

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES'
RETIREMENT PLAN
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2016 and 2015**



**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Administration
City of Los Angeles
Water and Power Employees' Retirement Plan
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Fund, Disability Fund, Death Benefit Fund, and Retiree Health Benefits Fund (individually referred to as the Funds), administered by the City of Los Angeles Water and Power Employees' Retirement Plan (WPERP), which comprise the statements of fiduciary net position as of June 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements for each fund.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the respective financial statements for each fund mentioned in the first paragraph, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not



for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Retirement Fund, Disability Fund, Death Benefit Fund, and Retiree Health Benefits Fund as of June 30, 2016 and 2015, and the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 18; the Schedule of Changes in Net Pension Liability and Related Ratios on page 55; the Schedule of Employer Contributions and related notes on pages 56, 57, 60, and 62; the Schedule of Investment Returns on page 58; and the Schedule of Funding Progress on pages 59 and 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements of the Retirement Fund, Disability Fund, Death Benefit Fund, and Retiree Health Benefits Fund. The supplementary information as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Retirement Fund – Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances, Death Benefit Fund – Schedule of Contribution Accounts and Estimated Liability for Family Allowances, and Retirement Fund – Schedule of Revenues by Source and Expenses by Type are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Retirement Fund – Schedule of Contribution Accounts and Estimated Liability for Retirement Allowances, Death Benefit Fund – Schedule of Contribution Accounts and Estimated Liability for Family Allowances, and Retirement Fund – Schedule of Revenues by Source and Expenses by Type are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
December 9, 2016

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**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 Plan (WPERP) for the years ended June 30, 2016 and 2015.

FINANCIAL HIGHLIGHTS

- At June 30, 2016, the fiduciary net position was \$10.1 billion, \$47.5 million, \$28.2 million, and \$1.7 billion for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Funds, respectively. All of the fiduciary net positions were available to meet the obligations to participants and their beneficiaries.
- Total fiduciary net position increased by \$23.5 million or 0.23%, \$2.7 million or 6.12%, \$1.6 million or 6.06%, and \$14.6 million or 0.87% for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Fund, respectively.
- Additions to the Retirement Fund's fiduciary net position decreased \$322.4 million from \$861.6 million to \$539.1 million in the current year or approximately 37.42%, as there was minimal capital markets appreciation in 2016.
- Deductions from the Retirement Fund's fiduciary net position increased \$25.0 million from \$490.6 million to \$515.6 million over the prior year or approximately 5.10%, due mostly to the increase in total number of retirees.
- Additions to the Retiree Health Benefit Fund's fiduciary net position decreased \$50.1 million from \$145.2 million to \$95.1 million in the current year or approximately 34.53%, as there was minimal capital markets appreciation in 2016.
- At June 30, 2016, the fiduciary net position as a percentage of total pension liability of the Retirement Fund was 82.17%.
- At June 30, 2016, the Department's net pension liability under the Retirement Fund was \$2.2 billion.
- At June 30, 2016, the funded ratio of the Retiree Health Benefits Fund was 75.07%.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
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 WPERP, which are:

1. Statements of Fiduciary Net Position
2. Statements of Changes in Fiduciary Net Position
3. Notes to the Financial Statements

The Statements of Fiduciary Net Position 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 Statements of Changes in Fiduciary Net Position reports additions to and deductions from the fiduciary net position 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 22 to 54 of this report.

Required Supplementary Information: This report presents certain required supplementary information concerning the Retirement Fund, the Retiree Health Benefits Fund, and the Death Benefit Fund's progress in funding to provide pension, health benefits, and insured life benefits to members. The report also provides summary information on employer contributions. The required supplementary information is on pages 55 to 62 of this report.

Supplementary Information: The supplementary information is also available in this report for a better understanding of the WPERP's financial activities. The supplementary information is on pages 63 to 65 of this report.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

FINANCIAL ANALYSIS

Retirement Fund

Fiduciary Net Position

A summary of the Retirement Fund's fiduciary net position is presented below:

	Condensed Statements of Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Cash	\$ 15,849	\$ 9,685	\$ 13,264	63.64%	-26.98%
Prepaid expense	1	3	3	-66.67%	0.00%
Receivables	325,716	264,632	234,128	23.08%	13.03%
Investments	<u>10,751,335</u>	<u>10,674,486</u>	<u>10,726,380</u>	0.72%	-0.48%
Total assets	11,092,901	10,948,806	10,973,775	1.32%	-0.23%
Liabilities	<u>995,058</u>	<u>874,506</u>	<u>1,270,458</u>	13.79%	-31.17%
Fiduciary net position	<u>\$ 10,097,843</u>	<u>\$10,074,300</u>	<u>\$ 9,703,317</u>	0.23%	3.82%

Fiscal year ended June 30, 2016

Fiduciary net position increased slightly by \$23.5 million or 0.23% to \$10.1 billion over the prior fiscal year. Cash increased by \$6.2 million or 63.64% from prior fiscal year based on projected liquidity needs. Investments ended largely unchanged for the fiscal year. Total liabilities increased by \$120.6 million or 13.79% to \$995.1 million due to the higher pending investment purchases and securities lending collateral held at fiscal year-end.

Fiscal year ended June 30, 2015

Fiduciary net position increased by \$371.0 million or 3.82% to \$10.1 billion over the prior fiscal year. Cash decreased by \$3.6 million or 26.98% from prior fiscal year based on projected liquidity needs. Total liabilities decreased by \$396.0 million or 31.17% to \$874.5 million due to the reduction in security lending collateral held at fiscal year-end.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

Retirement Fund (Continued)

Changes in Fiduciary Net Position

	Condensed Statements of Changes in Fiduciary Net Position (In Thousands)				
	2016	2015	2014	2015-16 % Change	2014-15 % Change
Additions					
Members' contributions	\$ 75,069	\$ 68,552	\$ 72,300	9.51%	-5.18%
Employer contributions	368,259	382,232	389,138	-3.66%	-1.77%
Net investment income	95,808	410,778	1,405,685	-76.68%	-70.78%
Total additions	539,136	861,562	1,867,123	-37.42%	-53.86%
Deductions					
Benefit payment	505,592	480,465	457,558	5.23%	5.01%
Refund	4,893	5,502	6,039	-11.07%	-8.89%
Administrative expenses	5,108	4,612	4,221	10.75%	9.26%
Total deductions	515,593	490,579	467,818	5.10%	4.87%
Net increase					
in fiduciary net position	23,543	370,983	1,399,305	-93.65%	-73.49%
Fiduciary net position beginning	10,074,300	9,703,317	8,304,012	3.82%	16.85%
Fiduciary net position ending	\$ 10,097,843	\$ 10,074,300	\$ 9,703,317	0.23%	3.82%

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

Retirement Fund (Continued)

Additions to Fiduciary Net Position

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

Fiscal year ended June 30, 2016

Net investment income decreased \$315.0 million from \$410.8 million to \$95.8 million in fiscal year 2016 as there was minimal capital markets appreciation in 2016. Member contributions for fiscal year 2016 were up \$6.5 million or 9.51% over the prior fiscal year. The increase in contributions was due primarily to the new Tier 2 employees with higher contribution percentage.

Fiscal year ended June 30, 2015

Net investment income decreased from \$1.4 billion to \$410.8 million in fiscal year 2015 as capital markets' return leveled in 2015. Member contributions for fiscal year 2015 were \$68.6 million, down \$3.8 million or 5.18% over the prior fiscal year. The decrease in contributions was due primarily to the cessation of employees' contributions transfer with the suspension of the reciprocity program between the WPERP and the City Employees' Retirement System.

Deductions from Fiduciary Net Position

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

Fiscal year ended June 30, 2016

Deductions for the fiscal year ended June 30, 2016 totaled \$515.6 million, up \$25.0 million or 5.10% over the prior fiscal year. Benefit payments increased by \$25.1 million or 5.23% over the prior fiscal year. The increase was due to the rise in the total number of retirees.

Fiscal year ended June 30, 2015

Deductions for the fiscal year ended June 30, 2015 totaled \$490.6 million, up \$22.8 million or 4.87% over the prior fiscal year 2014. Benefit payments increased by \$22.9 million or 5.01% over the prior fiscal year. The increase was due to rise in pension allowance paid.

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

Disability Fund

Fiduciary Net Position

The Disability Fund's fiduciary net position is summarized below:

	Condensed Statements of Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Cash	\$ 2,662	\$ 2,514	\$ 1,675	5.89%	50.09%
Receivables	7,469	6,997	6,938	6.75%	0.85%
Investments	37,724	35,607	36,782	5.95%	-3.19%
Total assets	47,855	45,118	45,395	6.07%	-0.61%
Liabilities	368	371	318	-0.81%	16.67%
Fiduciary net position	<u>\$ 47,487</u>	<u>\$ 44,747</u>	<u>\$ 45,077</u>	6.12%	-0.73%

Fiscal year ended June 30, 2016

The Disability Fund's fiduciary net position increased by \$2.7 million, or 6.12% in fiscal year 2016. The increase in net position was the result of higher contributions and positive investment performance.

Fiscal year ended June 30, 2015

The Disability Fund's fiduciary net position decreased by approximately \$0.3 million, or 0.73% in fiscal year 2015. Cash increased by \$0.8 million or 50.09% from the prior fiscal year based on projected liquidity needs.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

Disability Fund (continued)

Changes in Fiduciary Net Position

	Condensed Statements of Changes in Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Additions					
Members' contributions	\$ 458	\$ 442	\$ 442	3.62%	0.00%
Employer contributions	17,067	15,945	14,693	7.04%	8.52%
Net investment income	2,068	779	1,823	165.47%	-57.27%
Total additions	<u>19,593</u>	<u>17,166</u>	<u>16,958</u>	14.14%	1.23%
Deductions					
Benefit payment	15,945	16,615	17,546	-4.03%	-5.31%
Administrative expenses	908	881	790	3.06%	11.52%
Total deductions	<u>16,853</u>	<u>17,496</u>	<u>18,336</u>	-3.68%	-4.58%
Net increase (decrease) in fiduciary net position	2,740	(330)	(1,378)	930.30%	-76.05%
Fiduciary net position beginning	<u>44,747</u>	<u>45,077</u>	<u>46,455</u>	-0.73%	-2.97%
Fiduciary net position ending	<u>\$ 47,487</u>	<u>\$ 44,747</u>	<u>\$ 45,077</u>	6.12%	-0.73%

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

Disability Fund (continued)

Fiscal year ended June 30, 2016

Employer contributions for fiscal year 2016 totaled \$17.1 million, up approximately \$1.1 million or 7.04% from a year ago. The increase was due to the increase in the Department's actuarial contribution rate for temporary disability benefits. The Department's actuarial contribution rate for fiscal year 2016 was \$1.71 per \$100 of covered compensation, while the rate was \$1.65 per \$100 of covered compensation in fiscal year 2015.

Net investment income increased by \$1.3 million, or 165.47%, from fiscal year 2015. The increase is mainly attributed to the favorable performance of fixed income investments.

Fiscal year ended June 30, 2015

Employer contributions for fiscal year 2015 totaled \$15.9 million, up approximately \$1.3 million or 8.52% from a year ago. The increase was due to the increase in the Department's actuarial contribution rate for temporary disability benefits. The Department's actuarial contribution rate for fiscal year 2015 was \$1.65 per \$100 of covered compensation, while the rate was \$1.51 per \$100 of covered compensation in fiscal year 2014.

Net investment income decreased by \$1.0 million, or 57.27%, from fiscal year 2014. The decrease is mainly attributed to the decline in the fair value of investments during fiscal year 2015.

Deductions from Fiduciary Net Position

The costs associated with the Disability Fund include disability benefit payments and administrative expenses.

Fiscal year ended June 30, 2016

Fiscal year 2016 benefit payments decreased by \$0.7 million, down 4.03% from a year ago. The decrease was primarily due to a decrease in the temporary disability benefits paid.

Fiscal year ended June 30, 2015

Fiscal year 2015 benefit payments decreased by \$0.9 million, down 5.31% from a year ago. The decrease was primarily due to a decrease in the temporary disability benefits paid.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

Death Benefit Fund

The Death Benefit Fund's fiduciary net position is summarized below:

	Condensed Statements of Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Cash	\$ 1,048	\$ 726	\$ 502	44.35%	44.62%
Receivables	944	1,006	1,038	-6.16%	-3.08%
Investments	29,557	27,926	27,792	5.84%	0.48%
Total assets	31,549	29,658	29,332	6.38%	1.11%
Liabilities	3,364	3,084	3,262	9.08%	-5.46%
Total fiduciary net position	\$ 28,185	\$ 26,574	\$ 26,070	6.06%	1.93%

Fiscal year ended June 30, 2016

The Death Benefit Fund's fiduciary net position ended \$28.2 million, an increase of \$1.6 million or 6.06%. Cash increased by \$0.3 million or 44.35% from prior fiscal year based on projected liquidity needs. Liabilities at June 30, 2016 were up \$0.3 million, or 9.08% against last year. This is mostly attributable to the higher death benefit claims outstanding at fiscal year-end.

Fiscal year ended June 30, 2015

The Fund's fiduciary net position increased slightly by \$0.5 million or 1.93% when compared to prior year's fiduciary net position of \$26.1 million. Cash increased by \$0.2 million or 44.62% from prior fiscal year based on projected liquidity needs.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

Death Benefit Fund (continued)

Changes in Fiduciary Net Position

	Condensed Statements of Changes in Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Additions					
Members' contributions	\$ 326	\$ 318	\$ 318	2.52%	0.00%
Employer contributions	8,230	7,970	7,929	3.26%	0.52%
Net investment income	1,594	599	1,332	166.11%	-55.03%
Total additions	10,150	8,887	9,579	14.21%	-7.22%
Deductions					
Benefit payment	7,519	7,448	7,644	0.95%	-2.56%
Administrative expenses	1,020	935	885	9.09%	5.65%
Total deductions	8,539	8,383	8,529	1.86%	-1.71%
Net increase					
in fiduciary net position	1,611	504	1,050	219.64%	-52.00%
Fiduciary net position beginning	26,574	26,070	25,020	1.93%	4.20%
Fiduciary net position ending	<u>\$ 28,185</u>	<u>\$ 26,574</u>	<u>\$ 26,070</u>	6.06%	1.93%

Additions to Fiduciary Net Position

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

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

Death Benefit Fund (continued)

Fiscal year ended June 30, 2016

Net investment income increased by \$1.0 million, or 166.11%, from fiscal year 2015. The increase is mainly attributed to the favorable performance of fixed income investments.

Fiscal year ended June 30, 2015

Net investment income decreased by \$0.7 million, or 55.03%, from fiscal year 2014. The decrease is attributed to the decline in the fair value of investments during fiscal year 2015.

Deductions from Fiduciary Net Position

The costs associated with the Death Benefit Fund include the benefits payments and administrative expenses.

Fiscal year ended June 30, 2016

Total deductions were consistent with prior fiscal year; it was only up by \$0.2 million or 1.86% versus fiscal year 2015.

Fiscal year ended June 30, 2015

Total deductions were consistent with prior fiscal year; it was only down 1.71% versus fiscal year 2014.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

Retiree Health Benefits Fund

The DWP Board of Water and Power commissioners (DWP Board) approved the creation of the Retiree Health Benefits Fund in September 2006 to defray current and future retiree health benefit liabilities and related costs. The Retirement Board has the fiduciary responsibility for investing the assets of the RHBF and administering payments from it, while the DWP Board continues to have the responsibility to set the funding policy and the funding levels of the RHBF. The RHBF assets amounting to \$642.0 million were transferred to the WPERP to establish the fund during fiscal year 2007.

As of June 30, 2016 the fiduciary net position of the fund totaled approximately \$1.7 billion. A condensed statements of the fund's fiduciary net position and a condensed statements of changes in fiduciary net position are as follow:

Fiduciary Net Position

	Condensed Statements of Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Cash	\$ 1,075	\$ 932	\$ 1,059	15.34%	-11.99%
Receivables	49,303	35,349	30,660	39.47%	15.29%
Investments	1,864,644	1,849,752	1,801,197	0.81%	2.70%
Total assets	1,915,022	1,886,033	1,832,916	1.54%	2.90%
Liabilities	222,105	207,712	220,768	6.93%	-5.91%
Total fiduciary net position	\$ 1,692,917	\$ 1,678,321	\$ 1,612,148	0.87%	4.10%

Fiscal year ended June 30, 2016

Fiduciary net position remained approximately \$1.7 billion at fiscal year-end. Receivables were up \$14.0 million or 39.47% from fiscal year 2015 mainly because of an increase in pending trades at year-end.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

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

Retiree Health Benefits Fund (continued)

Fiscal year ended June 30, 2015

Fiduciary net position increased by \$66.2 million or 4.10% to \$1.7 billion over the prior fiscal year. Receivables were up \$4.7 million or 15.29% from fiscal year 2014 mainly because of an increase in pending trades at year-end.

Changes in Fiduciary Net Position

	Condensed Statements of Changes in Fiduciary Net Position (In Thousands)			2015-16	2014-15
	2016	2015	2014	% Change	% Change
Additions					
Employer contributions	\$ 80,607	\$ 79,161	\$ 74,715	1.83%	5.95%
Net investment income	14,463	66,052	234,219	-78.10%	-71.80%
Total additions	<u>95,070</u>	<u>145,213</u>	<u>308,934</u>	-34.53%	-53.00%
Deductions					
Benefit payment	79,896	78,497	74,106	1.78%	5.93%
Administrative expenses	578	543	500	6.45%	8.60%
Total deductions	<u>80,474</u>	<u>79,040</u>	<u>74,606</u>	1.81%	5.94%
Net increase					
in fiduciary net position	14,596	66,173	234,328	-77.94%	-71.76%
Fiduciary net position beginning	<u>1,678,321</u>	<u>1,612,148</u>	<u>1,377,820</u>	4.10%	17.01%
Fiduciary net position ending	<u>\$ 1,692,917</u>	<u>\$ 1,678,321</u>	<u>\$ 1,612,148</u>	0.87%	4.10%

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

Retiree Health Benefits Fund (continued)

Additions to Fiduciary Net Position

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

Fiscal year ended June 30, 2016

Net investment income decreased \$51.6 million from \$66.1 million to \$14.5 million in fiscal year 2016 as there was nominal capital markets appreciation in 2016.

Fiscal year ended June 30, 2015

Total additions were down \$163.7 million or 53.00% to \$145.2 million. Net investment income decreased by \$168.2 million or 71.80% from \$234.2 million to \$66.1 million in fiscal year 2015 as capital markets' return leveled in 2015.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for the benefit of retirees and operating costs.

Fiscal year ended June 30, 2016

Insurance premiums paid for the benefit of retirees experienced a moderate increase \$1.4 million or 1.78% in fiscal year 2016 when compared to fiscal year 2015.

Fiscal year ended June 30, 2015

Insurance premiums paid from the fund for the benefit of retirees increased \$4.4 million or 5.93% in fiscal year 2015 when compared to fiscal year 2014.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**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 WPERP's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Linda P. Le, 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 PLAN
STATEMENTS OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2016 AND 2015

	Pension Plan		Other Benefits Plan		Other Postemployment Benefits Plans			
	Retirement Fund		Disability Fund		Death Benefit Fund		Retiree Health Benefits Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS								
Cash (Notes 2 and 3)	\$ 15,849,378	\$ 9,685,328	\$ 2,662,105	\$ 2,513,507	\$ 1,047,950	\$ 726,261	\$ 1,075,084	\$ 931,670
Prepaid expense	1,000	3,500	-	-	-	-	-	-
Receivables								
Accrued investment income	24,092,174	21,576,304	69,382	58,291	53,592	44,942	4,574,256	3,410,744
Department of Water and Power	47,994,957	50,401,537	2,782,617	2,750,084	870,805	941,168	-	-
Pending investment sales	249,937,166	189,318,173	-	-	-	-	44,729,077	31,937,878
Other	3,691,418	3,335,673	1,306,121	878,254	20,044	20,062	-	-
Contingent disability benefit advance	-	-	3,310,339	3,310,339	-	-	-	-
Total receivables	325,715,715	264,631,687	7,468,459	6,996,968	944,441	1,006,172	49,303,333	35,348,622
Investments, at fair value (Notes 2, 3, and 4)								
Fixed income	2,805,273,641	1,990,107,215	37,484,499	35,383,946	28,818,818	27,203,872	479,862,167	345,212,681
Common stock	5,455,575,817	6,676,919,897	-	-	-	-	937,685,399	1,130,611,058
Short-term investments	349,347,239	290,222,803	239,730	222,966	738,140	721,814	51,274,529	46,589,023
Alternative investments	962,088,539	772,766,362	-	-	-	-	158,223,959	125,656,163
Real estate	561,966,479	392,705,953	-	-	-	-	81,595,263	49,692,079
Securities lending - short-term collateral investment pool	617,083,498	551,763,182	-	-	-	-	156,002,379	151,991,455
Total investments	10,751,335,213	10,674,485,412	37,724,229	35,606,912	29,556,958	27,925,686	1,864,643,696	1,849,752,459
Total assets	11,092,901,306	10,948,805,927	47,854,793	45,117,387	31,549,349	29,658,119	1,915,022,113	1,886,032,751
LIABILITIES								
Payables								
Pending investment purchases	364,777,000	308,020,119	69,274	58,263	53,259	44,794	63,005,132	52,489,230
Department of Water and Power	-	-	-	-	-	-	18,883	181
Other	13,198,080	14,722,357	298,589	312,440	487,886	392,712	3,079,172	3,231,095
Securities lending - collateral payable (Note 4)	617,083,498	551,763,182	-	-	-	-	156,002,379	151,991,455
Death claims in process - insured lives	-	-	-	-	2,823,445	2,646,111	-	-
Total liabilities	995,058,578	874,505,658	367,863	370,703	3,364,590	3,083,617	222,105,566	207,711,961
Fiduciary net position restricted for pension, other postemployment, and disability benefits	\$ 10,097,842,728	\$ 10,074,300,269	\$ 47,486,930	\$ 44,746,684	\$ 28,184,759	\$ 26,574,502	\$ 1,692,916,547	\$ 1,678,320,790

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

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Pension Plan		Other Benefits Plan		Other Postemployment Benefits Plans			
	Retirement Fund		Disability Fund		Death Benefit Fund		Retiree Health Benefits Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
ADDITIONS								
Members' contributions								
Retirement benefit	\$ 75,068,523	\$ 68,552,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Temporary disability benefit	-	-	232,160	221,735	-	-	-	-
Supplemental disability benefit	-	-	226,156	219,845	-	-	-	-
Insured lives death benefit	-	-	-	-	226,156	219,847	-	-
Supplemental family death benefit	-	-	-	-	100,029	98,520	-	-
Total members' contributions	<u>75,068,523</u>	<u>68,552,375</u>	<u>458,316</u>	<u>441,580</u>	<u>326,185</u>	<u>318,367</u>	<u>-</u>	<u>-</u>
Department of Water and Power contributions towards:								
Retirement benefit (net of reversions)	362,359,894	376,902,022	-	-	-	-	-	-
Insurance premiums	-	-	-	-	-	-	79,895,671	78,496,618
Temporary disability benefits	-	-	14,560,007	13,445,019	-	-	-	-
Supplemental disability benefits	-	-	1,595,611	1,615,714	-	-	-	-
Active members	-	-	-	-	2,041,215	2,098,033	-	-
Retired members (non-contributing)	-	-	-	-	4,954,565	4,935,211	-	-
Family death benefit	-	-	-	-	211,000	-	-	-
Administrative expenses	5,899,162	5,329,846	911,214	883,728	1,022,714	936,845	711,055	663,812
Total Department of Water and Power contributions	<u>368,259,056</u>	<u>382,231,868</u>	<u>17,066,832</u>	<u>15,944,461</u>	<u>8,229,494</u>	<u>7,970,089</u>	<u>80,606,726</u>	<u>79,160,430</u>
Total contributions	<u>443,327,579</u>	<u>450,784,243</u>	<u>17,525,148</u>	<u>16,386,041</u>	<u>8,555,679</u>	<u>8,288,456</u>	<u>80,606,726</u>	<u>79,160,430</u>
Investment income								
Net appreciation (depreciation) in fair value of investments	(62,475,946)	264,809,481	1,252,258	(74,172)	962,758	(48,585)	(10,364,748)	42,571,388
Interest	86,397,427	67,064,083	865,140	898,722	668,698	681,720	13,561,952	11,069,250
Dividends	70,001,976	84,864,193	-	-	-	-	12,404,373	14,805,149
Income from real estate investments	22,471,225	20,032,089	-	-	-	-	2,622,139	1,850,683
Income from alternative investments	2,743,377	2,185,222	-	-	-	-	264,155	92,939
Securities lending (Note 4)	4,507,588	2,399,325	-	-	-	-	1,065,134	473,308
Total investment income	<u>123,645,647</u>	<u>441,354,393</u>	<u>2,117,398</u>	<u>824,550</u>	<u>1,631,456</u>	<u>633,135</u>	<u>19,553,005</u>	<u>70,862,717</u>
Less: Securities lending expenses (Note 4)	(1,291,836)	(557,142)	-	-	-	-	(380,822)	(110,871)
Less: Investment expenses	<u>(28,699,153)</u>	<u>(30,858,155)</u>	<u>(49,191)</u>	<u>(45,349)</u>	<u>(37,862)</u>	<u>(34,595)</u>	<u>(4,753,925)</u>	<u>(4,997,625)</u>
Net investment income	<u>93,654,658</u>	<u>409,939,096</u>	<u>2,068,207</u>	<u>779,201</u>	<u>1,593,594</u>	<u>598,540</u>	<u>14,418,258</u>	<u>65,754,221</u>
Other income	<u>2,153,323</u>	<u>839,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,618</u>	<u>297,533</u>
Total additions	<u>539,135,560</u>	<u>861,562,352</u>	<u>19,593,355</u>	<u>17,165,242</u>	<u>10,149,273</u>	<u>8,886,996</u>	<u>95,069,602</u>	<u>145,212,184</u>

Continued

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

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Pension Plan		Other Benefits Plan		Other Postemployment Benefits Plan			
	Retirement Fund		Disability Fund		Death Benefit Fund		Retiree Health Benefits Fund	
	2016	2015	2016	2015	2016	2015	2016	2015
DEDUCTIONS								
Benefits paid								
Retirement	505,591,726	480,465,024	-	-	-	-	-	-
Temporary disability	-	-	12,235,381	12,655,916	-	-	-	-
Extended temporary disability	-	-	379,035	502,729	-	-	-	-
Permanent total disability	-	-	1,734,775	1,840,316	-	-	-	-
Supplemental	-	-	1,595,611	1,615,714	-	-	-	-
Death benefits (active/retired members)	-	-	-	-	7,023,426	6,899,271	-	-
Family allowances	-	-	-	-	495,378	548,834	-	-
Retiree health benefits paid (insurance premiums)	-	-	-	-	-	-	79,895,671	78,496,618
Total benefits paid	505,591,726	480,465,024	15,944,802	16,614,675	7,518,804	7,448,105	79,895,671	78,496,618
Refund of members' contributions	4,893,260	5,501,886	-	-	-	-	-	-
Administrative expenses	5,108,115	4,612,476	908,307	881,181	1,020,212	934,847	578,174	543,054
Total deductions	515,593,101	490,579,386	16,853,109	17,495,856	8,539,016	8,382,952	80,473,845	79,039,672
Net increase (decrease) in fiduciary net position	23,542,459	370,982,966	2,740,246	(330,614)	1,610,257	504,044	14,595,757	66,172,512
Fiduciary net position restricted for pension, other postemployment, and disability benefits								
Beginning of year	10,074,300,269	9,703,317,303	44,746,684	45,077,298	26,574,502	26,070,458	1,678,320,790	1,612,148,278
End of year	\$ 10,097,842,728	\$ 10,074,300,269	\$ 47,486,930	\$ 44,746,684	\$ 28,184,759	\$ 26,574,502	\$ 1,692,916,547	\$ 1,678,320,790

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

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – PLAN DESCRIPTIONS

The Water and Power Employees' Retirement Plan of the City of Los Angeles (WPERP) was established by the Los Angeles Department of Water and Power (Department) in 1938. The WPERP is a single employer public employee retirement system whose main function is to provide pension, death and disability benefits, to eligible employees of the Department.

In 1986, the DWP Board adopted the Department Health Plans Board Resolution. This resolution established provisions for the health, dental and other medical plans of the Department and its subsidiaries. This resolution and subsequent amendments have created the Department's Postretirement Health Care Benefit Plan (Retiree Health Benefits Plan), a single-employer postemployment healthcare benefit plan. On September 6, 2006, the Retirement Board approved the creation and establishment of the RHBF for the purpose of funding the benefits provided under the Retiree Health Benefits Plan. The Retirement Board has investment oversight of the RHBF.

Under the provisions of the Charter of the City of Los Angeles (City Charter), the Retirement Board of Administration (Retirement Board) has the responsibility and authority to administer the WPERP and to invest its assets. The Retirement Board members serve as trustees and must act in the exclusive interest of the WPERP's members and beneficiaries. The Retirement Board has seven members: a member of the Board of Water and Power Commissioners (DWP Board), the Department's General Manager, the Department's Chief Accounting Employee, three employee members who are elected for a three-year term by active members of the WPERP, and a retiree who is appointed by the DWP Board for a three-year term.

The WPERP has four separate funds – Retirement Fund, Disability Fund, Death Benefit Fund, and Retiree Health Benefits Fund (RHBF). Each fund is considered a separate plan and an independent trust fund of the Department. The Retirement Fund is a single employer defined benefit pension plan. The Death Benefit Fund and Retiree Health Benefit Fund are single employer defined benefit other postemployment benefits (OPEB) plans. The Disability Fund is for the payment of temporary disability and permanent total disability of the Department's employees, and is not considered a pension plan nor an OPEB plan.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1 – PLAN DESCRIPTIONS (Continued)

Retirement Fund, Disability Fund, and Death Benefit Fund

Membership

The Retirement Plan's membership consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Retirees, beneficiaries	9,265	8,843
Terminated vested	1,612	1,528
Active	<u>9,348</u>	<u>9,205</u>
Total	<u><u>20,225</u></u>	<u><u>19,576</u></u>

Benefit Provisions

Retirement Fund

The Retirement Fund consists of both defined contribution and defined benefit elements. Certain members vest in the defined contribution element (annuity) after one year of service. Members vest in the defined benefit element (pension) only after qualifying for retirement and meeting the criteria for the formula pension. Generally, new and returning employees of the Department become eligible for Plan membership on the first day of the payroll period following entry into Department service. New eligible employees must complete 26 weeks of continuous service before becoming entitled to disability and/or death benefits.

During the fiscal year 2014, the City of Los Angeles (City) and the Department agreed to a new tier of retirement benefits for new hires to the Department. On December 11, 2013, the Retirement Board adopted a Plan amendment to create a new tier for the Department's new-hires on or after January 1, 2014. Major benefit provisions for each tier are described below.

Tier 1 members are eligible for normal retirement at age 60. Early retirement at age 55 is generally available if the member has been with the Department for 10 or more years of the last 12 years before retirement. Members with 30 or more years may retire at any age and receive unreduced benefits within a certain limited period (this option expired on October 31, 2005). Upon qualifying for retirement, Tier 1 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 Disability Benefit Plan or payments under any Workers' Compensation Law).

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – PLAN DESCRIPTIONS (Continued)

Eligible Tier 1 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 contributing payroll periods. Retirees who are receiving a formula pension are entitled to annual cost of living adjustment (COLA). Adjustments are applied each July 1 based on the Consumer Price Index (Los Angeles-Riverside-Orange County, CA – All Items) as published by the Bureau of Labor Statistics of the United States Department of Labor (CPI) for each of the two immediately preceding calendar years. The maximum adjustment, positive or negative, is 3% in any one year.

Tier 2 members are eligible for normal retirement at age 60 with at least ten years of service (5 year must be as a contributing member and/or receiving either disability benefits under the Disability Benefit Plan or payments under any Workers’ Compensation Law). A reduced benefit for early retirement at any age is generally available if the member has at least thirty years of service. Members with 30 or more years of credited service may retire at age 55 and receive unreduced benefits.

Eligible Tier 2 members are entitled to an annual retirement benefit, payable monthly for life currently in an amount equal to a retirement factor multiplying each year of credited service, and then multiplying their highest average salary. The specific retirement factor is based on the combination of member’s age and credited service as follows:

- 1.5% at age 60 with 10 years
- 2.0% at age 55 with 30 years
- 2.0% at age 63 with 10 years
- 2.1% at age 63 with 30 years

“Final average salary” is defined as the employee’s average salary, excluding overtime, over the highest 78 consecutive payroll periods. A member’s monthly pension amount is capped at 80% of one’s highest average salary. Retirees who are receiving a formula pension are entitled to annual COLA. Adjustments are applied each July 1 based on the CPI for each of the two immediately preceding calendar years. The maximum adjustment, positive or negative, is 2% in any one year. Members may purchase additional post-retirement COLA coverage, not to exceed an additional 1% per year, at full actuarial cost to the Plan.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – PLAN DESCRIPTIONS (Continued)

Death Benefit Fund

The Death Benefit Fund consists of the insured lives death benefit (IDB), family death benefit (FDB), and supplemental family death benefit (SFDB).

- Insured Lives Death Benefit

For contributing active members, death benefit coverage begins after completion of 26 weeks of continuous Department service. If the death occurs while an active member of the Plan, the benefit includes a single lump sum distribution equal to fourteen times the member's monthly salary, and the Retirement Fund contributions plus accrued interest, payable to the beneficiary.

For retired members, the benefits include a single lump sum distribution equal to fourteen times the member's full retirement allowance not to exceed \$20,000, plus any unpaid retirement allowances due, and the unused portion of the Retirement Fund contributions upon death (if elected at retirement) payable to the beneficiary.

- Family Death Benefit

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

- Supplemental Family Death Benefit

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

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1 – PLAN DESCRIPTIONS (Continued)

Contributions

Retirement Fund

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

Covered Tier 2 employees are required to contribute 10% of their annual covered payroll upon becoming a Plan member. A Tier 2 member has the same benefits as a Tier 1 member upon termination or death while employed with a single exception. A Tier 2 member will not receive a money purchase allowance with vesting after one year. Instead a Tier 2 member will only receive a formula pension if one is at age 60 and has at least 15 years of credited service.

The Department contributes \$1.10 for each \$1.00 contributed by Tier 1 members, plus an actuarially determined percentage of covered payroll. The Department solely contributes an actuarially determined percentage of covered payroll for Tier 2 members. Contribution provisions are established and amended by the Retirement Board upon the advice of the Plan actuary. The average employer contribution rates for fiscal years 2016 and 2015 (based on the July 1, 2015 and 2014 valuations) were 42.77% and 46.17% of compensation, respectively.

Disability Fund

Each bi-weekly payroll period, both eligible Tiers 1 and 2 members contribute \$1.00 each for temporary disability and permanent total disability. The Department contribution rate for fiscal years 2016 and 2015 for the temporary disability (based on the July 1, 2015 and 2014 valuations) were \$1.71 and \$1.65 per \$100 of covered payroll, respectively. Department contribution for permanent total disability continues to be suspended, as current reserve significantly exceeds the target reserve amount.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1 – PLAN DESCRIPTIONS (Continued)

Death Benefit Fund

- Insured Lives Death Benefit

Contributing active Tiers 1 and 2 members contribute \$1.00 per bi-weekly payroll period. The Department contributions for the IDB for contributing active members are at \$0.23 and \$0.25 per \$100 of covered payroll for fiscal years 2016 and 2015 respectively. In addition, the Department contributions for the IDB for non-contributing members are at \$1.14 and \$1.19 per \$100 of retirement benefits paid for fiscal years 2016 and 2015, respectively.

- Family Death Benefit

The Department contribution has been suspended since July 1, 1993. As the current reserve approaches below the target reserve amount, the Department contribution was resumed in fiscal year 2016 as recommended by the actuary. The adopted contribution rate was \$1.91 per active member per month.

- Supplemental Family Death Benefit

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

Retiree Health Benefits Fund

Membership

The Retiree Health Benefits Plan's membership consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current retirees and beneficiaries	7,980	7,690
Current active members	9,264	9,102
Total	<u>17,244</u>	<u>16,792</u>

Benefit Provisions

Retired members of the Plan are eligible to receive a medical and dental subsidy based on their age and years of service at retirement. The retirees pay any health and dental plan premiums in excess of Department subsidy limits that they are eligible for.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1 – PLAN DESCRIPTIONS (Continued)

Contributions

The DWP Board establishes the funding policy and funding levels of the RHBF. The Department retains the responsibility and obligation to fund the RHBF to the extent necessary and appropriate as recommended by the Department's actuary, based on funding parameters set by the Department on advice of the actuary. During fiscal years 2016 and 2015, the Department contributed \$80.6 million and \$79.2 million, respectively, to fund current and future retiree health benefits liabilities and related costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The financial statements are prepared using the accrual basis of accounting and reflect the overall financial operations of each fund of the WPERP. Member and Department contributions are recognized as revenues in the period in which the employee services are performed and when due, and benefits and refunds are recognized when due and payable in accordance with the terms of each benefit fund.

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

Investments

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

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash consists primarily of cash on deposits in the City Treasury under the City's investment pool program.

Derivatives

To the extent permitted by policy and individual agreements, investment managers are authorized to use derivatives for risk management purposes. Accordingly, derivatives held are not held for trading purposes. Derivative securities are instruments whose value is derived from an underlying security or index. They include options, futures, swaps, forwards, structured notes, and stripped securities. These instruments offer unique characteristics and risks that assist the investment managers with meeting their investment strategies.

Use of Estimates

The preparation financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. Actual results could differ from those estimates.

Adoption of New Accounting Standards

During February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for applying fair value to investments and disclosures related to all fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Various valuation techniques are utilized to determine fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, which are supported by little or no market activity. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

WPERP adopted the provisions of GASB Statement No. 72 during the fiscal year ended June 30, 2016. Specific disclosures are included under Note 3 to the financial statements.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – CASH AND INVESTMENTS

Investment Policy

Investment authority is granted to the WPERP by the City Charter and is exercised in accordance with the Retirement Board's investment policy. The City Charter authorizes the form and type of investment vehicles that may be purchased. The Retirement Board may invest in common and preferred stocks (including both domestic and international equities), convertible debt, fixed income, alternative investments, and real estate; and it may utilize stock covered call options and securities lending. The following is the asset allocation policy as of June 2016 and 2015:

<u>Asset Class</u>	<u>Target Allocation</u>	
	<u>2016</u>	<u>2015</u>
Domestic equity	29.00%	33.00%
Broad international equity	19.00%	21.00%
Fixed income	25.00%	24.00%
Real estate	8.00%	5.00%
Real return	5.00%	4.00%
Private equity	8.00%	5.00%
Hedge funds	5.00%	2.00%
Covered calls	0.00%	5.00%
Cash and cash equivalents	1.00%	1.00%
Total	100.00%	100.00%

Cash

As of June 30, 2016 and 2015, the cash balances consist primarily of cash deposits in the City Treasury. The WPERP's participation in the program is less than 1% at June 30, 2016 and 2015. Interest earned on the City's investment pool is allocated by the City Treasury to the RHBFB based on its average daily cash balance during the allocation period.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments

As of June 30, 2016 and 2015, the WPERP had the following investments:

<u>Investment Type</u>	<u>June 30, 2016 Fair Value</u>	<u>June 30, 2015 Fair Value</u>
Domestic equities	\$ 4,242,711,486	\$ 5,341,747,723
International equities	2,140,109,037	2,439,382,311
U.S. Treasuries	907,986,221	620,564,455
U.S. Agency notes	866,995,037	802,998,021
Preferred securities/convertible bonds/other	16,119,034	29,862,149
Mortgage and asset backed securities	247,491,970	243,384,864
Corporate debt - domestic	990,695,647	573,187,762
Corporate debt - international	181,472,503	91,723,566
Government debt - international	84,816,087	-
Mutual funds	467,902,956	400,344,424
Hedge funds	1,120,312,498	898,422,525
Real estate	643,561,743	442,398,032
Securities lending short-term collateral investment pool	773,085,877	703,754,637
Total investments	<u>\$ 12,683,260,096</u>	<u>\$ 12,587,770,469</u>

Fair Value of Investments

The WPERP categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset or liability as follows:

- Level 1 — Inputs utilized are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs include quoted prices for similar assets or liabilities, and inputs other than quoted prices that are observable for the asset or liability, including quoted prices in markets that are not active.
- Level 3 — Inputs are unobservable for an asset or liability.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

The WRERP has the following recurring fair value measurement as of June 30, 2016:

	Fair Value Measurement at June 30, 2016*			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic equities	\$ 4,242,711,486	\$ -	\$ -	\$ 4,242,711,486
International equities	2,140,109,037	-	-	2,140,109,037
Fixed income securities:				
U.S. Treasuries	-	907,986,221	-	907,986,221
U.S. Agencies	-	866,995,037	-	866,995,037
Preferred securities	16,119,034	-	-	16,119,034
Mortgage and asset backed securities	-	247,491,970	-	247,491,970
Corporate debt - domestic	-	990,695,647	-	990,695,647
Corporate debt - international	-	181,472,503	-	181,472,503
Government debt -international	-	84,451,238	364,849	84,816,087
Alternative investments	-	689,352,150	304,983,601	994,335,751
Real estate	57,416,078	8,847,519	577,298,146	643,561,743
 Total investments by fair value	 <u>\$ 6,456,355,635</u>	 <u>\$ 3,977,292,285</u>	 <u>\$ 882,646,596</u>	 <u>\$ 11,316,294,516</u>

* Investments in mutual funds in the amount of \$467.9 million are not included within the fair value hierarchy. These mutual funds include money market funds and short-term investment funds, which costs approximate fair value. Securities lending short-term investment pool balance of \$773.1 million, which costs approximate fair value, are not included within the fair value hierarchy. Investments measured at NAV are also not included within the fair value hierarchy. See description of investments measured at NAV on page 33.

Equity securities, preferred securities, and certain real estate funds classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities and real estate funds. Debt securities classified in level 2 of the fair value hierarchy are valued based on evaluated quotes provided by independent pricing services and matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Mortgage and asset backed securities classified in level 2 are valued on the basis of discounted future principal and interest payments.

Individual investments managers within the alternative investments asset allocation are contracted by the WPERP to execute various investment strategies. Alternative investments include commingled, ventured capital, mezzanine funds, commodities, timber, hedge funds, etc. Alternative investments classified under level 2 include various fixed income portfolios managed by Western Assets Management Company with total fair value of \$403.4 million. The fair value determination techniques may include, but not be limited to, matrix pricing, modeled securities. Examples of these models include but are not limited to: a) bespoke total return swaps that are priced using the change in relevant indices, and b) certain restructured securities that can be mapped to prices of other securities; and other valuation techniques. These other

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – CASH AND INVESTMENTS (Continued)

valuation techniques include, but are not limited to, discounted cash flow methods using comparable index yields, comparable bond spreads applied to treasuries or comparable prepayment speeds and yields, asset based valuations using the values from securities underlying the security being priced, and relative valuation techniques including total enterprise value/EBITDA for multiple companies and applied to the capital structure of the security being priced. Also classified under level 2 are two commingled funds managed by Invesco with total fair value of \$156.5 million. Investments held by these commingled funds are valued based on the funds' valuation policy described in the funds' audited annual financial statements.

The fair value of the other alternative investments, which include various ventured capital, mezzanine, commodities, and hedge funds, that are classified under level 3 are estimated by the General Partners using a multitude of valuation techniques. The techniques evaluate a range of factors including the price at which the investment was acquired, the nature of the investment, current and projected operating performance, market conditions, etc.

The fair value of real estate investments are determined by various valuation techniques utilized by individual investment managers. In general and where applicable, fair value estimates are built upon property appraisal reports prepared by independent real estate appraisers. Other unobservable inputs are developed by individual investment managers and incorporated into their valuation. Examples of unobservable inputs include capitalization rate, discount rate, underlying asset delinquency rate, projected market growth, etc.

The valuation methods described are intended to produce a fair value calculation that is indicative of net realizable value or reflective of future fair values. However, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair Value of Investments Measured at the Net Asset Value (NAV) — Below is a summary of the WPERP's investments at June 30, 2016 for which fair value is measured based on the net asset value:

Investments Measured at NAV		Fair Value	Unfunded Commitment	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<u>Alternative Investments</u>					
Lexington Capital Partners VII, L.P	(1)	\$ 17,362,349	\$ 7,521,220	Not Eligible	Not Eligible
Lexington Partners VI Holdings, L.P	(2)	8,782,089	490,410	Not Eligible	Not Eligible
Hancock Timberland XII L.P	(3)	9,577,316	15,447,321	Not Eligible	Not Eligible
Morgan Stanley AIP	(4)	<u>90,254,993</u>	<u>-</u>	Monthly	Monthly
Total investments measured at the NAV		<u>\$ 125,976,747</u>	<u>\$ 23,458,951</u>		

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 – CASH AND INVESTMENTS (Continued)

- (1) Lexington Capital Partners VII, L.P. (the “Partnership”) was formed as a limited partnership to acquire a diversified portfolio of interests in private investment funds, principally established global buyout, mezzanine and venture capital funds primarily through secondary market transactions (“secondary limited partnerships”). The Partnership can also invest up to 5% of its committed capital, up to a capitalization of \$6.0 billion, in newly formed global buyout, mezzanine and venture capital funds (“primary limited partnerships”). The total committed capital to primary partnerships is 5% of committed capital, not to exceed \$305.0 million. The Partnership can also invest up to 10% of its committed capital in direct investments in operating companies through secondary market transactions. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund at the General Partner’s discretion.

- (2) Lexington Partners VI Holdings, L.P. (the “Partnership”) was formed as a limited partnership to acquire a diversified portfolio of interests in private investment funds, principally established leveraged buyout, mezzanine and venture capital funds primarily through secondary market transactions (“secondary limited partnerships”). The Partnership can also invest up to 10% of its committed capital in newly formed leveraged buyout, mezzanine and venture capital funds (“primary limited partnerships”) and invest up to 10% of its committed capital in direct investments in operating companies through secondary market transactions. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund at the General Partner’s discretion.

- (3) Hancock Timberland XII L.P. (the “Partnership”) was organized as a limited partnership to establish a portfolio of timberland investments diversified by tree species, age class and geography. Up to 50% of the Partnership may be comprised of international investments; these target markets include Argentina, Australia, Brazil, Canada, Chile, New Zealand, Uruguay and Western Europe, including the Scandinavian countries, Ireland, and the UK. The Partnership will seek to preserve capital investment, realize profit from long-term appreciation, and provide current income. A partner in these investments shall not be entitled to withdraw any part of the capital account of such partner or to receive any distributions from the Partnership. Instead, the General Partner will make distributions to the limited partners promptly following the end of each quarter of each fiscal year, beginning with the first full fiscal quarter. The distribution by the General Partner of distributable cash will be made to the limited partners with respect to their respective pro rata percentages immediately prior to such Partnership distribution. Upon liquidation and dissolution of the Partnership, the General Partner will pay the debts and liabilities of the Partnership, set up reserves to provide for contingent liability as deemed necessary by the General Partner, and distribute the balance of the property to the limited partners in accordance with their pro rata percentages.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
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NOTE 3 – CASH AND INVESTMENTS (Continued)

- (4) Morgan Stanley AIP was established as a Fund (the “Portfolio”) to provide superior performance versus 90-day T-bills + 3% over a complete investment cycle. The Portfolio attempts to achieve its objective principally through investing in a diversified portfolio of investment funds managed by third party investment managers who employ a variety of investment strategies. Underlying hedge fund manager strategies could include, but is not limited to convertible arbitrage, distressed securities, fixed income arbitrage, merger arbitrage, long/short credit, long/short equity, etc. These investments can be redeemed on a monthly basis with one month redemption notice period.

Rate of Return

For the years ended June 30, 2016 and 2015, the annual money-weighted rate of return on the Retirement Fund investments, net of investment expense, was 0.96% and 4.27%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

Credit Risk

The WPERP’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 WPERP’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 WPERP’s investment policy for fixed income, the WPERP can invest in both investment grade and high yield fixed income securities. Investment grade fixed income securities that are rated by Moody’s, Standard & Poor’s, and Fitch, should have a minimum rating of BBB- or Baa3 by two or more rating agencies. Investment managers for investment grade fixed income securities will notify the WPERP’s management of subsequent decline in ratings and will develop an investment strategy for investments rated below Baa3 or BBB-. Active high yield fixed income investment is composed primarily of non-investment grade securities as rated by Moody’s, Standard & Poor’s or Fitch.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – CASH AND INVESTMENTS (Continued)

The credit ratings of the WPERP's investments at June 30, 2016 are as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 907,986,221	24.13%
U.S. Agency notes	AAA	866,995,037	23.04%
Preferred securities/convertible bonds/other	B or better	355,869	0.01%
	Not rated	15,763,165	0.42%
Mortgage and asset backed securities	AAA	126,691,483	3.37%
	A or better	15,385,691	0.41%
	B or better	47,493,296	1.26%
	C or better	55,252,595	1.47%
	Not rated	2,668,905	0.07%
Corporate debt - domestic	AAA	6,728,896	0.18%
	A or better	73,611,217	1.96%
	B or better	835,704,337	22.21%
	C or better	42,441,433	1.13%
	D/Not rated	32,209,764	0.86%
Corporate debt - international	AAA	874,733	0.02%
	A or better	19,434,302	0.52%
	B or better	158,084,386	4.20%
	C or better	792,759	0.02%
	WR/Not Rated	2,286,323	0.06%
Government debt - international	AAA	10,403,373	0.28%
	A or better	10,375,763	0.28%
	B or better	48,584,139	1.29%
	C or better	3,199,658	0.09%
	Not Rated	12,253,154	0.33%
Mutual funds	Not rated	<u>467,902,956</u> *	<u>12.43%</u>
Total		<u>\$ 3,763,479,455</u>	<u>100.00%</u>

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

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – CASH AND INVESTMENTS (Continued)

Credit Risks (Continued)

The credit ratings of the WPERP's investments at June 30, 2015 are as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	AAA	\$ 620,564,455	22.47%
U.S. Agency notes	AA+ or better A or better	786,156,348 16,841,673	28.46% 0.61%
Preferred securities/convertible bonds/other	B or better C or better Not rated	3,477,709 198,040 26,186,400	0.13% 0.01% 0.95%
Mortgage and asset backed securities	AAA A or better B or better Not rated	210,572,910 26,076,137 6,332,927 402,890	7.62% 0.94% 0.23% 0.01%
Corporate debt - domestic	AAA A or better B or better C or better Not rated	9,321,753 140,889,304 388,005,169 28,974,085 5,997,451	0.34% 5.10% 14.05% 1.05% 0.22%
Corporate debt - international	A or better B or better C or better WR/Not Rated	41,587,822 41,676,683 569,243 7,889,818	1.51% 1.51% 0.02% 0.29%
Mutual funds	Not rated	<u>400,344,423</u> *	<u>14.49%</u>
Total		<u>\$ 2,762,065,240</u>	<u>100.00%</u>

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

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risks

For deposits, custodial credit risk is the risk that in the event of a bank failure, the WPERP's deposits may not be returned. As of June 30, 2016 and 2015, the WPERP's cash balances consist primarily of cash deposits in the City Treasury.

Collateral received in securities lending transactions are cash collateral and marketable securities. See Note 4 for further disclosure on securities lending transactions.

Concentration of Credit Risk

According to the WPERP's investment policy, no more than 5% of investments shall be invested in any one issue, except for investment in the fixed income asset class where no more than 10% of investment shall be invested in any one issue. United States Treasury or United States Agency issues are exempted from this limitation. As of June 30, 2016 and 2015, there were no investments holdings of more than 5% in any one issue of each fund's net position or in the WPERP's aggregate net position, except investments issued or guaranteed by the U.S. Government and investments in commingled funds.

Interest Rate Risk

As of June 30, 2016, the WPERP'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	\$ 907,986,221	3.20
U.S. Agency notes	866,995,037	16.02
Preferred securities/convertible bonds/other	16,119,034	0.00
Mortgage and asset backed securities	247,491,970	17.36
Corporate debt - domestic	990,695,647	10.42
Corporate debt - international	181,472,503	12.38
Government debt - international	84,816,087	12.10
Mutual funds	467,902,956	0.00
Total	\$ 3,763,479,455	9.22

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 – CASH AND INVESTMENTS (Continued)

As of June 30, 2015 the WPERP'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	\$ 620,564,455	6.49
U.S. Agency notes	802,998,021	16.62
Preferred securities/convertible bonds/other	29,862,149	0.00
Mortgage and asset backed securities	243,384,864	12.94
Corporate debt - domestic	573,187,762	9.98
Corporate debt - international	91,723,566	12.98
Mutual funds	<u>400,344,423</u>	0.00
Total	<u><u>\$ 2,762,065,240</u></u>	9.93

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

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

Foreign Currency Risk

As of June 30, 2016 and 2015, the WPERP's exposure to foreign currency risk is as follows:

<u>Currency</u>	<u>Investment Type</u>	<u>2016</u>	<u>2015</u>
Australian Dollar	Cash & cash equivalents	\$ 381,726	\$ 107,816
	Equities	57,623,648	59,055,315
	Fixed Income	2,464,887	1,924,979
Brazil Real	Cash & cash equivalents	103,919	61,200
	Equities	14,687,087	21,971,851
	Fixed Income	1,741,483	1,717,171
Canadian Dollar	Cash & cash equivalents	1,476,298	99,249
	Equities	57,635,527	66,003,946
	Fixed Income	5,541,337	4,449,405
Chilean Peso	Fixed Income	-	432,831
Danish Krone	Cash & cash equivalents	2,537	525
	Equities	6,964,338	19,420,253
Euro Currency Unit	Cash & cash equivalents	19,384,534	25,237,400
	Equities	355,122,434	350,554,933
	Fixed Income	106,297,945	80,304,174
	Corporate debt	-	128,133
Hong Kong Dollar	Cash & cash equivalents	122,851	67,884
	Equities	35,375,422	53,207,723
Indonesian Rupiah	Cash & cash equivalents	33,338	-
	Equities	20,776,407	13,701,262
Israeli Shekel	Cash & cash equivalents	-	2
Indian Rupee	Fixed Income	-	471,864
Japanese Yen	Cash & cash equivalents	1,885,452	2,038,758
	Equities	265,719,159	306,381,431
	Fixed Income	3,256,978	2,235,616
South Korea Won	Equities	17,408,135	6,817,410
Malaysian Ringgit	Equities	3,726,019	7,710,361
Mexican New Peso	Cash & cash equivalents	116	43,973
	Fixed Income	-	3,573,614
	Corporate debt	-	876,406
	Equities	6,930,448	7,625,139
New Taiwan Dollar	Equities	5,669,640	5,692,680
New Zealand Dollar	Cash & cash equivalents	127,868	65,235
	Fixed Income	7,839,920	5,577,632
	Equities	6,180,611	3,034,572
Norwegian Krone	Cash & cash equivalents	1,600	-
	Equities	8,152,344	11,480,603
Pound Sterling	Cash & cash equivalents	2,324,858	1,800,988
	Equities	192,566,316	256,635,657
	Fixed Income	91,345,671	72,451,400

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

<u>Currency</u>	<u>Investment Type</u>	<u>2016</u>	<u>2015</u>
S. African Comm Rand	Equities	46,756,775	-
Singapore Dollar	Cash & cash equivalents	34,804	49,560
	Equities	8,928,052	14,757,553
Swedish Krona	Cash & cash equivalents	8,907	6,374
	Equities	29,449,799	36,385,059
	Fixed Income	-	3,292,930
Swiss Franc	Cash & cash equivalents	114	392,877
	Equities	109,711,161	146,360,374
Thailand Baht	Equities	6,418,344	13,051,994
Total		<u>\$ 1,500,178,809</u>	<u>\$ 1,607,256,112</u>

The WPERP's investment policy permits it to invest up to 19.00% of total investments of the WPERP in non-U.S. investments. The WPERP's position is 11.83% and 12.77% as of June 30, 2016 and 2015, respectively.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
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NOTE 4 – SECURITIES LENDING PROGRAM

The WPERP is authorized by the City Charter and the Retirement Board's investment policy to lend its investment securities to various brokers, without limit. The lending is managed by the WPERP's custodial bank. The WPERP or the borrowers can terminate the contract with advance notice. Prior to August 2013, 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. In August 2013, the Retirement Board adopted an amendment to the securities lending program to expand the acceptance of equities as non-cash collateral. Equities received are required to be collateralized at 110% with respect to loaned securities' value. The custodial bank will assume the equity risk and indemnify the WPERP 100% for any shortfall if a loan position is not returned, and proceeds from the sale of equity collateral were insufficient to replace the loan position.

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 WPERP and continue to be included in their respective accounts on the statements of fiduciary net position. The WPERP does not have the ability to pledge or sell collateral assets unless the borrower is in default of its obligation. As of June 30, 2016 and 2015, the WPERP has no credit risk exposure because the value of the collateral received exceeded the value of the securities on loan.

The WPERP's custodian is the authorized agent to handle the WPERP's securities lending activity. The WPERP's custodian may invest the cash collateral received in connection with securities on loan in investments permitted by the WPERP. The WPERP bears sole risk of all losses of the invested collateral, including losses incurred in the event of liquidation of the permitted investments. The custodian bank is responsible for the return of loaned securities from borrowers. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which has an average maturity of 87 days and 62 days as of June 30, 2016 and 2015, respectively.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT

Retirement Fund

The components of the net pension liability (NPL) of the Retirement Fund as of June 30, 2016 and 2015 are as follows:

	<u>Total Pension Liability</u>	<u>Retirement Fund Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Fiduciary Net Position as % of Total Pension Liability</u>
As of June 30, 2016	\$12,289,237,311	\$10,097,842,728	\$2,191,394,583	82.17%
As of June 30, 2015	\$11,218,445,567	\$10,074,300,269	\$1,144,145,298	89.80%

The WPERP engages an independent actuarial firm to conduct annual actuarial valuation to determine the total pension liability of the Department as of June 30, 2016 and 2015. The NPL as of June 30, 2016 and 2015 was determined by actuarial valuation as of July 1, 2016 and July 1, 2015, respectively. The actuarial assumptions used in the June 30, 2016 measurements were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2015. In particular, the following assumptions were applied in the measurements:

Inflation rate	3.00%
Projected salary increases	4.50% to 10.00%, includes inflation at 3.00%, “across the board” increases of 0.50% plus merit and promotional increases
Cost-of-living adjustments (COLA)	Contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum for Tier 1 members and 2.00% maximum for Tier 2 members.
Investment rate of return	7.25% net of investment expense, including inflation
Mortality	Head count-weighted RP-2014 Healthy Annuitant Mortality Table with no age adjustment for males and set back one year for females, projected generationally with the two-dimensional MP-2015 projection scale.

Separately, the actuarial assumptions used in the June 30, 2015 measurements were based on the results of an actuarial experience study for the period from July 1, 2009 through June 30, 2012. In particular, the following assumptions were applied in the measurements:

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT (Continued)

Inflation rate	3.25%
Projected salary increases	4.75% to 10.00%, includes inflation at 3.25%, “across the board” increases of 0.75% plus merit and promotional increases
Cost-of-living adjustments (COLA)	Contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum for Tier 1 members and 2.00% maximum for Tier 2 members.
Investment rate of return	7.50% net of investment expense, including inflation
Mortality	RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.

Investment rate of return: The long-term expected rate of return on Retirement Fund’s investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin.

The Retirement Fund’s target asset allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions for July 1, 2016 valuation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	29.00%	5.76%
Broad international equity	19.00%	7.25%
Fixed income	25.00%	1.74%
Real estate	8.00%	4.37%
Real return	5.00%	2.39%
Private equity	8.00%	7.75%
Hedge funds	5.00%	3.50%
Cash and cash equivalents	1.00%	-0.46%
Total	<u>100.00%</u>	

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 5 – NET PENSION LIABILITY OF THE DEPARTMENT (Continued)

Discount rate: The discount rates used to measure the total pension liability were 7.25% and 7.50% as of June 30, 2016 and June 30, 2015 respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that Department contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only Department contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected Department contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Retirement Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Retirement Fund's investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016 and 2015.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the Retirement Fund's NPL as of June 30, 2016, calculated using the discount rate of 7.25%, as well as what the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NPL as of June 30, 2016	\$3,865,667,257	\$2,191,394,583	\$808,178,835

The Retirement Fund's NPL as of June 30, 2015, calculated using the discount rate of 7.50%, as well as what the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
NPL as of June 30, 2015	\$2,572,589,681	\$1,144,145,298	-\$55,839,808

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 6 – ACTUARIAL VALUATION – RETIREE HEALTH BENEFITS FUND (RHBF)

The DWP Board approved the creation of the RHBF to account for assets placed in an irrevocable trust for the provision of other postemployment health care benefits, in September 2006. The annual required contribution (ARC) of \$64.3 million and \$73.4 million for fiscal years 2016 and 2015 were determined by the actuarial valuation as of June 30, 2015 and 2014, respectively. The Department contributions, excluding administrative expenses reimbursement, during the fiscal years 2016 and 2015, amounted to \$79.9 million and \$78.5 million, respectively. The June 30, 2016 actuarial valuation determines the ARC for the fiscal year 2017 to be 10.11% of payroll for the fiscal year 2017.

The funded status of the RHBF as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
\$ 1,752,195,162	\$ 2,334,042,813	\$ 581,847,651	75.07%	\$ 928,888,680	62.64%

The Patient Protection and Affordable Care Act (Act) was signed into law in March 2010. One key provision of the legislation is the assessment of a 40% excise tax on the cost of health plans for plans that exceed certain threshold. The impact of this potential excise tax imposed by the Act was reflected in the June 30, 2016 and 2015 actuarial valuations. The thresholds in 2018 for non-Medicare retirees aged 55 through 64 are \$11,850 for single coverage and \$30,950 for family coverage. For all other retirees the thresholds in 2018 are \$10,200 for single coverage and \$27,500 for family coverage. Thresholds in 2019 are indexed and for the purpose of this valuation, they are assumed to increase by 4.00% (i.e., 1% over the assumed 3.00% CPI assumption used in the retirement valuation) over those in 2018. After 2019, the thresholds are assumed to increase by 3.00% (assumed CPI inflation) per year. Also in this valuation, the allocation of excise tax to the RHBF and retirees was based on the proportion of the health care cost expected to be paid by each party. The allocation is subject to future change based on composition of participant data. The estimated impact of any potential excise tax imposed by the Act is continually reflected in the actuarial valuation.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 6 – ACTUARIAL VALUATION – RETIREE HEALTH BENEFITS FUND (RHBF)
(Continued)

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2016
Actuarial cost method	Entry age, level percent of pay
Amortization method	30-year amortization closed, level percent of pay
Remaining amortization period	19 years remaining as of June 30, 2016
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market returns and the expected returns on a market value basis, and is recognized over a five year period.
Actuarial assumptions:	
Discount rate	7.25%
Projected salary increases	4.50% to 10.00%, includes inflation at 3.00%, plus “across the board” increases of 0.50% per year, plus merit and promotional increases
Inflation rate	3.00%
Healthcare cost trend rates:	
Medical	6.50%, graded down to an ultimate rate of 5.00% over 6 years
Dental and Medicare part B	5.00%
Mortality rate:	
Pre-retirement	Head count-weighted RP-2014 Employee Mortality Table times 80%, projected generationally with the two-dimensional MP-2015 projection scale.
After service and disability retirement	Head count-weighted RP-2014 Healthy Annuitant Mortality Table with no age adjustment for males and set back one year for females, projected generationally with the two-dimensional MP-2015 projection scale.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 7 – ACTUARIAL VALUATION – DEATH BENEFIT FUND

Annual actuarial valuations are performed to determine and recommend the contribution rate for the Death Benefit Fund. For fiscal year 2016, the annual valuation as of July 1, 2015 recommended to resume the Department contribution for the family death benefit at the rate of \$1.91 per active member per month. The Department contribution for the insured lives death benefit for active members was decreased from \$0.25 to \$0.23 per \$100 of covered active payroll; the Department contribution for the insured lives death benefit for retired members was reduced from \$1.19 to \$1.14 per \$100 of retired payroll.

The funded status of the Death Benefit Fund (other postemployment benefits) as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
\$ 13,433,656	\$ 119,247,962	\$ 105,814,306	11.27%	\$ 928,888,680	11.39%

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2016
Actuarial cost method	Entry age actuarial cost method
Asset valuation method	The market value of the Death Benefit Fund at valuation date, less reserves for benefits granted and contribution accounts for the family death benefit and supplemental family death benefit and insured lives general reserve for contributing members.
Actuarial assumptions:	
Discount rate	3.50%
Cost of living adjustments (COLA)	Contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum for Tier 1 members and 2.00% maximum for Tier 2 members.
Projected salary increases	4.50% to 10.00%, vary by service, including inflation
Inflation rate	3.00%
Mortality rate	Head count-weighted RP-2014 Healthy Annuitant Mortality Table with no age adjustment for males and set back one year for females, projected generationally with the two-dimensional MP-2015 projection scale.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 – ACTUARIAL VALUATION – DISABILITY FUND

Actuarial studies are performed annually on the Disability Fund to determine and recommend the appropriate contribution rates and the benefit reserves levels needed to fund the current and future benefit liabilities. The results of the most recent annual actuarial reviews (as of July 1, 2015 and July 1, 2014) for the Disability Fund found that the Fund's accumulated reserves had met the recommended reserve level. The actuarial recommendations for the contribution rates, reserve levels, and general reserve transfers were approved by the Retirement Board.

For permanent total disability, the Department's contribution rate remains at \$0 per \$100 of covered payroll. As for temporary disability, the Department's contribution rate was increased from \$1.65 per to \$1.71 per \$100 of covered payroll. The rate change was approved by the Retirement Board in December 2015 and was implemented the same month.

CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9 – RESERVES AND DESIGNATED BALANCES

Reserve accounts are established to cover all deferred liabilities as they accrue. Reserves are established from members and Department contributions and the accumulation of investment income after satisfying investment and administrative expenses. There are 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 WPERP's reciprocity provision.

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

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

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

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9 – RESERVES AND DESIGNATED BALANCES (Continued)

The WPERP's reserves and designated balances at June 30, 2016 and 2015 are as follows:

	2016	2015
<u>Retirement Fund - Reserves and Designated Balances</u>		
Reserve for retirement allowances	\$ 6,609,724,302	\$ 6,052,694,436
Contributions:		
Members' contributions	1,495,226,521	1,497,404,562
Department contributions	(1,343,612,617)	(1,189,150,983)
Total contributions	151,613,904	308,253,579
Reserve for investments gains	5,484,082	5,484,082
General reserve	2,116,968,101	1,956,119,958
Total reserves and designated balances	8,883,790,389	8,322,552,055
Unrealized appreciation in the fair value of investments	1,214,052,339	1,751,748,214
Total reserves and designated balances at fair value	<u>\$ 10,097,842,728</u>	<u>\$ 10,074,300,269</u>
<u>Disability Fund - Reserves and Designated Balances</u>		
Estimated liability for temporary and permanent disability cases	\$ 14,351,975	\$ 15,330,996
General reserve	27,179,886	24,712,877
Total reserves and designated balances	41,531,861	40,043,873
Unrealized appreciation in the fair value of investments	5,955,069	4,702,811
Total reserves and designated balances at fair value	<u>\$ 47,486,930</u>	<u>\$ 44,746,684</u>
<u>Death Benefit Fund - Reserves and Designated Balances</u>		
Estimated liability for family allowances	\$ 4,150,245	\$ 4,281,741
Contribution account - family allowances	6,764,503	6,388,232
General reserve	13,359,491	12,956,768
Total reserves and designated balances	24,274,239	23,626,741
Unrealized appreciation in the fair value of investments	3,910,520	2,947,761
Total reserves and designated balances at fair value	<u>\$ 28,184,759</u>	<u>\$ 26,574,502</u>
<u>Retiree Health Benefits Fund - Reserves and Designated Balances</u>		
Department contributions (net of insurance premiums payment)	\$ 1,037,604,927	\$ 1,037,604,927
General reserve	440,380,854	340,025,818
Total reserves and designated balances	1,477,985,781	1,377,630,745
Unrealized appreciation in the fair value of investments	214,930,766	300,690,045
Total reserves and designated balances at fair value	<u>\$ 1,692,916,547</u>	<u>\$ 1,678,320,790</u>

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 – 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 taken effect during the fiscal years ended June 30, 2016 and 2015:

Fiscal year ended June 30, 2016

Plan amendments were adopted to align interest rate and mortality table specified in the Plan with those found in recent Plan actuarial experience studies. Effective July 1, 2015 and thereafter, regular interest rate credited to the members' contribution accounts are decreased from 7.75% to 7.50%. Furthermore, prior to April 30, 2016, members' retirement allowances and the conversions to optional benefits amounts were calculated using an 8.00% interest rate and the 1983 Group Annuity Mortality Table. Effective May 1, 2016 and thereafter, members' retirement allowances and the conversions to optional benefits amounts are calculated using a 7.50% interest rate and the RP-2000 Combined Healthy Mortality Table converted to a unisex basis with adjustments.

Fiscal year ended June 30, 2015

There were no significant Plan amendments for the fiscal year ended June 30, 2015.

NOTE 11 – RISKS AND UNCERTAINTIES

The WPERP invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of fiduciary net position. Department contributions and actuarial valuations are reported based on certain assumptions pertaining to interest rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 12 – SUBSEQUENT EVENTS

The WPERP has evaluated subsequent events through December 08, 2016, the date the financial statements were available to be issued, and has determined that no other significant subsequent events have occurred through that date.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT FUND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED PATIOS
(Unaudited)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total pension liability				
Service cost	\$ 209,832,859	\$ 214,735,027	\$ 193,661,118	\$ 189,950,104
Interest	837,977,383	821,047,664	779,396,615	748,904,919
Change of benefit terms	-	(144,007,904)	-	-
Differences between expected and actual experience	(189,461,173)	(162,912,927)	(154,221,968)	(98,062,638)
Change of assumptions	722,927,661	-	525,443,921	-
Benefit payments, including refund of member contributions	(510,484,986)	(485,966,910)	(463,596,940)	(438,527,366)
Net change in total pension liability	1,070,791,744	242,894,950	880,682,746	402,265,019
Total pension liability - beginning	11,218,445,567	10,975,550,617	10,094,867,871	9,692,602,852
Total pension liability - ending	<u>\$ 12,289,237,311</u>	<u>\$ 11,218,445,567</u>	<u>\$ 10,975,550,617</u>	<u>\$ 10,094,867,871</u>
Fiduciary net position				
Contributions - employer, including administrative expenses	\$ 368,259,056	\$ 382,231,868	\$ 389,138,324	\$ 372,819,194
Contributions - employees	75,068,523	68,552,375	72,299,526	69,633,449
Net investment income	95,807,981	410,778,109	1,405,686,199	919,679,147
Benefit payments, including refund of member contribution	(510,484,986)	(485,966,910)	(463,596,941)	(438,527,366)
Administrative expense	(5,108,115)	(4,612,476)	(4,221,234)	(3,736,871)
Net change in fiduciary net position	23,542,459	370,982,966	1,399,305,874	919,867,553
Fiduciary net position - beginning	10,074,300,269	9,703,317,303	8,304,011,429	7,384,143,876
Fiduciary net position - ending	<u>\$ 10,097,842,728</u>	<u>\$ 10,074,300,269</u>	<u>\$ 9,703,317,303</u>	<u>\$ 8,304,011,429</u>
Net pension liability	<u>\$ 2,191,394,583</u>	<u>\$ 1,144,145,298</u>	<u>\$ 1,272,233,314</u>	<u>\$ 1,790,856,442</u>
Fiduciary net position as % of total pension liability	82.17%	89.80%	88.41%	82.26%
Covered employee payroll	\$ 861,818,854	\$ 839,213,254	\$ 819,923,866	\$ 817,421,028
Net pension liability as % of covered employee payroll	254.28%	136.34%	155.16%	219.09%

Note to Schedule:

This schedule is presented for those years for which information is available.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

<u>Plan Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contribution as Percentage of Covered Payroll</u>
2016	\$ 368,599,924	\$ 362,359,894	\$ 6,240,030	\$ 861,818,854	42.05%
2015	387,464,759	376,902,022	10,562,737	839,213,254	44.91%
2014	387,823,989	384,265,892	3,558,097	819,923,866	46.87%
2013	376,667,610	368,426,348	8,241,262	817,421,028	45.07%
2012	336,874,865	321,688,919	15,185,946	805,607,436	39.93%
2011	304,431,910	286,699,384	17,732,526	791,760,493	36.21%
2010	200,578,278	201,034,807	(456,529)	767,912,436	26.18%
2009	141,291,589	145,941,276	(4,649,687)	696,704,083	20.95%
2008	134,651,427	141,862,126	(7,210,699)	623,674,973	22.75%
2007	134,504,482	129,154,539	5,349,943	604,514,525	21.37%

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT FUND
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)**

Valuation date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level dollar amortization
Remaining amortization period	The July 1, 2004 Unfunded Actuarial Accrued Liability is amortized over a 15-year period commencing July 1, 2004. Any subsequent changes in Unfunded Actuarial Accrued Liability are amortized over separate 15-year periods effective with that valuation.
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market returns and the expected returns on a market value basis, and is recognized over a five-year period. As directed by the Retirement Office, the actuarial valuation of assets may be reduced by an amount classified as a non-valuation reserve.
Other information	All members hired on or after January 1, 2014 enter Tier 2.
Actuarial assumptions:	
Investment rate of return	7.25%
Inflation rate	3.00%
Real across-the-board salary increase	4.50% to 10.00%
Projected salary increases*	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)
Mortality	Head count-weighted RP-2014 Health Annuitant Mortality Table with no age adjustment for males and set back one year for females, projected generationally with the two-dimensional MP-2015 projected scale.
Other assumptions	Same as those used in the July 1, 2016 funding actuarial valuation

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
INCLUDING RETIREE HEALTH BENEFITS FUND**

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT FUND
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.96%	4.27%	17.05%

Note to schedule:

This schedule is presented for the year for which information is available.

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

REQUIRED SUPPLEMENTARY INFORMATION
DEATH BENEFIT FUND
SCHEDULE OF FUNDING PROGRESS
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
July 1, 2016	\$ 13,433,656	\$ 119,247,962	\$ 105,814,306	11.27%	\$ 928,888,680	11.39%
July 1, 2015	12,007,902	109,531,351	97,523,449	10.96%	920,781,074	10.59%
July 1, 2014	12,211,148	107,730,290	95,519,142	11.33%	900,126,274	10.61%
July 1, 2013	10,446,743	96,808,939	86,362,196	10.79%	900,254,454	9.59%
July 1, 2012	10,358,504	95,907,085	85,548,581	10.80%	886,539,366	9.65%
July 1, 2011	8,273,263	94,627,428	86,354,165	8.74%	870,203,423	9.92%

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

REQUIRED SUPPLEMENTARY INFORMATION
DEATH BENEFIT FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

Year Ended June 30	Annual Required Contributions (ARC)	Annual OPEB Cost (AOC)	Actual Contributions	Percentage of ARC Contributed	Percentage of AOC Contributed
2016	\$ 14,859,934	\$ 12,639,359	\$ 4,954,565	33.3%	39.2%
2015	13,961,242	12,098,666	4,935,211	35.3%	40.8%
2014	12,559,961	11,114,702	4,993,033	39.8%	44.9%
2013	11,862,188	10,679,472	5,021,181	42.3%	47.0%
2012	11,379,225	10,449,289	5,001,416	44.0%	47.9%
2011	10,717,090	9,993,189	5,552,771	51.8%	55.6%

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

REQUIRED SUPPLEMENTARY INFORMATION
RETIREE HEALTH BENEFITS FUND
SCHEDULE OF FUNDING PROGRESS
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (b)	Unfunded Actuarial Accrued Liabilities UAAL/(Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL/(Surplus) As a Percentage of Covered Payroll [(b) - (a)] / (c)
June 30, 2016	\$ 1,752,195,162	\$ 2,334,042,813	\$ 581,847,651	75.07%	\$ 928,888,680	62.64%
June 30, 2015	1,637,578,438	1,956,230,463	318,652,025	83.71%	920,781,074	34.61%
June 30, 2014	1,485,139,934	1,947,912,233	462,772,299	76.24%	900,126,274	51.41%
June 30, 2013	1,332,135,662	1,743,726,715	411,591,053	76.40%	900,254,454	45.72%
June 30, 2012	1,244,039,107	1,566,059,276	322,020,169	79.44%	886,539,366	36.32%
June 30, 2011	1,132,928,966	1,550,895,584	417,966,618	73.05%	870,203,423	48.03%

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTARY INFORMATION**

REQUIRED SUPPLEMENTARY INFORMATION
RETIREE HEALTH BENEFITS FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

Year Ended June 30	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
2016	\$ 64,253,043	\$ 79,895,671 ⁽¹⁾⁽²⁾	124.35%
2015	73,353,532	78,496,618 ⁽¹⁾⁽²⁾	107.01%
2014	60,676,014	74,105,548 ⁽¹⁾⁽²⁾	122.13%
2013	49,496,185	67,562,881 ⁽¹⁾⁽²⁾	136.50%
2012	53,691,399	101,720,586 ⁽¹⁾⁽²⁾	189.45%
2011	68,705,252	140,132,520 ⁽¹⁾⁽²⁾	203.96%

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

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

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTARY INFORMATION**

**RETIREMENT FUND
SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR RETIREMENT ALLOWANCES
For the Years Ended June 30, 2016 and 2015**

	Current Service	Minimum Pension	Cost of Living Adjustments	Continuance to Eligible Spouse	Department of Water and Power Total	Members' Total	Combined Total	Estimated Liabilities for Retirement Allowances
Balance at June 30, 2014	\$ 1,425,761,090	\$ (989,678,057)	\$ (1,558,661,379)	\$ (66,532,435)	\$ (1,189,110,781)	\$ 1,424,395,593	\$ 235,284,812	\$ 5,707,710,238
Contributions received	53,106,550	327,850,184	-	-	380,956,734	68,552,375	449,509,109	-
Contributions refunded	(4,054,712)	-	-	-	(4,054,712)	(5,501,886)	(9,556,598)	-
Net Contributions	49,051,838	327,850,184	-	-	376,902,022	63,050,489	439,952,511	-
Transfers from contribution accounts for retiring members	(96,171,282)	(83,984,264)	(93,979,012)	(13,802,295)	(287,936,853)	(98,964,167)	(386,901,020)	386,901,020
Retirement allowances paid								(480,465,024)
Interest at 7.75% per annum	108,667,737	(68,063,816)	(124,000,425)	(5,608,867)	(89,005,371)	108,922,647	19,917,276	438,548,202
Balance at June 30, 2015	1,487,309,383	(813,875,953)	(1,776,640,816)	(85,943,597)	(1,189,150,983)	1,497,404,562	308,253,579	6,052,694,436
Contributions received	52,625,474	313,320,416	-	-	365,945,890	75,068,523	441,014,413	-
Contributions refunded	(3,585,997)	-	-	-	(3,585,997)	(4,893,260)	(8,479,257)	-
Net Contributions	49,039,478	313,320,416	-	-	362,359,894	70,175,263	432,535,157	-
Transfers from contribution accounts for retiring members	(178,394,542)	(85,316,484)	(142,929,178)	(22,056,489)	(428,696,693)	(181,766,762)	(610,463,455)	610,463,455
Retirement allowances paid								(505,591,726)
Interest at 7.50% per annum	108,067,148	(52,341,668)	(136,869,789)	(6,980,525)	(88,124,835)	109,413,458	21,288,623	452,158,137
Balance at June 30, 2016	\$ 1,466,021,466	\$ (638,213,689)	\$ (2,056,439,783)	\$ (114,980,612)	\$ (1,343,612,617)	\$ 1,495,226,521	\$ 151,613,904	\$ 6,609,724,302

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTARY INFORMATION**

**DEATH BENEFIT FUND
SCHEDULE OF CONTRIBUTION ACCOUNTS AND ESTIMATED LIABILITY FOR
FAMILY ALLOWANCES**

For the Years Ended June 30, 2016 and 2015

	Members'	Department of Water and Power	Combined Total	Estimated Liability for Family Allowances
Balances at June 30, 2014	\$ 5,394,958	\$ 1,137,999	\$ 6,532,956	\$ 4,398,429
Contributions received	98,520	-	98,520	-
Transfers to estimated liability for family allowances from contribution accounts for member deceased during the year	(18,719)	(224,525)	(243,244)	243,244
Family allowances paid	-	-	-	(548,834)
Interest transferred from general reserve at 4% per annum	-	-	-	188,902
Balances at June 30, 2015	\$ 5,474,759	\$ 913,473	\$ 6,388,232	\$ 4,281,741
Contributions received	100,029	211,000	311,029	-
Transfers to estimated liability for family allowances from contribution accounts for members deceased during the year	-	(193,371)	(193,371)	193,371
Family allowances paid	-	-	-	(495,378)
Interest transferred from general reserve at 4% per annum	224,943	33,670	258,614	170,510
Balances at June 30, 2016	\$ 5,799,731	\$ 964,772	\$ 6,764,503	\$ 4,150,245

**CITY OF LOS ANGELES
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTARY INFORMATION**

**RETIREMENT FUND
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPES
June 30, 2016**

Revenues by Source

Fiscal Year	Members' Contributions	Department Contributions*	Investment Income**	Total
2016	\$ 75,068,523	\$ 371,845,053	\$ 184,829,756	\$ 631,743,332
2015	\$ 68,552,375	\$ 386,286,580	\$ 175,987,770	\$ 630,826,725
2014	\$ 72,299,526	\$ 394,811,381	\$ 191,737,068	\$ 658,847,975
2013	\$ 69,633,449	\$ 378,115,576	\$ 191,561,805	\$ 639,310,830
2012	\$ 60,088,614	\$ 331,276,047	\$ 193,927,979	\$ 585,292,640
2011	\$ 65,954,329	\$ 293,311,870	\$ 201,657,143	\$ 560,923,342
2010	\$ 71,240,553	\$ 208,518,237	\$ 180,881,790	\$ 460,640,580
2009	\$ 59,394,076	\$ 154,140,202	\$ 192,121,861	\$ 405,656,139
2008	\$ 48,683,048	\$ 148,295,728	\$ 206,722,244	\$ 403,701,020
2007	\$ 47,049,554	\$ 136,398,522	\$ 196,008,022	\$ 379,456,098

Expenses by Type

Fiscal Year	Benefits	Administrative Expenses***	Refunds****	Total
2016	\$ 505,591,726	\$ 33,807,268	\$ 8,479,257	\$ 547,878,251
2015	\$ 480,465,024	\$ 35,470,631	\$ 9,556,598	\$ 525,492,253
2014	\$ 457,558,214	\$ 32,227,775	\$ 11,711,783	\$ 501,497,772
2013	\$ 432,708,113	\$ 27,233,363	\$ 11,115,635	\$ 471,057,111
2012	\$ 410,814,067	\$ 24,147,076	\$ 10,805,587	\$ 445,766,730
2011	\$ 396,124,862	\$ 25,146,053	\$ 4,425,116	\$ 425,696,031
2010	\$ 377,051,650	\$ 20,790,611	\$ 6,028,583	\$ 403,870,844
2009	\$ 363,691,635	\$ 17,842,282	\$ 8,062,235	\$ 389,596,152
2008	\$ 353,178,785	\$ 22,960,041	\$ 12,666,556	\$ 388,805,382
2007	\$ 338,340,501	\$ 20,136,513	\$ 7,202,784	\$ 365,679,798

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

** Represents "booked" investment income and excludes "net appreciation (depreciation) in fair value of investment."

*** Represents investment and administrative expenses.

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