

CITY OF LOS ANGELES

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

JUNE 30, 2005



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

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	6
FINANCIAL STATEMENTS	
RETIREMENT FUND	
Statement of Plan Net Assets	15
Statement of Changes in Plan Net Assets	16
DISABILITY FUND	
Statement of Plan Net Assets	17
Statement of Changes in Plan Net Assets	18
DEATH BENEFIT FUND	
Statement of Plan Net Assets	19
Statement of Changes in Plan Net Assets	20
NOTES TO FINANCIAL STATEMENTS	21
REQUIRED SUPPLEMENTARY INFORMATION	
EXHIBIT I	35
Retirement Fund	
Schedule of Funding Progress	
EXHIBIT II	36
Retirement Fund	
Schedule of Employer Contributions	
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	37

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

**TABLE OF CONTENTS
(Continued)**

SUPPLEMENTARY INFORMATION

EXHIBIT III	39
Retirement Fund	
Statement of Contribution Accounts and Estimated Liability for Retirement Allowances	
EXHIBIT IV	40
Death Benefit Fund - Family Allowances	
Statement of Contribution Accounts and Estimated Liability for Family Allowances	
EXHIBIT V	41
All Funds	
Statement of Changes in Cash Balances	
EXHIBIT VI	42
Retirement Fund	
Statement of Revenues by Source and Expenses by Type	



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of plan net assets of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (Plan) as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of June 30, 2005 and 2004, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 to 14, Schedule of Funding Progress on page 35, and Schedule of Employer Contributions on page 36 are not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the basis financial statements taken as a whole. The Statement of Contribution Accounts and Estimated Liability for Retirement Allowances, Statement of Contribution Accounts and Estimated Liability for Family Allowances, Statement of Changes in Cash Balances for All Funds, and Statement of Revenues by Source and Expenses by Type for the Retirement Fund on pages 39 to 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Statement of Contribution Accounts and Estimated Liability for Retirement Allowances, Statement of Contribution Accounts and Estimated Liability for Family Allowances, Statement of Changes in Cash Balances for All Funds, and Statement of Revenues by Source and Expenses by Type for the Retirement Fund have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basis financial statements taken as a whole.

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

Los Angeles, California
October 14, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Department of Water and Power (Department) Employees' Retirement, Disability, and Death Benefit Insurance Plan (Plan) for the years ended June 30, 2005 and 2004.

Financial Highlights

- The net assets at the close of the year 2005 were \$6,182,214,890, \$43,035,150 and \$30,675,352 for the Retirement, Disability, and Death Benefit Funds, respectively. All of the net assets were available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- Total net assets increased \$220,814,652 or 4% for the Retirement Fund; decreased by \$2,615,864 or 6% for the Disability Fund and decreased by \$2,132,672 or 7% for the Death Benefit Fund.
- As of June 30, 2005, the date of the Retirement Plan's last actuarial valuation, the funding ratio of the Plan was approximately 93.61%.
- Additions to Retirement Fund's Plan Net Assets for the year were \$538,459,520, which include member and employer contributions of \$116,879,329, and investment income of \$421,580,191.
- Deductions from Retirement Fund's Plan Net Assets increased from \$307,982,953 to \$317,644,868 over the prior year, or approximately 3%.

Overview of the Financial Statements

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about the Plan's activities. These statements reflect full accrual basis of accounting. All investment gains and losses are shown at trade date. Both realized and unrealized gains and losses on investments are also recognized.

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

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These Notes are presented on pages 21 to 34 of this report.

Other Information. This report presents certain required supplementary information concerning the Retirement Fund's progress in funding to provide pension benefits to members and summary information on employer contributions. The Required Supplementary Information is on pages 35 to 42 of this report.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

Retirement Plan

In 2005, Additions (consisting of members and Department contributions and investment income) in the amount of \$538,459,520 exceeded Deductions from net assets (including retirement benefits payments, members' contribution refund, and administrative expenses) in the amount of \$317,644,868 by \$220,814,652. The net increase in net assets brought the Retirement Plan's net asset base to \$6,182,214,890. The Plan's actuary recognizes a portion of the unrecognized returns in each of the last five years after July 1, 2001. This process prevents extreme volatility in employer contribution rate due to short-term fluctuations in the fair value of investments. As of June 30, 2005, the actuarial value of assets was \$6.3 billion, and the aggregate actuarial liability was \$6.8 billion. On an actuarial basis, the assets cover 93.61 percent and 97.35 percent of the liability in 2005 and 2004, respectively.

Plan Net Assets

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

Condensed Statements of Plan Net Assets (In thousands)				
	2005	2004	Dollar Change	Percent Change
Cash	\$ 891	\$ 562	\$ 329	58.54%
Receivables	396,470	30,069	366,401	1,218.53%
Investments	7,180,273	6,037,743	1,142,530	18.92%
Total assets	7,577,634	6,068,374	1,509,260	24.87%
Liabilities	1,395,419	106,974	1,288,445	1,204.45%
Total plan net assets	\$ 6,182,215	\$ 5,961,400	\$ 220,815	3.70%

The net assets increase of \$221 million (3.70%) in fiscal year 2005 is attributable to the appreciation in the fair value of investments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Plan Net Assets

	Condensed Statements of Changes in Plan Net Assets (In thousands)			
	2005	2004	Dollar Change	Percent Change
Additions				
Members' contributions	\$ 38,856	\$ 38,050	\$ 806	2.12%
Employer contributions	78,024	58,253	19,771	33.94%
Net investment income	421,580	614,314	(192,734)	-31.37%
Total additions	<u>538,460</u>	<u>710,617</u>	<u>(172,157)</u>	-24.23%
Deductions				
Benefits	311,551	302,064	9,487	3.14%
Refund	3,977	3,585	392	10.93%
Administrative expenses	2,117	2,334	(217)	-9.30%
Total deductions	<u>317,645</u>	<u>307,983</u>	<u>9,662</u>	3.14%
Net increase (decrease) in plan net assets	<u>\$ 220,815</u>	<u>\$ 402,634</u>	<u>\$ (181,819)</u>	-45.16%

Additions to Plan Net Assets

Additions needed to fund benefits are accumulated through contributions and investment income from invested funds. Contributions for fiscal year 2005 totaled \$116.9 million, an increase of approximately 21.37 percent or \$20.6 million. The investment income totaled \$422 million, a decrease of \$192.7 million from prior year.

The increase in members' and Department contributions was due to the increase in the Department's manpower complement. The members' contribution rate remained at approximately 6 percent of annual covered payroll, and the Department contributes \$1.10 for each \$1.00 contributed by members, plus an actuarially determined percentage of covered payroll. The total Department contribution for the year ended June 30, 2005 was approximately 13.61 percent of covered payroll.

The net investment income in 2005 was down \$192 million when compared with 2004. This was caused by a decrease in the net realized and unrealized gains on investments and lower interest earned on fixed income investments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Deductions from Plan Net Assets

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

Deductions for the year ended June 30, 2005 totaled \$317.6 million, an increase of \$9.7 million over the prior year. The increase was due mainly to the increase in retiree benefit payments as a result of the cost of living adjustment.

Disability Insurance Plan

In 2005, Deductions (consisting of disability benefits and administrative expenses) in the amount of \$10.2 million exceeded Additions to the Disability Fund's net assets (including members and Department contributions and investment income) in the amount of \$7.5 million by \$2.7 million. This brought the Disability Insurance Plan's net asset base to \$43.0 million, down from \$45.7 million a year ago.

Plan Net Assets

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

Condensed Statements of Plan Net Assets (In thousands)				
	2005	2004	Dollar Change	Percent Change
Cash	\$ 83	\$ 26	\$ 57	219.23%
Receivables	4,402	4,989	(587)	-11.77%
Investments	38,613	40,673	(2,060)	-5.06%
Total assets	43,098	45,688	(2,590)	-5.67%
Liabilities	63	37	26	70.27%
Total plan net assets	\$ 43,035	\$ 45,651	\$ (2,616)	-5.73%

As the above table shows, the Disability Insurance Plan's net assets decreased by \$2.6 million (5.73%) in fiscal year 2005. This decrease was caused mainly by the increase in the total amount of disability benefits provided for the year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Plan Net Assets

	Condensed Statements of Changes in Plan Net Assets (In thousands)			
	2005	2004	Dollar Change	Percent Change
Additions				
Members' contributions	\$ 399	\$ 397	\$ 2	0.50%
Employer contributions	5,073	4,765	308	6.46%
Net investment income	2,074	53	2,021	3,813.20%
Total additions	<u>7,546</u>	<u>5,215</u>	<u>2,331</u>	44.70%
Deductions				
Benefits	9,682	8,416	1,266	15.04%
Administrative expenses	480	444	36	8.11%
Total deductions	<u>10,162</u>	<u>8,860</u>	<u>1,302</u>	14.70%
Net increase (decrease) in plan net assets	\$ <u>(2,616)</u>	\$ <u>(3,645)</u>	\$ <u>1,029</u>	-28.23%

Additions to Plan Net Assets

Additions needed to fund the benefits are accumulated through contributions and investment income from invested funds. Contributions for the fiscal year 2005 totaled \$5.5 million, an increase of approximately 6.00 percent or \$0.3 million from a year ago. The net investment income totaled \$2.1 million, an increase of 3,813.20 percent or \$2.0 million from prior year.

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

The increase in investment income in 2005 was caused primarily by the increase in the fair value of investments.

Deductions from Plan Net Assets

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

Deductions for the year ended June 30, 2005 totaled \$10.2 million, an increase of \$1.3 million over the prior year. This increase was attributable to the increase in temporary disability benefit payments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Death Benefit Insurance Plan

In 2005, Deductions from the net assets (including benefits payments and administrative expenses) in the amount of \$8.6 million exceeded Additions (consisting of members and Department contributions and investment income) in the amount of \$6.4 million by \$2.2 million. The net decrease in net assets brought the Death Benefit Insurance Plan's net asset base to \$30.7 million, down from \$32.8 million a year ago.

Plan Net Assets

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

Condensed Statements of Plan Net Assets (In thousands)				
	2005	2004	Dollar Change	Percent Change
Cash	\$ 92	\$ 22	\$ 70	318.18%
Receivables	231	524	(293)	-55.92%
Investments	31,527	33,799	(2,272)	-6.72%
Total assets	31,850	34,345	(2,495)	-7.26%
Liabilities	1,175	1,537	(362)	-23.55%
Total plan net assets	\$ 30,675	\$ 32,808	\$ (2,133)	-6.50%

As the above table shows, the plan net assets decreased by \$2.1 million (6.50%) in the fiscal year 2005. The amount of members' and Department contributions and the income generated from the fund's investing activities were less than the amount of death benefits provided during the year and the cost to operate the fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Plan Net Assets

	Condensed Statements of Changes in Plan Net Assets (In thousands)			
	2005	2004	Dollar Change	Percent Change
Additions				
Members' contributions	\$ 287	\$ 283	\$ 4	1.41%
Employer contributions	4,092	3,877	215	5.55%
Net investment income	2,064	179	1,885	1,053.07%
Total additions	<u>6,443</u>	<u>4,339</u>	<u>2,104</u>	48.49%
Deductions				
Benefits	7,871	8,342	(471)	-5.65%
Administrative expenses	705	586	119	20.31%
Total deductions	<u>8,576</u>	<u>8,928</u>	<u>(352)</u>	-3.94%
Net increase (decrease) in plan net assets	\$ <u>(2,133)</u>	\$ <u>(4,589)</u>	\$ <u>2,456</u>	53.52%

Additions to Plan Net Assets

Additions needed to fund death benefits are accumulated through contributions and investment income from invested funds. Contributions for fiscal year 2005 totaled \$4.4 million. This represents an increase of approximately 5.26 percent or \$0.2 million. The investment income totaled \$2.1 million, which represents an increase of \$1.9 million or 1,053 percent over last year.

The increase in investment income in 2005 was due to the net appreciation in the fair value of investments.

Deductions from Plan Net Assets

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

Deductions for the year ended June 30, 2005 totaled \$8.6 million, a decrease of \$0.3 million over the prior year. This decrease was attributable to the decrease in payments of death benefit.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Request for Information

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

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

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

RETIREMENT FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

ASSETS	<u>2005</u>	<u>2004</u>
Cash (Notes 2 and 4)	\$ <u>890,571</u>	\$ <u>561,545</u>
Receivables		
Accrued investment income	20,816,999	25,383,421
Department of Water and Power	5,185,870	-
Other	<u>370,467,270</u>	<u>4,686,071</u>
Total receivables	<u>396,470,139</u>	<u>30,069,492</u>
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$2,379,618,539 in 2005 and \$1,083,273,282 in 2004)	2,391,029,462	1,183,263,850
Common stock (cost of \$3,528,669,144 in 2005 and \$2,937,165,652 in 2004)	3,912,058,377	3,872,738,548
Short-term investments (cost approximates market)	194,433,444	876,826,520
Securities lending – short-term collateral investment pool (Notes 4 and 5)	<u>682,751,744</u>	<u>104,913,701</u>
Total investments	<u>7,180,273,027</u>	<u>6,037,742,619</u>
Total assets	<u>7,577,633,737</u>	<u>6,068,373,656</u>
LIABILITIES		
Payables – Department of Water and Power	-	(149,483)
Accounts payable	(712,667,103)	(1,910,234)
Securities lending – collateral payable (Note 5)	<u>(682,751,744)</u>	<u>(104,913,701)</u>
Total liabilities	<u>(1,395,418,847)</u>	<u>(106,973,418)</u>
Net assets	<u>\$ 6,182,214,890</u>	<u>\$ 5,961,400,238</u>

The notes are an integral part of these financial statements.

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

RETIREMENT FUND

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

	<u>2005</u>	<u>2004</u>
ADDITIONS		
Members' contributions	\$ 38,855,089	\$ 38,045,999
Installment payment from early retired employees	1,167	3,901
Department of Water & Power contributions towards:		
Benefit (net of reversions)	75,490,143	55,804,924
Administrative expenses	<u>2,532,930</u>	<u>2,448,392</u>
 Total contributions	 <u>116,879,329</u>	 <u>96,303,216</u>
 Investment income		
Net appreciation in fair value of investments	305,200,361	485,511,426
Interest	87,003,103	93,648,885
Dividends	38,440,719	36,284,134
Securities lending (Note 5)	<u>1,087,476</u>	<u>378,361</u>
 Total investment income	 431,731,659	 615,822,806
Less: investment expense	<u>(10,151,468)</u>	<u>(1,508,800)</u>
 Net investment income and market appreciation	 <u>421,580,191</u>	 <u>614,314,006</u>
 Total additions	 <u>538,459,520</u>	 <u>710,617,222</u>
DEDUCTIONS		
Retirement benefits paid	311,551,053	302,063,849
Refund of members' contributions	3,977,223	3,585,343
Administrative expenses	<u>2,116,592</u>	<u>2,333,761</u>
 Total deductions	 <u>317,644,868</u>	 <u>307,982,953</u>
 Net increase	 <u>220,814,652</u>	 <u>402,634,269</u>
 Net assets – Beginning of year	 <u>5,961,400,238</u>	 <u>5,558,765,969</u>
 Net assets – End of year	 <u>\$ 6,182,214,890</u>	 <u>\$ 5,961,400,238</u>

The notes are an integral part of these financial statements.

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

DISABILITY FUND

STATEMENT OF PLAN NET ASSETS
As of June 30

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash (Notes 2 and 4)	\$ <u>83,241</u>	\$ <u>25,679</u>
Receivables		
Accrued investment income	146,376	661,185
Department of Water and Power	739,701	687,613
Other	205,674	330,255
Contingent disability benefit advance	<u>3,310,339</u>	<u>3,310,339</u>
Total receivables	<u>4,402,090</u>	<u>4,989,392</u>
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$37,462,145 in 2005 and \$21,362,596 in 2004)	37,999,033	23,517,909
Short-term investments (cost approximates market)	<u>614,307</u>	<u>17,155,548</u>
Total investments	<u>38,613,340</u>	<u>40,673,457</u>
Total assets	<u>43,098,671</u>	<u>45,688,528</u>
LIABILITIES		
Accounts payable	<u>(63,521)</u>	<u>(37,514)</u>
Total liabilities	<u>(63,521)</u>	<u>(37,514)</u>
Net assets	<u>\$ 43,035,150</u>	<u>\$ 45,651,014</u>

The notes are an integral part of these financial statements.

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

DISABILITY FUND

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

	<u>2005</u>	<u>2004</u>
ADDITIONS		
Department of Water & Power contributions towards:		
Temporary disability benefits	\$ 3,556,885	\$ 3,335,673
Supplemental disability benefits	1,041,440	978,470
Administrative expenses	<u>474,488</u>	<u>450,608</u>
Total department contributions	<u>5,072,813</u>	<u>4,764,751</u>
Contributions from members for:		
Temporary disability benefits	200,561	199,874
Permanent total disability benefits	<u>198,562</u>	<u>197,434</u>
Total members' contribution	<u>399,123</u>	<u>397,308</u>
Net appreciation (decline) in the fair value of investments	635,103	(1,669,654)
Investment income	1,442,362	1,729,192
Less: investment expense	<u>(3,092)</u>	<u>(6,599)</u>
Net investment income and market appreciation	<u>2,074,373</u>	<u>52,939</u>
Total additions	<u>7,546,309</u>	<u>5,214,998</u>
DEDUCTIONS		
Benefits provided:		
Temporary disability	7,298,197	6,210,253
Permanent total disability	1,344,393	1,235,285
Supplemental disability	<u>1,039,157</u>	<u>970,372</u>
Total benefits provided	<u>9,681,747</u>	<u>8,415,910</u>
Administrative expenses	<u>480,426</u>	<u>444,009</u>
Total deductions	<u>10,162,173</u>	<u>8,859,919</u>
Net increase (decrease)	<u>(2,615,864)</u>	<u>(3,644,921)</u>
Net assets – Beginning of year	<u>45,651,014</u>	<u>49,295,935</u>
Net assets – End of year	<u>\$ 43,035,150</u>	<u>\$ 45,651,014</u>

The notes are an integral part of these financial statements.

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

DEATH BENEFIT FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash (Notes 2 and 4)	\$ <u>92,461</u>	\$ <u>21,810</u>
Receivables		
Accrued investment income	117,886	159,837
Department of Water and Power	112,981	72,353
Other	<u>-</u>	<u>292,219</u>
Total receivables	<u>230,867</u>	<u>524,409</u>
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$29,824,138 in 2005 and \$16,308,332 in 2004)	30,254,346	16,453,872
Short-term investments (cost approximates market)	<u>1,273,169</u>	<u>17,344,893</u>
Total investments	<u>31,527,515</u>	<u>33,798,765</u>
Total assets	<u>31,850,843</u>	<u>34,344,984</u>
LIABILITIES		
Accounts payable	(87,095)	(115,888)
Death claims in process – insured lives	<u>(1,088,396)</u>	<u>(1,421,072)</u>
Total liabilities	<u>(1,175,491)</u>	<u>(1,536,960)</u>
Net assets	\$ <u><u>30,675,352</u></u>	\$ <u><u>32,808,024</u></u>

The notes are an integral part of these financial statements.

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

DEATH BENEFIT FUND

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

	<u>2005</u>	<u>2004</u>
ADDITIONS		
Department of Water & Power contributions towards:		
Retired members (non-contributing)	\$ 3,384,830	\$ 3,286,097
Administrative expenses	<u>707,509</u>	<u>591,057</u>
Total department contributions	<u>4,092,339</u>	<u>3,877,154</u>
Contributions from members for:		
Insured lives' death benefit	198,669	200,558
Supplemental family death benefits	<u>88,088</u>	<u>82,603</u>
Total members' contribution	<u>286,757</u>	<u>283,161</u>
Net appreciation (decline) in the fair value of investments	560,701	(1,105,472)
Investment income	1,512,392	1,289,277
Less: investment expense	<u>(8,900)</u>	<u>(5,195)</u>
Net investment income and market appreciation	<u>2,064,193</u>	<u>178,610</u>
Total additions	<u>6,443,289</u>	<u>4,338,925</u>
DEDUCTIONS		
Benefits provided:		
Death benefit (active/retired members)	7,030,791	7,503,037
Family allowances (Note 8)	<u>839,930</u>	<u>838,748</u>
Total benefits provided	<u>7,870,721</u>	<u>8,341,785</u>
Administrative expenses	<u>705,240</u>	<u>585,862</u>
Total deductions	<u>8,575,961</u>	<u>8,927,647</u>
Net increase (decrease)	<u>(2,132,672)</u>	<u>(4,588,722)</u>
Net assets – Beginning of year	<u>32,808,024</u>	<u>37,396,746</u>
Net assets – End of year	<u>\$ 30,675,352</u>	<u>\$ 32,808,024</u>

The notes are an integral part of these financial statements.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – PLAN DESCRIPTION

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

Membership

The Plan's membership consisted of the following at June 30, 2005 and 2004:

	2005	2004
Retirees, beneficiaries*	8,873	8,972
Terminated vested	706	703
Terminated non-vested	644	647
Inactive-non-contributing employees	152	263
Active-contributing employees:		
Vested	7,446	7,457
Non-vested	398	466
Total	18,219	18,508

* The number of retirees, beneficiaries for the fiscal year ended June 30, 2005 and 2004 includes beneficiaries of the survivorship account.

Benefit Provisions

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 – PLAN DESCRIPTION (continued)

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

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

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

Contributions

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 – PLAN DESCRIPTION (continued)

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005.

Method of Reporting

The Plan follows the accounting principles and reporting guidelines as set forth in GASB Statement No. 25. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the Plan. Members' and Department's contributions were recognized as revenues in the period in which the employee services are performed, and benefits and refunds are recognized when due and payable in accordance with the terms of each benefit fund.

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

Cash

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

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

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

Use of Estimates

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

NOTE 3 – SUMMARY OF INVESTMENT POLICIES

Investment authority is granted to the Plan by the Charter of the City of Los Angeles and is exercised in accordance with the Board's investment policy. The Charter authorizes the form and type of investment vehicles which may be purchased. The Board may invest in common stocks (including both domestic and international equities), fixed income, alternative investments, and real estate; and it may utilize stock covered call options and securities lending. Real estate and alternative investments are the authorized investment vehicles in which the Plan is not currently invested.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – CASH, INVESTMENTS AND SECURITIES LENDING

The Plan implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly the note disclosure on cash, investments and securities lending has been revised to conform to the provisions of GASB Statement No. 40.

Cash

As of June 30, 2005, the Plan's cash balances consist primarily of cash deposit with the Treasurer of the City of Los Angeles.

Investments

As of June 30, 2005, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Common stock:	
Domestic equities	\$ 2,983,619,612
International equities	928,438,765
	<u>3,912,058,377</u>
Fixed income:	
Asset-backed securities	159,140,974
Domestic corporate debts	509,567,426
International corporate debts	131,058,200
Mortgage-backed securities	1,089,252,233
U.S. agencies and other general obligations	186,682,667
U.S. Treasuries	383,581,341
	<u>2,459,282,841</u>
Short-term investments (including daily deposit accounts and liquidity funds)	196,320,920
Securities lending short-term collateral investment pool	<u>682,751,744</u>
Total	<u>\$ 7,250,413,882</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 securities, the Plan can invest in investment grade fixed income securities (a credit rating of Baa3 or better by Moody's Investor Services or BBB- or better by Standard & Poor's Corporation) and certain high yield fixed income securities (a credit rating of Ba1 or lower by Moody's Investor Services or BB+ or lower by Standard & Poor's Corporation). As of June 30, 2005, the credit ratings on the Plan's investments are as follows:

<u>Investment Type</u>	<u>Credit Rating by Standard & Poor's</u>	<u>Fair Value</u>	<u>Percentage of Total Fixed Income Investments</u>
Asset-based securities	AAA	\$ 159,140,974	6%
Corporate debts (domestic & international)	A or better	169,137,908	7%
	BBB	166,455,775	7%
	BB or lower	174,611,860	7%
	Not rated	130,420,084	5%
Mortgage-backed securities	AA or better	1,030,602,152	42%
	Not rated	58,650,081	2%
U.S. agencies & other general obligations	A or better	186,682,667	8%
U.S. Treasuries	AAA	383,581,341	16%
Total		<u>\$ 2,459,282,841</u>	<u>100%</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. As of June 30, 2005, the Plan's cash balances consist primarily of cash deposit with the Treasurer's Office 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 or 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.

Collaterals received in securities lending transactions are cash collateral and marketable securities guaranteed by the full faith and credit of the U.S. Government. See Note 5 for further disclosure on securities lending transactions.

Concentration of Credit Risk

According to the Plan's investment policy, except for investment in the fixed income asset class where no more than 10% of investments shall be invested in any one issue, no more than 5% of investments shall be invested in any one issue. United States Treasury or Federal Agency issues are exempted from this limitation. The Plan is not exposed to concentration of credit risk as of June 30, 2005. There are no investment holdings of more than five (5) percent in any one issue of each fund's net assets or in the aggregate, except investments issued or guaranteed by the U.S. Government and investments in mutual funds and external investment pools.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Interest Rate Risk

As of June 30, 2005, the Plan's exposure to interest rate risk is as follow:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Month)</u>
Asset-backed securities	\$ 159,140,974	11.86
Domestic corporate debts	509,567,426	26.96
International corporate debts	131,058,200	15.21
Mortgage-backed securities	1,089,252,233	127.64
U.S. agencies and other general obligations	186,682,667	3.56
U.S. Treasuries	<u>383,581,341</u>	16.69
Total	<u>\$ 2,459,282,841</u>	

Since the Plan has a long-term investment horizon, and utilizes an asset allocation which encompasses a long-run perspective of capital markets, the Plan maintains the interest rate risk consistent with its long-term investment horizon.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Foreign Currency Risk

As of June 30, 2005, the Plan's exposure to foreign currency risk is as follows:

<u>Currency</u>	<u>Investment Type</u>	<u>Fair Value</u>
Australian Dollar	Equities	\$ 9,914,499
Brazil Real	Corporate debts	1,152,183
British Pound Sterling	Equities	113,054,426
	Corporate debts	2,694,935
	Short-term investments	1,009,968
Canadian Dollar	Equities	15,848,286
	Corporate debts	2,098,257
	Short-term investments	106,363
Danish Krone	Equities	5,826,588
	Short-term investments	27,099
Euro Currency Unit	Equities	172,828,348
	Short-term investments	671,489
Hong Kong Dollar	Equities	7,161,198
	Short-term investments	6,433
Japanese Yen	Equities	134,025,770
	Short-term investments	706,256
Mexican New Peso	Corporate debts	3,328,216
New Zealand Dollar	Equities	386,184
	Corporate debts	472,253
Norwegian Krone	Equities	3,499,939
Singapore Dollar	Equities	5,372,842
	Short-term investments	95,638
Swedish Krona	Equities	6,410,708
	Short-term investments	95,814
Swiss Franc	Equities	47,173,019
	Short-term investments	59,809
		<u>\$ 534,026,520</u>

The Plan's investment policy permits it to invest up to 15 percent of total investments of the Plan in foreign currency-dominated investments. The Plan's position is 8.13 percent as of June 30, 2005.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 – SECURITIES LENDING

The Plan is authorized by the Charter of the City of Los Angeles and the Board's investment policy to lend its investment securities to various brokers. The lending is managed by the Plan's custodial bank. The Plan or the borrowers can terminate the contract with advance notice. The lending arrangements are collateralized by cash and marketable securities (guaranteed by the full faith and credit of the U.S. Government) at (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 Assets. At June 30, 2005, the Plan has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan and there were no borrower or lending agent default losses.

The Plan's custodian is the authorized agent to handle the Plan's securities lending activity. The Plan's custodian may invest the cash collateral received in connection with loaned securities in investments permitted by the Plan. The Plan bears sole risk of all losses of the invested collateral, including losses incurred in the event of liquidation of the permitted investments. The custodian bank is responsible for the return of loaned securities from the borrowers. The Plan does not have the ability to pledge or sell collateral assets unless the borrower is in default of its obligation. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at June 30, 2005 has an average maturity of 50 days.

The fair value of the underlying securities on loan, collateralized by cash and securities (backed by the full faith and credit of the U.S. Government), as of June 30, 2005 and 2004 is:

Securities on loan	2005	2004
Fixed income	\$ 510,366,484	\$ -
Common stocks (domestic and international equities)	156,298,103	121,237,105
	<u>\$ 666,664,587</u>	<u>\$ 121,237,105</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 – ACTUARIAL VALUATION – RETIREMENT FUND

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

The annual valuation performed as of June 30, 2005 and 2004 determined the funding status to be 93.61%* and 97.35%, respectively.

* This is the funding status percentage from the draft actuary report.

NOTE 7 – ACTUARIAL VALUATION – DISABILITY AND DEATH BENEFIT FUNDS

Actuarial studies are performed bi-annually on the Death Benefit and Disability Funds to determine the appropriate contribution rates and the benefit reserves levels needed to fund the current and future benefit liabilities. The results of the most recent bi-annual actuarial reviews for the Death Benefit Fund as of June 30, 2005* and Disability Fund as of June 30, 2004 found that both Funds' accumulated reserves had met the recommended reserve levels. The actuarial recommendations for the contribution rates, reserve levels, and general reserve transfers were approved by the Board.

* Information is from the draft actuary report.

Death Benefit Fund

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

Disability Fund

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 – RESERVES AND DESIGNATED BALANCES

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

Member contribution accounts represent the balance of member contributions. Additions include member contributions and interest. 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 Retirement Reserves and Death Benefit Reserves.

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

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 – RESERVES AND DESIGNATED BALANCES (continued)

Reserves and designated balances for the years ended June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
<u>Retirement Fund – Reserves and Designated Balances</u>		
Reserve for retirement allowances	\$ 3,773,274,190	\$ 3,607,116,305
Members' contributions	681,193,104	624,801,662
Department contributions	(742,644,395)	(619,997,826)
Total contributions	<u>(61,451,291)</u>	<u>4,803,836</u>
Reserve for investment gains & losses	<u>5,428,560</u>	<u>5,760,208</u>
General reserve	<u>2,070,184,891</u>	<u>1,308,156,425</u>
Total reserves and designated balances	5,787,436,350	4,925,836,774
Unrealized appreciation in the fair value of investments	394,778,540	1,035,563,464
Total reserves and designated balances at fair value	<u>\$ 6,182,214,890</u>	<u>\$ 5,961,400,238</u>
<u>Disability Fund – Reserves and Designated Balances</u>		
Estimated liability for temporary and permanent disability cases	\$ 12,936,187	\$ 12,869,010
General reserve	<u>29,562,076</u>	<u>30,626,691</u>
Total reserves and designated balances	42,498,263	43,495,701
Unrealized appreciation in the fair value of investments	<u>536,887</u>	<u>2,155,313</u>
Total reserves and designated balances at fair value	<u>\$ 43,035,150</u>	<u>\$ 45,651,014</u>
<u>Death Benefit Fund – Reserves and Designated Balances</u>		
Estimated liability for:		
Family allowances	\$ 1,928,547	\$ 2,137,156
Total estimated liability	<u>1,928,547</u>	<u>2,137,156</u>
Contribution accounts:		
Family allowances	<u>10,364,048</u>	<u>9,974,699</u>
Total contribution accounts	<u>10,364,048</u>	<u>9,974,699</u>
General reserve	<u>17,952,549</u>	<u>20,550,629</u>
Total reserves and designated balances	30,245,144	32,662,484
Unrealized appreciation in the fair value of investments	<u>430,208</u>	<u>145,540</u>
Total reserves and designated balances at fair value	<u>\$ 30,675,352</u>	<u>\$ 32,808,024</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 – PLAN AMENDMENTS

The Plan is periodically amended to meet changes in economic conditions and sound business practices. The following is a summary of the more significant Plan amendments approved during the years ended June 30, 2005 and 2004.

Year Ended June 30, 2005

There were no significant Plan amendments for the year ended June 30, 2005.

Year Ended June 30, 2004

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

NOTE 10 – CONTINGENT LIABILITIES

At June 30, 2005, several legal actions/divorces were pending against the Plan as codefendant. Counsel for the Department and the Plan has indicated that adverse decisions in these cases would not materially affect the financial statements. In the event of legal settlement, costs would be refunded by increased charges to the Department.

NOTE 11 – SUBSEQUENT EVENTS

On August 17, 2005, the Board adopted a Plan amendment to Section IV E (4)(b) which permits members with 30 or more years of service as of September 30, 2005 and have attained the age of 50 on or before September 30, 2005 to retired with an unreduced retirement allowance from October 1, 2005 through January 1, 2006.

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

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liabilities	(3) Unfunded Actuarial Accrued Liabilities UAAL/(Surplus) (2) - (1)	(4) Funded Ratio (1) Divided by (2)	(5) Annual Covered Payroll	(6) UAAL/(Surplus) As a Percentage of Covered Payroll (3) Divided by (5)
2005	\$6,331	\$6,763	\$432	93.61%	\$616	70.13%
2004	\$6,251	\$6,422	\$171	97.35%	\$581	29.43%
2003	\$6,128	\$6,042	(\$86)	101.42%	\$528	(16.29%)
2002	\$5,790	\$5,715	(\$75)	101.31%	\$430	(17.44%)
2001	\$5,833	\$5,306	(\$527)	109.93%	\$403	(130.77%)
2000	\$5,606	\$5,083	(\$523)	110.29%	\$368	(142.12%)
1999	\$5,254	\$4,911	(\$343)	106.98%	\$355	(96.62%)
1998	\$4,514	\$4,340	(\$174)	104.01%	\$431	(40.37%)
1997	\$3,851	\$3,812	(\$39)	101.02%	\$430	(9.07%)
1996	\$3,400	\$3,699	\$299	91.92%	\$431	69.37%

See Independent Auditor's Report.

EXHIBIT II

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

RETIREMENT FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>(1) Actual Covered Payroll</u>	<u>(2) Actuarial Determined Percentage</u>	<u>(3) Annual Required Contribution (1) times (2)</u>	<u>(4) Benefit Contribution Made</u>	<u>Percentage Contributed (4) divided by (3)</u>
2005	\$554,839,816	10.77%	\$59,756,248	\$75,490,141	126.33%
2004	\$522,227,280	10.83%	\$56,557,214	\$55,804,924	98.67%
2003	\$472,432,303	10.89%	\$51,447,878	\$40,560,882	78.84%
2002	\$430,397,884	10.64%	\$45,794,335	\$27,241,801	59.49%
2001	\$403,265,472	10.59%	\$42,705,813	\$25,763,218	60.33%
2000	\$369,509,233	10.57%	\$39,057,126	\$24,426,465	62.54%
1999	\$355,148,948	9.64%	\$34,236,359	\$57,440,383	167.78% (A)
1998	\$430,526,044	7.32%	\$31,514,506	\$124,470,502	394.96% (B)
1997	\$429,971,528	21.81%	\$93,776,790	\$103,836,661	110.73%
1996	\$430,962,812	25.81%	\$111,231,502	\$108,871,249	97.88%

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

See Independent Auditor's Report.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial cost method	Entry-age normal
Amortization method and remaining amortization period	The June 30, 2004 Unfunded Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2004. Any subsequent changes in Surplus or Unfunded Actuarial Accrued Liability are amortized over separate fifteen-year periods.
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years (but not before July 1, 2001). Unrecognized return is equal to the difference between the actual and expected returns on a market value basis and is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	A rate of return on the investment of present and future assets of 8% per year compounded annually,
Projected salary increase	Projected salary increases of 5.5% per year compounded annually, inflation plus real increases; additional projected salary increases of 1% per year, attributable to seniority/merit, and
Cost of living adjustment	Post-retirement benefit increases based on changes in the Consumer Price Index to a maximum of 3% per year.

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

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)**

The June 30, 2004 Unfunded Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2004. Any subsequent changes in Surplus or Unfunded Actuarial Accrued Liability are amortized over separate fifteen-year periods.

The Department contribution for the fiscal year ended June 30, 2005 was made in accordance with the contribution requirements determined through the actuarial valuations performed at June 30, 2004. The contribution rate is equal to the rate needed to satisfy the matching employer contribution.

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

EXHIBIT III

RETIREMENT FUND

**STATEMENT OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES
For the Years Ended June 30, 2005 and 2004**

	Contribution Accounts							Est. Liabilities for Retirement Allowances
	Department of Water & Power					Members' Total	Combined Total	
	Current Service	Minimum Pensions	Cost-of-Living Adjustments	Continuance to Eligible Spouse	Dept. of Water & Power Total			
Balance at June 30, 2003	\$ 555,715,173	\$ (842,024,738)	\$ (282,701,556)	\$ 24,704,510	\$ (544,306,611)	\$ 562,002,102	\$ 17,695,491	\$ 3,521,712,710
Contributions received	39,584,698	19,893,739	-	-	59,478,437	38,045,999	97,524,436	-
Contributions refunded	<u>(3,673,514)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,673,514)</u>	<u>(3,585,343)</u>	<u>(7,258,857)</u>	<u>-</u>
Net contributions	<u>35,911,184</u>	<u>19,893,739</u>	<u>-</u>	<u>-</u>	<u>55,804,923</u>	<u>34,460,656</u>	<u>90,265,579</u>	<u>-</u>
Transfers from contribution accounts for retiring members	(16,292,576)	(39,992,079)	(26,984,736)	(3,370,346)	(86,639,737)	(17,320,666)	(103,960,403)	103,960,403
Installment payment from early retired employees	-	-	-	-	-	-	-	3,901
Transfers to / (from) reserve for retirement allowances (from) / to contribution accounts for actuarial adjustments	-	-	-	-	-	-	-	-
Retirement allowances paid	-	-	-	-	-	-	-	(302,063,848)
Transfers (to) / from general reserve	-	-	-	-	-	-	-	-
Interest at 8% per annum	45,279,778	(68,311,401)	(23,667,138)	1,842,360	(44,856,401)	45,659,570	803,169	283,503,139
Balance at June 30, 2004	<u>\$ 620,613,559</u>	<u>\$ (930,434,479)</u>	<u>\$ (333,353,430)</u>	<u>\$ 23,176,524</u>	<u>\$ (619,997,826)</u>	<u>\$ 624,801,662</u>	<u>\$ 4,803,836</u>	<u>\$ 3,607,116,305</u>
Contributions received	40,475,018	39,279,759	-	-	79,754,777	38,855,089	118,609,866	-
Contributions refunded	<u>(4,264,635)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,264,635)</u>	<u>(3,977,223)</u>	<u>(8,241,858)</u>	<u>-</u>
Net contributions	<u>36,210,383</u>	<u>39,279,759</u>	<u>-</u>	<u>-</u>	<u>75,490,142</u>	<u>34,877,866</u>	<u>110,368,008</u>	<u>-</u>
Transfers from contribution accounts for retiring members	(27,073,963)	(75,077,747)	(48,645,570)	(6,228,524)	(157,025,804)	(28,704,461)	(185,730,265)	185,730,265
Installment payment from early retired employees	-	-	-	-	-	-	-	1,167
Transfers to / (from) reserve for retirement allowances (from) / to contribution accounts for actuarial adjustments	-	-	-	-	-	-	-	-
Retirement allowances paid	-	-	-	-	-	-	-	(311,551,053)
Transfers (to) / from general reserve	-	-	-	-	-	-	-	-
Interest at 8% per annum	49,946,469	(68,560,430)	(24,256,772)	1,759,826	(41,110,907)	50,218,037	9,107,130	291,977,508
Balance at June 30, 2005	<u>\$ 679,696,448</u>	<u>\$ (1,034,792,897)</u>	<u>\$ (406,255,772)</u>	<u>\$ 18,707,826</u>	<u>\$ (742,644,395)</u>	<u>\$ 681,193,104</u>	<u>\$ (61,451,291)</u>	<u>\$ 3,773,274,190</u>

See Independent Auditor's Report.

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

DEATH BENEFIT FUND – FAMILY ALLOWANCES

STATEMENT OF CONTRIBUTION ACCOUNTS AND
ESTIMATED LIABILITY FOR FAMILY ALLOWANCES

For the Years Ended June 30, 2005 and 2004

	<u>Members</u>	<u>Department of Water & Power</u>	<u>Combined Total</u>	<u>Estimated Liability for Family Allowances</u>
Balances at June 30, 2003	\$ 3,278,685	\$ 6,411,689	\$ 9,690,374	\$ 2,259,135
Contributions received	82,603	-	82,603	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the Year	-	(547,681)	(547,681)	547,681
Family allowances paid	-	-	-	(838,748)
Interest transferred from general reserve at 8% per annum	265,748	483,655	749,403	169,088
Balances at June 30, 2004	\$ 3,627,036	\$ 6,347,663	\$ 9,974,699	\$ 2,137,156
Contributions received	88,088	-	88,088	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the Year	-	(475,106)	(475,106)	475,106
Family allowances paid	-	-	-	(839,930)
Interest transferred from general reserve at 8% per annum	294,047	482,320	776,367	156,215
Balances at June 30, 2005	\$ 4,009,171	\$ 6,354,877	\$ 10,364,048	\$ 1,928,547

See Independent Auditor's Report.

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

EXHIBIT V

ALL FUNDS
STATEMENT OF CHANGES IN CASH BALANCES
For the Years Ended June 30, 2005 and 2004

	Retirement Fund		Disability Fund		Death Benefit Fund	
	2005	2004	2005	2004	2005	2004
<i>Source of Cash:</i>						
Contributions from Department of Water & Power for:						
Current service (net of reversions during year)	\$ 36,210,383	\$ 35,911,184	\$ -	\$ -	\$ -	\$ -
Minimum pensions	39,279,759	19,893,739	-	-	-	-
Cost-of-living adjustments	-	-	-	-	-	-
Continuance to eligible spouse	-	-	-	-	-	-
Operating expenses	2,532,930	2,448,392	474,488	450,608	707,509	591,057
Disability and death benefits	-	-	4,598,325	4,314,143	3,384,830	3,286,097
Contributions from members (net of withdrawals)	34,877,866	34,460,656	399,123	397,308	286,757	283,161
Installment payment from early retired employees	1,167	3,901	-	-	-	-
Interest and dividends collected on investments	131,097,721	137,177,080	1,957,171	1,919,763	1,554,343	1,410,606
Decrease in investments (net)	-	76,424,289	2,695,220	1,533,047	2,831,951	2,831,243
Accounts receivable at beginning of year - collected during year	4,686,071	11,000,796	1,017,868	1,273,712	292,219	733,795
Deduct accounts receivable at end of year	-	(4,686,071)	(945,375)	(1,017,868)	(25,886)	(292,219)
Total Sources of Cash	<u>248,685,897</u>	<u>312,633,966</u>	<u>10,196,820</u>	<u>8,870,713</u>	<u>9,031,723</u>	<u>8,843,740</u>
<i>Uses of Cash:</i>						
Allowances and benefits to members or beneficiaries	311,551,053	302,063,849	9,681,747	8,415,910	8,203,397	8,234,737
Operating expenses	12,268,060	3,842,561	483,518	450,608	714,140	591,057
Increase in investments (net)	259,492,003	-	-	-	-	-
Accounts payable at beginning of year - paid during the year	2,059,717	8,483,796	37,514	47,583	43,535	72,426
Deduct accounts payable at end of year	(337,013,962)	(2,059,717)	(63,521)	(37,514)	-	(43,535)
Total Uses of Cash	<u>248,356,871</u>	<u>312,330,489</u>	<u>10,139,258</u>	<u>8,876,587</u>	<u>8,961,072</u>	<u>8,854,685</u>
<i>Increases (decreases) in cash during the year</i>	329,026	303,477	57,562	(5,874)	70,651	(10,945)
<i>Cash balances at beginning of year</i>	<u>561,545</u>	<u>258,068</u>	<u>25,679</u>	<u>31,553</u>	<u>21,810</u>	<u>32,755</u>
<i>Cash balances at end of year</i>	<u>\$ 890,571</u>	<u>\$ 561,545</u>	<u>\$ 83,241</u>	<u>\$ 25,679</u>	<u>\$ 92,461</u>	<u>\$ 21,810</u>

See Independent Auditor's Report.

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

RETIREMENT FUND

STATEMENT OF REVENUES BY SOURCE AND EXPENSES BY TYPE

Revenues by Source

<u>Fiscal Year</u>	<u>Members' Contributions</u>	<u>Department Contributions*</u>	<u>Investment Income**</u>	<u>Total</u>
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
2000	\$ 26,128,536	\$ 31,042,231	\$ 224,680,749	\$ 281,851,516
1999	\$ 24,781,774	\$ 68,848,769	\$ 205,607,813	\$ 299,238,356
1998	\$ 25,732,201	\$ 129,347,361	\$ 253,236,351	\$ 408,315,913
1997	\$ 22,061,056	\$ 107,559,632	\$ 211,293,953	\$ 340,914,641
1996	\$ 20,943,835	\$ 115,390,112	\$ 218,629,777	\$ 354,963,724

Expenses by Type

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative Expenses***</u>	<u>Refunds****</u>	<u>Total</u>
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
2000	\$ 271,559,094	\$ 2,374,325	\$ 8,085,954	\$ 282,019,373
1999	\$ 254,253,462	\$ 2,660,477	\$ 17,374,946	\$ 274,288,885
1998	\$ 198,859,447	\$ 2,025,373	\$ 9,739,210	\$ 210,624,030
1997	\$ 196,142,682	\$ 2,030,872	\$ 7,148,793	\$ 205,322,347
1996	\$ 189,840,150	\$ 1,788,958	\$ 9,877,886	\$ 201,506,994

- * Represents Department contribution before reversions and includes contributions towards administrative expenses
- ** Represents "booked" investment income and excludes "net appreciation in fair value of investment"
- *** Represents investment and administrative expenses
- **** Represents both refunds on members' contributions and reversions on Department contributions.

See Independent Auditor's Report.