LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

Financial Statements and
Required Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

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KPMG LLP
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Independent Auditors' Report

The Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles:

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Los Angeles' Department of Water and Power's Water Revenue Fund (Water System), an enterprise fund of the City of Los Angeles, California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Water System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

As discussed in note 1, the financial statements present only the Water System and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 2, effective July 1, 2013, the Water System adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the required supplementary information on pages 3-12 and 62-66 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 audit 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water System's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
December 23, 2015

The following discussion and analysis of the financial performance of the City of Los Angeles' (the City) Department of Water and Power's (the Department) Water Revenue Fund (Water System) provides an overview of the financial activities for the fiscal years ended June 30, 2015 and 2014. Descriptions and other details pertaining to the Water System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Water System's financial statements, which begins on page 13.

Using This Financial Report

This annual financial report consists of the Water System's financial statements and required supplementary information and reflects the self-supporting activities of the Water System that are funded primarily through the sale of water to the public it serves.

Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows

The financial statements provide an indication of the Water System's financial health. The statements of net position include all of the Water System's assets and liabilities using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources and uses such as investment income and cash payments for bond principal and capital additions and betterments.

(Continued)

The following tables summarize the net position and changes in net position of the Water System as of and for the fiscal years ended June 30, 2015, 2014, and 2013:

		June 30		
Assets and Deferred Outflows		**2015**	**2014 (as restated)**	**2013***
Utility plant, net	$	6,513	5,950	5,412
Investments		34	33	33
Other noncurrent assets		981	1,154	415
Current assets		779	756	776
Deferred outflows		295	167	35
Total assets and deferred outflows	$	8,602	8,060	6,671
Liabilities and Deferred Inflows				
Long-term debt, net of current portion	$	4,497	4,115	3,599
Other long-term liabilities		437	610	24
Current liabilities		501	485	460
Deferred Inflows - Pension		326	116	—
Total liabilities and deferred inflows	$	5,761	5,326	4,083
Net Position				
Net position:				
Net investment in capital assets	$	2,086	2,020	1,824
Restricted		377	363	378
Unrestricted		378	351	386
Total net position	$	2,841	2,734	2,588

* 2013 data was not restated for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB* Statement *No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, as the data necessary to restate was not available.

Table 2 – Condensed Schedule of Revenues, Expenses, and Changes in Net Position

(Amounts in millions)

		Year ended June 30		
		2015	2014	2013
Operating revenues:				
Residential	$	432	476	428
Multiple-dwelling units		331	342	311
Commercial and industrial		269	269	239
Other		50	55	64
Total operating revenues		1,082	1,142	1,042
Operating expenses:				
Purchased water		(273)	(339)	(280)
Maintenance and other		(460)	(431)	(392)
Depreciation and amortization		(137)	(123)	(113)
Total operating expenses		(870)	(893)	(785)
Operating income		212	249	257
Nonoperating revenues (expense):				
Investment income		6	7	3
Federal bond subsidies		17	17	18
Other nonoperating revenue and expenses, net		2	8	7
Debt expense, net		(164)	(156)	(151)
Total nonoperating expense		(139)	(124)	(123)
Income before capital contributions		73	125	134
Capital contributions		34	28	16
Increase in net position		107	153	150
Beginning balance of net position, as previously reported		2,734	2,588	2,438
Effect of change in accounting for pensions		—	(7)	—
Beginning balance of net position of the year, as restated		2,734	2,581	2,438
Ending balance of net position	$	2,841	2,734	2,588

Assets

Utility Plant

During fiscal years 2015 and 2014, the Water System placed in service asset additions and betterments in the amount of $428 million and $573 million, respectively. Of the $428 million, $204 million, or 48%, is related to distribution plant assets and is mostly attributable to the installation/replacement of trunk lines, mains, meters, and services. Additions included the construction of the Trunkline Headquarters and Meters Shop, improvements to the Santa Ynez Reservoir, the construction of the Sycamore Trunk Line, the purchase of additional Los Angeles Reservoir shade balls and the replacement of existing meters with lead-free meters and fittings. The gross book value of assets in source of water supply was increased by $132 million, or 31%, which is mainly due to the River Supply Conduit Lower Reach 4, improvements made to the Van Norman Reservoir, improvements made to the Los Angeles Aqueduct and the purchase of groundwater rights. Purification stations and pumping stations increased by $47 million, or, 11%, due mostly to improvements made to the Los Angeles Aqueduct Filtration Plant, the conversion of the Manhattan Wells Ammoniation Station to chloramine disinfection, and other upgrades and expansions of treatment facilities. General plant was increased by $46 million, or 11%, and was mainly attributable to additions to fleet and office equipment.

Of the $573 million during fiscal year 2014, $202 million, or 35%, is related to distribution plant assets and mostly attributable to the installation/replacement of trunk lines, mains, meters, and services. Additions included the construction of the Santa Ynez Reservoir, Los Angeles Reservoir shade balls, and fire hydrant installations. Purification stations and pumping stations increased by $161 million, or 28%, and are mostly attributable to the construction of ultraviolet treatment process at the Los Angeles Aqueduct Filtration Plant, chloramine disinfection conversion at the North Hollywood Ammoniation Station and upgrades/expansions to water treatment facilities. The gross book value of assets in source of water supply was increased by $125 million, or 22%, which comprises Owens Lake Dust Mitigation Phase 8, River Supply Conduit Lower Reach 1B Plan, and system improvements to aqueduct facilities. General plant increased by $85 million, or 15%, and was mainly attributable to the Customer Information System replacement project and additions to fleet equipment.

The Water System utility plant assets fall into five major categories: source of water supply, pumping, purification, distribution, and general. Each category of assets is important for providing water services and has a specific purpose. Source of water supply assets are the assets that the Department has constructed and/or purchased to help ensure an adequate supply of water. The Department has four major sources of water. These include the following:

- Los Angeles Aqueduct and Second Los Angeles Aqueduct supply imported water from the Owens Valley and the Mono Basin
- Local groundwater supply (with pumping rights in the San Fernando, Sylmar, and Central and West Coast Basins)
- Purchased supply from Metropolitan Water District
- Recycled water

All sources of water, except for recycled water, are supplied for potable use, that is, the water from these sources is of drinkable quality. Table 3 below shows the percentage of potable water delivered from the major sources:

Table 3 – Sources of Potable Water

Supplied during Fiscal Years 2015, 2014, and 2013

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Millions of gallons	Percentage	Millions of gallons	Percentage	Millions of gallons	Percentage
Source:						
Aqueduct	17,448	10%	19,922	10%	36,955	20%
Wells	31,443	18	21,950	12	17,159	10
Purchases	125,615	70	145,693	76	126,706	69
Recycled water	3,394	2	3,275	2	2,502	1
	177,900	100%	190,840	100%	183,322	100%

Water storage during low demand, cold, or wet periods is essential to provide the capacity needed to supply the extra water needed during warm weather or emergency situations. The Water System's 130 tanks and reservoirs, ranging in size from 10 thousand to 60 billion gallons, have a current capacity of approximately, 313,049 acre-feet, or 102.15 billion gallons. Nine aqueduct reservoirs provide 96% of the Water System's storage capacity; major and minor distribution reservoirs provide the remaining 4%.

Further information regarding the Water System's utility plant can be found in note 3 to the accompanying financial statements.

Other Noncurrent Assets

During fiscal year 2015, other noncurrent assets decreaseed $173.3 million due to a decrease of $101.9 million of restricted cash and cash equivalents for construction purposes and a $115.7 million decrease in the regulatory asset for pension offset by a $39.8 million increase in other regulatory assets due to irrigation and reclaimed water upgrades and high efficiency toilet rebates and a $3.8 million increase in the postemployment asset due to Department contributions exceeding actuarially required contributions.

During fiscal year 2014, other noncurrent assets increased $738.9 million primarily due to the adoption of GASB No. 68, *Accounting and Financial Reporting for Pensions*. A regulatory asset for pension costs in the amount of $565.2 million was recorded. Other increases reported are $169.3 million of restricted cash and cash equivalents for construction purposes, a $13.8 million increase in regulatory assets due to irrigation and reclaimed water upgrades and high efficiency toilet rebates, and an increase of $7.5 million in the postemployment asset due to Department contributions exceeding actuarially required contributions.

(Continued)

Liabilities and Net Position

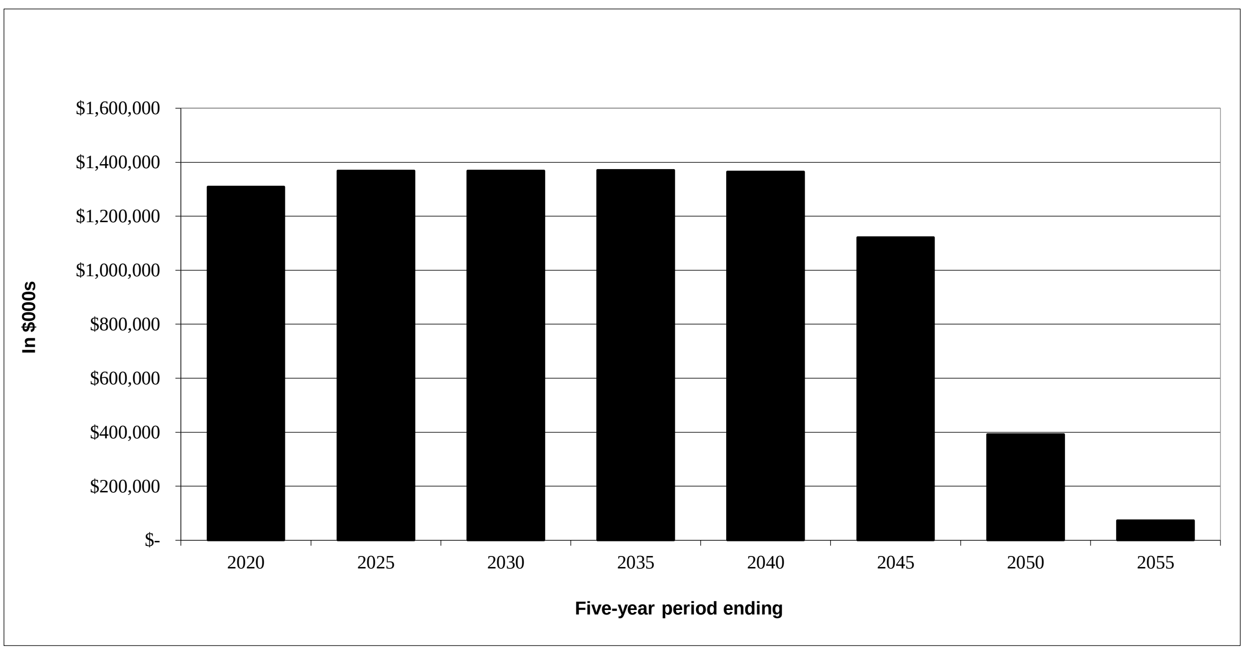
Long-Term Debt

As of June 30, 2015, Water System's total outstanding long-term debt balance was approximately $4.57 billion. This is an increase of $394 million over the prior year, resulting from the sale of $271 million in Water System revenue bonds plus $39.96 million in issue premiums and $128.19 million in loans from the State of California's State Water Resources Control Board (SWRCB), offset by scheduled maturities of $30.12 million, and $15.20 million of amortized premiums and discounts.

As of June 30, 2014, Water System's total outstanding long term debt balance was approximately $4.17 billion. This is an increase of $509 million over the prior year, resulting from the sale of $380 million in Water System revenue bonds plus $46.27 million in issue premiums and $129.25 million in loans from the California Department of Water Resources (CDWR), offset by scheduled maturities of $33.32 million, and $12.74 million of amortized premiums and discounts.

Scheduled payments of principal, plus scheduled interest as of June 30, 2015, is shown in the chart below:

Chart: Debt Service Requirements



In October 2014, Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings affirmed the Water System's bond rating of AA, Aa2, and AA, respectively. Additional information regarding the Water System's long-term debt can be found in note 6 to the financial statements.

Changes in Net Position

Revenues

The operating revenues of the Water System are generated from selling water to its customers. The current water rate has two types of components, a base rate and adjustable rates, which are referred to as pass-through rates. The pass-through rates are in place to recover the cost of specific expenses. These specific expenses include purchased water, water quality, reclaimed water, demand side management (or conservation expense), water security, Owens Valley regulatory, and low-income subsidy credits. As a result of the inclusion of pass-through rates in the water rates, revenue can increase or decrease from one year to the next based on the Water System incurring greater or smaller expenses in these categories.

The Water System has five major customer categories. These categories include residential, multiple-dwelling units, commercial, industrial, and other. Table 4 below summarizes the percentage contribution of revenues from each customer category during fiscal years 2015 and 2014:

Table 4 – Revenue and Percentage of Revenue by Customer Class

(Amounts in thousands)

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Type of customer:						
Residential	$ 431,944	40%	$ 475,867	42%	$ 428,318	41%
Multiple-dwelling units	331,238	30	342,437	30	310,709	30
Commercial	223,504	21	226,631	20	203,960	20
Industrial	45,467	4	42,784	4	35,118	3
Other, net of uncollectible accounts	50,428	5	54,104	4	64,123	6
	$ 1,082,581	100%	$ 1,141,823	100%	$ 1,042,228	100%

Residential customers, including those in multiple-dwelling units, provided approximately 70% and 72% of the Water System's 2015 and 2014 revenue, respectively, representing the largest class of customers. As of June 30, 2015, the Water System had approximately 676,000 customers. As shown in Table 5 below, 483,000, or 71%, of total customers were in the residential customer class as of June 30, 2015 and 2014:

Table 5 – Number of Customers and Percentage of Customers by Customer Class

(Numbers in thousands)

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Number	Percentage	Number	Percentage	Number	Percentage
Type of customer:						
Residential	483	71%	483	71%	480	71%
Multiple-dwelling units	121	18	122	18	124	18
Commercial	59	9	60	9	58	9
Industrial	6	1	6	1	6	1
Other, including uncollectible accounts	7	1	8	1	8	1
	676	100%	679	100%	676	100%

During fiscal year 2015, operating revenues decreased by $59.5 million, or -5.21%, from fiscal year 2014. Primarily due to successful customer conservation, sales of water decreased by 20.1 million hundred cubic feet. Residential and multiple-dwelling units customer classes reported $44 million and $11 million revenue decreases, respectively.

During fiscal year 2014, operating revenues increased by $99.6 million, or 9.6%, from fiscal year 2013 while sales of water decreased by 1.3 million hundred cubic feet. The increase in revenue was primarily due to higher average water cost recovery adjustment factors. The average cost recovery rate for fiscal year 2014 was $3.245 per billing unit versus $2.516 per billing during fiscal year 2013. Purchased water costs increased to $339 million in fiscal year 2014 from $280 million in fiscal year 2013.

Operating Expenses

Purchased water expense is the single largest expense the Water System incurs each fiscal year and represents the cost of buying water. As California continues to experience one of the most severe droughts on record, successful conservation efforts reduced water usage, which contributed to the $66.2 million decrease, or -19.5%, in purchased water from the Metropolitan Water District.

Table 6 below summarizes the Water System's operating expenses for fiscal years 2015 and 2014:

Table 6 – Operating Expenses and Percentage of Expense by Type Expense

(Amounts in thousands)

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Expenses	Percentage	Expenses	Percentage	Expenses	Percentage
Type of expense						
Purchased water	$ 273,132	31%	$ 339,380	38%	$ 280,438	36%
Other operating expenses	323,655	37	303,070	35	272,978	35
Maintenance	136,496	16	127,918	14	119,046	15
Depreciation and amortization	136,559	16	123,337	13	112,677	14
	$ 869,842	100%	$ 893,705	100%	$ 785,139	100%

Fiscal Year 2015

Fiscal year 2015 operating expenses were $23.9 million lower as compared to the prior year. This was principally due to a $66.2 million decrease in purchased water costs. Water supplied by the aqueduct was 12.4% lower year over year due to a reduced snowpack and Owens Valley environmental uses.

The $20.6 million increase in other operating expense was primarily due to higher year-over-year operating costs associated with administrative and general expenses ($18.1), pumping expenses ($5.6 million), distribution expenses ($2.2 million), and customer accounting and collecting expenses ($1.7 million) offset by lower source of water supply costs ($7.6 million).

The $8.6 million increase in maintenance expense was mainly due to higher year-over-year maintenance costs associated with distribution plant ($5.8 million) and source of water supply ($3.9 million) offset by lower pumping plant maintenance expenses ($1.6 million).

The $13.2 million increase in depreciation expense was attributed to additions to distribution plant ($3.4 million), purification plant ($2.8 million), intangible plant ($2.4 million), general plant ($2.0 million), and source of supply plant ($1.9 million).

Fiscal Year 2014

Fiscal year 2014 operating expenses were $108.6 million higher as compared to the prior year. This was mainly due to a $59 million increase in purchased water costs. Water supplied by the aqueduct was 50% lower year over year due to a reduced snowpack and Owens Valley environmental uses. The increase in other operating expense was mainly due to higher year over year operating costs associated with source of water supply expenses ($14.6 million) pumping expenses ($2.6 million), purification expenses ($4.8 million), distribution expenses ($4.2 million), customer accounting and collection expenses ($6.1 million) offset by lower administrative and general expenses ($2.3 million).

The increase in maintenance expense was mainly due to higher year over year maintenance costs associated with distribution plant ($2.9 million), pumping plant ($3.8 million), and purification plant ($1.8 million). The $10.7 million increase in depreciation expense was mainly attributed to additions to plant ($9.2 million) and regulatory assets ($1.4 million).

Nonoperating Revenue and Expenses

Fiscal Year 2015

Compared to the prior fiscal year, fiscal year 2015 nonoperating revenues and nonoperating expenses were $6.9 million and $0.4 million lower, respectively. The $1.1 million decrease in investment income can be attributed to changes in the market values of investments.

Debt costs, excluding the allowance for funds used during construction, increased by $13.1 million. The interest expense increase was impacted by a new money 2014 A bond issuance of $270 million in fiscal year 2015.

Capital contributions increased by $6.1 million primarily due to a $10.4 million increase in billings to Los Angeles County for costs associated with the Metro Rail system.

Fiscal Year 2014

Fiscal year 2014 nonoperating revenues were $3.8 million higher as compared to the prior year while nonoperating expenses were $0.5 million lower as compared to the prior year. The $4.1 million increase in investment income can be attributed to changes in the market values of investments.

Debt costs, excluding the allowance for funds used during construction, increased by $4.1 million, and capital contributions increased by $11.5 million.

The increase in debt expense is primarily attributed to the interest expense related to the new money issuance of $380 million Water System Revenue Bonds during fiscal year 2014.

The increase in capital contributions is primarily attributed to higher customer service installations fees ($4.2 million) and contributions from the U.S. government ($4.5 million).

LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

Statements of Net Position

June 30, 2015 and 2014
(Amounts in thousands)

		2015	2014 (As restated)
Assets and Deferred Outflows			
Noncurrent assets:			
Utility plant:			
Source of water supply	$	1,576,514	1,429,479
Pumping		268,816	263,278
Purification		786,730	745,043
Distribution		4,476,970	4,277,205
General		704,764	662,351
Total		7,813,794	7,377,356
Accumulated depreciation		(2,482,031)	(2,350,965)
Total		5,331,763	5,026,391
Construction work in progress		1,182,001	923,813
Total		6,513,764	5,950,204
Investments		33,511	33,390
Cash and cash equivalents - restricted		110,255	212,244
Regulatory assets – other		106,911	67,130
Regulatory asset – pension		450,003	565,016
Net other postemployment benefit asset		313,532	309,780
Total noncurrent assets		7,527,976	7,137,764
Current assets:			
Cash and cash equivalents – unrestricted		342,742	336,419
Cash and cash equivalents – restricted		158,817	140,984
Cash collateral received from securities lending transactions		4,180	576
Customer and other accounts receivable, net of $41,000 and $33,000 allowance for losses for 2015 and 2014, respectively		85,676	105,932
Underrecovered costs		79,255	45,031
Accrued unbilled revenue		69,042	87,998
Materials and supplies		19,343	19,564
Prepayments and other current assets		19,680	18,068
Total current assets		778,735	754,572
Total assets		8,306,711	7,892,336
Deferred outflows on debt refunding		30,505	32,590
Deferred outflows – changes in pension assumptions		141,130	5,641
Deferred outflows – pension contributions made after measurement date		123,629	129,062
Total deferred outflows		295,264	167,293
Total assets and deferred outflows	$	8,601,975	8,059,629

(Continued)

LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

Statements of Net Position

June 30, 2015 and 2014
(Amounts in thousands)

		2015	2014 (As restated)
Net Position, Liabilities, and Deferred Inflows			
Net position:			
Net investment in capital assets	$	2,086,028	2,020,368
Restricted:			
Debt service		36,919	26,191
Other postemployment benefits		313,532	309,780
Other purposes		27,167	26,167
Unrestricted		377,866	351,043
Total net position	$	2,841,512	2,733,549
Long-term debt, net of current portion	$	4,496,962	4,115,000
Other noncurrent liabilities:			
Accrued workers' compensation claims		25,468	26,523
Net pension liability		411,485	583,344
Total other noncurrent liabilities		436,953	609,867
Current liabilities:			
Current portion of long-term debt		71,535	59,670
Accounts payable and accrued expenses		133,973	130,511
Due to Power System		3,899	40,314
Accrued employee expenses		54,585	51,852
Accrued interest		94,666	88,561
Obligations under securities lending transactions		4,180	576
Customer deposits		137,862	113,354
Total current liabilities		500,700	484,838
Total liabilities		5,434,615	5,209,705
Deferred inflows – pension		325,848	116,375
Total liabilities and deferred inflows	$	5,760,463	5,326,080

See accompanying notes to financial statements.

LOS ANGELES DEPARTMENT OF WATER AND POWER
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014
(Amounts in thousands)

		2015	2014
Operating revenues:			
Residential	$	431,944	475,867
Multiple-dwelling units		331,238	342,437
Commercial and industrial		268,971	269,415
Other		60,864	71,922
Uncollectible accounts		(10,436)	(17,818)
Total operating revenues		1,082,581	1,141,823
Operating expenses:			
Purchased water		273,132	339,380
Maintenance and other operating expenses		460,151	430,988
Depreciation and amortization		136,559	123,337
Total operating expenses		869,842	893,705
Operating income		212,739	248,118
Nonoperating revenues (expenses):			
Investment income		5,530	6,673
Federal bond subsidies		17,178	17,196
Gain on sale of land		—	90
Other nonoperating income		5,936	11,548
Total nonoperating revenues		28,644	35,507
Other nonoperating expenses		(3,825)	(3,440)
Nonoperating revenues, net		24,819	32,067
Debt expenses:			
Interest on debt		173,550	160,424
Allowance for funds used during construction		(9,565)	(4,419)
Total debt expenses		163,985	156,005
Income before capital contributions		73,573	124,180
Capital contributions		34,390	28,252
Increase in net position		107,963	152,432
Net position:			
Beginning of year, as previously reported		2,733,549	2,588,084
Effect of change in accounting for pensions		—	(6,967)
Beginning of year, as restated		2,733,549	2,581,117
End of year	$	2,841,512	2,733,549

See accompanying notes to financial statements.

LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

Statements of Cash Flows

Years ended June 30, 2015 and 2014
(Amounts in thousands)

		2015	2014
Cash flows from operating activities:			
Cash receipts:			
Cash receipts from customers	$	1,171,266	1,113,917
Cash receipts from customers for other agency services		500,423	488,581
Cash receipts from interfund services provided		492,144	443,798
Other cash receipts		2,537	—
Cash disbursements:			
Cash payments to employees		(243,931)	(261,930)
Cash payments to suppliers		(423,518)	(337,504)
Cash payments for interfund services used		(663,180)	(632,985)
Cash payments to other agencies for fees collected		(510,950)	(487,970)
Other cash payments		—	(8,602)
Net cash provided by operating activities		324,791	317,305
Cash flows from capital and related financing activities:			
Additions to plant and equipment, net		(687,360)	(636,635)
Capital contributions		33,685	28,252
Principal payments and maturities on long-term debt		(19,650)	(26,061)
Proceeds from issuance of bonds		310,171	425,299
Proceeds from California Department of Water Resources loan		128,187	129,249
Payment of California Department of Water Resources loan		(10,472)	(7,261)
Debt interest payments		(179,770)	(158,963)
Federal bond subsidies		17,178	17,196
Net cash used in capital and related financing activities		(408,031)	(228,924)
Cash flows from investing activities:			
Purchases of investment securities		(62,313)	(79,237)
Sales of investment securities		62,140	79,116
Investment income		5,580	6,521
Net cash provided by investing activities		5,407	6,400
Net increase (decrease) in cash and cash equivalents		(77,833)	94,781
Cash and cash equivalents:			
Cash and cash equivalents at beginning of year (including $353,228 and $179,080 reported in restricted accounts, respectively)		689,647	594,866
Cash and cash equivalents at end of year (including $269,072 and $353,228 reported in restricted accounts, respectively)	$	611,814	689,647

(Continued)

LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

Statements of Cash Flows

Years ended June 30, 2015 and 2014
(Amounts in thousands)

		2015	2014
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	212,739	248,118
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		136,559	123,337
Provision for losses on customer and other receivables		10,436	17,818
Changes in assets and liabilities:			
Customer and other accounts receivable		9,822	(18,034)
Accrued unbilled revenue		18,956	(9,438)
Underrecovered costs		(34,224)	(45,031)
Due to Power System		(36,415)	16,255
Materials and supplies		221	554
Regulatory assets		(39,781)	(13,780)
Accounts payable and accrued expenses for operating		973	(12,377)
Prepayment and other current assets		(1,612)	156
Net postemployment benefit asset		(3,752)	(7,529)
Customer deposits		24,508	21,717
Accrued employee expenses		2,733	3,923
Overrecovered costs		—	(28,443)
Deferred outflow – pensions		(130,056)	(134,703)
Regulator assets – pensions		115,013	180,425
Net pension liability		(171,859)	(162,103)
Deferred inflows – pensions		209,473	116,375
Accrued worker’s compensation claims and other		1,057	20,065
		324,791	317,305

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The Department of Water and Power of the City of Los Angeles (the Department) exists as a separate proprietary department of the City of Los Angeles (the City) under and by virtue of the City Charter enacted in 1925 and as revised effective July 2000. The Department's Water Revenue Fund (Water System) is responsible for the procurement, quality, and distribution of water for sale in the City. The Water System is operated as an enterprise fund of the City.

(a) Method of Accounting

The accounting records of the Water System are maintained in accordance with U.S. generally accepted accounting principles (GAAP) for governmental entities. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Water System is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

The financial statements of the Water System are intended to present the net position, and the changes in net position and cash flows of only that portion of the business-type activities and each major fund of the City of Los Angeles, California that is attributable to the transactions of the Water System. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California as of June 30, 2015 and 2014, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

The Department's rates are determined by the Board of Water and Power Commissioners (the Board) and are subject to review and approval by the Los Angeles City Council (City Council). As a regulated enterprise, the Department follows the regulatory accounting criteria set forth in the GASB Codification (GASB No. 62), which requires that the effects of the rate-making process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of changes in net position. Accordingly, the Water System records various regulatory assets and liabilities to reflect the Board's actions. Management believes that the Water System meets the criteria for continued application, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment.

(b) Use of Estimates

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

(c) Utility Plant

The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials, an allowance for funds used during construction (AFUDC), and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, healthcare costs, and certain administrative and general expenses. The costs of maintenance, repairs, and minor replacements are charged to the appropriate operations and maintenance expense accounts.

(d) Intangibles

The Department follows GASB No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB No. 51), which requires that an intangible asset be recognized in the statement of net position only if it is considered identifiable. Additionally, it establishes a specified-conditions approach to recognize intangible assets that are internally generated. Effectively, outlays associated with the development of such assets are not capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria are expensed as incurred. The capitalized amounts are included in general utility plant in the accompanying statements of net position.

(e) Impairment of Long-Lived Assets

The Department follows GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under GASB No. 42, impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

(f) Depreciation and Amortization

Depreciation expense is computed using the straight-line method based on service lives. The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 70 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years. Depreciation and amortization expense as a percentage of average depreciable utility plant in service was 1.8% for fiscal years ended June 30, 2015 and 2014.

(g) Cash and Cash Equivalents

As provided for by the State of California Government Code (the Code), the Water System's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. Cash and cash equivalents in the City's general investment pool are reported at fair value, and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in net position. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period. The City Treasurer invests available funds of the City and its independent operating departments on a combined basis. The Water System classifies all cash and cash equivalents that are restricted either by creditors, the Board, or by law as restricted cash and cash equivalents on the statement of net position. The Water System considers its portion of pooled investments in the City's pool to be cash and cash equivalents and the unspent construction funds as long-term restricted cash and cash equivalents.

(Continued)

At June 30, 2015 and 2014, restricted cash and cash equivalents include the following (amounts in thousands):

		June 30	
		2015	2014
Bond redemption and interest funds	$	131,650	114,817
Self-insurance fund		27,167	26,167
Restricted cash and cash equivalents – current portion		158,817	140,984
Construction funds – classified as long-term restricted cash		110,255	212,244
Total restricted cash and cash equivalents	$	269,072	353,228

(h) Materials and Supplies

Materials and supplies are recorded at average cost.

(i) Accrued Unbilled Revenue

Accrued unbilled revenue is the receivable for estimated water sales during the period at the appropriate rates for which service has been provided but the customer has not been billed.

(j) Investments

The Water System's investments consist of investments held in the Water Expense Stabilization Fund to stabilize water rates. Such investments include U.S. government and governmental agency securities. Investments are reported at fair value, and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in net position. The stated fair value of investments is generally based on published market prices or quotations from major investment dealers.

(k) Accrued Employee Expenses

Accrued employee expenses include accrued payroll and an estimated liability for vacation leave, sick leave, and compensatory time, which is accrued when employees earn the rights to the benefits. Below is a schedule of accrued employee expenses as of June 30, 2015 and 2014 (amounts in thousands):

		June 30	
		2015	**2014**
Type of expense:			
Accrued payroll	$	12,907	12,719
Accrued vacation		28,378	26,281
Accrued sick time		6,203	6,155
Compensatory time		7,097	6,697
Total	$	54,585	51,852

(l) Debt Expenses

Debt premiums and discounts are capitalized and amortized to debt expense using the effective-interest method over the lives of the related debt issues. Gains and losses on refundings related to bonds redeemed by proceeds from the issuance of new bonds are reported as deferred inflows or outflows of resources and amortized to interest expense using the effective-interest method over the shorter of the life of the new bonds or the remaining term of the bonds refunded.

(m) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value.

(n) Customer Deposits

Customer deposits represent deposits collected from customers upon opening new accounts. These deposits are obtained when the customer does not have a previously established credit history with the Department. Original deposits plus interest are paid to the customer once a satisfactory payment history is maintained, generally after one to three years.

The Water System is responsible for collection, maintenance, and refunding of these deposits for all Department customers, including those of the Department's Power Revenue Fund (Power System). As such, the Water System's statements of net position include a deposit liability of $138 million and $113 million as of June 30, 2015 and 2014, respectively, for all customer deposits collected.

(o) Revenues

The Water System's rates are established by a rate ordinance set by the Board of Water and Power Commissioners based on the Board's powers and duties established in Section 676 of the City Charter. The Water System sells water to other City departments at rates provided in the ordinance. The Water

System recognizes water costs in the period incurred and accrues for estimated water sold but not yet billed.

Revenues consist of billings to customers for water consumption at rates specified in the water rate ordinance. These rates include a cost adjustment factor that provides the Water System with full recovery of purchased water costs. The Water System is also authorized to collect approved demand side management, water reclamation, a portion of the operation and maintenance costs related to the pumping of in City groundwater, water quality improvement expenditures, Owens Valley regulatory costs, and water security costs. Management estimates these costs quarterly for a twelve-month prospective period to establish the cost recovery component of customer billings and any difference between billed and actual costs is adjusted in subsequent billings. This difference is reflected as $79 million and $45 million of underrecovered costs in the accompanying statements of net position as of June 30, 2015 and 2014, respectively.

During fiscal years 2015 and 2014, the Water System also incurred costs of $148.5 million and $192.5 million, respectively, related to water quality improvement projects in excess of billing limits. Since the rates charged to customers are insufficient to recover all of these specific costs, the capital portion of these costs has not been recorded as underrecovered costs and is funded through the issuance of debt.

(p) Current Rate Ordinance

A conservation-based water rate ordinance has been in effect since February 16, 1993 with periodic amendments approved by the City Council. The last amendment was approved in February 2012 and was effective March 19, 2012. The ordinance incorporates marginal cost pricing through a two-tiered rate structure.

The upper block rate is established to approximate the marginal cost for water. The lower block rate generates the overwhelming majority of the revenue required for operation of the Water System. For single-family residential customers, the first tier allowances were revised effective June 1, 1995. The revisions established five lot size categories and three temperature zones (as the basis for the first tier usage blocks for each category). Extra units (one unit equals 100 cubic feet or 748 gallons) at the first tier rate are available based on household sizes. The rates also reflect equity considerations for water intensive businesses, large turf customers, and other customers having high seasonal variation in their water usage. Fixed monthly service availability charges apply only to private fire service.

The Water System’s rate ordinance contains a water procurement adjustment factor, a water quality improvement adjustment factor, a water security adjustment factor, an Owens Valley regulatory adjustment factor, pension costs and a low-income subsidy adjustment factor. The water procurement adjustment factor under which the cost of purchased water, including water purchased from the Metropolitan Water District, demand side management programs, reclaimed water projects, and the operation and maintenance costs required to operate the in City groundwater and booster pumping, is recovered by direct adjustments to customers’ bills. The water quality improvement adjustment factor recovers expenditures to upgrade and equalize water quality throughout the City and to construct facilities to meet state and federal water quality standards, including the payment of debt service on bonds issued for such purposes. The water security adjustment factor recovers expenditures to secure and protect the water supply, storage, conveyance infrastructure, and related facilities. The Owens Valley regulatory adjustment factor recovers expenditures to operate and maintain infrastructure and related facilities for the Owens Lake Dust Mitigation Project and the Lower Owens River Project. The low-income subsidy adjustment factor recovers the cost of credits provided to lifeline and low-income customers.

In February 2012, the City Council approved the following three specific modifications to the existing rate ordinance:

- Increase the limitation in the Water Rate Ordinance Section 3.J. from $0.50 per hundred cubic feet (HCF) to $0.85 per HCF.
- Water Quality Quarterly Cap: eliminate the $0.06 per HCF quarterly limitation.
- Increase the high season Second Tier Base Rate by $0.35 per HCF to ensure that the high users contribute additional water quality revenues.

The Water System's rate ordinance also contains a revenue adjustment mechanism in the form of a surcharge that is designed to assure a minimum level of base rate revenue each fiscal year. The annual revenue target for years since June 30, 2002 was $294 million. This amount is adjusted annually for increases in interest expense and shall not exceed $325 million per fiscal year; provided, however, the annual revenue target limit of $325 million shall be increased in proportion to any increases in the commodity charge. The revenue adjustment factor becomes effective upon a determination by the Board that the surcharge is needed. The rate ordinance limits the surcharge to $0.18 per billing unit, unless a higher amount is approved by the Board and the City Council. Due to drought conditions in California over the past several years and cutbacks in the allocation of water supply to municipalities by the Metropolitan Water Districts, the Department found that water conservation was urgently needed. As a result, the Board approved a resolution declaring a 15% shortage year. Effective June 1, 2009, shortage year rates were applied to all Department customers. Under the shortage year rates, the amount of water Department customers are able to purchase at the Tier 1 rate was reduced by 15%. Shortage year rates will remain in effect until the Board determines they are no longer necessary.

Operating revenues are revenues generally derived from activities that are billable in accordance with the water rate ordinance established by the City Council. Other types of revenues are generally considered nonoperating.

(q) Capital Contributions

Capital contributions and other grants received by the Department for constructing utility plant and other activities are recognized when all applicable eligibility requirements, including time requirements, are met.

(r) Funds Used during Construction

An AFUDC charge represents the cost of borrowed funds used for the construction of utility plant. Capitalized AFUDC is included as part of the cost of utility plant and as a reduction of debt expenses.

As of June 30, 2015 and 2014, the average AFUDC rates used by the Water System were 3.90% and 3.84%, respectively.

(s) Use of Restricted and Unrestricted Resources

The Water System's policy is to use unrestricted resources prior to restricted resources to meet expenses to the extent that it is prudent from an operational perspective. Once it is not prudent, restricted resources will be utilized to meet intended obligations.

(t) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Water and Power Employees' Retirement Plan (the Plan) and additions to/deductions from the Retirement Fund's fiduciary net position have been determined on the same basis as they are reported by Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(2) Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27* (GASB No. 68). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined-benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68* (GASB Statement No. 71). The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for financial statements for fiscal years beginning after June 15, 2014.

The Water System adopted the provision of Statements Nos. 68 and 71, effective July 1, 2013, and accordingly, net position was restated as follows as of July 1, 2013 (amounts in thousands):

Net position, as previously reported	$	2,588,084
Effect of change in accounting for pensions:		
Pension obligation		(745,447)
Deferred outflows		121,914
Amounts previously reported as pension assets		(6,967)
Recognition of regulatory asset related to pensions		623,533
Net position, as restated	$	2,581,117

(a) GASB Statement No. 70

In April 2012, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB Statement No. 70). This Statement establishes standards for financial guarantees that are nonexchange transactions extended or received by state or local government. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specific conditions. The Water System implemented this statement in fiscal year 2014. This statement has no material impact on the Water System's financial statements.

(b) GASB Statement No. 72

In February 2015 the GASB issued Statement No. 72, *Fair Value Measurement and Application (*GASB Statement No. 72). This statement addresses accounting and fair value reporting issues related to fair value measurements by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. This statement is effective for financial statements for years beginning after June 15, 2015. The Water System is currently evaluating the effects the adoption of this statement will have on the financial statements.

(c) GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for years beginning after June 15, 2017. The Water System is currently evaluating the effects the adoption of this statement will have on the financial statements

(3) Utility Plant

The Water System had the following activity in utility plant during fiscal year 2015 (amounts in thousands):

	Balance July 1, 2014	Additions	Retirements and disposals	Transfers	Balance June 30, 2015
Nondepreciable utility plant:					
Land and land rights	$ 139,028	15,343	—	—	154,371
Construction work in progress	923,813	449,029	—	(190,841)	1,182,001
Total nondepreciable utility plant	1,062,841	464,372	—	(190,841)	1,336,372
Depreciable utility plant:					
Source of water supply	1,337,726	44,292	—	87,734	1,469,752
Pumping	261,181	5,032	—	505	266,718
Purification	736,500	18,074	—	23,279	777,853
Distribution	4,247,341	130,655	(4,119)	73,230	4,447,107
General	655,580	39,532	(3,211)	6,093	697,994
Total depreciable utility plant	7,238,328	237,585	(7,330)	190,841	7,659,424
Accumulated depreciation:					
Source of water supply	(305,036)	(28,325)	—	—	(333,361)
Pumping	(119,009)	(4,829)	—	—	(123,838)
Purification	(186,012)	(14,446)	—	—	(200,458)
Distribution	(1,424,681)	(64,490)	4,119	—	(1,485,052)
General	(316,227)	(26,306)	3,211	—	(339,322)
Total accumulated depreciation	(2,350,965)	(138,396)	7,330	—	(2,482,031)
Total utility plant, net	$ 5,950,204	563,561	—	—	6,513,765

Depreciation and amortization expense during fiscal year 2015 was $136.6 million.

Land and land rights are included in the balance sheet as utility plant assets in their functional category.

The Water System had the following activity in utility plant during fiscal year 2014 (amounts in thousands):

	Balance July 1, 2013	Additions	Retirements and disposals	Transfers	Balance June 30, 2014
Nondepreciable utility plant:					
Land and land rights	$ 115,798	23,230	—	—	139,028
Construction work in progress	854,654	379,404	—	(310,245)	923,813
Total nondepreciable utility plant	970,452	402,634	—	(310,245)	1,062,841
Depreciable utility plant:					
Source of water supply	1,212,711	24,078	—	100,937	1,337,726
Pumping	256,212	4,963	—	6	261,181
Purification	580,659	11,393	—	144,448	736,500
Distribution	4,052,073	138,888	(6,633)	63,013	4,247,341
General	571,890	83,760	(1,911)	1,841	655,580
Total depreciable utility plant	6,673,545	263,082	(8,544)	310,245	7,238,328
Accumulated depreciation:					
Source of water supply	(278,600)	(26,436)	—	—	(305,036)
Pumping	(114,276)	(4,733)	—	—	(119,009)
Purification	(174,371)	(11,641)	—	—	(186,012)
Distribution	(1,370,427)	(60,887)	6,633	—	(1,424,681)
General	(294,391)	(23,747)	1,911	—	(316,227)
Total accumulated depreciation	(2,232,065)	(127,444)	8,544	—	(2,350,965)
Total utility plant, net	$ 5,411,932	538,272	—	—	5,950,204

Depreciation and amortization expense during fiscal year 2014 was $123.3 million.

Land and land rights are included in the balance sheet as utility plant assets in their functional category.

(4) Cash, Cash Equivalents, and Investments

(a) Investments

A summary of the Water System's investments is as follows (amounts in thousands):

Description		June 30 2015	June 30 2014
Water Expense Stabilization Fund	$	33,511	33,390

All investments are to be used for a designated purpose as follows:

i. Water Expense Stabilization Fund

The Water Expense Stabilization Fund was established under the Master Bond Resolution and can be withdrawn upon and applied to any lawful purpose in connection with the Water System.

As of June 30, 2015, the Water System's investments and their maturities are as follows (amounts in thousands):

Type of investments		Fair value	Investment maturities: 1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. government agencies	$	16,599	—	—	13,596	3,003
Medium-term corporate notes		3,786	1,000	—	1,005	1,781
Commercial paper		2,498	1,500	—	998	—
Negotiable CDs		1,000	1,000	—	—	—
Municipal Bonds		6,176	1,000	2,676	2,500	—
California State Bonds		435	435	—	—	—
Other State Bonds		2,654			2,654	
Money Market Fund		363	363	—	—	—
	$	33,511	5,298	2,676	20,753	4,784

As of June 30, 2014, the Water System's investments and their maturities are as follows (amounts in thousands):

		Investment maturities			
Type of investments	**Fair value**	**1 to 30 days**	**31 to 60 days**	**61 to 365 days**	**366 days to 5 years**
U.S. government agencies	$ 14,515	—	—	4,013	10,502
Medium-term corporate notes	4,029	—	—	2,015	2,014
Commercial paper	4,500	3,500	1,000	—	—
Negotiable CDs	4,000	1,000	1,000	2,000	—
Municipal Bonds	5,024	1,000	2,025	500	1,499
Other State Bonds	1,002	—	—	—	1,002
Money Market Fund	320	320	—	—	—
	$ 33,390	5,820	4,025	8,528	15,017

ii. Interest Rate Risk

The Department's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. government agency securities; 5 years for medium-term corporate notes, municipal bonds, and state bonds; 270 days for commercial paper; and 397 days for negotiable certificates of deposit.

iii. Credit Risk

Under its investment policy and the Code, the Department is subject to the prudent investor standard of care in managing all aspects of its portfolios. The prudent investor standard requires that the Department "shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2015 and 2014, the U.S. government agency securities in the portfolio were rated with either the highest or second highest possible credit ratings by each of the Nationally Recognized Statistical Rating Organizations (NRSROs) that rated them.

The Department's investment policy specifies that medium-term corporate notes must be rated in a rating category of "A" or its equivalent or better by a NRSRO upon purchase. Of the Water System's investments in corporate notes as of June 30, 2015, $2,786,201 (74%) was rated in the category of AA and $1,000,000 (26%) was rated in the category of A by at least one NRSRO. Of the Water System's investments in corporate notes as of June 30, 2014, $1,003,229 (25%) was rated in the category of AA and $3,026,701 (75%) was rated in the category of A by at least one NRSRO.

The Department's investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2015 and 2014, all of the Water System's investments in commercial paper were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Department's investment policy specifies that municipal obligations, which may include bonds or commercial paper, issued by California local agencies must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Water System's investments in municipal bonds as of June 30, 2015, $6,175,666 (100%) was rated in the category of AA by at least one NRSRO. Of the Water System's investments in municipal bonds as of June 30, 2014, $5,023,826 (100%) was rated in the category of AA by at least one NRSRO.

The Department's investment policy specifies that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2015 and 2014, all of the Water System's investments in negotiable certificates of deposit were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Department's investment policy specifies that State of California obligations must be rated in a rating category of "A" or its equivalent or better by a NRSRO. As of June 30, 2015, all of the Water System's investments in State of California Obligations were rated in the rating category of AA by at least one NRSRO.

The Department's Investment Policy specifies that obligations of other states in addition to California must be rated in a rating category of "A" or its equivalent or better by a NRSRO. As of June 30, 2015, $2,613,470 (98%) of the Water System's investments in obligations of states other than California were rated in the rating category of AA and $40,214 (2%) were rated in the rating category of A by at least one NRSRO. As of June 30, 2014, all of the Water System's investments in obligations of states other than California were rated in the rating category of AA by at least one NRSRO.

The Department's investment policy specifies that money market funds may be purchased as allowed under the Code, which requires that the fund must have either (1) attained the highest ranking or highest letter and numerical rating provided by not less than two NRSROs or (2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2015 and 2014, the money market funds in the portfolio had attained the highest possible ratings by at least two NRSROs.

iv. Concentration of Credit Risk

The Department's investment policy specifies that there is no percentage limitation on the amount that can be invested in U.S. government agency securities, except that a maximum of 30% of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer.

Of the Water System's total investments as of June 30, 2015, $7,509,061 (22%) was invested in securities issued by the Federal Home Loan Bank; $4,064,825 (12%) was invested in securities issued by the Federal National Mortgage Association; and $4,004,082 (12%) was invested in securities issued by the Federal Home Loan Mortgage Corporation.

Of the Water System's total investments as of June 30, 2014, $6,506,495 (19%) was invested in securities issued by the Federal Home Loan Bank; $4,000,813 (12%) was invested in securities issued by the Federal National Mortgage Association; and $2,996,269 (9%) was invested in securities issued by the Federal Home Loan Mortgage Corporation.

(b) Pooled Investments

The Water System's cash, cash equivalents, and its collateral value of the City's securities lending program (SLP) are included within the City Treasury's general and special investment pool (the Pool). As of June 30, 2015 and 2014, the Water System's share of the City's general and special investment pool was $615,994,000 and $690,223,000, which represents approximately 6.7% and 7.9% of the Pool, respectively.

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Special pool participants include the City, Airports, DWP, Harbor, Sewer, and MICLA. Interest earned on pooled investments is allocated to and recorded in certain participating funds, as authorized by the Council and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. Unless allocation provisions are specifically stipulated in City ordinance, Council action, or funding source, interest earned on certain funds are allocated to and recorded in the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 (State Code) and the Council File No. 94-2160, the City Treasury shall render to the Council a statement of investment policy (the Policy) annually. Council File No. 11-1740 was adopted on February 12, 2014, as the City's investment policy. This Policy shall remain in effect until the Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the City Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53638, 16340 and 16429.1. The City Treasury further reports that the current policy allows for the purchase of investments with maturities up to thirty (30) years.

At June 30, 2015, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities				
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Notes	$ 4,713,955	—	—	—	4,682,761	31,195
U.S. Agencies Securities	1,334,695	171,585	75,705	345,657	724,212	17,535
Medium Term Notes	1,645,006	40,001	—	202,001	1,403,004	—
Commercial Paper	1,302,850	939,479	261,856	101,515	—	—
Municipal Bonds	42,496	—	—	—	42,496	—
Supranational Coupons	73,074	7,844	—	—	65,230	—
Short Term Investment Funds	1,678	1,678	—	—	—	—
Securities Lending Short-Term Repurchase Agreement	59,190	59,190	—	—	—	—
Total General and Special Pools	$ 9,172,944	1,219,777	337,561	649,173	6,917,703	48,730

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, negotiable certificates of deposit, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Agencies (U.S. government sponsored enterprises) securities. The City's $1.3 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - $316.2 million, Federal National Mortgage Association (Fannie Mae) - $582.5 million, Federal Home Loan Mortgage Corporation (Freddie Mac) - $317.6 million, Federal Farm Credit Bank - $42.1 million, Federal Agriculture Mortgage Corporation - $56.1 million and Tennessee Valley Authority - $20.2 million. Of the City's $1.3 billion investments in U.S. Agencies securities, $799.5 million were rated "AA+" by S&P and "Aaa" by Moody's; $535.2 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" by S&P and "Aaa/P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating at the time of purchase. The City's $1.6 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, one issuer of $25.1 million medium term notes were downgraded to “BBB+” by S&P and “Baa1” by Moody’s, one issuer of $8.1 million medium term notes was downgraded to “BBB+” by S&P and “Baa2” by Moody’s, one issuer of $8.1 million medium term notes was downgraded to “A-” by S&P and “Baa1” by Moody’s, one issuer of $5.0 million medium term notes was downgraded to “A-1” by S&P and “Baa2” by Moody’s and one issuer of $7.0 million medium term notes was downgraded to “BBB+” by S&P and “A3” by Moody’s. Of the City’s $1.6 billion investments in medium term notes, one issuer of $25.0 million was not rated by S&P but rated “A3” by Moody’s.

Commercial paper issues must have a minimum of “A-1” or equivalent rating. If the issuer has issued long-term debt, it must be rated “A” without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of $500.0 million. The City’s $1.3 billion investments in commercial paper were rated “A-1+/A-1” by S&P and “P-1/P-2” by Moody’s.

Municipal bonds have no minimum rating requirement. The City’s $42.5 million investments in municipal bonds were rated“AA/A+” by S&P and“Aa2/Aa3” by Moody’s.

Investments in supranational coupons must have a minimum of “AA” rating. This investment was not included in the Policy effective February, 2014, but were authorized for purchase by state municipalities upon revisions made to California Code Section 53601 effective January, 2015. The City’s investments in supranational coupons of $65.2 million were rated “AAA” by S&P and “Aaa” by Moody’s. Investments of $7.8 million were rated “A1+” by S&P and “P1” by Moody’s. These short-term securities are backed by the full faith of the issuing entity which is ratedAAA/Aaa.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers’ acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in the U.S. Treasury and government agencies. The City’s pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City’s total pooled investments as of June 30, 2015, $582.5 million (6%) was invested in securities issued by Federal National Mortgage Association.

The following table identifies the investment types that are authorized by the Policy as of June 30, 2015:

Authorized Investment Type	Maximum Maturity A	Specified Percentage of Portfolio B	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years*	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years*	None	None
Bankers' Acceptances	180 days	40%*C	None
Commercial Paper - Selected Agencies*D	270 days	25% of the agency's money E	"A-1" if long-term "A" without regard to modifiers. F
Commercial Paper - Others Agencies *G	270 days	40% of the agency's money H	"A-1" if long-term "A" without regard to modifiers. F
Negotiable Certificates of Deposits	5 years	30%I	None
CD Placement Service	5 years	30%I	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending	92 days J	20%	None K
Medium-Term Notes*L	5 years	30%	"A" Rating
Mutual Funds and Money Market Mututal Funds	N/A	20% M	Multiple O,P
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating Q
Bank/Time Deposits	5 years	None	None
County Pooled Investments Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple R
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund S	N/A	None	None

* Represents where the City's investment policy is more restrictive than the California Government Code. The sources used are Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, and 53638. Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

Other restrictions on investments are summarized as follows:

A. Section 53601 provides that the maximum term or any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

B. Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.

C. No more than 30 percent of the agency's money may be in bankers' acceptances of anyone commercial bank.

D. "Select Agencies" are defined as a "city, a district' or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."

E. No more than 10 percent of agency's money may be invested in any one issuer's commercial paper.

F. Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500.000.000.

G. "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies." above.

H. No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.

I. No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8.53635.8 and 5360 I (i) combined.

J. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.

K. Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.

L. "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."

(Continued)

M. No more than 10 percent invested in anyone mutual fund.

N. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.

O. A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of$500 million.

P. Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.

Q. A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (0).

R. Local entities can deposit between $200 million and $10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account (PMIA).

At June 30, 2014, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities				
Investment type	**Amount**	**1 to 30 Days**	**31 to 60 Days**	**61 to 365 Days**	**366 Days To 5 Years**	**Over 5 Years**
U.S. Treasury bills	$ 248,766	248,746	—	20	—	—
U.S. Treasury notes	4,121,579	—	—		4,085,830	35,749
U.S. Sponsored Agency Issues	1,915,548	606,056	213,475	352,807	730,202	13,008
Medium-term notes	1,443,640	—	—	191,976	1,231,654	20,010
Commercial paper	904,407	867,252	26,998	10,157	—	—
Municipal bonds	30,207	—	—	—	30,207	—
Certificates of deposit	7,000	—	—	7,000	—	—
Short-term investment funds	5,609	5,609	—	—	—	—
Securities lending short-term collateral investment pool	11,425	11,425	—	—	—	—
Total general and special pool	$ 8,688,181	1,739,088	240,473	561,960	6,077,893	68,767

Interest Rate Risk: The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium-term notes, CD placement service, negotiable certificate of deposits, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk: The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's $1.9 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank – $896.7 million, Federal National Mortgage Association – $675.8 million, Federal Home Loan Mortgage Corporation – $279.7 million, Federal Farm Credit Bank – $17.3 million, and Tennessee Valley Authority – $46.2 million. Of the City's $1.9 billion investments in U.S. Sponsored Agencies securities, $798.3 million were rated "AA+" by S&P and "Aaa" by Moody's; $1,117.3 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" by S&P and "Aaa/P-1" by Moody's).

Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes must have at least an "A" rating. The City's $1.4 billion investments in medium-term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, two issuers of $38.7 million medium-term notes were downgraded to "A-1" by S&P and "Baa1" by Moody's and one issuer of $7.0 million medium-term notes was downgraded to "BBB+" by S&P and "A3" by Moody's.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of $500.0 million. The City's $904.4 million investments in commercial paper were rated "A-1+/A-1" by S&P and "P-1" by Moody's.

Municipal bonds have no minimum rating requirement. The City's $30.2 million investments in municipal bonds were rated "AA/A" by S&P and "Aa2/Aa3" by Moody's.

The issuers of the certificates of deposit were not rated.

Concentration of Credit Risk: The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium-term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2014, $896.7 million (10%) was invested in securities issued by Federal Home Loan Bank, and $675.8 million (8%) was invested in securities issued by Federal National Mortgage Association.

(5) Securities Lending Transactions

The Water System participates in a Securities Lending Program (SLP). As of June 30, 2015 and 2014, amounts held in the City of Los Angeles Program are as follows (collateral amounts in thousands):

Program		June 30 2015	June 30 2014
City of Los Angeles Program	$	4,180	576

General Investment Pool Securities Lending Program

Securities lending is permitted and limited under provisions of California Government Code Section 53601. The Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City loans out U.S. Treasury and U.S. agencies securities, i.e., Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation (Farmer Mac), Federal Farm Credit Bank and Tennessee Valley Authority. The City receives cash as collateral on the loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 60 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

During the fiscal year 2015, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(6) Long-Term Debt

Long-term debt outstanding as of June 30, 2015 and 2014 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts, and other long-term debt, as follows (amounts in thousands):

Bond issues	Date of issue	Effective-interest rate %	Fiscal year of last scheduled maturity	Principal outstanding 2015	Principal outstanding 2014
Revenue bonds:					
Issue of 2001, Series B	02/28/01	Variable	2036	$ 325,000	325,000
Issue of 2001, Series C	11/15/01	4.788%	2017	1,622	1,638
Issue of 2003, Series B	03/06/03	4.014%	2031	8,780	8,780
Issue of 2006, Series A1	02/07/06	4.600%	2041	159,055	176,190
Issue of 2006, Series A2	02/07/06	4.650%	2036	241,085	241,085
Issue of 2007, Series A1	06/26/07	4.764%	2038	84,715	87,215
Issue of 2007, Series A2	06/26/07	4.909%	2044	197,450	197,450
Issue of 2009, Series A	02/04/09	5.118%	2039	150,000	150,000
Issue of 2009, Series B	12/03/09	3.252%	2021	141,200	141,200
Issue of 2009, Series C	12/03/09	3.844%	2040	346,090	346,090
Issue of 2010, Series A	12/14/10	4.374%	2051	492,710	492,710
Issue of 2011, Series A	08/24/11	4.542%	2042	307,140	307,140
Issue of 2012, Series A	06/06/12	4.319%	2044	276,765	276,765
Issue of 2012, Series B	08/09/12	4.023%	2044	322,000	322,000
Issue of 2012, Series C	08/09/12	2.483%	2027	92,715	92,715
Issue of 2013, Series A	05/30/13	2.797%	2035	113,215	113,215
Issue of 2013, Series B	12/05/13	3.836%	2036	380,000	380,000
Issue of 2014, Series A	11/20/14	3.987%	2045	271,000	—
Total principal amount				3,910,542	3,659,193
Unamortized premiums and discounts				236,279	211,516
Debt due within one year (including current portion of variable rate debt)				(61,530)	(52,135)
				4,085,291	3,818,574

Bond issues	Date of issue	Effective-interest rate %	Fiscal year of last scheduled maturity	Principal outstanding 2015	Principal outstanding 2014
Other long-term debt:					
Loans payable to California State Water Resources Control Board (SWRCB)					
SRF1997CX101	12/27/01	2.320%	2024	$ 8,552	9,452
SRF02CX139	06/28/07	2.600%	2030	20,171	21,258
SRF06CX144	09/11/07	2.452%	2030	28,996	30,571
SRF06CX147	06/28/07	2.292%	2030	30,599	32,290
SRF10CX103	06/24/10	—	2035	44,500	46,633
SRF10CX104	06/24/10	—	2033	8,377	8,856
SRF11CX105	06/30/11	—	2035	23,275	20,992
SRF10CX116	06/30/11	—	2034	17,500	18,500
SRF10CX117	06/30/11	—	2033	8,750	9,250
SRF12CX105	06/30/12	—	2045	112,705	84,804
SRF12CX106	06/30/12	—	2045	31,572	10,956
SRF13P110	06/26/13	—	2019	350	450
SRF13P111	06/26/13	—	2019	350	450
SRF13P112	06/26/13	—	2019	350	450
SRF13CX104	06/26/13	—	2045	2,777	2,439
SRF13CX105	06/26/13	—	2045	7,373	6,610
SRF14CX102	06/26/14	2.085%	2045	8,038	—
SRF14CX103	06/26/14	2.085%	2045	44,375	—
SRF14CX104	06/26/14	2.085%	2045	16,736	—
SRF14CX105	06/26/14	2.085%	2045	6,330	—
Amount due within one year				(10,005)	(7,535)
Total principal amount				411,671	296,426
				$ 4,496,962	4,115,000

Revenue bonds generally are callable 10 years after issuance. The Department has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that Water System's net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities. Revenue bonds and refunding bonds are collateralized by the future revenues of the Water System.

The Safe Drinking Water State Revolving Fund (SDWSRF), administered by the State of California's State Water Resources Control Board, provides low-interest loans and other assistance to public water systems for infrastructure needs and other drinking-water-related activities. The SDWSRF utilizes a prioritized project ranking system to ensure that program resources are applied to projects addressing public health risk problems; projects needed to comply with the Safe Drinking Water Act; and projects assisting public water systems most in need on a per household affordability basis. The Department has applied for and received funding from the SDWSRF for critical Water System capital projects required for compliance with federal drinking water regulations, specifically the Long-Term 2 Enhanced Surface Water Treatment Rule and the

Stage 2 Disinfection By-Products Rule. This funding has been made available to the Department in the form of low or zero percent interest loans with a repayment period of up to 30 years.

(a) Long-Term Debt Activity

Water System had the following activity in long-term debt during fiscal year 2015 (amounts in thousands):

		Balance, July 1, 2014	Additions	Reductions	Balance, June 30, 2015	Current portion
Revenue bonds	$	3,870,709	310,960	(34,849)	4,146,820	61,530
Loan from SWRCB		303,961	128,187	(10,472)	421,676	10,005
Total	$	4,174,670	439,147	(45,321)	4,568,496	71,535

		Balance, July 1, 2013	Additions	Reductions	Balance, June 30, 2014	Current portion
Revenue bonds	$	3,483,225	426,273	(38,789)	3,870,709	52,135
Loan from SWRCB		181,973	129,249	(7,261)	303,961	7,535
Total	$	3,665,198	555,522	(46,050)	4,174,670	59,670

(b) New Issuances

(i) Fiscal Year 2015

Water System Revenue Bonds

In November 2014, the Water System issued $271 million of Water System Revenue Bonds, 2014 Series A. The net proceeds of $311.0 million, including a $40.0 million issue premium net of underwriter’s discount, were deposited into the construction fund to be used for capital improvements.

State Revolving Fund (SRF) Loans

In June 2014, the Department entered into four (4) loan agreements with the State of California’s State Water Resources Control Board (SWRCB). The loan agreements, SRF14CX102, SRF14CX103, SRF14CX104, and SRF14CX105 allow for a total maximum loan of $11.36 million, $73.76 million, $25.63 million, and $43.95 million, respectively, at 2.085% interest rate. As of June 30, 2015, the Department received $8.04 million, $44.37 million, $16.74 million, and $6.33 million, respectively, under the agreements. The proceeds are being used to fund water quality capital improvements.

(ii) Fiscal Year 2014

Water System Revenue Bonds

In December 2013, the Water System issued $380 million of Water System Revenue Bonds, 2013 Series B. The net proceeds of $425.30 million, including a $45.30 million issue premium were deposited into the construction fund to be used for capital improvements.

State Revolving Fund (SRF) Loans

In June 2013, the Department entered into five (5) loan agreements with the California Department of Water Resources (CDWR). The loan agreements, SRF13P110, SRF13P111, SRF13P112, SRF13CX104, and SRF13CX105 allow for a total maximum loan of $0.5 million, $0.5 million, $0.5 million, $100.97 million, and $102.28 million, respectively, at a zero percent interest rate. As of June 30, 2014, the Department received $0.5 million, $0.5 million, $0.5 million, $2.44 million, and $6.61 million, respectively, under the agreements. The proceeds are being used to fund water quality capital improvements.

(c) Outstanding Debt Defeased

The Water System defeased certain revenue bonds in the prior years by placing cash or the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in Water System's financial statements. At June 30, 2015, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues	Principal outstanding
Issue of 1998 R	$ 72,690

(d) Variable Rate Bonds

The variable rate bonds currently bear interest at daily and weekly rates ranging from 0.01% to 0.06% as of June 30, 2015 and 0.01% to 0.05% as of June 30, 2014. The Department can elect to change the interest rate period of the bonds, with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days' prior notice. The Department has entered into standby agreements with a syndicate of commercial banks in an initial amounts of $225 million (2001B, Subseries B-1 to B-3) and $100 million (2001B, Subseries B-4) to provide liquidity for these bonds. The extended standby agreements expire in January 2018 and July 2016, respectively.

Under the agreements, the $225 million variable rate bonds will bear interest that is payable quarterly at the greatest of (i) Prime Rate plus 1.00%; (ii) the Federal Funds Rate plus 2.00%; and (iii) 7.50%, while the $100 million variable rate bonds will bear interest that is payable quarterly at the greater of (i) the Prime Rate; or (ii) the Federal Funds Rate plus 1.00%. The unpaid principal of each liquidity advance made by the liquidity provider is payable in ten equal semiannual installments ninety days immediately following the related liquidity advance. At its discretion, the Department has the ability to convert the outstanding bonds to fixed-rate obligations, which cannot be tendered by the bondholders.

The variable rate bonds have been classified as long-term on the statements of net position as the liquidity facilities give the Department the ability to refinance on a long-term basis and the Department intends to either renew the facilities or exercise its right to tender the debt as a long-term financing. That portion, which would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements, has been included in the current portion of long-term debt and remains unchanged at $32.5 million as of June 30, 2015 and 2014.

(e) Scheduled Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

		Principal	Interest and amortization
Fiscal year(s) ending June 30:			
2016	$	39,035	180,713
2017		58,107	182,896
2018		73,675	183,067
2019		76,470	182,088
2020		82,465	179,558
2021–2025		469,222	848,013
2026–2030		581,915	746,769
2031–2035		721,640	618,132
2036–2040		909,506	436,953
2041–2045		914,762	201,660
2046–2050		332,587	68,159
2051–2055		72,834	—
Total requirements	$	4,332,218	3,828,008

The interest and amortization is net of $205.77 million of unamortized discount/premium and gain/loss due to issuances of new and refunding bonds, respectively.

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Water System's long-term debt. The schedule is presented assuming that the tender options on the variable rate bonds, as discussed on the previous page, will not be exercised. Should the bondholders exercise the tender options, the Water System could be required to redeem the $325 million in variable rate bonds outstanding over the next six fiscal years as follows: $32.5 million in fiscal year 2016, $65 million in each of the fiscal years 2017 through 2020, and $32.5 million in fiscal year 2021. Accordingly, the statements of net position recognize the possibility of the exercise of the tender options and reflect the $32.5 million that could be due in fiscal year 2016 as a current portion of long-term debt payable.

Interest and amortization presented in the above schedule include interest requirements for the variable rate debt over the regularly scheduled maturity period. Variable debt interest rate in effect at June 30, 2015 averages 0.05%. Should the tender options be exercised, the interest would be payable at the rate in effect at the time the standby agreements are activated.

(7) Retirement Plan

(a) Plan Description

The Department has funded a contributory retirement plan covering substantially all of its employees. The Water and Power Employees' Retirement Fund (the Fund or Plan) operates as a single-employer defined benefit plan to provide pension benefits to eligible department employers. The Retirement Fund's assets are held in a special trust fund of the City. Plan benefits are generally based on years of service, age at retirement, and the employee's highest 12 consecutive months of salary before retirement. Active participants who joined the Plan on or after June 1, 1984 are required to contribute 6% of their annual covered payroll. Participants who joined the Plan prior to June 1, 1984 contribute an amount based upon an entry-age percentage rate. A new Tier 2 was added to the Plan and applies to members hired on or after January 1, 2014. Tier 2 plan participants are required to contribute 10% of their salary and plan benefits are based on a three-year final average salary period.

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

Plan amendments must be approved by both the Retirement Board and the Board. The Plan issues separately available financial statements on an annual basis. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 N. Hope, Room 357, Los Angeles, California 90012.

(b) Benefits provided

The Plan provides retirement benefits to eligible employees. Most employees of the Water System become members of the Plan effective on the first day of biweekly payroll following employment or immediately following transfer from another City department. Members employed prior to January 1, 2014 are designated as Tier 1 and those hired on or after January 1, 2014 are designated as Tier 2 (unless a specific exemption applies to employee providing a right to Tier 1 status).

Tier 1 members are eligible to retire once they attain the age of 60 with 5 or more years of service or at age 55 with 10 or more years of service credit acquired in the last 12 years prior to retirement. A Tier 1 member with 30 years of service is eligible to retire regardless of age. Tier 2 members are eligible to retire once they attain the age of 60 with 10 or more years of service or at any age with 30 years of service. For both tiers, combined years of service between the Plan and LACERS is used to determine retirement eligibility and at least 5 years must be actual employment at DWP or City (not purchased). For both tiers, members receiving Permanent Total Disability benefits may retire regardless of age. For Tier 1, to be eligible for a Formula Pension, the employee must have worked or been paid disability four of the last five years immediately preceding eligibility to retire, or while eligible to retire.

The Formula Pension benefit the member will receive is based upon age at retirement, monthly average salary base and years of retirement service credit. The Tier 1 Formula Pension is equal to 2.1% times years of service credit times monthly average salary base. In addition, members retiring after attaining age 55 with 30 years of service credit, receive an increase in the benefit factor from 2.1% to 2.3%. A reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement age between 60 and 55 and 3.0% for each year of retirement before age 55.

Under Tier 2, there are various benefit factors that apply as shown below:

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

Reduced early retirement benefits are still available at any age (under 55) with 30 years of service and the reduction factors are the same as Tier 1. Note that these reduction factors continue to include the reduction from age 60 to 55 and from 55 to age at retirement.

For Tier 1 members, the maximum monthly retirement allowance is 100% of monthly average salary base. For Tier 2 members, the maximum monthly retirement allowance is 80% of monthly average salary base. Under Tier 1, pension benefits are calculated based on the highest average salary earned during a 12-month period. Under Tier 2, pension benefits are calculated based on the average salary earned during a 36-month period.

The member may elect the Full Allowance, or choose an optional retirement allowance. The Full Allowance provides the highest monthly benefit and up to a 50% continuance to an eligible surviving spouse or domestic partner. There are five optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the Full Allowance in order to allow the member the ability to provide various benefits to a surviving spouse, domestic partner, or named beneficiary.

(c) Plan membership

At June 30, 2014, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	8,739
Vested terminated members entitled to, but not yet receiving benefits	1,484
Active members	8,960
Total	19,183

(d) Contributions

The Department contributes $1.10 for each $1.00 contributed by participants plus an actuarially determined annual required contribution (ARC) as determined by the Plan's independent actuary. The required contributions are allocated between the Power System and the Water System based on the current year labor costs.

Employer contribution rates are adopted annually based upon recommendations received from the Plan's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2014 (based on the July 1, 2013 valuation) was 47.30% of compensation. The average member contribution rate as of June 30, 2014 (based on the July 1, 2013 valuation) was 6.66% of compensation. Most Tier 1 members contribute at 6% of compensation and all Tier 2 members contribute at 10% of compensation.

(e) Actuarial Assumptions

The Department's net pension liability as of June 30, 2014 and June 30, 2013 was determined by actuarial valuations as of July 1, 2014 and July 1, 2013, respectively. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an experience study for the period from July 1, 2009 through June 30, 2012 . They are the same assumptions used in the July 1, 2014 funding actuarial valuation for the Plan. The following assumptions were applied to all periods included in the measurement for the July 1, 2014 and July 1, 2013 actuarial valuation:

Actuarial Assumptions	2014	2013
Inflation	3.25%	3.50%
Salary increases	4.75% to 10.00%	5.35% to 10.50%
Investment rate of return	7.50%	7.75%
Cost of living adjustments	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)
Mortality	Healthy: RP-2000 Combined Mortality Table set back one year projected to 2030 with Scale AA	Healthy: RP-2000 Combined Mortality Table set back two years for males and one year for females

(f) Discount Rate:

The discount rates used to measure the pension liability were 7.50% and 7.75% as of June 30, 2015 and June 30, 2014, 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 employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer 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 pension Plan'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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2015 and June 30, 2014.

The long-term expected rate of return on pension plan 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 ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset proportionate share, adding expected inflation and subtracting expected investment expenses. The target 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 assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33%	6.13%
Developed International Equity	21%	7.00%
Fixed Income	24%	0.77%
Real Estate	5%	4.90%
Real Return	6%	2.85%
Private Equity	5%	9.00%
Covered Calls	5%	4.88%
Cash and Cash Equivalents	1%	0.00%
Total	100%	

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Department as of June 30, 2015, calculated using the discount rate of 7.50%, as well as what the Department's pension liability would be if it were calculated using a discount rate that is one/ percentage pointlower (6.50%) or one/ percentage point higher (8.50%) than the current rate (amounts in thousands):

Net Pension Liability		**1% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
June 30, 2015	$	867,848	411,485	28,252

(h) Changes in the Net Position Liability

At June 30, 2015 and 2014, the pension liability was measured as of June 30, 2014 and 2013, respectively, and determined based upon the results of the actuarial valuations as of July 1, 2014 and July 1, 2013, respectively. The Retirement Fund's Plan fiduciary net position and the pension liability were valued as of the measurement date and are not adjusted or rolled forward to June 30, 2015 and June 30, 2014, respectively. Below are the Water System's proportionate share of the Department's changes in the components of the total pension liability, Plan fiduciary net position and the net pension liability for the measurement periods (amounts in thousands).

		June 30	
Total pension liability		**2015**	**2014**
Beginning total pension liability	$	3,288,209	3,150,684
Service cost		63,081	61,872
Interest		250,945	250,436
Differences between expected and actual experience		(50,235)	(31,942)
Changes of assumptions		171,154	—
Benefit payments, including refunds of member contributions		(151,007)	(142,841)
Ending total pension liability	$	3,572,147	3,288,209

		June 30	
Net fiduciary net position		**2015**	**2014**
Beginning fiduciary net position	$	2,704,865	2,405,236
Contributions		150,304	144,120
Net investment income		457,874	299,567
Benefit payments, including refunds of member contributions		(151,007)	(142,841)
Administrative		(1,375)	(1,217)
Ending fiduciary net position	$	3,160,661	2,704,865

Net pension liability		June 30 2015	June 30 2014
Beginning net pension liability	$	583,344	745,447
Pension expense		31,187	70,545
Employer contributions		(129,061)	(121,914)
New net deferred inflows/outflows		(101,179)	(110,734)
Recognition of prior deferred inflows/outflows		27,194	—
Ending net pension liability	$	411,485	583,344

(i) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report.

(j) Pension Expense, Deferred Outflow of Resources, and Deferred Inflow of Resourcesn

At June 30, 2015 and 2014, the Water System reported $141,130 and $5,641, respectively, for deferred outflow of resources, and deferred inflow of resources of $325,848 and $116,375, respectively.

The below table summarizes the deferred inflow of resource and deferred outflow of resources related to pensions at June 30, 2015 and 2014 (amounts in thousands).

Deferred Outflow of Resources		June 30 2015	June 30 2014
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	4,311	5,641
Changes of assumptions and other inputs		136,819	—
Total deferred outflow of resources	$	141,130	5,641

Deferred Inflow of Resources		June 30 2015	June 30 2014
Changes in proportion and differences between entity entity contributions and proportionate share of contributions	$	1,400	—
Net difference between projected and actual earnings on pension plan investments		264,679	90,529
Difference between expected and actual experience in the total pension liability		59,769	25,846
Total deferred inflow of resources	$	325,848	116,375

In addition to the deferred outflows noted above, there are also $123,629 and $129,062 of deferred outflows related to pension contributions made after the measurement date as of June 30, 2015 and 2014, respectively. These deferred outflows of resources are recognized as a reduction of the net pension liability in the subsequent fiscal year.

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

		June 30	
		2015	**2014**
2015	$	—	(27,397)
2016		(53,445)	(27,397)
2017		(53,445)	(27,397)
2018		(53,445)	(27,397)
2019		(27,383)	(1,146)
2020		3,000	—
Total	$	(184,718)	(110,734)

(k) Pension Regulatory Asset

In connection with the recognition of the net pension liability under GASB 68, the Water System established a regulatory asset in the amount of $745,447, equal to the net pension liability reported at July 1, 2013. The pension regulatory asset is expected to be amoritized over a period not to exceed 15 years. Amortization of the regulatory asset totaled $111,887 and $180,431, for the years ended June 30, 2015 and 2014, respectively.

(8) Other Postemployment Benefit (Healthcare Plan)

(a) Plan Description

The Department provides certain other postemployment benefits (OPEB), such as medical and dental plans, to active and retired employees and their dependents. The healthcare plan is administered by the Department. The Retirement Board and the Board have the authority to approve provisions and obligations. Eligibility for benefits for retired employees is dependent on a combination of age and service of the participants pursuant to a predetermined formula. Any changes to these provisions must be approved by the Retirement Board and the Board. The total number of active and retired Department participants entitled to receive benefits was approximately 16,491 and 16,319 for the fiscal years ended June 30, 2015 and 2014, respectively.

The health plan is a single-employer defined-benefit plan. During fiscal year 2007, the Retiree Health Benefits Fund (the Fund) was created to fund the postemployment benefits of the Department. The Fund is administered as a trust and has its own financial statements. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 N. Hope, Room 357, Los Angeles, California 90012.

(b) Funding Policy

The Department pays a monthly maximum subsidy of $1,802 for medical and dental premiums depending on the employee's work location and benefits earned. Participants choosing plans with a cost in excess of the subsidy are required to pay the difference.

Although no formal funding policy has been established for the future benefits to be provided under this plan, the Department has made significant contributions into the Fund during previous years. In fiscal year 2015, the Department paid $73.3 million in retiree medical premiums. In fiscal year 2014, the Department paid $74.6 million in retiree medical premiums. No additional transfers to the Fund were made in fiscal years 2015 and 2014. The Water System's portion of retiree medical premium payments was $25.5 million and $23.9 million for 2015 and 2014, respectively. The remaining portion was paid by the Power System.

(c) Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost under each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Department's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the net other postretirement benefit asset (amounts in thousands):

		Year ended June 30	
		2015	**2014**
Annual required contribution	$	73,354	60,676
Interest on net OPEB obligation		(75,980)	(76,461)
Adjustment to annual required contribution		70,776	66,869
Annual OPEB costs		68,150	51,084
Department contributions made		73,343	74,625
Change in net OPEB asset		5,193	23,541
Net OPEB asset – beginning of year		978,231	954,690
Net OPEB asset – end of year	$	983,424	978,231

The following table shows the components of the Water System's share in annual OPEB cost for the year, the amount actually paid in premiums, and changes in the net OPEB asset (amounts in thousands):

		Year ended June 30	
		2015	**2014**
Annual required contribution	$	23,473	19,416
Interest on net OPEB obligation		(24,313)	(24,467)
Adjustment to annual required contribution		22,648	21,398
Annual OPEB costs		21,808	16,347
Water System contributions made		25,560	23,876
Change in net OPEB asset		3,752	7,529
Net OPEB asset – beginning of year		309,780	302,251
Net OPEB asset – end of year	$	313,532	309,780

The Department's annual OPEB costs, the percentage of ARC contributed to the Plan, and the net postemployment obligation for fiscal years 2015, 2014, and 2013 were as follows (amounts in thousands):

		2015	**2014**	**2013**
Annual OPEB costs	$	68,150	51,084	38,311
Percentage of OPEB costs contributed		108%	146%	180%
Net postemployment asset at end of year	$	983,424	978,231	954,690

The Water System's share in the annual OPEB costs, the percentage of ARC contributed to the Plan, and the net postretirement obligation for fiscal years 2015, 2014, and 2013 were as follows (amounts in thousands):

		2015	**2014**	**2013**
Annual OPEB costs	$	21,808	16,347	12,260
Percentage of OPEB costs contributed		117%	146%	180%
Net postemployment asset at end of year	$	313,532	309,780	302,251

(Continued)

(d) Funded Status and Funding Progress Based on Latest Actuarial Study

On October 30, 2015, the latest actuarial study as of July 1, 2015 was completed for fiscal year 2015. As of July 1, 2015, the Department's actuarial value of assets was $1.64 billion and AAL for benefits was $1.96 billion, resulting in a UAAL of $0.32 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $920 million, and the ratio of the UAAL to the covered payroll was 35%.

On October 14, 2014, the latest actuarial study as of July 1, 2014 completed. As of July 1, 2014, the Department's actuarial value of assets was $1.49 billion and AAL for benefits was $1.95 billion, resulting in a UAAL of $0.46 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $900 million, and the ratio of the UAAL to the covered payroll was 51%.

As of July 1, 2013, the Department's actuarial value of assets was $1.33 billion and AAL for benefits was $1.74 billion, resulting in a UAAL of $0.41 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $900 million, and the ratio of the UAAL to the covered payroll was 46%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the ARCs of the Department are subject to continual revision as actual results are compared with past expectations and new estimates are made for the future. The schedule of funding progress, presented as required supplementary information, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the Department and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Department and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in AAL and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include 7.50% discount rate, which represents the expected long term return on plan assets, and an annual healthcare cost trend rate of 7.00% initially, reduced by decrements to an ultimate rate of 5.00% over 7 years. Both rates include a 3.25% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a closed 30 year period with 21 years remaining.

In the July 1, 2013 actuarial valuation, the entry-age normal-cost method was used. The actuarial assumptions include 7.75% discount rate, which represents the expected long-term return on plan assets, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5.00% over 6 years. Both rates include a 3.50% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a closed 30-year period with 22 years remaining.

(f) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. One key provision of the PPACA is the assessment of an excise tax on high cost plans (Cadillac Plans) beginning in 2018. Under this act, a 40% excise tax applies to plans with costs exceeding certain annual thresholds for non-Medicare retirees aged 55-64 ($11,850 for single coverage; $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. Significant uncertainties exist regarding the impact of the excise tax on high cost plans without further regulatory guidance. Management estimated the potential impact of this tax on the liability based on unadjusted thresholds and assuming the tax is shared between the Department and its participants in the same way that the current costs are shared. The estimated impact of the 40% excise tax provision on high cost plans beginning in 2018, under the healthcare reform, is reflected in all actuarial valuation reports after July 1, 2010.

(g) Death and Disability Benefits

The Water System's allocated share of death and disability benefit plan costs and administrative expenses totaled $9.9 million and $9.4 million for fiscal years 2015, and 2014, respectively

(9) Other Long-Term Liabilities

The Water System has the following other long-term liabilities:

(a) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value when they are probable of occurrence and the amount can be reasonably estimated. The liability is actuarially determined, based on an estimate of the present value of the claims outstanding and an amount for claim events incurred but not reported based upon the Department's loss experience, less the amount of claims and settlements paid to date. The discount rate used to calculate this liability at its present value was 4% at June 30, 2015 and 2014. The Department has third-party insurance coverage for workers' compensation claims over $1 million.

Overall indicated reserves for workers' compensation claims, for both the Water System and the Power System, undiscounted, have decreased from $100 million as of June 30, 2014 to $95 million as of June 30, 2015. This decrease is mainly attributable to a decrease in the number of open cases filed at the Department. Workers' compensation claims typically take longer than one year to settle and close out. The entire discounted liability is shown as long term on the statements of net position as of June 30, 2015 and 2014.

Changes in the Department's undiscounted liability since June 30, 2013 are summarized as follows (amounts in thousands):

		June 30		
		2015	**2014**	**2013**
Balance at beginning of year	$	99,519	90,894	74,300
Current year claims and changes in estimates		26,727	33,945	37,561
Payments applied		(30,867)	(25,320)	(20,967)
Balance at end of year	$	95,379	99,519	90,894

The Water System's portion of the discounted reserves as of June 30, 2015 and 2014 is $25.5 million and $26.5 million, respectively.

(10) Commitments and Contingencies

(a) Transfers to the Reserve Fund of the City of Los Angeles

In prior fiscal years, under the provisions of the City Charter, the Board authorized transfers of funds from the Water System to the reserve fund of the City. Such transfers were made at the Board's discretion. Pursuant to covenants contained in the bond indentures, the transfers could not be in excess of the increase in net position before transfers to the reserve fund of the City of the prior fiscal year. Such payments were not in lieu of taxes and were recorded as a transfer in the statements of revenues, expenses, and changes in net position.

In July 2009, the court declared that the 2007 and 2008 Water System City transfers were illegal based on Proposition 218. Since that court ruling, no transfers have been made to the reserve fund of the City.

(b) Pollution and Remediation Obligations

The Department follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution and Remediation Obligations* (GASB No. 49). This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The Water System has identified underground storage tanks that require remediation work and is working with the Los Angeles Regional Water Quality Control Board, and the Lahontan Regional Quality Control Board, which have jurisdiction over these sites. The Water System's estimated liability for these sites is approximately $2.8 million and includes remediation and ongoing operation and maintenance costs where estimable. There are no estimated recoveries. This liability is recorded as part of the Water System's accrued expenses.

(Continued)

(c) Surface Water Treatment Rule

The State of California Surface Water Treatment Rule (SWTR) imposed increased filtration requirements at any open distribution reservoir exposed to surface water runoff. The Department had four major reservoirs in its system subject to SWTR: Upper and Lower Hollywood, Lower Stone Canyon, and Encino. To comply with SWTR, the Department designed projects to remove these reservoirs from regular service through construction of larger pipelines and alternate covered storage facilities.

The Hollywood Water Quality Improvement Project was completed in July 2002. Upper and Lower Hollywood Reservoirs were removed from service and functionally replaced by two 30 million gallon tanks and additional pipelines. Construction of the Encino project was completed in December 2007. Construction of the Lower Stone Canyon Water Quality Improvement Project was completed in November 2008. The Department believes it is now in compliance with the SWTR.

(d) Stage 2 Disinfectants and Disinfection Byproduct Rule

In January 2006, the Environmental Protection Agency (EPA) published the Stage 2 Disinfectants and Disinfection Byproduct Rule (Stage 2 DBP Rule) in the federal register. The Stage 2 DBP Rule strengthens public health protection for customers by tightening compliance-monitoring requirements for two groups of disinfection byproducts (DBPs): trihalomethanes (TTHM), and haloacetic acids (HAA5). DBPs form when naturally occurring materials in water (e.g., decomposing plant material) combine with chemicals added to disinfect the water. DBPs are associated with cancer.

In order to comply with the requirements of the Stage 2 DBP Rule, the Department must change its primary disinfectant from chlorine to chloramines, a less reactive disinfectant, by April 1, 2014. In order to convert to chloramines, the Department constructed an ultraviolet filtration plant, three chloramination stations, four ammoniation stations, two chlorination stations and has and will continue to install mixers in tanks and reservoirs. Additional treatment facilities will be constructed as groundwatersources are improved and/or expanded. The cost of Stage 2 DBP compliance-related engineering studies and construction activities is expected to be approximately $376 million at completion. The actual expenditures to date are $315 million.

(e) Long-Term 2 Enhanced Surface Water Treatment Rule

In January 2006, the EPA published the Long-Term 2 Enhanced Surface Water Treatment Rule (LT2) in the federal register. The LT2 builds upon the Safe Drinking Water Act and other earlier water quality rules to strengthen protection against microbial contaminants, especially Cryptosporidium. Cryptosporidium is a significant concern in drinking water because it contaminates most watersheds used for the collection of drinking water and can cause gastrointestinal illness. The Department has six reservoirs in its system subject to LT2: Ivanhoe, Silver Lake, Elysian, Upper Stone Canyon, Santa Ynez, and Los Angeles. In order to comply with the requirements of the LT2, the Department is proposing to cover, bypass, or build alternate covered storage for the aforementioned reservoirs and to install additional pipelines and related facilities. Santa Ynez Reservoir has now been covered and Silver Lake Reservoir has been removed from service. The remainder of these projects are in different stages of planning, design, and construction. The cost of LT2 compliance-related engineering studies and construction activities is expected to reach $1.40 billion at completion in 2020. The actual cost spent to date has been $699 million.

(f) Owens Lake

During 1997, the Great Basin Unified Air Pollution Control District (the District) adopted an initial State Implementation Plan, as amended, and an implementing order requiring the Department to initiate pollution control measures to control particulate matter emitting from the Owens Dry Lake bed. The Department disputed the remediation measures imposed by the original order; however, in July 1998, the Department and the District entered into a Memorandum of Agreement (MOA) to mitigate the dust problem. The MOA delineated the dust producing areas on the lakebed that needed to be controlled, specified what measures must be used to control the dust, and specified a timetable for implementation of the control measures. The MOA called for phased implementation to permit the effectiveness of the control measures to be evaluated and modifications to be made as the control measures were being installed.

The MOA was incorporated into a formal air quality State Implementation Plan (SIP) by the District. This SIP was approved by the EPA on October 4, 1999. The District revised and adopted the SIP in November 2003. The revised SIP defines the additional boundaries and areas required to be controlled on the lakebed. The Department was allowed to examine the District’s methodology to determine the additional areas to be controlled. As a result of those efforts, the District ordered in the revised SIP that 29.8 square miles required control including the areas the Department agreed to and completed. The revised SIP demonstrated that upon completion of the Department’s work, emissions from Owens Lake bed should be reduced so that the Owens Valley Planning Area would attain and maintain the Federal Clean Air Act ambient air quality standards for particulate matter. The Federal Clean Air Act requires that Owens Lake meet ambient air quality standards by the end of 2006.

The MOA specified that the Department must choose from among three control measures the District has certified as Best Available Control Measures for Owens Lake (BACM). The three measures are Shallow Flooding, Managed Vegetation, and Gravel. The first phase of dust control implementation, completed in December 2001, consists of 13.5 square miles of Shallow Flooding. Shallow Flooding involves flooding the area to be controlled until either it is inundated with a few inches of water or the soil becomes thoroughly saturated to the surface with water. The second phase of dust control implementation, completed in July 2002, consists of about four square miles of Managed Vegetation. Managed Vegetation involves growing native vegetative cover that will hold the shifting and emissive lakebed in place, locking up the dust. The third and fourth phases of dust control implementation, completed in March 2003 and September 2005, respectively, consist of a total of 5.6 square miles of additional Shallow Flooding. The fifth phase completed the remainder of the required 29.8 square miles of dust control in December 2006 with Shallow Flooding.

The total capital-related costs of implementing the 29.8 square miles of dust control measures through 2008 are approximately $413 million.

In November 2006, the Department and the District entered into an agreement to settle their disputes arising from supplemental dust control measures proposed to be ordered upon the Department by the District (Settlement Agreement). The Settlement Agreement largely defines the Department’s activities moving forward in terms of new dust control measure development and air quality regulatory and research activities. The essence of the agreement calls for the City to construct 12.7 square miles of dust control measures by April 2010, 9.2 square miles must be Shallow Flooding and the remaining 3.5 square miles can be of the City's own choosing, including a new low to zero water using method called moat and row. Following a successful demonstration project, the Department moved forward with plans to implement moat and row on 3.5 square miles. In turn, the agreement allows for new opportunities for water savings and a marked improvement as to how the Department will be regulated in the future.

The District issued a new revised SIP in February 2008 that included an order to control the additional dust control areas agreed to in the Settlement Agreement. The Department completed construction of 9.2 square miles of shallow flooding at a cost of $120 million in April 2010. The Department is now diverting up to 95,000 acre-feet per year of water from the Los Angeles Aqueduct for dust mitigation activities on Owens Lake. Due to concerns expressed by the California State Lands Commission and the California Department of Fish and Wildlife, construction of moat and row on 3.5 square miles was delayed with a new required completion date of October 1, 2010 in order to conduct additional environmental analysis. This additional environmental analysis was completed in August 2009. However, the California State Lands Commission would only issue a lease for 0.4 square miles leaving 3.1 square miles unmitigated. In March 2011, the Department entered into a Stipulated Order of Abatement with the District requiring construction of BACM on the remaining 3.1 square miles with provisions for converting three square miles of existing shallow flooding dust control measures to a hybrid of shallow flooding, managed vegetation, and gravel in order to free up sufficient water for operation of the new areas without increasing water diversions from the Los Angeles Aqueduct. This project is known as Phase 7a, and was required to be completed by December 2013. However, due to unanticipated discovery of significant cultural resources, progress on the Phase 7a Project was deterred and the Department requested more time to complete the project. Additionally, the Department certified the Environmental Impact Report in June 2013 approving an avoidance alternative, which avoids construction of dust control on approximately 350 acres containing significant cultural resources contingent upon the District removing these areas from the Stipulated Order of Abatement. In January 2014, the Board awarded a $230 million contract for the construction of Phase 7a Project. An agreement was reached between the District and the Department in August 2013 extending the deadline for the Phase 7a Project to December 2015, and removing 277 acres of significant cultural resources from the Stipulated Order of Abatement to be evaluated with stakeholders to determine the best course of action for these areas after which the District may issue orders for what would be the Phase 7b Project. In May 2014, an additional 63 acres were removed from Phase 7a Project and placed into Phase 7b Project by the District due to cultural sensitivity of the area. The Department also agreed to provide $10-million to the District to construct dust control measures on the Keeler Dunes as a public benefit project, (the District had been preparing to order the Department to control dust at the Keeler Dunes). In exchange, the District agreed that it would take full responsibility for the Keeler Dunes mitigation, and would not issue future dust control orders to the Department for the Swansea or Olancha sand dunes.

(Continued)

The Department was also required to construct Phase 8 of the Owens Lake Dust Mitigation Program consisting of 2 square miles of Gravel Cover, a District-approved waterless dust control measure. The Department obtained a lease from the California State Lands Commission for Phase 8 in December 2010, and completed construction prior to the November 2012 deadline at a cost of $60 million.

In August 2011, the District issued a Final 2011 Supplemental Control Requirements Determination ordering dust control measures on 2.86 square miles and 30% design of 1.87 square miles (the 2011 Final SCRD), which was challenged by the Department. After mediation between the Department and the District failed to result in an agreement between the parties, GBUAPCD issued a final order for the Phase 9 Project in November 2011. The Department appealed GBUAPCD's final order with respect to the Phase 9 Project with the California Air Resources Board (CARB). A hearing with respect to the Department's appeal with CARB was heard in June 2012. CARB upheld the 2011 SCRD, and the Department filed a lawsuit challenging the 2011 Final SCRD. The Department cannot predict the ultimate outcome of the dispute with respect to the 2011 Final SCRD.

In November 2012, the District issued a Final 2012 Supplemental Control Requirements Determination (the 2012 Final SCRD) ordering dust control measures on an additional 0.76 square miles of Owens Lake and 30% design of 0.05 square miles (the Phase 10 Project). The Department has filed an appeal to the Phase 10 Project with CARB.

In August 2013, the District issued its preliminary 2013 Supplemental Control Requirements Determination (preliminary 2013 SCRD). In April 2014, the District issued its Final 2013 Supplemental Control Requirements Determination (the 2013 Final SCRD). No additional Lone or Watch areas beyond the 2011 Final SCRD and 2012 SCRD were identified for control.

The Department is in the process of conducting the environmental analysis for implementation of the 2011 Final SCRD and the 2012 Final SCRD.

In November 2014, the Department reached an agreement with the District. The agreement was memorialized in a Stipulated Judgment that was filed with the California Superior Court of Sacramento County on December 30, 2014. The Stipulated Judgment provides several benefits to the Department, including provisions: (1) permitting the use of less water-intensive and completely waterless measures to control dust at the lakebed, resulting in more water available for customer use; (2) limiting the City's liability for dust mitigation to no more than 53.4 square miles; (3) forming an Owens Lake Scientific Advisory Panel that will be staffed by the National Academy of Sciences to study the effectiveness of using waterless- and low-water methods to control dust at the dry lake; (4) addressing the discovery of Native American artifacts on or around the lakebed, and (5) allowing dust control measures to be delayed without a penalty if more are discovered.

The Stipulated Judgment requires the Department to install additional dust mitigation measures on 3.62 square miles of Owens Lake playa by December 31, 2017 as identified in the District's 2011 and 2012 SCRDs (the Phases 9 and 10 Projects). By completion of the Phases 9 and 10 Projects, the Department would have mitigated dust emissions from 48.6 square miles of Owens Lake playa. Hence, the Department's future dust mitigation obligations that can be ordered by the District would be limited to no more than an additional 4.8 square miles of yet to be determined emissive surfaces of Owens Lake playa.

The Department has prepared the necessary plans and specifications for construction of the Phases 9 and 10 Projects, and the construction activities are anticipated to commence by January 2016. The Phases 9 and 10 Projects include water saving measures through transitioning 1.82 square miles of existing water intensive dust mitigation measure to 1.02 square miles of habitat ponds and 0.8 square miles of gravel cover dust mitigation measures to ensure no additional water is used at Owens Lake. The costs associated with construction of the Phases 9 and 10 Projects along with transitioning area may range from $210 million to $240 million.

The District is currently revising the 2008 SIP in accordance with terms and conditions of the Stipulated Judgment.

(g) Litigation

A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability, which may arise from these actions, is not expected to materially impact the Water System's net position, changes in net position, or cash flows as of June 30, 2015.

(h) Risk Management

The Water System is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Water System. For other significant business risks, however, the Water System has elected to self-insure. Management believes that exposure to loss arising out of self-insured business risks will not materially impact the Water System's net position, changes in net position, or cash flows as of June 30, 2015.

(i) Credit Risk

Financial instruments, which potentially expose the Water System to concentrations of credit risk, consist primarily of retail receivables. The Water System's retail customer base is concentrated among commercial, industrial, residential, and governmental customers located within the City. Although the Water System is directly affected by the City's economy, management does not believe significant credit risk exists at June 30, 2015, except as provided in the allowance for losses. The Water System manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit risk.

(j) Subsequent Events

On October 20, 2015, the Board of Water and Power Commissioners (Board) approved Resolution No. 4900 which authorized LADWP to establish and maintain up to a combined $500 million Revolving Line of Credit for both the Water and Power Systems. On November 17, 2015, the Board authorized the execution of a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association (Wells Fargo) of up to $300 million. On December 17, 2015, the Department entered into a RCA with Wells Fargo in the principal amount not-to-exceed $300 million. Under the RCA, which expires on December 14, 2018, amounts due may be paid by the Department at any time at its option. The Department expects to pay principal amounts due under the RCA from proceeds of subsequent borrowings. On December 21, 2015, the Water System made its first draw under the RCA in the amount of $250 million which was deposited into the Water Short Term Revenue Notes, Issue of 2015, Construction Fund.

Pension Plan – Schedule of Changes in the Water System's Net Pension Liability and Related Ratios

Last 10 Fiscal Years

(Amounts in thousands other than percentages)

		Measurement Date of June 30	
		2014	**2013**
Total pension liability			
Service cost	$	63,081	61,872
Interest		250,945	250,436
Differences between expected and actual experience		(50,235)	(31,942)
Changes of assumptions		171,154	—
Benefit payments, including refunds of employee contributions		(151,007)	(142,841)
Net change in total pension liability		283,938	137,525
Total pension liability – beginning		3,288,209	3,150,684
Total pension liability – ending (a)	$	3,572,147	3,288,209
Plan fiduciary net position			
Contributions – employer	$	129,061	121,914
Contributions – employee		21,243	22,206
Net investment income		457,874	299,567
Benefit payments, including refunds of employee contributions		(151,007)	(142,841)
Administrative expenses		(1,375)	(1,217)
Net change in plan fiduciary net position		455,796	299,629
Plan fiduciary net position – beginning		2,704,865	2,405,236
Plan fiduciary net position – ending (b)	$	3,160,661	2,704,865
Water System's net pension liability (a) less (b)	$	411,486	583,344
Plan fiduciary net position as a percentage of total pension liability		88.4%	82.3%
Covered-employee payroll	$	265,192	266,262
Net pension liability as a percentage of covered-employee payroll		155.2%	219.1%

The Water System implemented GASB Statement No. 68 effective July 1, 2013, therefore, no information is available for the measurement periods prior to June 30, 2013.

(Continued)

Notes to Schedule and Changes in Water System's Net Pension Liability and Related Ratios

Changes of assumptions: The following is a summary of the changes in assumptions.

	June 30	
	2014	**2013**
Actuarial assumptions:		
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Projected salary increases	4.75% to 10.00%	4.35% to 10.50%

See accompanying independent auditors' report.

Schedule of Department Pension Contributions

Last 10 Fiscal Years

(Amounts in thousands other than percentages)

June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contributions Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	$ 455,683	$ 376,902	$ 78,781	$ 900,126	41.87%
2014	387,824	384,266	3,558	819,924	46.87%
2013	376,668	368,426	8,242	817,421	45.07%
2012	336,875	321,689	15,186	805,607	39.93%
2011	304,432	286,699	17,733	791,760	36.21%
2010	200,579	201,035	(456)	767,912	26.18%
2009	141,292	145,941	(4,649)	696,704	20.95%
2008	134,651	141,862	(7,211)	623,675	22.75%
2007	110,269	101,556	8,713	574,316	17.68%
2006	80,785	75,490	5,295	554,840	13.61%

Notes to Schedule of Department Contributions

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 nonvaluation reserve.

(Continued)

	June 30, 2014	June 30, 2013
Actuarial assumptions:		
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Real across the board salary increase	0.75%	0.75%
Project salary increase*	4.75% to 10.00%	5.35% to 10.50%
Cost of living adjustments	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table with ages set back one year projected to 2030 with Scale AA	Healthy: RP-2000 Combined Healthy Mortality Table set back two years for males and one year for females
Other assumptions	Same as those used in the July 1, 2014 funding actuarial valuation	Same as those used in the July 1, 2013 funding actuarial valuation
Other information	All members hired on or after January 1, 2014 enter Tier 2.	

(Continued)

LOS ANGELES DEPARTMENT OF WATER AND POWER
WATER SYSTEM

Required Supplementary Information

June 30, 2015 and 2014

(Unaudited)

Postemployment Healthcare Plan – Schedule of Funding Progress

The following schedule provides information about the Department's overall progress made in accumulating sufficient assets to pay benefits when due, prior to allocations to the Water System and the Power System (amounts in thousands):

Actuarial valuation date July 1	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2015	$ 1,637,578	1,956,230	318,652	84%	$ 920,781	35%
2014	$ 1,485,140	1,947,912	462,772	76%	$ 900,126	51%
2013	$ 1,332,136	1,743,727	411,591	76%	$ 900,254	46%

See accompanying independent auditors' report.