Corporate debt - domestic	703,226,473	8.81
Corporate debt - international	10,083,398	9.03
Mutual funds	533,335,450	0.07
Total	<u>\$ 3,592,293,836</u>	11.68

As of June 30, 2009 the Plan's exposure to interest rate risk is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Treasuries	\$ 451,255,801	10.49
U.S. Agency notes	161,639,520	4.99
Medium term notes	26,871,628	11.72
Preferred securities/convertible bonds	8,051,205	7.32
Mortgage and asset backed securities	1,599,275,837	23.46
Corporate debt - domestic	826,568,698	9.74
Corporate debt - international	8,788,399	23.51
Mutual funds	492,387,408	0.07
Total	<u>\$ 3,574,838,496</u>	14.47

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

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

**Foreign Currency Risk**

As of June 30, 2010 and 2009, the Plan's exposure to foreign currency risk is as follows:

Currency	Investment Type	June 30, 2010	June 30, 2009
		Fair Value	Fair Value
Australian Dollar	Cash & cash equivalents	\$ 65,856,983	\$ 34,596,101
	Equities	5,733,405	1,317,157
	Corporate debt	2,787,878	-
Brazil Real	Corporate debt	1,504,943	714,448
British Pound Sterling	Cash & cash equivalents	158,985,249	163,059,877
	Equities	1,388,158	1,118,784
	Corporate debt	25,106,586	-
Canadian Dollar	Equities	94,867,039	45,350,668
	Corporate debt	2,495,033	2,876,854
	Cash & cash equivalents	6,908,785	567,001
Colombia Peso	Corporate debt	253,807	194,757
Danish Krone	Equities	5,557,082	1,497,382
	Cash & cash equivalents	415,679	104,032
Euro Currency Unit	Equities	262,236,630	243,851,495
	Cash & cash equivalents	12,878,865	3,727,555
	Corporate debt	29,543,074	-
Hong Kong Dollar	Equities	30,172,806	28,955,937
	Cash & cash equivalents	320,946	102,800
Indonesian Rupiah	Corporate debt	2,069,450	-
Japanese Yen	Equities	228,635,255	196,340,222
	Cash & cash equivalents	4,025,318	2,741,055
Mexican New Peso	Corporate debt	3,213,620	277,730
	Cash & cash equivalents	124,580	-
New Zealand Dollar	Corporate debt	-	302,178
Norwegian Krone	Equities	7,871,611	6,489,693
	Cash & cash equivalents	569,993	-
Singapore Dollar	Equities	14,668,233	10,665,302
	Cash & cash equivalents	194,875	131,730
South Korean Won	Corporate debt	1,082,027	-
Swedish Krona	Equities	12,831,271	10,747,077
	Cash & cash equivalents	353,659	169,126
	Corporate debt	5,696,484	-
Swiss Franc	Equities	67,290,362	65,075,917
	Cash & cash equivalents	2,162,198	804,707
Uruguayan Peso	Corporate debt	448,543	289,829
Total		<u>\$ 1,058,250,427</u>	<u>\$ 822,069,414</u>

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

The Plan's investment policy permits it to invest up to 17 percent of total investments of the Plan in non-U.S. investments. The Plan's position is 12.55 percent and 10.82 percent as of June 30, 2010 and 2009, respectively.

**Derivative Instruments**

The fair value balances and notional amounts of derivatives instruments outstanding at June 30, 2010, classified by type, and the changes in fair values of such derivative instruments for the year then ended as reported in the 2010 financial statements are as follows:

Type	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		Notional Amount
	Classification	Amount	Classification	Amount	
Forward Contracts	Investment Income / (Loss)	\$ 1,144,020	Investment	\$ 1,144,020	\$ 93,800,375
Swap	Investment Income / (Loss)	\$ (5,240)	Investment	\$ (5,240)	\$ 7,220,492

At June 30, 2010, the Plan had direct commitments to purchase and/or sell foreign currency in the forms of swap and forward contracts as part of the strategy of hedging its currency risk. The fair values of the swap and forward contracts were based on the market price.

**NOTE 4 – SECURITIES LENDING PROGRAM**

The Plan is authorized by the Charter of the City of Los Angeles and the Retirement Board's investment policy to lend its investment securities to various brokers, without limit. The lending is managed by the Plan's custodial bank. The Plan or the borrowers can terminate the contract with advance notice. The lending arrangements are collateralized by cash and marketable securities (guaranteed by the full faith and credit of the U.S. Government) at (i) 102% with respect to U.S. Securities; (ii) 105% with respect to foreign securities; or (iii) a percentage mutually agreed of the underlying securities' market value. These arrangements provide for the return of the investments and a share of the interest earned on the collateral. The securities on loan to brokers remain the property of the Plan and continue to be included in their respective accounts on the Statement of Plan Net Assets. As of June 30, 2010 and 2009, the Plan has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan. Related borrower or lending agent default losses were recognized in the financial statements.

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**NOTE 4 – SECURITIES LENDING PROGRAM (Continued)**

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 36 days and 33 days as of June 30, 2010 and 2009, respectively.

The fair values of the underlying securities on loan, collateralized by cash and securities as of June 30, 2010 and 2009 are:

<u>Securities on loan</u>	<u>2010</u>	<u>2009</u>
Common stock	\$ 279,594,598	\$ 195,320,238
Corporate debt	95,822,766	73,010,753
U.S. Agency notes	5,506,198	-
U.S. Treasuries	624,033,224	482,554,293
U.S. Treasury STIPS	3,357,713	-
Total	<u>\$ 1,008,314,499</u>	<u>\$ 750,885,284</u>

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**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS**

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

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

**Retirement Fund**

The Plan engages an independent actuarial firm to conduct annual actuarial valuations to monitor the Plan's funding status for the retirement fund.

The annual valuation performed as of June 30, 2010 and 2009 determined the funding status to be 81.46% and 89.97%, respectively.

The funded status of the retirement fund as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
\$ 7,244,429,689	\$ 8,893,618,433	\$ 1,649,188,744	81.46%	\$ 856,089,559	192.64%

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**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)**

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar amortization
Remaining amortization period	The July 1, 2004 Unfunded Actuarial Accrued Liability is amortized over the 15-year period commencing July 1, 2004. Any subsequent changes in Unfunded Actuarial Accrued Liability are amortized over separate 15-year periods.
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market returns and the expected returns on a market value basis, and is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.50%
Projected salary increases	5.35% to 10.50%, including inflation at 3.50%, “across the board” increases of 0.75% plus merit and promotional increases.
Cost-of-living adjustments (COLA)	Contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum

**Death Benefit Fund – Insured Lives**

The funded status of the death benefit fund – insured lives as of July 1, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
\$ 5,261,536	\$ 95,302,626	\$ 90,041,090	5.52%	\$ 805,137,795	11.18%

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**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)**

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2009
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar amortization
Remaining amortization period	The July 1, 2007 Unfunded Actuarial Accrued Liability is amortized over the 15-year period commencing July 1, 2007. Any subsequent changes in Unfunded Actuarial Accrued Liability are amortized over separate 15-year periods.
Asset valuation method	Total market value of the Death Benefit Fund at valuation date, less the General Reserves and Contribution Accounts for the Family Death Benefit and Supplemental Family Death Benefit, and the Insured Lives General Reserve for Contributing Members.
Actuarial assumptions:	
Investment rate of return	5.00%
Inflation rate	3.75%
Projected salary increases	5.29% to 9.46%, including inflation at 3.75%, "across the board" increases of 0.50% plus merit and promotional increases.
Cost of living adjustments	3.00%

**Retiree Health Benefits Fund (RHBF)**

The DWP Board of Water and Power Commissioners approved the creation of the RHBF to account for assets placed in an irrevocable trust for the provision of other post employment benefits (OPEB), in September 2006. The latest actuarial valuation of the RHBF for fiscal year 2009-10 was dated November 5, 2010. This valuation also determined a total annual required contribution (ARC) for the fiscal year 2009-10 in the amount of \$58.5 million. The Department contribution, excluding administrative expenses reimbursement, during the fiscal years 2009-10 and 2009-08, amounted to \$160.2 million and \$159.4 million, respectively.



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**NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (Continued)**

The funded status of the RHBF as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
\$ 987,475,976	\$ 1,631,916,204	\$ 644,440,228	60.51%	\$ 856,089,559	75.28%

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30-year amortization closed, level percent of pay
Remaining amortization period	25 years remaining as of June 30, 2010
Asset valuation method	Before June 30, 2008, the actuarial value of assets was defined as the market value of assets. After June 30, 2008 valuation, any actual investment gains and losses that are above or below 8% annual return assumed in the valuations prior to July 1, 2010 are recognized over 5- year periods.
Actuarial assumptions:	
Discount rate	7.75%
Projected salary increases	4.25%
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	10.00%, graded down to an ultimate rate of 5.00% over 10 years
Dental and Medicare part B	5.00%

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**NOTE 6 – ACTUARIAL VALUATION – DISABILITY AND DEATH BENEFIT FUNDS**

Actuarial studies are performed annually on the disability and death benefit funds to determine and recommend the appropriate contribution rates and the benefit reserves levels needed to fund the current and future benefit liabilities. The results of the most recent annual actuarial reviews (fiscal years ended June 30, 2009 and June 30, 2008) for the Death and Disability Funds found that both Funds' accumulated reserves had met the recommended reserve levels. The actuarial recommendations for the contribution rates, reserve levels, and general reserve transfers were approved by the Retirement Board.

**Disability fund**

For the Permanent Total Disability Fund, the Department's contribution rate remains at \$0 per \$100 of covered payroll. As for the Temporary Disability Fund, the Department's contribution rate was decreased from \$1.70 per \$100 of covered payroll to \$1.34 of covered payroll. The rate change was approved by the Board in December 2009 and it was implemented the same month.

**Death benefit fund**

For the Death Benefit Fund, Department contributions for contributing members' death benefits remain suspended, while the Department's contribution rate for non-contributing members' death benefits was left unchanged at \$1.64 per \$100 of monthly retired payroll.

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**NOTE 7 – RESERVES AND DESIGNATED BALANCES**

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

Member contribution accounts represent the balance of member contributions. Additions include member contributions and interest. Deductions include refunds of member contributions and transfers to the reserve for retirement allowances, the reserve for death benefit and the members' account at the City Employees' Retirement System under the Plan's reciprocity provision.

Department contribution accounts represent the balance of department contributions for future retirement payments to current active members. Additions include contributions from the Department and related earnings. Deductions include transfers to the reserve for retirement allowances and reserve for death benefit.

Estimated benefit liabilities reserves represent the balance of transfers from member contribution and/or Department contribution accounts and related earnings less payments to retired members, members on disability and beneficiaries.

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

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**NOTE 7 – RESERVES AND DESIGNATED BALANCES (Continued)**

The Retirement Plan reserves and designated balances at June 30, 2010 and 2009 are as follows:

	2010	2009
<u>Retirement Fund - Reserves and Designated Balances</u>		
Reserve for retirement allowances	\$ 4,577,013,183	\$ 4,349,943,956
Contributions:		
Members' contributions	1,080,640,262	981,972,301
Department contributions	(1,169,873,646)	(1,081,913,153)
Total contributions	(89,233,384)	(99,940,852)
Reserve for investments gains/(losses)	5,480,618	5,764,454
General reserve	1,814,745,188	1,632,273,501
Total reserves and designated balances	6,308,005,605	5,888,041,059
Unrealized appreciation/(depreciation) in the fair value of investments	(41,730,236)	(189,163,276)
Total reserves and designated balances at fair value	<u>\$ 6,266,275,369</u>	<u>\$ 5,698,877,783</u>
<u>Disability Fund - Reserves and Designated Balances</u>		
Estimated liability for temporary & permanent disability cases	\$ 15,125,263	\$ 15,796,436
General reserve	30,119,424	28,715,328
Total reserves and designated balances	45,244,687	44,511,764
Unrealized appreciation/(depreciation) in the fair value of investments	2,790,220	359,772
Total reserves and designated balances at fair value	<u>\$ 48,034,907</u>	<u>\$ 44,871,536</u>
<u>Death Benefit Fund - Reserves and Designated Balances</u>		
Estimated liability for family allowances	\$ 590,218	\$ 825,220
Contribution account - family allowances	11,585,742	11,362,176
General reserve	8,283,715	9,033,438
Total reserves and designated balances	20,459,675	21,220,834
Unrealized appreciation/(depreciation) in the fair value of investments	1,448,186	231,873
Total reserves and designated balances at fair value	<u>\$ 21,907,861</u>	<u>\$ 21,452,707</u>
<u>Retiree Health Benefits Fund - Reserves and Designated Balances</u>		
Department contributions (net of insurance premiums payment)	\$ 925,104,927	\$ 825,104,927
General reserve	51,275,630	40,861,338
Total reserves and designated balances	976,380,557	865,966,265
Unrealized appreciation/(depreciation) in the fair value of investments	(49,129,402)	(125,401,860)
Total reserves and designated balances at fair value	<u>\$ 927,251,155</u>	<u>\$ 740,564,405</u>

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**NOTE 8 – PLAN AMENDMENTS**

The Plan is periodically amended to meet changes in economic conditions and sound business practices. The following is a summary of the more significant Plan amendments approved during the fiscal years ended June 30, 2010 and 2009:

Fiscal year ended June 30, 2010

There were no significant Plan amendments for the fiscal year ended June 30, 2010.

Fiscal year ended June 30, 2009

The Retirement Board approved a plan amendment on October 1, 2008 to expand eligibility for the Optional Survivor Death Benefit for survivors of members who died while performing work within the scope of their duties. The amendment establishes two additional survivorship options under the Plan to survivors: (1) the eligible survivor may elect to receive the minimum additional years, not to exceed a total of five years, added to the member's age or years of services that would qualify him or her to receive monthly survivor benefits for life, provided all other eligibility requirements for an Optional Survivor Death Benefit Allowance are met; or (2) the eligible survivor may elect to receive survivor benefits, commencing on or after the date that the member would have become eligible to retire had he or she not died, provided all other eligibility requirements are met.

**NOTE 9 – CONTINGENT LIABILITIES**

At June 30, 2010, several legal actions/divorces were pending against the Plan as codefendant. Legal counsel for the Department and the Plan has indicated adverse decisions in these cases would not materially affect the financial statements. In the event of legal settlement, the settlement and legal costs would be charged to the Department.

**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 net assets. Department's contributions and actuarial valuations are reported based on certain assumptions pertaining to interest rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements

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**RETIREMENT FUND – SCHEDULE OF FUNDING PROGRESS**  
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Projected Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* [(b) - (a)] / (c)
July 1, 2010	\$ 7,244,429,689	\$ 8,893,618,433	\$ 1,649,188,744	81.46%	\$ 856,089,559	192.64%
July 1, 2009	7,248,721,252	8,057,060,950	808,339,698	89.97%	805,137,795	100.40%
July 1, 2008	7,247,853,233	7,619,102,935	371,249,702	95.13%	708,731,840	52.38%
July 1, 2007	6,864,084,006	7,467,285,349	603,201,343	91.92%	670,372,663	89.98%
July 1, 2006	6,447,763,436	7,046,571,241	598,807,805	91.50%	635,728,131	94.19%
July 1, 2005	6,331,047,528	6,763,079,839	432,032,311	93.61%	616,270,095	70.10%
July 1, 2004	6,251,421,125	6,421,813,922	170,392,797	97.35%	581,038,783	29.33%
July 1, 2003	6,128,375,723	6,042,086,785	(86,288,938)	101.43%	527,787,469	0.00%
July 1, 2002	5,790,262,948	5,714,524,649	(75,738,299)	101.33%	430,397,884	0.00%
July 1, 2001	5,833,274,582	5,306,262,736	(527,011,846)	109.93%	403,265,472	0.00%

\*Not less than zero

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

<u>Plan Year Ended June 30</u>	<u>Annual Required Contributions (ARC)</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Percentage of APC Contributed</u>
2010	\$ 200,578,278	\$ 206,025,133	\$ 201,034,807	100.2%	97.6%
2009	141,291,589	146,768,606	145,941,276	103.3%	99.4%
2008	134,651,427	140,061,851	141,862,126	105.4%	101.3%
2007	134,504,482	140,328,366	129,154,539	96.0%	92.0%
2006	110,268,590	116,651,020	101,556,257	92.1%	87.1%
2005	80,784,677	87,615,788	75,490,143	93.4%	86.2%
2004	44,128,205	50,773,126	55,804,924	126.5%	109.9%
2003	40,910,999	47,823,973	40,560,882	99.1%	84.8%
2002	-	6,132,578	27,241,801	0.0%	444.2%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
July 1, 2009	\$ 5,261,536	\$ 95,302,626	\$ 90,041,090	5.52%	\$ 805,137,795	11.18%
July 1, 2008	4,732,078	94,445,113	89,713,035	5.01%	708,731,840	12.66%
July 1, 2007	6,528,962	79,024,241	72,495,279	8.26%	670,372,663	10.81%



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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liabilities	(3) Unfunded Actuarial Accrued Liabilities UAAAL/(Surplus) (2)-(1)	(4) Funded Ratio (1) divided by (2)	(5) Annual Covered Payroll	(6) UAAAL/(Surplus) As a Percentage of Covered Payroll (3) divide by (5)
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%

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

Year Ended June 30	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
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 <sup>(2)</sup>	391.98%

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

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

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**RETIREMENT FUND**  
**SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES**  
**For the Years Ended June 30, 2010 and 2009**

	Current Service	Minimum Pension	Cost of Living Adjustments	Continuance to Eligible Spouse	Department of Water and Power Total	Members' Total	Combined Total	Estimated Liabilities for Retirement Allowances
Balance at June 30, 2008	\$ 883,655,518	\$ (1,255,526,016)	\$ (669,650,104)	\$ 2,686,282	\$ (1,038,834,320)	\$ 880,343,492	\$ (158,490,828)	\$ 4,240,797,538
Contributions received	58,169,871	91,881,733	-	-	150,051,604	59,394,076	209,445,680	-
Contributions refunded	(4,110,329)	-	-	-	(4,110,329)	(3,951,906)	(8,062,235)	-
Net Contributions	54,059,542	91,881,733	-	-	145,941,275	55,442,170	201,383,445	-
Transfers from contribution accounts for retiring members	(23,523,130)	(45,683,638)	(32,640,847)	(4,174,581)	(106,022,196)	(24,633,076)	(130,655,272)	130,655,272
Installment payment from early retired employees								10,936
Retirement allowances paid								(363,691,635)
Interest at 8% per annum	70,975,526	(99,110,917)	(54,903,470)	40,949	(82,997,912)	70,819,715	(12,178,197)	342,171,845
Balance at June 30, 2009	985,167,456	(1,308,438,838)	(757,194,421)	(1,447,350)	(1,081,913,153)	981,972,301	(99,940,852)	4,349,943,956
Contributions received	72,685,753	131,369,342	-	-	204,055,095	71,240,553	275,295,648	-
Contributions refunded	(3,021,859)	-	-	-	(3,021,859)	(3,006,724)	(6,028,583)	-
Net Contributions	69,663,894	131,369,342	-	-	201,033,236	68,233,829	269,267,065	-
Transfers from contribution accounts for retiring members	(45,370,675)	(85,790,080)	(62,406,604)	(8,927,783)	(202,495,142)	(48,876,099)	(251,371,241)	251,371,241
Installment payment from early retired employees								5,500
Retirement allowances paid								(377,051,650)
Interest at 8% per annum	79,785,129	(103,263,468)	(62,616,587)	(403,661)	(86,498,587)	79,310,231	(7,188,356)	352,744,136
Balance at June 30, 2010	\$ 1,089,245,804	\$ (1,366,123,044)	\$ (882,217,612)	\$ (10,778,794)	\$ (1,169,873,646)	\$ 1,080,640,262	\$ (89,233,384)	\$ 4,577,013,183

See accompanying independent auditor's report.

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**DEATH BENEFIT FUND**  
**SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR**  
**FAMILY ALLOWANCES**  
**For the Years Ended June 30, 2010 and 2009**

	Members'	Department of Water and Power	Combined Total	Estimated Liability for Family Allowances
Balances at June 30, 2008	<u>\$ 5,038,503</u>	<u>\$ 5,778,185</u>	<u>\$ 10,816,688</u>	<u>\$ 1,398,011</u>
Contributions received	89,307	-	89,307	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year	-	(86,070)	(86,070)	86,070
Family allowances paid	-	-	-	(713,086)
Interest transferred from general reserve at 5% per annum	<u>254,257</u>	<u>287,994</u>	<u>542,251</u>	<u>54,225</u>
Balances at June 30, 2009	<u>5,382,067</u>	<u>5,980,109</u>	<u>11,362,176</u>	<u>825,220</u>
Contributions received	90,804	-	90,804	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year	-	(428,575)	(428,575)	428,575
Family allowances paid	-	-	-	(698,099)
Interest transferred from general reserve at 5% per annum	<u>271,481</u>	<u>289,856</u>	<u>561,337</u>	<u>34,522</u>
Balances at June 30, 2010	<u><u>\$ 5,744,352</u></u>	<u><u>\$ 5,841,390</u></u>	<u><u>\$ 11,585,742</u></u>	<u><u>\$ 590,218</u></u>

See accompanying independent auditor's report.

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**RETIREMENT FUND  
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE  
June 30, 2010**

## Revenues by Source

<b>Fiscal Year</b>	<b>Members' Contributions</b>	<b>Department Contributions*</b>	<b>Investment Income**</b>	<b>Total</b>
2010	\$ 71,240,553	\$ 208,518,237	\$ 180,881,790	\$ 460,640,580
2009	\$ 59,394,076	\$ 154,140,202	\$ 192,121,861	\$ 405,656,139
2008	\$ 48,683,048	\$ 148,295,728	\$ 206,722,244	\$ 403,701,020
2007	\$ 47,049,554	\$ 136,398,522	\$ 196,008,022	\$ 379,456,098
2006	\$ 41,324,895	\$ 108,020,866	\$ 159,450,534	\$ 308,796,295
2005	\$ 38,855,089	\$ 82,287,706	\$ 126,531,298	\$ 247,674,093
2004	\$ 38,045,999	\$ 61,926,829	\$ 130,311,380	\$ 230,284,208
2003	\$ 36,490,767	\$ 47,277,187	\$ 184,616,510	\$ 268,384,464
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

## Expenses by Type

<b>Fiscal Year</b>	<b>Benefits</b>	<b>Administrative Expenses***</b>	<b>Refunds****</b>	<b>Total</b>
2010	\$ 377,051,650	\$ 20,790,611	\$ 6,028,583	\$ 403,870,844
2009	\$ 363,691,635	\$ 17,842,282	\$ 8,062,235	\$ 389,596,152
2008	\$ 353,178,785	\$ 22,960,041	\$ 12,666,556	\$ 388,805,382
2007	\$ 338,340,501	\$ 20,136,513	\$ 7,202,784	\$ 365,679,798
2006	\$ 325,873,101	\$ 16,612,880	\$ 6,979,706	\$ 349,465,688
2005	\$ 311,551,053	\$ 12,268,060	\$ 8,241,859	\$ 332,060,972
2004	\$ 302,063,849	\$ 3,842,561	\$ 7,258,857	\$ 313,165,267
2003	\$ 295,587,105	\$ 2,612,142	\$ 8,072,065	\$ 306,271,312
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

\* 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.