

**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, 2007 and 2006**

**WATER AND POWER EMPLOYEES'  
RETIREE HEALTH BENEFITS FUND**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**For the Period December 15, 2006 (Date of Inception) through June 30, 2007**

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

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**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 (Plan), as of June 30, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended as listed in the table of contents. We have also audited the accompanying statement of plan net assets of the City of Los Angeles Water and Power Employees' Retiree Health Benefits Fund (Fund) as of June 30, 2007 and the related statement of changes in plan net assets for the period December 15, 2006 (date of inception) through June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Plan and Fund's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and Fund'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 opinions.

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, 2007 and 2006, and of the Fund as of June 30, 2007, and the changes in net assets available for benefits of the Plan for the years then ended, and for the Fund for the period December 15, 2006 (date of inception) through June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 2 to the financial statements, the Plan and the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective December 15, 2006 and Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, effective July 1, 2006, with respect to the Plan's Insured Lives portion of the Death Benefit Fund.

The management's discussion and analysis on pages 3 through 15, the Schedules of Funding Progress on pages 43, 45 and 46, and the Schedules of Employer Contributions on pages 44 and 47, 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 audit was conducted for the purpose of forming opinions 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 Family Allowances Schedule of Contribution Accounts and Estimated Liability, and the Retirement Fund Schedule of Revenues by Source and Expenses by Type on pages 51 through 53 (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 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.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

December 17, 2007

**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) for the years ended June 30, 2007 and 2006, and the Retiree Health Benefits Fund (Health Fund) from December 15, 2006 through June 30, 2007.

**Financial Highlights**

- The net assets at the close of the fiscal ending June 30, 2007 were \$7,417,827,796, \$35,525,401, \$24,665,368, and \$649,115,755 for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Funds, respectively. All of the net assets were available to meet the Plan's and Health Fund's obligations to Plan participants and their beneficiaries.
- Total net assets increased by \$904,588,263 or 13.89% for the Retirement Fund, decreased by \$1,492,244 or 4.03% for the Disability Fund, and decreased by \$1,594,044 or 6.07% for the Death Benefit Fund.
- As of June 30, 2007, the date of the Retirement Fund's last actuarial valuation, the funding ratio of the fund was approximately 91.9%.
- Additions to the Retirement Fund's net assets increased from \$662,531,790 to \$1,249,284,366 over the prior year, or approximately 88.56%. The change was a result of an increase in member and employer contributions of \$33,969,383 and an increase in net investment income of \$542,046,406 over the prior year.
- Deductions from Retirement Fund's Plan Net Assets increased from \$331,507,147 to \$344,696,103 over the prior year, or approximately 3.98%.
- Health Fund assets of \$641,989,342 were transferred to the Plan during fiscal year 2007. As of June 30, 2007, the fund net assets are \$649,115,755. At June 30, 2006, the date of the first actuarial valuation for the Health Fund, the funded status of the plan was zero.

**CITY OF LOS ANGELES**  
**WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY,**  
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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

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

*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 24 to 42 of this report.

*Other Information.* This report presents certain required supplementary information concerning the Retirement Fund's Insured Lives Death Benefit Fund and the Retiree Health Benefits Fund's progress in funding to provide pension, death benefit and health benefits to members, and summary information on employer contributions. The Required Supplementary Information are on pages 43 to 50 of this report. Supplementary Information are on pages 51 through 53.

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

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

**Financial Analysis**

***Retirement Fund***

**Plan Net Assets**

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

Condensed Statement of Plan Net Assets					
(In Thousands)					
	2007	2006	2005	2007/06 % Change	2006/05 % Change
Cash	\$ 586	\$ 822	\$ 891	-28.71%	-7.74%
Receivables	268,181	299,831	396,470	-10.56%	-24.37%
Investments	8,434,584	7,368,087	7,180,273	14.47%	2.62%
<b>Total Assets</b>	<b>8,703,351</b>	<b>7,668,740</b>	<b>7,577,634</b>	<b>13.49%</b>	<b>1.20%</b>
Liabilities	1,285,523	1,155,500	1,395,419	11.25%	-17.19%
<b>Total plan net assets</b>	<b>\$ 7,417,828</b>	<b>\$ 6,513,240</b>	<b>\$ 6,182,215</b>	<b>13.89%</b>	<b>5.35%</b>

**Fiscal year-ended June 30, 2007**

Net assets increased by \$905 million (13.9%) to \$7.4 billion over the prior fiscal year. Investments increased by \$1,066 million due to the favorable return from investment activities and primarily from appreciation in fair value. Liabilities increased by \$130 million from fiscal year 2006, due to a decrease in pending trades and settlements at year-end of \$189 million, offset by an increase in securities lending activities of \$319 million.

**Fiscal year-ended June 30, 2006**

Net assets increased by \$331 million (5.35%) to \$6.5 billion in fiscal year 2006 over the prior fiscal year net assets of \$6.2 billion. Investments increased \$187.8 million due primarily to appreciation in the fair value of these investments. Receivables and liabilities decreased from the prior year and represent pending trades and settlements at year-end, as well as a decrease in securities lending activities.



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

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

**Retirement Fund (continued)**

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets (In Thousands)					
	2007	2006	2005	2007/06 % Change	2006/05 % Change
<b>Additions</b>					
Members' contributions	\$ 47,060	\$ 41,330	\$ 38,856	13.86%	6.37%
Employer contributions	132,704	104,465	78,024	27.03%	33.89%
Net investment income	1,069,520	516,736	421,580	106.98%	22.57%
<b>Total additions</b>	<b>1,249,284</b>	<b>662,531</b>	<b>538,460</b>	<b>88.56%</b>	<b>23.04%</b>
<b>Deductions</b>					
Benefits	338,341	325,873	311,551	3.83%	4.60%
Refund	3,546	3,424	3,977	3.56%	-13.90%
Administrative expense	2,809	2,209	2,117	27.16%	4.35%
<b>Total deductions</b>	<b>344,696</b>	<b>331,506</b>	<b>317,645</b>	<b>3.98%</b>	<b>4.36%</b>
Net increase in					
Plan net assets	904,588	331,025	220,815	173.27%	49.91%
Net assets beginning	6,513,240	6,182,215	5,961,400	5.35%	3.70%
<b>Net assets ending</b>	<b>\$ 7,417,828</b>	<b>\$ 6,513,240</b>	<b>\$ 6,182,215</b>	<b>13.89%</b>	<b>5.35%</b>

**Additions to Plan Net Assets**

Additions needed to fund benefits are accumulated through contributions and income from investments.

**Fiscal year-ended June 30, 2007**

Contributions for fiscal year 2007 totaled \$179.8 million, up \$34.0 million or 23.3% from a year ago. The increase in contributions was due to the following: a) an increase in the number of the Department's employees; b) a 3.9% cost-of-living adjustment added to the base pay of most Department employees, and c) an increase in the Department's required contribution rate for fiscal year 2007 to 22.25% of pay from 19.20% for fiscal year 2006.

**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)*

Investment income increased by \$552.8 million or 107.0% compared with the prior fiscal year 2006. This was caused primarily by the increase in the fair value of investments and increase in earnings from fixed income investments.

**Fiscal year-ended June 30, 2006**

Contributions for fiscal year 2006 totaled \$145.8 million, up \$28.9 million or 24.74% from a year ago. The increase in contributions was due to the following: a) an increase in the Department's employees; b) a 3.8% cost-of-living adjustment added to the base pay of most Department employees, and c) an increase in the Department's required contribution rate for fiscal year 2006 to 19.20% of pay from 14.56% for fiscal year 2005.

Investment income increased by \$95.2 million or 22.6% compared with the prior fiscal year 2005. This was caused by the increase in the fair value of investments, an increase in earnings from fixed income investments and an increase in income from securities lending.

Investment expense for fiscal year 2006 increased 41.9% to \$14.4 million from \$10.2 million in fiscal year 2005. The increase is due primarily to an increase in the number of investment managers used by the Plan.

**Deductions from Plan net assets**

Costs associated with this Plan include benefit payments as designated by the Retirement Plan, refund of contributions to terminated and deceased employees, and administrative costs of operating the Plan.

**Fiscal year-ended June 30, 2007**

Deductions for the fiscal year ended June 30, 2007 totaled \$345 million, an increase of \$13.2 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.

**CITY OF LOS ANGELES**  
**WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY,**  
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**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)

	2007	2006	2005	2007/06 % Change	2006/05 % Change
Cash	\$ 249	\$ 230	\$ 83	8.26%	177.11%
Receivables	5,057	4,867	4,402	3.90%	10.56%
Investments	30,383	32,113	38,613	-5.39%	-16.83%
Total Assets	35,689	37,210	43,098	-4.09%	-13.66%
Liabilities	163	192	63	-15.10%	204.76%
Total plan net assets	\$ 35,526	\$ 37,018	\$ 43,035	-4.03%	-13.98%

**Fiscal year-ended June 30, 2007**

The Disability Insurance Plan net assets were down \$1.5 million, or 4.0% in fiscal year 2007. Investments decreased by \$1.7 million from prior fiscal year.

**Fiscal year-ended June 30, 2006**

Plan net assets declined by \$6.0 million (14.0%) in 2006 over the prior year net assets of \$43.0 million. Investments were down \$6.5 million from 2005 as a result of an overall decline in the fair value of the investments. Receivables and liabilities increased over the prior year, and these represent pending trades and settlements at year-end.

**CITY OF LOS ANGELES**  
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**HEALTH BENEFITS FUND**

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

*Disability Fund (continued)*

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets					
(In Thousands)					
	2007	2006	2005	2007/06 % Change	2006/05 % Change
<b>Additions</b>					
Members' contributions	\$ 400	\$ 397	\$ 399	0.76%	-0.50%
Employer contributions	8,395	5,108	5,073	64.35%	0.69%
Net investment income	1,970	(152)	2,074	1396.05%	-107.33%
Total additions	<u>10,765</u>	<u>5,353</u>	<u>7,546</u>	101.10%	-29.06%
<b>Deductions</b>					
Benefits	11,826	10,920	9,682	8.30%	12.79%
Administrative expense	431	450	480	-4.22%	-6.25%
Total deductions	<u>12,257</u>	<u>11,370</u>	<u>10,162</u>	7.80%	11.89%
Net decrease in					
Plan net assets	(1,492)	(6,017)	(2,616)	75.20%	-130.01%
Net assets beginning	<u>37,018</u>	<u>43,035</u>	<u>45,651</u>	-13.98%	-5.73%
Net assets ending	<u>\$ 35,526</u>	<u>\$ 37,018</u>	<u>\$ 43,035</u>	-4.03%	-13.98%

**Additions to Plan Net Assets**

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

**Fiscal year-ended June 30, 2007**

Contributions for the fiscal year ended June 30, 2007 totaled \$8.8 million, an increase of approximately 59.8% or \$3.3 million from a year ago. The increase was due to an increase in the number of employees over the prior year, and an increase in the Department's contributions to the Disability Fund. In 2007, the employer contribution rate rose to \$1.55 compared to \$0.74 per \$100 of employees' base compensation in 2006. In addition, investment income was up 1396% due to increases in realized earnings and the fair value of investments.

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

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

*Disability Fund (continued)*

**Fiscal year-ended June 30, 2006**

Contributions for the fiscal year 2006 totaled \$5.5 million, an increase of approximately 0.6% above prior year's level, as a result of increased payroll costs. Investment income dropped 107.3% or \$2.2 million, because of the decrease in the fair market value of investments and decrease in the income generated from those investments.

**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, 2007**

Deductions for the fiscal year 2007 totaled \$12.3 million, an increase of \$0.9 million over the prior year. The increase was attributable to the increase in temporary disability benefit payments as a result in the increase of employee base compensation.

**Fiscal year-ended June 30, 2006**

Deductions for the fiscal year 2006 totaled \$11.4 million, up 11.9% from 2005. This increase is attributable to the increase in temporary disability benefit payments due to increases in the number of disability cases as well as increase in payroll costs.

**CITY OF LOS ANGELES**  
**WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY,**  
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**HEALTH BENEFITS FUND**

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

***Death Benefit Insurance Fund***

**Plan Net Assets**

	Condensed Statement of Plan Net Assets			2007/06	2006/05
	(In Thousands)				
	2007	2006	2005		
Cash	\$ 153	\$ 187	\$ 92	-18.18%	103.26%
Receivables	128	633	231	-79.78%	174.03%
Investments	26,554	27,048	31,527	-1.83%	-14.21%
Total Assets	26,835	27,868	31,850	-3.71%	-12.50%
Liabilities	2,170	1,609	1,175	34.87%	36.94%
Total plan net assets	<u>\$ 24,665</u>	<u>\$ 26,259</u>	<u>\$ 30,675</u>	-6.07%	-14.40%

**Fiscal year-ended June 30, 2007**

Plan net assets were down by \$1.6 million (6.1%) from fiscal year 2006. Investments decreased by \$0.5 million to \$26.6 million.

**Fiscal year-ended June 30, 2006**

The Plan net assets declined \$4.4 million or 14.4% when compared with prior year net assets of \$30.7 million. Investments decreased \$4.4 million from 2005 due to a decrease in the fair value of those investments. Receivables and payables both increased from the prior year, and they represent pending trades and settlements at year-end.

**CITY OF LOS ANGELES**  
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**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)					
	2007	2006	2005	2007/06	2006/05
				% Change	% Change
<b>Additions</b>					
Members' Contributions	\$ 289	\$ 287	\$ 287	0.70%	-
Employer Contributions	4,337	4,194	4,092	3.41%	2.49%
Net Investment Income	1,701	(104)	2,064	1735.58%	-105.04%
<b>Total Additions</b>	<b>6,327</b>	<b>4,377</b>	<b>6,443</b>	<b>44.55%</b>	<b>-32.07%</b>
<b>Deductions</b>					
Benefits	7,260	8,156	7,871	-10.99%	3.62%
Administrative Expense	661	637	705	3.77%	-9.65%
<b>Total deductions</b>	<b>7,921</b>	<b>8,793</b>	<b>8,576</b>	<b>-9.92%</b>	<b>2.53%</b>
Net decrease in					
Plan net assets	(1,594)	(4,416)	(2,133)	63.90%	107.03%
Net assets beginning	26,259	30,675	32,808	-14.40%	-6.50%
<b>Net assets ending</b>	<b>\$ 24,665</b>	<b>\$ 26,259</b>	<b>\$ 30,675</b>	<b>-6.07%</b>	<b>-14.40%</b>

**Additions to Plan Net Assets**

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

**Fiscal year-ended June 30, 2007**

Contributions for fiscal year 2007 totaled \$4.6 million, up 3.2% over the prior year. Investment income totaled \$1.7 million, up 1735% over 2006. This favorable change resulted from the net appreciation in the fair value of investments over 2006. Net assets were down 6.1% from 2006.

**CITY OF LOS ANGELES**  
**WATER AND POWER EMPLOYEES' RETIREMENT, DISABILITY,**  
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**HEALTH BENEFITS FUND**

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

*Death Benefit Insurance Fund (continued)*

**Fiscal year-ended June 30, 2006**

The levels of member and Department contributions for the two years in review are almost at par, with an increase of 2.3%. Investment income was lower by \$2.2 million or 105.0% due to the decrease in the fair value of investments.

**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, 2007**

Deductions for the fiscal year 2007 totaled \$7.9 million, a decrease of \$0.9 million over a year ago. This decrease was attributable to the decline in death benefit payments resulting from fewer death benefit cases this year than in 2006.

**Fiscal year-ended June 30, 2006**

Deductions for the fiscal year 2006 totaled \$8.8 million, a slight increase of \$0.2 million or 2.5% from 2005. There was an increase in death benefit payments compared to 2005 due to increased cases, as well as increased payroll costs.

***Retiree Health Benefits Fund***

The DWP Board of Water and Power Commissioners approved the creation of the Retiree Health Benefits Fund on September 2006 to defray current and future 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 fund.

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, 2007, the net assets of the fund were valued at \$649.1 million. The Health Fund's net investment income for the period December 15, 2006 through June 30, 2007 was \$23.9 million, and the health insurance and dental premiums paid for retirees during the same period totaled \$16.9 million.



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

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

The condensed statements of Plan net assets and changes in Plan net assets are as follows:

**RETIREE HEALTH BENEFIT FUND**

Condensed Statement of Plan Net Assets  
(In Thousands)

	Year 2007 Amount
Cash	\$ 1
Receivables	42,273
Investments	719,917
Total Assets	762,191
Liabilities	113,075
Total plan net assets	\$ 649,116

Condensed Statement of Changes in Plan Net Assets  
(In Thousands)

	Year 2007 Amount
<b>Additions</b>	
Employer contributions	\$ 642,129
Net investment income	23,871
Total additions	666,000
<b>Deductions</b>	
Benefits (insurance premiums)	16,884
Total deductions	16,884
Net increase in plan net assets	649,116
Plan net assets beginning	-
Plan net assets ending	\$ 649,116

***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 financial 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

	2007	2006
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 585,946	\$ 821,517
Receivables		
Accrued investment income	21,914,269	22,462,930
Department of Water and Power	14,794,118	10,388,845
Open investment trades and other	231,472,401	266,979,176
Total receivables	268,180,788	299,830,951
Investments, at fair value (Notes 2, 3, and 4)		
Fixed income (amortized cost \$2,418,392,811 in 2007 and \$2,398,334,123 in 2006)	2,396,332,126	2,356,006,126
Common Stock (cost of \$3,465,863,229 in 2007 and \$3,537,472,139 in 2006)	4,785,563,423	4,217,097,899
Short-term investments (cost approximates fair value)	238,697,872	240,965,010
Alternative investments	87,558,131	1,191,537
Real Estate	54,704,256	-
Securities lending - short-term collateral investment pool (Notes 4 and 5)	871,728,424	552,826,601
Total investments	8,434,584,232	7,368,087,173
Total assets	8,703,350,966	7,668,739,641
<b>LIABILITIES</b>		
Accounts payable	413,794,746	602,673,507
Securities lending - collateral payable (Note 5)	871,728,424	552,826,601
Total liabilities	1,285,523,170	1,155,500,108
Net assets held in trust for pension benefits (See Schedule of Funding Progress on page 43)	\$ 7,417,827,796	\$ 6,513,239,533

*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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREMENT FUND

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

	2007	2006
<b>ADDITIONS</b>		
Members' contributions	\$ 47,049,554	\$ 41,324,895
Installment payment from early retired employees	10,892	4,897
Department of Water and Power contributions towards:		
Benefits (net of reversions)	129,154,539	101,556,257
Administrative expenses	3,549,724	2,909,277
Total contributions	179,764,709	145,795,326
Investment income		
Net appreciation in fair value of investments	890,825,634	371,692,751
Interest	134,892,788	118,403,796
Dividends	47,966,411	37,921,365
Securities lending (Note 5 )	36,668,841	28,789,849
Total investment income	1,110,353,674	556,807,761
Less: securities lending expense (Note 5)	(34,304,268)	(25,711,940)
Less: investment expense	(17,314,000)	(14,406,821)
Net investment income and market appreciation	1,058,735,406	516,689,000
Other income	10,784,251	47,464
Total additions	1,249,284,366	662,531,790
<b>DEDUCTIONS</b>		
Retirement benefits paid	338,340,501	325,873,101
Refund of members' contributions	3,546,079	3,424,377
Administrative expenses	2,809,523	2,209,669
Total deductions	344,696,103	331,507,147
Net increase in plan net assets	904,588,263	331,024,643
Net assets held in trust for pension benefits		
Beginning of year	6,513,239,533	6,182,214,890
End of year	\$ 7,417,827,796	\$ 6,513,239,533

*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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

DISABILITY FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 248,832	\$ 229,688
Receivables		
Accrued investment income	145,872	151,557
Department of Water and Power	1,378,737	573,979
Other	222,218	830,648
Contingent disability benefit advance	3,310,339	3,310,339
Total receivables	<u>5,057,166</u>	<u>4,866,523</u>
Investments, at fair value (Notes 2, 3 and 4):		
Fixed income (amortized cost \$29,550,892 in 2007 and \$31,856,032 in 2006)	28,781,288	30,668,609
Short-term investments (cost approximates fair value)	1,601,558	1,444,825
Total investments	<u>30,382,846</u>	<u>32,113,434</u>
Total assets	<u>35,688,844</u>	<u>37,209,645</u>
<b>LIABILITIES</b>		
Accounts payable	<u>163,443</u>	<u>192,000</u>
Total liabilities	<u>163,443</u>	<u>192,000</u>
Net assets held in trust for disability benefits	<u>\$ 35,525,401</u>	<u>\$ 37,017,645</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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

DISABILITY FUND

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

	2007	2006
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Temporary disability benefits	\$ 7,122,491	\$ 4,043,308
Supplemental disability benefits	831,698	607,639
Administrative expenses	440,824	457,218
Total department contributions	8,395,013	5,108,165
Contributions from members for:		
Temporary disability benefits	200,811	199,445
Permanent total disability benefits	199,223	197,458
Total members' contributions	400,034	396,903
Net appreciation (depreciation) in the fair value of investments	352,501	(1,843,292)
Investment income	1,664,049	1,708,578
Less: investment expenses	(46,502)	(17,098)
Net investment income	1,970,048	(151,812)
Total additions	10,765,095	5,353,256
<b>DEDUCTIONS</b>		
Benefits provided:		
Temporary disability	9,201,313	8,577,782
Extended temporary disability	301,675	320,038
Permanent total disability	1,493,732	1,416,598
Supplemental disability	829,409	605,622
Total benefits provided	11,826,129	10,920,040
Administrative expenses	431,210	450,721
Total deductions	12,257,339	11,370,761
Net decrease in plan net assets	(1,492,244)	(6,017,505)
Net assets held in trust for disability benefits		
Beginning of year	37,017,645	43,035,150
End of year	\$ 35,525,401	\$ 37,017,645

*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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

DEATH BENEFIT FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash (Notes 2 and 4)	\$ 153,013	\$ 187,173
Receivables		
Accrued investment income	128,362	128,249
Other	44	504,954
Total receivables	<u>128,406</u>	<u>633,203</u>
Investments, at fair value (Notes 2, 3 and 4)		
Fixed income (amortized cost \$25,957,867 in 2007 and \$26,938,461 in 2006)	25,268,474	25,935,575
Short-term investments (cost approximates fair value)	1,285,573	1,112,408
Total investments	<u>26,554,047</u>	<u>27,047,983</u>
Total assets	<u>26,835,466</u>	<u>27,868,359</u>
<b>LIABILITIES</b>		
Payable - Department of Water and Power	221,648	12,891
Accounts payable	230,559	278,265
Death claims in process - insured lives	1,717,891	1,317,791
Total liabilities	<u>2,170,098</u>	<u>1,608,947</u>
Net assets held in trust for death benefits (See Schedule of Funding Progress for Insured Lives Portion on page 45)	<u>\$ 24,665,368</u>	<u>\$ 26,259,412</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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

DEATH BENEFIT FUND

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

	2007	2006
<b>ADDITIONS</b>		
Department of Water and Power contributions towards:		
Retired Members (non-contributing)	\$ 3,671,046	\$ 3,537,698
Administrative expenses	666,340	656,498
Total department contributions	4,337,386	4,194,196
Contributions from members for:		
Insured lives' death benefit	199,634	197,820
Supplemental family death benefits	88,782	88,784
Total members' contributions	288,416	286,604
Net appreciation (depreciation) in the fair value of investments	269,991	(1,508,917)
Investment income	1,467,730	1,432,191
Less: investment expenses	(36,861)	(26,823)
Net investment income	1,700,860	(103,549)
Total additions	6,326,662	4,377,251
<b>DEDUCTIONS</b>		
Benefits provided:		
Death benefit (active/retired members)	6,486,244	7,375,665
Family allowances (Note 8)	773,630	779,888
Total benefits provided	7,259,874	8,155,553
Administrative expenses	660,832	637,638
Total deductions	7,920,706	8,793,191
Net decrease in plan net assets	(1,594,044)	(4,415,940)
Net assets held in trust for death benefits		
Beginning of year	26,259,412	30,675,352
End of year	\$ 24,665,368	\$ 26,259,412

*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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREE HEALTH BENEFITS FUND

STATEMENT OF PLAN NET ASSETS

As of June 30

	2007
<b>ASSETS</b>	
Cash (Notes 2 and 4)	\$ 1,000
Receivables	
Accrued investment income	1,617,801
Department of Water and Power	139,957
Open investment trades and other	40,515,384
Total receivables	42,273,142
Investments, at fair value (Notes 2, 3 and 4)	
Fixed income (amortized cost \$264,090,001)	261,393,862
Common Stock (cost of \$374,450,920)	397,703,937
Short-term investments (cost approximates fair value)	7,732,192
Securities lending - short term collateral investment pool (Notes 4 and 5)	53,086,817
Total investments	719,916,808
Total assets	762,190,950
<b>LIABILITIES</b>	
Due to Retirement Fund	139,957
Accounts payable	59,848,421
Securities lending - collateral payable (Note 5)	53,086,817
Total liabilities	113,075,195
Net assets held in trust for retiree health benefits (See schedule of Funding Progress on page 46)	\$ 649,115,755

*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  
INCLUDING RETIREE HEALTH BENEFITS FUND**

RETIREE HEALTH BENEFITS FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Period December 15, 2006 (Date of Inception) through June 30, 2007

	2007
<b>ADDITIONS</b>	
Department of Water and Power contributions towards:	
Retiree health benefits	\$ 641,989,342
Investment expenses	139,957
	642,129,299
Investment income	
Net appreciation in fair value of investments	17,824,809
Interest	6,143,449
Securities lending (Note 5 )	713,689
	24,681,947
Less: securities lending expense (Note 5)	(671,119)
Less: investment expense	(139,957)
	23,870,871
Net investment income	23,870,871
Total additions	666,000,170
<b>DEDUCTIONS</b>	
Retiree health benefits paid (insurance premiums)	16,884,415
	16,884,415
Net increase in plan net assets	649,115,755
Net assets held in trust for retiree health benefits	
December 15, 2006 (Date of Inception)	-
End of year	\$ 649,115,755

*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  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – PLAN DESCRIPTION**

The Retirement Board of Administration (Board) is the administrator of the City of Los Angeles Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan. Also, the Board has investment oversight on the investments of the Retiree Health Benefits Fund, which is a post employment benefits trust fund, and together collectively, are known as the 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, including death benefits, to eligible Department employees and also to provide disability benefits from the respective fund. The Plan is comprised of four separate plans (funds) with the Retirement plan being a defined benefit pension plan.

Membership

The Plan's membership consisted of the following at June 30, 2007 and 2006:

	2007	2006
Retirees, beneficiaries*	8,783	8,807
Terminated vested	702	700
Terminated non-vested	714	693
Inactive-non-contributing employees	149	134
Active-contributing employees:		
Vested	7,865	7,689
Non-vested	238	295
Total	18,451	18,318

\*The number of retirees, beneficiaries for the years ended June 30, 2007 and 2006 includes beneficiaries of the survivorship account.

Benefit Provisions

Retirement/Disability Fund

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 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 for membership.

**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 (Continued)**

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

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 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.

**Death Benefit Fund**

The Death Benefits consist 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 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 balance of the retirement fund contributions (if Option A was elected at retirement) payable to 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 (Continued)**

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

- Supplemental Family Death Benefit

The SFDB program supplements the FDB. Coverage begins after enrollment and payment of premiums for 39 successive 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 member's spouse has the care of one or more of the member's eligible children. The maximum monthly 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 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.

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.

Each biweekly 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 Insured Lives Death Benefits for Contributing active members has been suspended since August 1, 1999 per the Actuarial valuation.

The Department currently contributes to the Insured Lives Death Benefit for Non-Contributing members at \$1.30 per \$100 of retirement benefits paid.

**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 (Continued)**

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

- Family Death Benefit

Department contributions have been suspended since July 1, 1993. Department contributions will continue to be suspended per actuarial valuation.

- Supplemental Family Death Benefits

Active members contribute \$2.25 per biweekly payroll period, and retired members contribute \$4.90 per month. Member contributions are intended to cover the cost of the benefits.

Retiree Health Benefits Fund

In 1986, the Board of Water and Power Commissioners (DWP Board) approved the DWP Health Plans Board Resolution. This resolution created a single document defining the health and dental plans of the Department that are available, Department subsidies, and other medical plan related items. This resolution is updated annually to approve any changes in Department approved health plan carriers and subsidy amounts. These resolutions have created a single-employer substantive OPEB healthcare plan of the Department.

On September 6, 2006, the DWP Board approved the creation and establishment of the Retiree Health Benefits Fund. The Retiree Health Benefits Fund is a separate fund under the Water and Power Employees Retirement Plan. It is managed and administered to fund the benefits under the Department's Postretirement Healthcare Benefits Plan.

Membership

The Retiree Health Benefits Fund membership consisted of the following at June 30, 2006 (based on the latest actuarial valuation):

	<u>2006</u>
Current retirees, beneficiaries, and dependents	8,869
Current active members	<u>7,878</u>
 Total	 <u>16,747</u>

Benefit Provisions

Retired members of the Retirement Plan are eligible to receive a medical and dental subsidy based on their age and years of service at retirement. For fiscal year 2007, the maximum subsidy for medical and dental was \$1,017 for retirees. The retirees pay any health and dental plan premiums in excess of Department subsidy limits that they are eligible for.

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

Contributions

The DWP Board establishes the funding policy and funding levels of the Retiree Health Benefits Fund. The Department retains the responsibility and obligation to fund the Retiree Health Benefits Fund 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. In fiscal year 2007, the Department contributed \$642.0 million to fund current and future retiree health benefits liabilities and related costs.

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

Method of Reporting

The Plan follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB) Statement 25 for the Retirement Fund and the Insured Lives portion of the Death Benefits Fund and Statement 43 for the Retiree Health Benefits Fund. 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 when due and payable in accordance with the terms of the Plan, 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.

Investments

The Plan's investments were reported at fair value and 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 fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates in effect at June 30, 2007. 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 valued cost plus accumulated income subject to adjustments and are reported as alternative investments on the statement of plan net assets. The Plan has investments in a commingled open-ended core real estate fund in which real property is its primary underlying investment. These were reported as "Real Estate" on the statement of plan net assets.

**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 (Continued)**

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

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 certain financial statement amounts and disclosures. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the fiscal year 2006 amounts to conform to the fiscal year 2007 presentation.

Implementation of New Accounting Pronouncements

In the financial statements for the fiscal year ended June 30, 2007, the Insured Lives portion of the Death Benefits Fund and the Retiree Health Benefits Fund implemented the provisions of GASB Statement No. 25 and GASB Statement No. 43, respectively, effective July 1, 2006.

**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 that may be purchased. The 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.

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

Cash

As of June 30, 2007, the Plan's cash balances consist primarily of cash 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  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

Investments

As of June 30, 2007, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic Equities	\$ 3,705,491,251
International Equities	1,477,776,109
U.S. Treasuries	421,359,973
U.S. Treasury TIPS	56,195,667
U.S. Agency Notes	16,555,892
Municipal Bonds	6,454,070
Medium Term Notes	38,790,494
Preferred Securities/Convertible Bonds	26,532,537
Mortgage and Asset Backed Securities	1,504,553,041
Corporate Debt - Domestic	573,724,595
Corporate Debt - International	13,559,719
Money Market Mutual Funds	303,366,957
Hedge Funds	87,558,131
Real Estate	54,704,256
Securities lending short-term collateral investment pool	924,815,241
Total Investments	<u>\$ 9,211,437,933</u>

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
DISABILITY AND DEATH BENEFIT INSURANCE PLAN  
INCLUDING RETIREE HEALTH BENEFITS FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

Investments

As of June 30, 2006, the Plan had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Domestic Equities	\$ 3,045,994,099
International Equities	1,171,103,800
U.S. Treasuries	214,979,528
U.S. Treasury STRIPS	4,738,282
U.S. Treasury TIPS	24,661,816
U.S. Agency Notes	156,236,859
Municipal Bonds	9,704,447
Medium Term Notes	49,076,495
Mortgage and Asset Backed Securities	1,335,592,766
Corporate Debt - Domestic	622,603,578
Corporate Debt - International	15,727,058
Money Market Mutual Funds	224,003,261
Securities lending short-term collateral investment pool	552,826,601
Total Investments	<u>\$ 7,427,248,590</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 securities, the Plan can invest in investment grade fixed income securities (with an initial credit rating of Baa3 or better by Moody's Investor Services or BBB- or better by Standard & Poor's Corporation.) Investment managers will notify Plan management of subsequent declines in ratings and will develop an investment strategy for investments rated below Baa3 or BBB-. As of June 30, 2007 and 2006, the credit ratings on the Plan's investments are as follows:

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

Credit Risk (Continued)

June 30, 2007:

Investment Type	Credit Rating by Standard & Poor's	Fair Value	% of Portfolio
U.S. Treasuries	AAA	\$ 421,359,973	14.36%
U.S. Treasury TIPS	AAA	56,195,667	1.91%
U.S. Agency Notes	AAA	11,688,944	0.40%
	A or better	4,866,948	0.17%
Municipal Bonds	BBB	6,454,070	0.22%
Medium Term Notes	AAA	15,893,581	0.54%
	A or better	11,060,414	0.38%
	B or better	5,278,552	0.18%
	Not Rated	6,557,947	0.22%
Mortgage and Asset Backed Securities	AAA	1,457,860,080	49.68%
	A or better	20,314,835	0.69%
	BB or better	4,881,633	0.17%
	Not rated	21,496,493	0.73%
Corporate Debt - Domestic	AAA	808,836	0.03%
	A or better	144,146,444	4.91%
	B or better	297,674,935	10.14%
	C or better	28,668,876	0.98%
	Not rated	102,425,504	3.49%
Corporate Debt - International	AAA	4,095,438	0.14%
	A or better	3,075,466	0.10%
	BB	2,352,299	0.08%
	Not rated	4,036,516	0.14%
Money Market Mutual Funds	Not rated	303,366,957	10.34%
Total		\$ 2,934,560,408	100.00%

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

Credit Risk

June 30, 2006:

<u>Investment Type</u>	<u>Credit Rating by Standard &amp; Poor's</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 214,979,528	8.09%
U.S. Treasury STRIPS	AAA	4,738,282	0.18%
U.S. Treasury TIPS	AAA	24,661,816	0.93%
U.S. Agency Notes	AAA	156,236,859	5.88%
Municipal Bonds	AAA	2,578,970	0.10%
	AA	407,508	0.02%
	BBB	6,717,969	0.25%
Medium Term Notes	AAA	6,241,960	0.23%
	A or better	34,523,429	1.30%
	B or better	8,311,106	0.31%
Mortgage and Asset Backed Securities	AAA	1,288,173,497	48.48%
	A or better	29,412,662	1.11%
	BB or better	2,654,546	0.10%
	Not rated	15,352,061	0.58%
Corporate Debt - Domestic	AAA	16,184,822	0.61%
	A or better	180,904,171	6.81%
	B or better	325,643,054	12.25%
	C or better	16,296,658	0.61%
	Not rated	83,574,873	3.15%
Corporate Debt - International	AAA	1,487,562	0.06%
	A or better	9,165,306	0.34%
	BB	2,963,059	0.11%
	Not rated	2,111,131	0.08%
Money Market Mutual Funds	Not rated	224,003,261	8.43%
Total		<u>\$ 2,657,324,090</u>	<u>100.00%</u>

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**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, 2007, the Plan's cash balances consist primarily of cash deposits 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 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 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 United States Agency issues are exempted from this limitation. As of June 30, 2007, there are no investment 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 mutual funds.

Interest Rate Risk

As of June 30, 2007, 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	\$ 421,359,973	9.46
U.S. Treasury TIPS	56,195,667	8.83
U.S. Agency Notes	16,555,892	9.54
Municipal Bonds	6,454,070	24.94
Medium Term Notes	38,790,494	6.65
Mortgage and Asset Backed Securities	1,504,553,041	23.59
Corporate Debt - Domestic	573,724,595	15.33
Corporate Debt - International	13,559,719	5.07
Money Market Mutual Funds	303,366,957	0.07
Total	<u>\$ 2,934,560,408</u>	17.08

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

As of June 30, 2006, 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	\$ 214,979,528	12.86
U.S. Treasury STRIPS	4,738,282	9.88
U.S. Treasury TIPS	24,661,816	6.65
U.S. Agency Notes	156,236,859	3.57
Municipal Bonds	9,704,447	23.52
Medium Term Notes	49,076,495	8.43
Mortgage and Asset Backed Securities	1,335,592,766	24.11
Corporate Debt - Domestic	622,603,578	14.53
Corporate Debt - International	15,727,058	5.54
Money Market Mutual Funds	224,003,261	0.09
Total	<u>\$ 2,657,324,090</u>	17.13

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.

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

**Foreign Currency Risk**

As of June 30, 2007 and 2006 the Plan's exposure to foreign currency risk is as follows:

Currency	Investment Type	Fair Value 2007	Fair Value 2006
Argentina Peso	Government obligations	\$ 5,599	\$ 1,143,756
Australian Dollar	Equities	14,285,863	15,140,891
	Cash & cash equivalents	65,798	177,063
Brazil Real	Corporate debt	1,701,052	1,445,043
British Pound Sterling	Equities	198,879,836	150,760,643
	Cash & cash equivalents	1,412,716	1,853,801
Canadian Dollar	Equities	29,180,001	16,589,762
	Corporate debt	1,069,204	2,396,009
	Cash & cash equivalents	107,148	88,554
Columbian Peso	Corporate debt	519,398	-
Danish Krone	Equities	5,549,309	6,012,599
	Cash & cash equivalents	8,780	8,513
Euro Currency Unit	Equities	245,153,019	205,983,348
	Cash & cash equivalents	1,252,498	1,956,159
Hong Kong Dollar	Equities	21,701,028	11,339,808
	Cash & cash equivalents	151,684	-
Indonesian Rupiah	Corporate debt	2,120,158	1,745,255
Japanese Yen	Equities	192,774,084	164,212,817
	Cash & cash equivalents	3,277,576	2,111,610
Mexican New Peso	Corporate debt	3,503,757	3,270,999
	Cash & cash equivalents	125,546	-
New Zealand Dollar	Corporate debt	319,957	566,948
	Cash & cash equivalents	19	-
Norwegian Krone	Equities	5,800,444	2,867,636
South African Comm Rand	Corporate debt	666,706	-
Singapore Dollar	Equities	4,347,769	7,921,157
	Cash & cash equivalents	210,530	116,499
Swedish Krona	Equities	23,180,143	6,635,428
	Cash & cash equivalents	87,376	30,024
Swiss Franc	Equities	70,584,270	61,712,717
	Cash & cash equivalents	870,118	114,745
		<u>\$ 828,911,386</u>	<u>\$ 666,201,784</u>

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

Foreign Currency Risk

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 10.00 percent and 9.69 percent as of June 30, 2007 and 2006, respectively.

**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, 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 Assets. At June 30, 2007, 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 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 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, 2007 has an average maturity of 50 days.

The fair value of the underlying securities on loan, collateralized by cash and securities as of June 30, 2007 and 2006 is:

<u>Securities on loan</u>	<u>2007</u>	<u>2006</u>
Common Stock	\$ 368,738,466	\$ 192,489,676
Corporate Debt	38,106,342	62,077,551
U.S. Agency Notes	11,429,969	57,923,558
U.S. Treasuries	437,587,670	211,794,257
U.S. Treasury STRIPS	-	4,738,282
U.S. Treasury TIPS	45,504,729	8,660,871
Total	<u>\$ 901,367,176</u>	<u>\$ 537,684,195</u>



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**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, 2007 and 2006 determined the funding status to be 91.92% and 91.50%, respectively.

**NOTE 7 – ACTUARIAL VALUATION – DEATH BENEFIT FUND (INSURED LIVES PORTION)**

The Plan also engages an independent actuarial firm to conduct annual actuarial valuations to monitor the Insured Lives portion of the Death Benefits Fund's funding status. The annual valuation as of June 30, 2007 determined the funding status to be 8.26%.

The actuary recommended in fiscal year 2005 to continue to suspend the Department's contributions to the contributing members' death benefits, and change the Department's contribution rate for non-contributing members' death benefits to \$1.30 per \$100 of retirees payroll from \$1.50 per \$100 of retirees payroll. This rate change was still in effect through the fiscal year-ended June 30, 2007.

**NOTE 8 – ACTUARIAL RESERVE STUDIES – DEATH BENEFIT AND DISABILITY FUNDS**

Actuarial reserve studies are performed annually on the Death Benefit Fund (Family Death and Supplemental Family Death Benefits) and Disability Fund 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 reserve studies for the Death Benefit Fund (Family Death and Supplemental Family Death Benefits) and Disability Fund as of June 30, 2007 found that accumulated reserves had met the recommended reserve levels. The reserve study for the contribution rates, reserve levels, and general reserve transfers were approved by the Board.

**Disability Fund**

In fiscal year 2006 actuarial evaluation, the Plan actuary recommended a continuation of the zero cents per \$100 of covered payroll Department's contribution to the Permanent and Total Disability Benefits Fund. The Department's contribution to the Temporary Disability Benefits Fund was increased to \$1.55 per \$100 of covered payroll from \$0.74 cents per \$100 of covered payroll. The rate change was approved by the Board in November 2006, and it was implemented starting December 2006.

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**NOTE 9 – ACTUARIAL VALUATION – RETIREE HEALTH BENEFITS FUND**

Retiree Health Benefits Fund

The DWP Board of Water and Power Commissioners approved the creation of the Retiree Health Benefits Fund to account for assets placed in an irrevocable trust for the provision of other post employment benefits (OPEB), in September 2006. The actuarial valuation as of June 30, 2006 was completed by the Department's actuary on October 17, 2007. The actuarial valuation indicated a total annual required contribution (ARC) of \$78.0 million. The Department contributed \$642 million to the Retiree Health Benefits Fund during the period December 15, 2006 (date of inception) through June 30, 2007.

Retiree Health Benefit Fund – Schedule of Funding Progress

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)
June 30, 2006	\$ -	\$ 1,053,853,194	\$ 1,053,853,194	0%	\$ 635,700,000	165.78%

Actuarial Methods and Assumptions

Valuation date	June 30, 2006
Actuarial cost method	Entry-age normal, level percent of pay
Amortization method and remaining amortization period	Closed, level percent of pay 29 years remaining as of June 30, 2006
Asset Valuation Method	The actuarial value of assets is defined as the market value of assets
Actuarial assumptions:	
Discount rate:	8.00%
Inflation rate:	3.75%
Projected payroll increases	4.25%
Health care cost trend rate	Medical: 9% in 2006/2007, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%.
	Dental: 5% per year

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**NOTE 10 – 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 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 10 – RESERVES AND DESIGNATED BALANCES (Continued)**

Reserves and designated balances at June 30, 2007 and 2006 are as follows:

	2007	2006
<u>Retirement Fund - Reserves and Designated Balances</u>		
Reserve for retirement allowances	\$ 4,085,445,244	\$ 3,938,183,417
Members' contributions	811,705,433	738,918,305
Department contributions	(943,773,758)	(866,865,319)
Total contributions	(132,068,325)	(127,947,014)
Reserve for investment gains and losses	5,727,264	5,866,217
General reserve	2,156,261,691	2,059,839,151
Total reserves and designated balances	6,115,365,874	5,875,941,771
Unrealized appreciation in the fair value of investments	1,302,461,922	637,297,762
Total reserves and designated balances at fair value	\$ 7,417,827,796	\$ 6,513,239,533
<u>Disability Fund - Reserves and Designated Balances</u>		
Estimated liability for temporary and permanent disability case	\$ 13,526,881	\$ 12,342,649
General reserve	22,768,123	25,862,419
Total reserves and designated balances	36,295,004	38,205,068
Unrealized depreciation in the fair value of investments	(769,603)	(1,187,423)
Total reserves and designated balances at fair value	\$ 35,525,401	\$ 37,017,645
<u>Death Benefit Fund - Reserves and Designated Balances</u>		
Estimated liability for:		
Family allowances	\$ 1,679,146	\$ 1,965,243
Total estimated liability	1,679,146	1,965,243
Contribution accounts:		
Family allowances	10,626,318	10,390,601
Total contribution accounts	10,626,318	10,390,601
General reserve	13,049,296	14,906,454
Total reserves and designated balances	25,354,760	27,262,298
Unrealized depreciation in the fair value of investments	(689,392)	(1,002,886)
Total reserves and designated balances at fair value	\$ 24,665,368	\$ 26,259,412

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**NOTE 10 – RESERVES AND DESIGNATED BALANCES (Continued)**

Retiree Health Benefit Fund reserves and designated balances at June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
<u>Retiree Health Benefit Fund - Reserves and Designated Balances</u>		
Department contributions	<u>\$ 641,989,342</u>	<u>\$ -</u>
General reserve	<u>(10,698,396)</u>	<u>-</u>
Total reserves and designated balances	631,290,946	-
Unrealized appreciation in the fair value of investments	<u>17,824,809</u>	<u>-</u>
Total reserves and designated balances at fair value	<u><u>\$ 649,115,755</u></u>	<u><u>\$ -</u></u>

**NOTE 11 – 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, 2007 and 2006.

Year ended June 30, 2007

The Retirement Plan was amended by the Retirement Plan Board of Administration on September 6, 2006 to include the Retiree Health Benefits Fund. The Retiree Health Benefits Fund was established for the sole purpose of funding the benefits provided under the Department's Postretirement Health Care Benefit Plan.

Year ended June 30, 2006

There were no significant Plan amendments for the year ended June 30, 2006.

**NOTE 12 - CONTINGENT LIABILITIES**

At June 30, 2007, several legal actions/divorces were pending against the Plan as codefendant. 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, costs would be refunded by increased charges to the Department.

**EXHIBIT I**

**CITY OF LOS ANGELES  
WATER AND POWER EMPLOYEES' RETIREMENT,  
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RETIREMENT FUND – SCHEDULE OF FUNDING PROGRESS  
(Amounts in Millions)

(UNAUDITED)

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)
2007	\$6,864	\$7,467	\$603	91.92%	\$670	90.00%
2006	\$6,448	\$7,047	\$599	91.50%	\$636	94.18%
2005	\$6,331	\$6,763	\$432	93.61%	\$616	70.13%
2004	\$6,251	\$6,422	\$171	97.34%	\$581	29.43%
2003	\$6,128	\$6,042	(\$86)	101.42%	\$528	-16.29%
2002	\$5,790	\$5,715	(\$75)	101.31%	\$430	-17.44%
2001	\$5,833	\$5,306	(\$527)	109.93%	\$403	-130.77%
2000	\$5,606	\$5,083	(\$523)	110.29%	\$368	-142.12%
1999	\$5,254	\$4,911	(\$343)	106.98%	\$355	-96.62%
1998	\$4,514	\$4,340	(\$174)	104.01%	\$431	-40.37%

See accompanying notes to the required supplementary information

**CITY OF LOS ANGELES  
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RETIREMENT FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS

(UNAUDITED)

Year Ended June 30	(1) Actual Covered Payroll	(2) Actuarial Determined Percentage	(3) Annual Required Contribution (1) times (2)	(4) Benefit Contribution Made	Percentage Contributed (4) divided by (3)
2007	\$604,514,525	10.26%	\$62,023,190	\$129,154,539	208.24%
2006	\$574,315,572	10.82%	\$62,140,945	\$101,556,257	163.43%
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%
1998	\$430,526,044	7.32%	\$31,514,506	\$124,470,502	394.96%

See accompanying notes to the required supplementary information

**CITY OF LOS ANGELES  
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INCLUDING RETIREE HEALTH BENEFITS FUND**

(UNAUDITED)

**EXHIBIT III**

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

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)
June 30, 2007	\$6,528,962	\$79,024,241	\$72,495,279	8.26%	\$670,372,663	10.81%

See accompanying notes to the required supplementary information



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

**RETIREE HEALTH BENEFITS FUND – SCHEDULE OF FUNDING PROGRESS**

(UNAUDITED)

Actuarial 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)
June 30, 2006	0	\$1,053,853,194	\$1,053,853,194	0.00%	\$635,700,000	165.78%

See accompanying notes to the required supplementary information

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

**RETIREE HEALTH BENEFITS FUND – SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(UNAUDITED)

<b>Year Ended June 30</b>	<b>Annual Required Contribution (ARC) (1)</b>	<b>Actual Employer Contributions (2)</b>	<b>Percentage Contributed (2) divided by (1)</b>
2007	\$ 78,040,857	\$ 641,989,342	822.6%

The Annual Required Contribution (ARC) includes an interest adjustment to the end of the Plan year.

See accompanying notes to the required supplementary information

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

Retirement Fund

Actuarial cost method	Entry-age normal
Amortization method and remaining amortization period	The June 30, 2007 Unfunded Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2007. Any subsequent changes in surplus or unfunded actuarial accrued liability are amortized over separate 15 year periods.
Asset Valuation Method	All assets are valued at market as of the valuation date July 1, 2007.
Actuarial assumptions:	
Investment rate of return	A rate of return on the investment of present and future assets of 8% per year compounded annually and is net of investment expenses.
Projected salary increase	Projected salary increases of 4.25% per year compounded annually, inflation plus real increases; promotional and merit increases of 1% to 5% depending on years of service.

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 contributions 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.

The Department contribution for the fiscal year ended June 30, 2007 was made in accordance with the contribution requirements determined through the actuarial valuations performed as of July 1, 2006. 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**  
**INCLUDING RETIREE HEALTH BENEFITS FUND**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Death Benefit Fund (Insured Lives)

Actuarial cost method	Entry-age normal
Amortization method and remaining amortization period	The June 30, 2007 Unfunded Actuarial Accrued Liability is amortized over the fifteen-year period commencing July 1, 2007. Any subsequent changes in surplus or unfunded actuarial accrued liability are amortized over separate fifteen-year periods.
Asset Valuation Method	All assets are valued at market as of the valuation date July 1, 2007.
Actuarial assumptions:	
Investment rate of return	A rate of return on the investment of present and future assets of 5% per year compounded annually.
Projected salary increase	Projected salary increases of 4.25% per year compounded annually, inflation plus real increases; promotional and merit increases of 1% to 5% depending on years of service.

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

Retiree Health Benefits Fund

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

Valuation date	June 30, 2006
Actuarial cost method	Entry-age normal, level percent of pay
Amortization method and remaining amortization period	Closed, level percent of pay 29 years remaining as of June 30, 2006
Asset Valuation Method	The actuarial value of assets is defined as the market value of assets
Actuarial assumptions:	
Discount rate:	8.00%
Inflation rate:	3.75%
Projected payroll increases	4.25%
Health care cost trend rate	Medical: 9% in 2006/2007, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%.
	Dental: 5% per year

The Retiree Health Benefits Fund is a defined benefit OPEB plan. Retired members of the Plan are eligible to receive medical and dental subsidy based on their age and years of service at retirement. The DWP Board of Water and Power Commissioners establish the funding policy and funding levels of the Retiree Health Benefits Fund.

## RETIREMENT FUND

SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES  
For the Years Ended June 30, 2007 and 2006

	Current Service	Minimum Pension	Cost of Living Adjustments	Continuance to Eligible Spouse	Dept of Water & Power Total	Members' Total	Combined Total	Est. Liabilities for Retirement Allowances
Balance at June 30, 2005	\$ 679,696,448	\$ (1,034,792,897)	\$ (406,255,772)	\$ 18,707,826	\$ (742,644,395)	\$ 681,193,104	\$ (61,451,291)	\$ 3,773,274,192
Contributions received	41,651,332	63,460,255	-	-	105,111,587	41,324,895	146,436,482	-
Contributions refunded	(3,555,329)		-	-	(3,555,329)	(3,424,377)	(6,979,706)	-
Net Contributions	<u>38,096,002</u>	<u>63,460,255</u>	<u>-</u>	<u>-</u>	<u>101,556,257</u>	<u>37,900,518</u>	<u>139,456,776</u>	<u>-</u>
Transfers from contribution accounts for retiring members	(32,657,405)	(72,982,482)	(50,760,339)	(6,739,659)	(163,139,885)	(34,518,790)	(197,658,675)	197,658,675
Installment payment from early retired employees								4,897
Transfers to/(from) reserve for retirement allowances (from)/to contribution accounts for actuarial adjustments								
Retirement allowances paid								(325,873,101)
Transfers (to)/from general reserve								
Interest at 8% per annum	54,289,781	(83,587,016)	(34,564,465)	1,224,403	(62,637,297)	54,343,473	(8,293,824)	293,118,755
Balance at June 30, 2006	<u>739,424,827</u>	<u>(1,127,902,140)</u>	<u>(491,580,576)</u>	<u>13,192,570</u>	<u>(866,865,319)</u>	<u>738,918,305</u>	<u>(127,947,014)</u>	<u>3,938,183,418</u>
Contributions received	46,305,084	86,543,714	-	-	132,848,799	47,049,554	179,898,353	-
Contributions refunded	(3,694,259)		-	-	(3,694,259)	(3,546,079)	(7,240,338)	-
Net Contributions	<u>42,610,825</u>	<u>86,543,714</u>	<u>-</u>	<u>-</u>	<u>129,154,539</u>	<u>43,503,475</u>	<u>172,658,015</u>	<u>-</u>
Transfers from contribution accounts for retiring members	(28,422,531)	(60,130,103)	(42,653,174)	(5,496,684)	(136,702,492)	(30,609,734)	(167,312,226)	167,312,226
Installment payment from early retired employees								10,892
Transfers to/(from) reserve for retirement allowances (from)/to contribution accounts for actuarial adjustments								
Retirement allowances paid								(338,340,501)
Transfers (to)/from general reserve								
Interest at 8% per annum	59,862,271	(89,201,672)	(40,878,009)	856,923	(69,360,486)	59,893,387	(9,467,100)	318,279,211
Balance at June 30, 2007	<u>\$ 813,475,392</u>	<u>\$ (1,190,690,200)</u>	<u>\$ (575,111,759)</u>	<u>\$ 8,552,809</u>	<u>\$ (943,773,758)</u>	<u>\$ 811,705,433</u>	<u>\$ (132,068,325)</u>	<u>\$ 4,085,445,245</u>

EXHIBIT VII

DEATH BENEFIT FUND - FAMILY ALLOWANCES

SCHEDULE OF CONTRIBUTION ACCOUNTS AND  
ESTIMATED LIABILITY FOR FAMILY ALLOWANCES

For the Years Ended June 30, 2007 and 2006

	Members	Department of Water & Power	Combined Total	Estimated Liability for Family Allowances
Balances at June 30, 2005	\$ 4,009,171	\$ 6,354,877	\$ 10,364,048	\$ 1,928,547
Contributions received	88,784		88,784	
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year.	-	(694,362)	(694,362)	694,362
Family allowances paid	-	-	-	(779,888)
Interest transferred from general reserve at 8% per annum	253,833	378,299	632,132	122,222
Balances at June 30, 2006	4,351,788	6,038,814	10,390,601	1,965,243
Contributions received	88,782		88,782	
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year.	-	(398,645)	(398,645)	398,645
Family allowances paid	-	-	-	(773,630)
Interest transferred from general reserve at 5% per annum	253,036	292,545	545,581	88,888
Balances at June 30, 2007	<u>\$ 4,693,606</u>	<u>\$ 5,932,713</u>	<u>\$ 10,626,318</u>	<u>\$ 1,679,146</u>

**Water & Power Employees' Retirement Fund**  
**Schedule of Revenues by Source and Expenses by Type**  
**June 30, 2007**

Revenues by Source

Fiscal Year	Members' Contributions	Department Contributions*	Investment Income**	Total
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
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

Expenses by Type

Fiscal Year	Benefits	Administrative Expenses***	Refunds****	Total
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
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

\* Represents Department contribution 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