CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Financial Statements and
Required Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

June 30, 2016 and 2015

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Los Angeles Department of Water and Powers Power Revenue Fund (Power System), an enterprise fund of the City of Los Angeles, California, as of and for the years ended June 30, 2016 and 2015 and the related notes to financial statements, which collectively comprise the Power System's basic financial statements for the years then ended 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 Power System as of June 30, 2016 and 2015, 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 1a, the financial statements present only the Power 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, 2016 and 2015, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information on pages 3–16 and pages 84–86 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 15, 2016 on our consideration of the Power 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 G*overnment Auditing Standards* in considering the Power System's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
December 15, 2016

The following discussion and analysis of the financial performance of the City of Los Angeles Department of Water and Power's Power Revenue Fund (the Power System) provides an overview of the financial activities for the fiscal years ended June 30, 2016 and 2015. Descriptions and other details pertaining to the Power System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Power System's financial statements, which begin on page 16.

Using this Financial Report

This annual financial report consists of the Power System's financial statements and required supplementary information and reflects the self-supporting activities of the Power System that are funded primarily through the sale of energy, transmission, and distribution services 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 Power System's financial health. The statements of net position include all of the Power System's assets, deferred outflows, liabilities, deferred inflows, and net position 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 as of June 30, 2016 and 2015. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the fiscal years ended June 30, 2016 and 2015. The statements of cash flows report the cash provided by and used in operating activities, noncapital financing activities; capital and related financing activities; and investing activities during the fiscal years June 30, 2016 and 2015.

The following table summarizes the financial condition and changes in net position of the Power System as of and for the fiscal years ended June 30, 2016, 2015, and 2014:

Table 1 – Condensed Schedule of Assets, Deferred Outflows, Liabilities, Deferred inflows, and Net Position

(Amounts in millions)

		June 30		
Assets and Deferred Outflows		**2016**	**2015**	**2014**
Utility plant, net	$	10,322	9,926	9,213
Restricted investments		595	642	641
Other noncurrent assets		2,942	3,232	3,639
Current assets		2,489	2,292	2,120
Deferred outflows		514	619	335
	$	16,862	16,711	15,948
Net Position, Liabilities and Deferred Inflows				
Fund net position:				
Net investment in capital assets	$	1,189	1,235	1,268
Restricted		1,530	1,582	1,562
Unrestricted		2,872	2,599	2,549
Total net position		5,591	5,416	5,379
Long-term debt, net of current portion		8,943	8,568	7,937
Other long-term liabilities		858	962	1,318
Current liabilities		864	898	891
Deferred inflows		606	867	423
		11,271	11,295	10,569
	$	16,862	16,711	15,948

(Continued)

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

(Amounts in millions)

		Year ended June 30	
	2016	**2015**	**2014**
Operating revenues:			
Residential	$ 1,127	1,034	1,043
Commercial and industrial	2,308	2,201	2,233
Sales for resale	73	94	43
Other	9	8	1
Total operating revenues	3,517	3,337	3,320
Operating expenses:			
Fuel for generation and purchased power	(1,356)	(1,400)	(1,414)
Maintenance and other operating expenses	(1,096)	(1,045)	(950)
Depreciation and amortization	(540)	(496)	(466)
Total operating expenses	(2,992)	(2,941)	(2,830)
Operating income	525	396	490
Nonoperating revenues (expenses):			
Investment income	65	50	58
Federal bond subsidies	33	33	33
Other nonoperating revenue and expenses, net	20	17	21
Debt expense, net	(267)	(260)	(259)
Total nonoperating expenses, net	(149)	(160)	(147)
Income before capital contributions and transfers	376	236	343
Capital contributions	66	67	45
Transfers to the reserve fund of the City of Los Angeles	(267)	(266)	(253)
Increase in net position	175	37	135
Beginning balance of net position	5,416	5,379	5,244
Ending balance of net position	$ 5,591	5,416	5,379

(Continued)

Assets

Utility Plant

During fiscal years 2016 and 2015, the Power System's net utility plant increased $396 million and $713 million, respectively. Net utility plant consists of significant investments in generation, transmission, distribution, and general plant infrastructure and fuel resources less accumulated depreciation.

For fiscal year 2016 utility plant additions were $1,795 million. Of this increase $1,275 million was transferred from construction work in progress (CWIP) and the remaining increases were direct additions. Direct additions are mostly related to improvements in distribution infrastructure as part of the Department's Power Reliability Program (PRP). Many of the Department's assets were installed between 1920 and 1950. The PRP is a program that evaluates and prioritizes which assets should be replaced first to reduce the frequency of electric service disruptions and the duration of each disruption.

Additions from CWIP are mostly for additional generating station and transmission system assets. During fiscal year 2016, as part of the Department's plan to discontinue using ocean water for cooling purposes (Once Through Cooling Program), Scattergood Unit 3 was placed into service December 2015 and cost approximately $888 million to construct. The Power System also upgraded 5 main generating units for the modernization of Castaic Power Plant. Transmission structures and improvements included constructing 65 miles of overhead transmission from Barren Ridge to Haskell Switching Station, constructing a new Haskell Canyon Switching Station, and constructing 11 miles of underground cables between Scattergood Generating Station and Receiving Station K. With the completion of these large projects, the balance in the CWIP account decreased $854 million.

Accumulated depreciation increased $537 million. The Power System uses the straight-line deprecation method for assets completed after July 1, 1973 and the 5.0% Sinking Fund method for assets prior to 1973 based on estimated service lives. The increase in accumulated depreciation was mostly due to depreciation recognized on generation and distribution plant assets, and the write-down of the Navajo Generation Station discussed under Other Matters.

Of the $713 million increase in net utility plant during fiscal year 2015, utility plant and fuel resources in service increased approximately $690 million, CWIP increased $485 million, and accumulated depreciation increased $462 million.

Of the $690 million increase, $385 million is related to distribution plant assets and mostly attributable to PRP to improve distribution system reliability while $183 million is related to generation plant assets including upgrade and overhaul of generator turbines at the upper/middle/control gorges, Haynes capital purchase of spare parts, Haynes repowering of units 11-16, and Scattergood unit 2 turbine overhaul. The Power System also recorded $151 million related to general plant and transmission plant assets including fleet purchase of transportation and construction equipment, additions to the Customer Information System replacement project, upgrade of oil depot, and replacement of circuit breakers at Castaic Power Plant.

Accumulated depreciation increased $462 million. The Power System uses the straight-line deprecation method for assets completed after July 1, 1973 and the 5.0% Sinking Fund method for assets prior to 1973 based on estimated service lives. The increase in accumulated depreciation was mostly due to depreciation recognized on generation and distribution plant assets.

Additional information regarding the Power System's utility plant assets can be found in note 3 to the accompanying financial statements.

The Department is vertically integrated utility, meaning it owns its own energy generating assets, transmission system, and distribution system. The Department has diverse power resources with net dependable capacity at 125% of peak demand. The tables that follow summarize the generating resources available to the Department as of June 30, 2016. These resources include those owned by the Department (either solely or jointly with other utilities) as well as resources available through long-term purchase agreements. Generating station capacity is measured in megawatts.

DEPARTMENT OWNED FACILITIES

Type of Fuel	Number of facilities	Number of units	Net maximum capacity (MWs)	Net dependable capacity (MWs)
Natural gas	4 [1]	29	3,446 [4]	3,320 [4]
Large hydro	1 [2]	7	1,247	1,175
Renewables	39	208 [3]	432 [4]	198 [4]
Subtotal	44	244	5,125	4,693
Less payable to the California Department of Water Resources	—	—	(120) [5]	(44) [5]
Total	44	244	5,005	4,649

[1] Consists of the four Los Angeles Basin Stations (Haynes, Valley, Harbor, and Scattergood).

[2] The Castaic Plant is undergoing modernization work scheduled to be completed by 2017.

[3] Includes 21 of the hydro units at the Los Angeles Aqueduct, Owens Valley, and Owens Gorge hydro units that are certified as renewable resources by the California Energy Commission. Also included are microturbine units at the Lopez Canyon Landfill, Department-built photovoltaic solar installations, the Pine Tree Wind Project, the Linden Wind Energy Project, and a local small hydro plant. Not included are the units that were upgraded at the Castaic Plant or the two Scattergood Generating Station gas-fueled units that partially burn digester gas.

(4) Included as Renewables and excluded from Natural Gas are the 16 MWs of renewable energy generated at the Scattergood Generating Station by the burning of digester gas from the Hyperion Sewage Treatment Plant.

(5) Energy payable to the California Department of Water Resources for energy generated at the Castaic Plant. This amount varies weekly up to a maximum of 120 MWs.

JOINTLY OWNED FACILITIES

Type	Number of facilities		Department's net maximum capacity entitlement (MWs)		Department's net dependable capacity entitlement (MWs)
Coal	2		1,679	(1)	1,679
Natural gas	1		532		480
Large hydro	1		491	(2)	390
Nuclear	1		387	(3)	380
Renewables/distributed generation (DG)	20,577	(4)	1,368		460
Total	20,582		4,457		3,389

(1) The Department's Intermountain Power Project (IPP) entitlement is 48.6% of the maximum net plant capacity of 1,800 MWs. An additional 18.2% portion of the IPP entitlement is subject to variable recall. The IPP is owned by the Intermountain Power Agency, a subdivision of the State of Utah. The Department's Navajo Generating Station entitlement is 21.2% of the maximum net plant capacity of 2,250 MWs. The Department is a co-owner of the Navajo Generating Station.

(2) The Department's Hoover Power Plant contract entitlement is 491 MWs, 25.2% of the Hoover total contingent capacity. As of November 2015, reduced lake levels have reduced the Department's dependable capacity to approximately 390 MWs.

(3) The Department's Palo Verde Nuclear Generating Station entitlement is 9.7% of the maximum net plant capacity of 4,003 MWs.

(4) The Department's contract renewable resources in-service include landfill gas units at certain landfills in the Los Angeles area; biogas fuel purchases out of state; hydro unit locally; and wind farms in Oregon.

(5) The Department is a member of the Southern California Public Power Authority (SCPPA), which is a California Joint Powers Agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Department records its transactions with SCPPA as purchased power expense as the assets purchased by SCPPA are on SCPPA's financial statements.

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Liabilities and Net Position

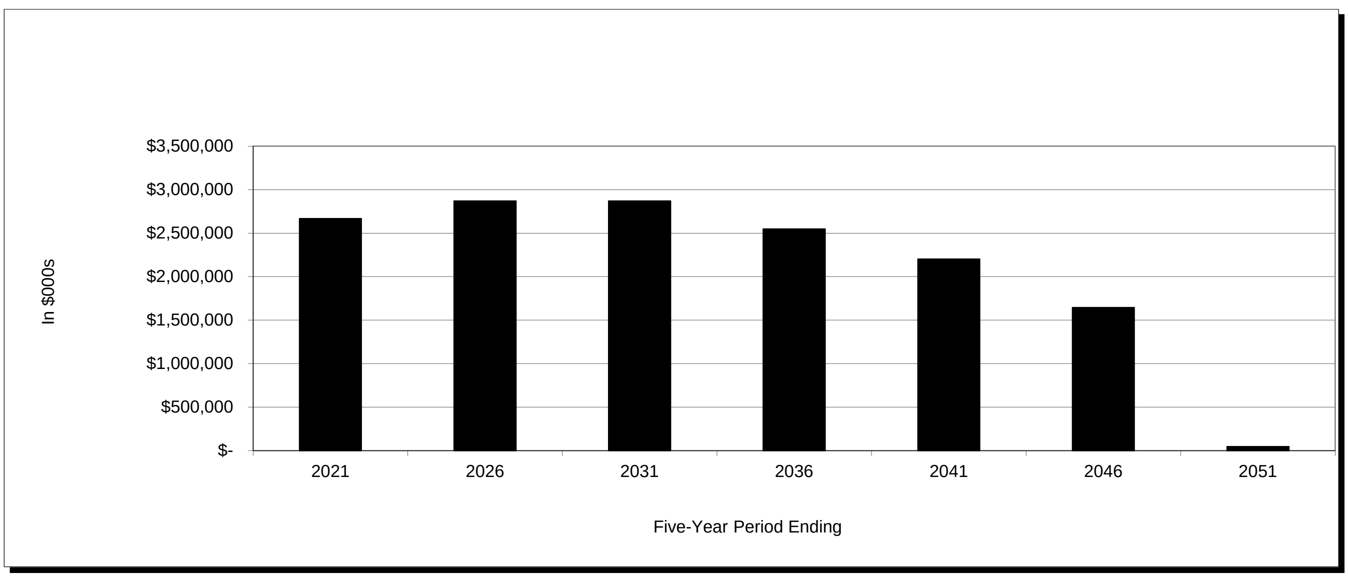
Long-Term Debt

As of June 30, 2016, the Power System's total outstanding long-term debt balance including the current portion was approximately $9.2 billion. The increase of $356 million over the prior year's balance resulted from the sale of $768.6 million in Power System revenue bonds plus $141.5 million in issue premiums, offset by scheduled maturities of $113.5 million, defeasance of $380.5 million in Power System revenue bonds, and $60 million in net amortized premiums and discounts.

As of June 30, 2015, the Power System's total outstanding long-term debt balance was approximately $8.8 billion. The increase of $633 million over the prior year's balance resulted from the sale of $1.4 billion in Power System revenue bonds plus $222 million in issue premiums, offset by scheduled maturities of $111 million, defeasance of $808 million in Power System revenue bonds, and $68 million in net amortized premiums and discounts.

Outstanding principal, plus scheduled interest as of June 30, 2016, is scheduled to mature as shown in the chart below:

Chart: Debt Service Requirements



In addition, the Power System had $453.9 million and $500 million on deposit in funds restricted for the use of debt reduction as of June 30, 2016 and 2015, respectively.

In April 2016, Moody's Investors Service upgraded the Power System's bond rating to Aa2 from Aa3 due to changes to the Department's electric rate structure that will provide additional cost recovery stability to maintain financial strength. Also in April 2016, Standard & Poor's Rating Services and Fitch Ratings affirmed the bond rating of AA- and AA-, respectively, due to the Power System's broad revenue stream and a competitive power supply portfolio that has historically provided competitive retail electricity rates and evident strategic focus on positioning the utility to improve system reliability while meeting state mandated greenhouse emission rules and renewable energy standards.

The Master Bond Resolution allows for parity debt to be issued as long as the Department maintains debt service coverage of 1.25. The Power System debt service coverage for fiscal year 2015–16 was 2.74.

Additional information regarding the Power System's long-term debt can be found in note 10 to the financial statements.

Pensions

The Power System's pension liability decreased $90 million from fiscal year 2015 to 2016 and $347 million from 2014 to 2015 due to the pension activity below (in thousands):

		Fiscal year ending	
Description		**2016**	**2015**
Beginning net pension liability	$	860,748	1,207,513
Pension expense		(24,633)	62,173
Employer contributions		(256,288)	(260,077)
New net deferred inflows/outflows		75,365	(209,038)
Recognition of prior deferred inflows/outflows		115,930	60,177
Ending net pension liability	$	771,122	860,748

Assuming actuarial projections are in the line with actual results, the pension liability increases with pension expense and decreases with employer contributions. Differences between expected and actual experience are recorded as deferred outflows and deferred inflows and are amortized over a maximum of six years.

Other Noncurrent Assets and Deferred Outflows

During fiscal year 2016, other noncurrent assets decreased $336 million primarily due to a net decrease of $268 million in the regulatory asset for pension due to amortization, which is calculated as the difference between the Power System's contributions to the retirement plan and the pension expense for the year; $75 million decrease in restricted cash and cash equivalents for construction purposes due to replenishing current cash for construction related costs; $19 million decrease in long-term notes and other receivables due to maturities; and a $30 million decrease in under-recovered costs due to the allowable recovery of legacy unrecovered energy and power reliability costs. These decreases were offset by a $97 million net increase in certain regulatory assets due to greater customer participation in the Departments' Solar Incentive and Energy Efficiency programs and costs incurred to remediate issues related to Customer Care and Billing system. Other increases related to $5 million in the postemployment asset due to higher funding than actuarially required contributions and a $10 million increase in the self-insurance cash fund. Deferred outflows decreased approximately $106 million due primarily to the maturity of natural gas derivative instruments of $20 million and $70 million decrease in deferred outflows related to pension, which represents the current year's amortization.

During fiscal year 2015, other noncurrent assets decreased $417 million primarily due to a decrease of $256 million in the regulatory asset for pension due to amortization, which is calculated as the difference between the Power System's contributions to the retirement plan and the pension expense for the year; $108 million decrease in restricted cash and cash equivalents for construction purposes; $83 million decrease in long-term notes receivable due to maturities; and a $29 million decrease in under-recovered costs due to the allowable recovery of legacy unrecovered energy and power reliability costs. These decreases were offset by a $57 million increase in certain regulatory assets due to greater customer participation in the Departments' Solar Incentive and Energy Efficiency programs and an increase of $1 million in the postemployment asset due to higher funding than actuarially required contributions.

Current Assets

During fiscal year 2016, current assets increased $197 million, or 8.6%. The majority of the increase was due to cash and cash equivalents, unrestricted, which increased $225 million due to reimbursements from the construction fund for capital expenditures and a $44 million decrease in net accounts receivable due to an increase of $34 million to the Department's allowance based on management's analysis of aged accounts; an increase in materials and fuel of $53 million; an increase in cash collateral received from securities lending transactions of $20 million; and an increase of $25 million in accrued unbilled revenues due to higher estimated consumption; offset by a $65 million decrease in the current portion of long-term notes receivable due to lower scheduled note maturities; and a $20 million decrease in cash and cash equivalents, restricted due to lower principal and interest payments.

During fiscal year 2015, current assets increased $182 million. Cash and cash equivalents, unrestricted, increased $331 million due to reimbursements from the construction fund for capital expenditures; cash and cash equivalents, restricted, decreased $28 million due to higher semiannual debt service payments ($18 million) and funds set aside to increase the balance of the self-insurance fund ($10 million); and cash collateral received from securities lending increased $9 million. The current portion of long-term notes receivable increased $17 million and materials and services and prepayments increased by $3 million, offset by a $114 million decrease in the current portion of under recovered costs and a $36 million decrease in a receivable, due from the City of Los Angeles' Department of Water and Power's Water Revenue Fund for materials and services. Accrued unbilled revenue decreased $4 million.

Changes in Net Position

Operating Revenues

The Power System's rates are established by rate ordinances 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 Power System recognizes energy costs in the period incurred and accrues for estimated energy sold, but not yet billed. Through a set of rate ordinances, the Power System bills its revenue through fixed and pass-through factors. As of April 15, 2016, the effective date of the 2016 Incremental Electric Rate Ordinance, all pass-through billing factors charged as part of the 2016 rates are uncapped, and a base rate revenue target was established for fiscal years 2016 through fiscal year 2020 to ensure sufficient revenue to meet fixed costs while implementing an aggressive energy efficiency program. The Base Rate Revenue Target is a decoupling mechanism that separates cost recovery from the energy usage underlying the calculated overall rate.

The operating revenues of the Power System are generated from wholesale and retail customers. There are four major customer categories of retail revenue. These categories include residential, commercial, industrial, and other, which includes public street lighting. As of June 30, 2016, the 10 largest customers represented 10.1% of the Power System's revenues. Table 5 summarizes the percentage contribution of retail revenues from each customer segment in fiscal years 2016, 2015 and 2014:

Table 5 – Revenue and Percentage of Revenue by Customer Class
(Amounts in thousands)

	Fiscal year 2016		Fiscal year 2015		Fiscal year 2014	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Type of retail customer:						
Residential	$ 1,126,690	33 %	$ 1,034,127	32 %	$ 1,042,641	32 %
Commercial	2,041,906	59	1,939,870	60	1,964,465	60
Industrial	266,288	8	261,254	8	268,413	8
Other	9,220	—	7,845	—	1,492	—
	3,444,104	100 %	3,243,096	100 %	3,277,011	100 %
Wholesale	72,936		93,867		42,809	
Total Revenue	$ 3,517,040		$ 3,336,963		$ 3,319,820	

While commercial customers consume the most electricity, residential customers represent the largest customer class. As of June 30, 2016, 2015 and 2014, the Power System had approximately 1.5 million customers. As shown in Table 6, 1.4 million or 91% of total customers were in the residential customer class in fiscal years 2016, 2015 and 2014, respectively.

Number of Customers and Percentage of Customers by Customer Class
(Amounts in thousands)

	Fiscal year 2016		Fiscal year 2015		Fiscal year 2014	
	Number	Percentage	Number	Percentage	Number	Percentage
Type of retail customer:						
Residential	$ 1,370	91 %	$ 1,363	91 %	$ 1,368	91 %
Commercial	113	8	113	8	117	8
Industrial	10	1	10	1	11	1
Other	7	—	7	—	7	—
	$ 1,500	100 %	$ 1,493	100 %	$ 1,503	100 %

Fiscal Year 2016

Retail revenues increased $200 million in fiscal year 2016 primarily due to a $156 million increase in base rate revenue from the Base Rate Revenue Target Adjustment (BRRTA) which sets a minimum amount of revenue to be recovered from fiscal years 2016 through 2020 and higher consumption. Consumption for retail sales of electricity increased approximately 369 million kilowatt-hours year over year. The $156 million was recognized in fiscal year 2016 as sales and under recovered costs and will be billed over the next 24 months.

Fiscal Year 2015

Retail revenues decreased $34 million in fiscal year 2015. The decrease in retail revenue was mainly due to lower consumption during the year. Consumption of electricity decreased approximately 587 million kilowatt-hours year over year.

Operating Expenses

Fuel for generation and purchased power are two of the largest expenses that the Power System incurs each fiscal year. Fuel for generation expense includes the cost of fuel that is used to generate energy. The majority of fuel costs include the cost of natural gas, coal, and nuclear fuel.

The table below summarizes the Power System's operating expenses during fiscal years 2016, 2015 and 2014:

Table 7 – Operating Expenses and Percentage of Expense by Type of Expense
(Amounts in thousands)

	Fiscal year 2016		Fiscal year 2015		Fiscal year 2014	
	Expense	**Percentage**	**Expense**	**Percentage**	**Expense**	**Percentage**
Type of expense:						
Fuel for generation	$ 318,749	11 %	$ 377,343	13 %	$ 436,643	16 %
Purchased power	1,037,471	35	1,022,271	35	977,187	35
Other operating expenses	787,729	26	720,066	24	654,809	23
Maintenance	307,985	10	325,378	11	295,218	10
Depreciation and amortization	540,478	18	496,188	17	466,526	16
	$ 2,992,412	100 %	$ 2,941,246	100 %	$ 2,830,383	100 %

Fiscal Year 2016

Fiscal year 2016 operating expenses were $51 million higher as compared to fiscal year 2015, driven primarily by a $15 million increase in purchased power costs, a $68 million increase in other operating expenses, and a $44 million increase in depreciation and amortization expense, and offset by $59 million decrease in fuel for generation costs, and $17 million decrease in maintenance expenses.

The $15 million increase in purchased power costs can be primarily attributed to lower energy swap transaction revenues of $14.1 million which are used to offset or reduce purchased power costs. The $59 million decrease in fuel for generation costs is due to lower gas prices. The $68 million net increase in other operating expenses is due to higher administrative and general costs due to increased costs for insurance of $3.2 million; outside services employed of $5.4 million; injuries and damages of $17.5 million and a $41.4 million impairment loss related to Navajo Generating Station.

The $17 million decrease in maintenance of utility plant assets related to distribution plant infrastructure being replaced which required less maintenance.

Depreciation expense is computed using the straight-line method based on service lives for all projects completed after July 1, 1973, and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 is computed using the 5% sinking-fund method based on estimated 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 75 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years.

Fiscal Year 2015

Fiscal year 2015 operating expenses were $111 million higher as compared to fiscal year 2014, driven primarily by a $45 million increase in purchased power costs, a $65 million increase in other operating expenses, a $30 million increase in maintenance expenses, and a $30 million increase in depreciation and amortization expense, and offset by $59 million decrease in fuel for generation costs.

The $45 million increase in purchased power costs can be primarily attributed to a full year of energy from the Apex Power and Copper Mountain Solar 3 projects. The $30 million increase in depreciation and amortization expense is primarily due to capital additions to distribution plant, as well as additional amortization expense from the regulatory assets. The $65 million increase in other operating expenses is due to higher transmission ($8 million) due to an increase in safety and training costs and other operating costs; customer accounting ($17 million) due to an increase in staffing costs and costs associated with the customer billing system; administrative and general ($23 million) due to an increase in insurance costs, injuries and damages, and miscellaneous general expenses; distribution ($15 million) due to an increase in safety and training costs and other distribution costs; and marketing ($4 million), offset by lower other production expense ($6 million).

The $30 million increase in maintenance expense was mainly due to higher maintenance costs associated with production plant ($22 million), distribution plant ($6 million), and transmission plant ($3 million) capital assets.

Nonoperating Revenues and Expenses

Fiscal Year 2016

The major nonoperating activities of the Power System for fiscal year 2016 included the transfer of $267 million to the City's General Fund, interest income earned on investments of $65 million, $33 million in federal bond subsidies, and $267 million in debt expenses.

The transfer to the City is based on 8% of the previous year's operating revenues as provided by the City Charter. See further discussion of transfer at note 14(a) to the financial statements. Operating revenues for fiscal year 2016 were $3 billion, which generated a city transfer of $267 million.

The $15 million increase in investment income is due mainly to changes in market values of investments.

The $7 million increase in debt expenses is mainly due to the interest expense for new money bonds issued during the fiscal year offset by lower capitalized interest. Allowance for funds used during construction (AFUDC) decreased $6 million year over year due to fewer construction work in progress (CWIP) projects.

Fiscal Year 2015

The major nonoperating activities of the Power System for fiscal year 2015 included the transfer of $266 million to the City's General Fund, as provided by the City Charter, interest income earned on investments of $50 million, $33 million in federal bond subsidies, and $261 million in debt expenses.

The transfer to the City is based on 8% of the previous year's operating revenues as provided by the City Charter. Operating revenues for fiscal year 2014 were $4 billion, which generated a city transfer of $266 million.

The $8 million decrease in investment income is due mainly to lower revenue earned on the long-term notes receivable and changes in market values of investments.

The $21 million increase in interest on debt is mainly due to the interest expense for new money bonds issued during the fiscal year offset by higher capitalized interest AFUDC of $20 million year over year due to major CWIP projects.

The $22 million increase in capital contributions is mainly due to grants received from the federal government, the City of Los Angeles, and customers to finance capital improvement where the Department will retain ownership of the assets.

Other Matters

During fiscal year 2016, the Department recognized an impairment loss of $41.4 million due to sale of the Navajo Generating Station, effective July 1, 2016. See note 16(a) to the financial statements for the subsequent event related to the sale of Navajo Generating Station. Such amount is included in operating and maintenance expense.

Beginning July 1, 2016 the assumed rate of return on retirement and postemployment assets dropped from 7.50% to 7.25%. The change in the investment rate will be smoothed in over a two-year period based on the direction of the Board of Administration over the Retirement Plan.

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Net Position

June 30, 2016 and 2015

(Amounts in thousands)

Assets and Deferred Outflows		2016	2015
Noncurrent assets:			
Utility plant:			
Generation	$	6,584,145	5,495,985
Transmission		1,300,427	1,135,172
Distribution		7,861,812	7,416,426
General		1,745,403	1,649,586
Total		17,491,787	15,697,169
Accumulated depreciation		(8,289,312)	(7,760,357)
Total utility plant, net		9,202,475	7,936,812
Construction work in progress		866,434	1,720,822
Nuclear fuel, at amortized cost		39,948	39,469
Natural gas field, net		213,691	228,797
Total		10,322,548	9,925,900
Restricted investments		594,698	641,521
Cash and cash equivalents – restricted		163,785	239,052
Long-term notes and other receivables, net of current portion		601,409	620,125
Underrecovered costs		185,607	215,585
Regulatory assets – other		646,674	549,105
Regulatory assets – pension		670,425	938,205
Net postemployment asset		674,488	669,892
Total noncurrent assets		13,859,634	13,799,385
Current assets:			
Cash and cash equivalents – unrestricted		1,331,543	1,106,651
Cash and cash equivalents – restricted		267,430	287,902
Cash collateral received from securities lending transactions		31,101	10,680
Customer and other accounts receivable, net of $148,303 and $114,000 allowance for losses for 2016 and 2015, respectively		307,990	351,977
Current portion of long-term notes receivable		21,747	87,242
Due from Water System		7,918	3,899
Accrued unbilled revenue		196,532	171,242
Materials and fuel		218,554	165,564
Prepayments and other current assets		106,444	107,263
Total current assets		2,489,259	2,292,420
Total assets		16,348,893	16,091,805
Deferred outflows on derivative instruments		23,379	43,244
Deferred outflows on debt refunding		27,674	30,199
Deferred outflows – pension		217,131	287,599
Deferred outflows – pension contributions made after measurement date		245,462	258,603
Total deferred outflows		513,646	619,645
Total assets and deferred outflows	$	16,862,539	16,711,450

(Continued)

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Net Position

June 30, 2016 and 2015

(Amounts in thousands)

Net Position, Liabilities, and Deferred Inflows		**2016**	**2015**
Net position:			
Net investment in capital assets	$	1,188,643	1,235,431
Restricted:			
Debt service		550,975	616,042
Capital projects		133,372	129,347
Other postemployment benefits		674,488	669,892
Other purposes		171,222	165,937
Unrestricted		2,872,380	2,599,126
Total net position	$	5,591,080	5,415,775
Long-term debt, net of current portion	$	8,943,376	8,568,281
Other noncurrent liabilities:			
Accrued liabilities		1,887	3,607
Accrued workers' compensation claims		61,945	54,508
Derivative instrument liabilities		23,379	43,244
Net pension liability		771,122	860,748
Total other noncurrent liabilities		858,333	962,107
Current liabilities:			
Current portion of long-term debt	$	211,133	230,165
Accounts payable and accrued expenses		332,211	339,997
Accrued interest		169,358	170,896
Accrued employee expenses		120,371	115,159
Overrecovered energy cost		44	31,343
Obligations under securities lending transactions		31,101	10,680
Total current liabilities		864,218	898,240
Total liabilities		10,665,927	10,428,628
Deferred inflows on debt refunding		7,075	7,495
Deferred inflow - pension		421,232	682,995
Deferred inflow from regulated business activities		177,225	176,557
Total deferred inflows		605,532	867,047
Total net position, liabilities, and deferred inflows	$	16,862,539	16,711,450

See accompanying notes to financial statements

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(Amounts in thousands)

		2016	2015
Operating revenues:			
Residential	$	1,126,690	1,034,127
Commercial and industrial		2,308,194	2,201,124
Sales for resale		72,936	93,867
Other		45,586	32,696
Uncollectible accounts		(36,366)	(24,851)
Total operating revenues		3,517,040	3,336,963
Operating expenses:			
Fuel for generation		318,749	377,343
Purchased power		1,037,471	1,022,271
Maintenance and other operating expenses		1,095,714	1,045,444
Depreciation and amortization		540,478	496,188
Total operating expenses		2,992,412	2,941,246
Operating income		524,628	395,717
Nonoperating revenues (expenses):			
Investment income		65,475	50,348
Federal bond subsidies		33,508	33,328
Other nonoperating income		23,025	19,094
Total nonoperating revenues		122,008	102,770
Other nonoperating expenses		(2,742)	(2,604)
Total nonoperating revenues, net		119,266	100,166
Debt expenses:			
Interest on debt		299,728	298,794
Allowance for funds used during construction (capitalized interest)		(32,200)	(38,110)
Total debt expenses		267,528	260,684
Income before capital contributions and transfers		376,366	235,199
Capital contributions		65,896	66,988
Transfers to reserve fund of the City of Los Angeles		(266,957)	(265,586)
Increase in net position		175,305	36,601
Net position:			
Beginning of year		5,415,775	5,379,174
End of year	$	5,591,080	5,415,775

See accompanying notes to financial statements

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Amounts in thousands)

		2016	2015
Cash flows from operating activities:			
Cash receipts:			
Cash receipts from customers	$	3,717,797	3,658,234
Cash receipts from customers for other agency services		677,838	636,357
Cash receipts from the Water Fund		629,369	644,338
Cash disbursements:			
Cash payments to employees		(599,620)	(605,291)
Cash payments to suppliers		(1,917,907)	(1,721,316)
Cash payments for the Water Fund		(792,298)	(773,758)
Cash payments to other agencies for fees collected		(672,221)	(639,346)
Other operating cash payments		(70,536)	(37,598)
Net cash provided by operating activities		972,422	1,161,620
Cash flows from noncapital financing activities:			
Payments to the reserve fund of the City of Los Angeles		(266,957)	(265,586)
Interest paid on noncapital revenue bonds		(406)	(167)
Net cash used in noncapital financing activities		(267,363)	(265,753)
Cash flows from capital and related financing activities:			
Additions to plant and equipment, net		(929,706)	(1,207,813)
Capital contributions		68,254	63,624
Principal payments and maturities on long-term debt		(113,526)	(110,943)
Proceeds from issuance of bonds and revenue certificates		524,063	793,661
Debt interest payments		(354,857)	(332,314)
Federal bond subsidies		33,508	33,328
Net cash used in capital and related financing activities		(772,264)	(760,457)
Cash flows from investing activities:			
Purchases of investment securities		(1,096,021)	(950,597)
Sales and maturities of investment securities		1,145,543	949,621
Proceeds from notes receivable		84,212	83,451
Investment income		62,624	32,057
Net cash provided by investing activities		196,358	114,532
Net increase in cash and cash equivalents		129,153	249,942
Cash and cash equivalents:			
Cash and cash equivalents at July 1 (including $526,954 and $587,773 reported in restricted accounts, respectively)		1,633,605	1,383,663
Cash and cash equivalents at June 30 (including $431,215 and $526,954 reported in restricted accounts, respectively)	$	1,762,758	1,633,605

(Continued)

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Amounts in thousands)

		2016	2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	524,628	395,717
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		540,480	496,188
Depletion expense		15,131	20,035
Amortization of nuclear fuel		14,181	13,621
Provision for losses on customer and other accounts receivables		36,366	24,851
Changes in assets and liabilities:			
Customer and other accounts receivable		5,414	29,466
Accrued unbilled revenue		(25,290)	3,920
Underrecovered costs		29,979	143,417
Materials and fuel		(52,990)	(2,080)
Regulatory assets		170,209	198,765
Due from Water System		(4,018)	36,415
Deferred outflows		83,609	(280,852)
Accounts payable and accrued expenses		(12,322)	(51,378)
Overrecovered energy cost		(31,299)	31,343
Net pension liability		(89,627)	(346,765)
Deferred inflows		(261,762)	436,234
Net other postemployment benefit asset		(4,596)	(1,441)
Prepayments and other		34,329	14,164
Net cash provided by operating activities	$	972,422	1,161,620

Supplemental disclosure of noncash capital and relating financing activities:

During the year ended June 30, 2016, the Power System issued capital bonds to refund previously issued debt. The $384.46 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of $380.57 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $1.35 million, which will be amortized over the debt repayment period.

During the year ended June 30, 2015, the Power System issued capital bonds to refund previously issued debt. The $822.75 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of $807.49 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized discounts, resulted in $0.11 million, which will be amortized over the debt repayment period.

Accounts payable related to capital expenditures	$	4,532	(2,775)

See accompanying notes to financial statements

(1) Summary of Significant Accounting Policies

The Department of Water and Power (the Department) exists as a separate 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 Power Revenue Fund (the Power System) is responsible for the generation, transmission, and distribution of electric power for sale in the City. The Power System is operated as an enterprise fund of the City.

(a) Method of Accounting

The accounting records of the Power System are maintained in accordance with U.S. generally accepted accounting principles for governmental entities. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Power 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 Power 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 that is attributable to the transactions of the Power System. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016 and 2015, 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 and are subject to review and approval by the Los Angeles City Council. As a regulated enterprise, the Department follows the regulatory accounting criteria set forth in GASB Codification 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 Power System records various regulatory assets and liabilities to reflect the Board's actions and by deferring expenses and revenues that are recoverable or payable from rates provided in the electric rate ordinances. Regulatory liabilities comprise over-recovered costs and deferred inflows and regulatory assets comprise regulatory assets and under recovered costs in the statement of net position. Management believes that the Power System meets the criteria for continued application of GASB 62, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment. See note 6.

(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, 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 Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, 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. Intangible assets consist of land easements, water rights, and computer software and are included in general utility plant on the statements of net position.

(e) Impairment of Long-Lived Assets

The Department follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. 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 Statement 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. During fiscal year 2016, the Department recognized an impairment loss of $41.4 million due to sale of the Navajo Generating Station effective July 1, 2016. See note 16(a) for the subsequent event related to the sale of Navajo.

(f) Depreciation and Amortization

Depreciation expense is computed using the straight-line method based on service lives for all projects completed after July 1, 1973, and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 is computed using the 5.0% sinking-fund method based on estimated 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 75 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 3.1% for fiscal years ended 2016 and 2015.

(g) Nuclear Decommissioning

The Department owns a 5.70% direct ownership interest in the Palo Verde Nuclear Generating Station (PVNGS). In addition, through its participation in the Southern California Public Power Authority (SCPPA), the Department is party to a contract for an additional 3.95% of the output of PVNGS. Nuclear decommissioning costs associated with the Power System's output entitlement are included in purchased power expense. See note 5.

Decommissioning of PVNGS is expected to commence subsequent to the year 2044, since the Nuclear Regulatory Commission (the NRC) approved a request for license extension in April 2011. As of April 28, 2014, all of the owners of PVNGS have executed the amendment to the participation agreement to extend the term of the agreement to cover the license extension of PVNGS. The decommissioning estimate is based on an updated site-specific study prepared by an independent consultant in 2013, escalated to year 2016 dollars. As of June 30, 2016 and 2015, the Power System has recorded $153 million and $149 million, respectively, to accumulated depreciation to provide for the decommissioning liability. See note 3.

Prior to December 1999, the Power System reserved $70 million in accordance with the PVNGS participation agreement and NRC requirements. During fiscal year 2000, the Department suspended contributing additional amounts to the reserve funds, as management believes that contributions made, combined with reinvested earnings, will be sufficient to fully fund the Department's share of decommissioning costs. The Department will continue to reinvest its investment income into the decommissioning reserves. The balance in the decommissioning funds increased in fiscal year 2016 by $4 million, after increasing by $3 million in fiscal year 2015. The fair value of the decommissioning funds, which are included in restricted investments, totaled $133 million and $129 million as of June 30, 2016 and 2015, respectively. The Department's current accounting policy recognizes any realized and unrealized investment earnings from nuclear decommissioning reserves as a component of accumulated depreciation. See note 7.

(h) Nuclear Fuel

Nuclear fuel is amortized and charged to fuel for generation on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assesses each utility with nuclear operations, including the Power System, $1 per megawatt hour of nuclear generation. The Power System includes this charge as a current year expense in fuel for generation.

(i) Natural Gas Field

In July 2005, the Power System acquired approximately a 74.5% ownership interest in gas properties located in Pinedale, Wyoming. The Power System uses the successful-efforts method of accounting for its investment in gas-producing properties. Costs to acquire the mineral interest in gas-producing properties, to drill and equip exploratory wells that find proven reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proven reserves are expensed. Capitalized costs of gas-producing properties are depleted by the unit-of-production method based on the estimated future production of the proven wells.

Depletion expense related to the gas field is recorded as a component of fuel for generation expense. During fiscal years 2016 and 2015, the Power System recorded $15 million and $20 million of depletion expense, respectively.

(j) Cash and Cash Equivalents

As provided for by the State of California Government Code, the Power 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 on a recurring basis 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 Power System classifies all cash and cash equivalents that are restricted either by creditors, the Board, or by law as restricted cash and cash equivalents in the statement of net position. The Power System considers its portion of pooled investments in the City's pool to be unrestricted cash and cash equivalents and the unspent construction funds as long-term restricted cash and cash equivalents.

At June 30, 2016 and 2015, restricted cash and cash equivalents include the following (amounts in thousands):

		2016	2015
Bond redemption and interest funds	$	267,430	287,902
Cash and cash equivalents – current portion		267,430	287,902
Self-insurance funds		163,779	153,780
Construction funds		6	85,272
Cash and cash equivalents - long term		163,785	239,052
Total restricted cash and cash equivalents	$	431,215	526,954

(k) Materials and Fuel

Materials and supplies are recorded at average cost. Fuel is recorded at lower of cost or market, on an average-cost basis.

(l) Accrued Unbilled Revenue

Accrued unbilled revenue is the receivable for estimated energy sales during the period for which service has been provided but the customer has not yet been billed.

(m) Restricted Investments

The Department adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2014. 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 established a three-level hierarchy of inputs to valuation techniques used to measure fair value. Restricted investments include primarily commercial paper, U.S. government and governmental agency securities, and corporate bonds. Investments are reported at fair value on a recurring basis and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in net position except for Nuclear Decommissioning Funds. The stated fair value of investments is generally based on published market prices or quotations from major investment dealers. See note 7.

(n) 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, 2016 and 2015 (amounts in thousands):

		June 30	
		2016	**2015**
Type of expenses:			
Accrued payroll	$	43,397	36,398
Accrued vacation		47,918	50,348
Accrued sick leave		11,914	11,895
Compensatory time		17,142	16,518
Total	$	120,371	115,159

(o) Debt Expenses

Debt premiums and discounts are capitalized and amortized to interest 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 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.

(p) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value. See note 13.

(q) Customer Deposits

Customer deposits represent deposits collected from customers upon opening of 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 Department's Water Revenue Fund (Water System) is responsible for collection, maintenance, and refunding of these deposits for all the Department customers, including those of the Power System. As such, the Water System's statement of net position includes a deposit liability of $162 million and $138 million as of June 30, 2016 and 2015, respectively, for all customer deposits collected. In the event that the Water System defaults on refunds of such deposits, the Power System would be required to pay amounts it owes its customers.

(r) 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.

(s) Allowance for Funds Used during Construction (AFUDC)

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 interest expenses. As of June 30, 2016 and 2015, the average AFUDC rates were 3.3% and 3.8%, respectively.

(t) Use of Restricted and Unrestrictive Resources

The Power 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.

(u) Pensions

Eligible employees of the Power System are members of the Water and Power Employees' Retirement Plan, which is a single employer defined-benefit pension plan. The Power System's policy is to fund all the required actuarially determined contributions; such costs to be funded are determined annually as of July 1 by an actuary utilized by the Plan. The assets of the Plan are accumulated and reported at fair value in a special trust fund of the City of Los Angeles and therefore are not reported in the accompanying financial statements.

The Power System recognizes a net pension liability, which represents the Power System's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension plan as reflected in the financial statements of the Plan. The net pension liability is measured as of the Power System's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition. Contributions made after the measurement date are recorded as deferred outflows and a reduction to the pension regulatory asset.

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

(v) Other Retirement Plan Benefits

Eligible employees of the Power System are members of the Water and Power Employees' Retirement Plan, which is a single employer defined-benefit plan and a system of benefits. In addition to pension benefits, retirees can also receive healthcare and death benefits. The level of benefits is determined based on their years of civil service, age, and which pension tier they belong to. Active employees who qualify for disability can receive permanent disability in accordance with the plan provisions up until retirement, and temporary disability for up to 24 months.

(w) Reclassifications

Certain reclassifications have been made to 2015 amounts to conform to the 2016 financial statement presentation. There was no impact on the previously reported change in net position of the Power System.

(2) Recent Accounting Pronouncements

(a) GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 Power System is currently evaluating the effects the adoption of this statement will have on the financial statements.

(b) GASB Statement No. 82

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 (GASB Statement No. 82)*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments by employers to satisfy employee (plan member) contribution requirements. This statement is effective for financial statements for years beginning after June 30, 2017. The Power System is currently evaluating the effects the adoption of this statement will have on the financial statements.

(c) GASB Statement No. 83

In November 2016, the GASB issued Statement No. 83, *Accounting and Financial Reporting for Certain Asset Retirement Obligations* (GASB Statement No. 83). This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this statement. This statement is effective for financial statements for years beginning after June 15, 2017. The Power System is currently evaluating the effects the adoption of this statement will have on the financial statements.

(3) Utility Plant

The Power System had the following activities in utility plant during fiscal year 2016 (amounts in thousands):

	Balance June 30, 2015	Additions	Retirements and disposals	Transfers	Balance June 30, 2016
Nondepreciable utility plant:					
Land and land rights	$ 196,985	—	(32)	—	196,953
Construction work in progress	1,720,823	420,826	—	(1,275,215)	866,434
Nuclear fuel	39,469	14,660	(14,181)	—	39,948
Natural gas field	228,797	25	(15,131)	—	213,691
Total nondepreciable utility plant	2,186,074	435,511	(29,344)	(1,275,215)	1,317,026
Depreciable utility plant:					
Generation	5,427,596	118,067	(1,880)	972,005	6,515,788
Transmission	1,055,064	—	(3,159)	168,415	1,220,320
Distribution	7,373,709	379,241	(7)	66,154	7,819,097
General	1,643,814	32,834	(5,660)	68,641	1,739,629
Total depreciable utility plant	15,500,183	530,142	(10,706)	1,275,215	17,294,834
Accumulated depreciation:					
Generation	(2,998,944)	(200,747)	1,880	—	(3,197,811)
Transmission	(472,476)	(30,644)	133	—	(502,987)
Distribution	(3,378,802)	(257,716)	7	—	(3,636,511)
General	(910,135)	(47,528)	5,660	—	(952,003)
Total accumulated depreciation	(7,760,357)	(536,635)	7,680	—	(8,289,312)
Total utility plant, net	$ 9,925,900	429,018	(32,370)	—	10,322,548

Depreciation and amortization expense during fiscal year 2016 was $540 million.

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

		Balance June 30, 2014	Additions	Retirements and disposals	Transfers	Balance June 30, 2015
Nondepreciable utility plant:						
Land and land rights	$	197,103	(118)	—	—	196,985
Construction work in progress		1,235,945	622,066	—	(137,188)	1,720,823
Nuclear fuel		42,931	10,159	(13,621)	—	39,469
Natural gas field		248,923	(90)	(20,036)	—	228,797
Total nondepreciable utility plant		1,724,902	632,017	(33,657)	(137,188)	2,186,074
Depreciable utility plant:						
Generation		5,245,359	101,373	(1,270)	82,134	5,427,596
Transmission		1,015,365	28,153	(117)	11,663	1,055,064
Distribution		6,989,145	360,170	(254)	24,648	7,373,709
General		1,535,868	92,886	(3,683)	18,743	1,643,814
Total depreciable utility plant		14,785,737	582,582	(5,324)	137,188	15,500,183
Accumulated depreciation:						
Generation		(2,853,528)	(146,686)	1,270	—	(2,998,944)
Transmission		(443,993)	(28,600)	117	—	(472,476)
Distribution		(3,139,164)	(239,892)	254	—	(3,378,802)
General		(861,356)	(52,462)	3,683	—	(910,135)
Total accumulated depreciation		(7,298,041)	(467,640)	5,324	—	(7,760,357)
Total utility plant, net	$	9,212,598	746,959	(33,657)	—	9,925,900

Depreciation and amortization expense during fiscal year 2015 was $496 million.

(4) Jointly Owned Utility Plant

The Power System has direct interests in several electric generating stations and transmission systems, which are jointly owned with other utilities. As of June 30, 2016 and 2015, utility plant as presented in note 3 includes the following amounts related to the Power System's ownership interest in each jointly owned utility plant (amounts in thousands, except as indicated):

	Ownership interest	Share of capacity (MWs)	Utility plant in service June 30, 2016 Cost	Utility plant in service June 30, 2016 Accumulated depreciation	Utility plant in service June 30, 2015 Cost	Utility plant in service June 30, 2015 Accumulated depreciation
Palo Verde Nuclear Generating Station	5.7%	224	$ 608,084	398,414	592,420	383,107
Navajo Generating Station	21.2	477	358,861	358,861	352,163	322,561
Mohave Generating Station	10.0	—	68,547	57,852	65,564	57,852
Pacific Intertie DC Transmission Line	40.0	1,240	188,318	72,333	185,796	67,623
Other transmission systems	—	Various	108,408	63,842	101,520	60,619
			$ 1,332,218	951,302	1,297,463	891,762

The Power System will incur certain minimal operating costs related to the jointly owned facilities, regardless of the amount or its ability to take delivery of its share of energy generated and is responsible for its own financing of plant additions. The Power System's proportionate share of the operating costs of the joint plants is included in the corresponding categories of operating expenses.

As discussed in note 16(a), the Department recognized an impairment loss associated with its ownership interest in Navajo Generation Station in the amount of $41.4 million. As such, the carrying value of the asset is zero at June 30, 2016.

(5) Purchased Power Commitments

As of June 30, 2016, the Power System has entered into a number of energy and transmission service contracts, which involve substantial commitments as follows (dollar amounts in thousands):

	Agency	The Power System's interest in agency's share Agency share	Interest	Capacity (MWs)	Outstanding commitment**
Intermountain Power Project	IPA	100.0%	71.7%	1,291	$ 747,129
Palo Verde Nuclear Generating Station	SCPPA	5.9	67.0	151	16,375
Mead-Adelanto Project	SCPPA	68.0	48.9	539	59,936
Mead-Phoenix Project	SCPPA	17.8–22.4	50.4	647	29,478
Southern Transmission System	SCPPA	100.0	59.5	1,429	361,546
Milford I Wind	SCPPA	100.0	92.5	188	181,647
Windy Point	SCPPA	100.0	100.0	262*	394,904
Linden Wind Energy	SCPPA	100.0	100.0	50*	109,647
Milford II Wind	SCPPA	100.0	100.0	102*	130,634
Apex Power Project	SCPPA	100.0	100.0	495	309,535
					$ 2,340,831

*Power System will receive 100%, unless City of Glendale exercises its option to repurchase any of its contract output entitlement share.

**Portion of purchased power commitment based upon related agency's bond principal not including interest requirements.

IPA – The Intermountain Power Agency (IPA) is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project. The Power System serves as the project manager and operating agent of IPP.

SCPPA – The Southern California Public Power Authority is a California Joint Powers Agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Department is a member of SCPPA.

The above agreements require the Power System to make certain minimum payments, which are based primarily upon debt service requirements. In addition to average annual fixed charges of approximately $303 million during each of the next five years, the Power System is required to pay for operating and maintenance costs related to actual deliveries of energy under these agreements (averaging approximately $686 million annually during each of the next five years). The Power System made total payments under these agreements of approximately $868 million and $892 million in fiscal years 2016 and 2015, respectively. These agreements are scheduled to expire from 2027 to 2040.

The Power System is reimbursed for services provided to IPP under the IPP project manager and operating agent agreements totaling $27 million and $28 million in fiscal years 2016 and 2015, respectively. These fees are recorded as a reduction to maintenance and other expense on the accompanying statement of revenues, expenses and statement of net position.

(a) Long-term Notes Receivable

Under the terms of its purchase power agreement with IPA, the Department is charged for its output entitlements based on its share of IPA's costs, including debt service. During fiscal year 2000, the Department restructured a portion of this obligation by transferring $1 billion to IPA in exchange for long-term notes receivable. The funds transferred were obtained from the debt reduction funds and through the issuance of new variable rate debentures. See notes 7 and 10. IPA used the proceeds from these transactions to defease and to tender bonds with par values of approximately $618 million and $611 million, respectively.

On September 7, 2000, the Department paid $187 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of $198 million.

On July 20, 2005, the Department paid $97 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of $92 million.

The IPA notes are subordinate to all of IPA's publicly held debt obligations. The Power System's future payments to IPA will be partially offset by interest payments and principal maturities from the subordinated notes receivable. The net IPA notes receivable balance totaled $623 million and $707 million as of June 30, 2016 and 2015, respectively.

(In thousands)

The IPA notes pay interest and principal monthly and mature on July 1, 2023. The interest rates range from 2.7% to 9.2%, subject to adjustments related to IPA bond refundings.

Scheduled annual principal maturities are as follows:

Year		Amount
2017	$	21,747
2018		48,512
2019		123,545
2020		159,309
2021		155,920
2022		68,365
2023		74,425
2024		6,304
		658,127
Unamortized discount		(34,971)
		623,156
Less current portion		(21,747)
Non current portion	$	601,409

(b) Energy Entitlement

The Department has a contract through September 2017 with the U.S. Department of Energy (DOE) for the purchase of available energy generated at the Hoover Power Plant. The Department's contractual share of contingent capacity at Hoover is 491 MW (maximum rated capability). The cost of power (approximately 455 MW of capacity and 599,000 MWH of energy) purchased under this contract, including the Lower Colorado River Basin Development Fund Contribution Charge, was approximately $14 million and $15 million as of June 30, 2016 and 2015, respectively. On December 20, 2011, President Barack Obama signed H.R. 470, the Hoover Power Allocation Act of 2011, into law. The legislation reallocates, for 50 more years, power from the Hoover Dam Power Plant to existing contractors while creating an additional pool of 5% power for new entrants. This contract is in the process of being renewed with the DOE for another 50 years extending through September 2067.

The Department has entered into contracts with SCPPA to purchase available renewable energy generated at various renewable energy project sites.

As of June 30, 2016, the Power System energy entitlement contracts with SCPPA, which involves the annual costs for the power purchased, are as follows (dollar amounts in thousands):

			The Power System's interest in agency's share			
	Agency	Agency share	Interest	Capacity (MWs)		Cost of Power Purchased
Pebble Springs Wind	SCPPA	100.0	69.6	68.71	$	10.0
Don A Campbell 1	SCPPA	100.0	84.6	13.71	$	14.1
Don A Campbell 2	SCPPA	100.0	100.0	16.20	$	11.8
Copper Mountain Solar 3	SCPPA	100.0	84.0	210.00	$	48.9
Heber-1 Geothermal	SCPPA	100.0	66.7	41.67	$	10.3

(c) Electricity Swap and Forward Contracts

In order to obtain the highest market value on energy that is sold into the wholesale market, the Department monitors the sales price of energy, which varies based on which hub the energy is to be delivered. There are three primary hubs within the Department's transmission region: Palo Verde, California Oregon Border, and Mead. The Department enters into various locational swap transactions with other electric utilities in order to effectively utilize its transmission capacity and to achieve the most economical exchange of energy purchased and sold.

The Department procures renewable energy resources located remotely. These resources provide intermittent and limited source of energy and some of these resources are not directly connected to the Department's transmission system. In order to receive firm renewable energy, the Department entered into a green-for-green energy exchange with the same or different Renewable Energy Credit source.

The Department enters into power and natural gas forward contracts in order to meet the electricity requirements to serve its customers. To assist the Department in achieving its Renewable Portfolio Standards goal of 25%, some of the forward purchases made are renewable energy and biomethane gas.

The Department does not enter into swap and forward transactions for trading purposes. All of these transactions are intended to be used in the Department's normal course of operations. The Department is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated.

As of June 30, 2016, the Power System had the following Electricity Swap and Forward Contracts, which are not recorded in the Power System's financial statements based on the criteria in GASB Statement No. 53 (amounts in thousands):

Description	Notional amount (total contract quantities)	Contract price range dollar per unit	First effective date	Last termination date	Fair value	Cash paid at inception
Forward contracts:						
Electricity	756,816 MW	$ 23.56–80.00	07/01/16	42,735	$ 287	—
Natural gas	22,708,500 MMBtu	2.11–10.85	07/01/16	10/31/21	(93,193)	—

As of June 30, 2015, the Power System had the following Electricity Swap and Forward Contracts, which are not recorded in the Power System's financial statements based on the criteria in GASB Statement No. 53 (amounts in thousands):

Description	Notional amount (total contract quantities)	Contract price range dollar per unit	First effective date	Last termination date	Fair value	Cash received at inception
Electricity swaps:						
Purchases	176,640 MW	$ 30.58–40.72	07/01/15	12/31/15	$ (1,157)	—
Sales	176,640 MW	33.58–43.72	07/01/15	12/31/15	1,819	—
Call Options						
Sales	92,400 MW	$ Ht Rate x SoCal	07/01/15	09/30/15	$ 408	190
Forward contracts:						
Electricity	776,560 MW	$ 31.00–80.00	07/01/15	10/31/16	$ (26,313)	—
Natural gas	27,857,500 MMBtu	2.89–10.85	07/01/15	10/31/21	(114,073)	—

(6) Regulatory Assets and Liabilities

Regulatory assets and liabilities are created by the actions of the Board of Water and Power Commissions by deferring certain expenses and revenues that are recoverable or payable by future rate charges in accordance with the current rate ordinances, so as to more evenly match the recognition of revenues and expenses with the electric rates charged to retail customers.

(In thousands)

Below is a summary of the Power System's regulatory assets and liabilities:

Description		July 1, 2015	Additions	Reductions	June 30, 2016
Assets:					
(a) Under recovered costs	$	215,585	—	(29,978)	185,607
(b) Regulatory assets – legal settlements		144,000		(16,000)	128,000
(c) Regulatory assets – solar incentive program		165,400	44,893	(10,172)	200,121
(d) Regulatory assets – energy efficiency program		239,705	72,637	(30,103)	282,239
(e) Regulatory assets – customer care and billing system		—	42,846	(6,532)	36,314
Regulatory assets – other		549,105	160,376	(62,807)	646,674
(f) Regulatory assets – Pension		938,205	—	(267,780)	670,425
Total regulatory assets	$	1,702,895	160,376	(360,565)	1,502,706
Liabilities:					
(g) Overrecovered energy costs – current	$	31,343	—	(31,299)	44
(h) Deferred Inflows from business activities		176,557	668	—	177,225
Total regulatory liabilities	$	207,900	668	(31,299)	177,269

Description		July 1, 2014	Additions	Reductions	June 30, 2015
Assets:					
(a) Under recovered costs	$	359,002	—	(143,417)	215,585
(b) Regulatory assets – legal settlements		160,000		(16,000)	144,000
(c) Regulatory assets – solar incentive program		147,788	26,112	(8,500)	165,400
(d) Regulatory assets – energy efficiency program		184,316	78,114	(22,725)	239,705
Regulatory assets – other		492,104	104,226	(47,225)	549,105
(e) Regulatory assets – pension		1,193,971	—	(255,766)	938,205
Total regulatory assets	$	2,045,077	104,226	(446,408)	1,702,895
Liabilities:					
(g) Overrecovered energy costs – current	$	—	31,343	—	31,343
(h) Deferred Inflows from business activities		176,783	—	(226)	176,557
Total regulatory liabilities	$	176,783	31,343	(226)	207,900

(a) Under Recovered Costs

These represent future receivables from customers related to costs incurred for renewable energy projects and the investments made in power reliability. The 2012 and 2016 Electric Rate

Ordinances allow for these costs to be recovered though current rates. The costs are amortized over a ten-year period and are expected to be fully recovered by 2022. The balance of the long term under recovered costs at June 30, 2016 and 2015 is $185,607 and $215,585 respectively, net of annual amortization of $29,978 and $143,417, respectively.

(b) Regulatory Assets – Legal Settlement

In June 2007, the Power System reached an agreement from the courts related to the inclusion of capital components in the rates charged to other governmental organizations. The agreement required the payment of $160,000 to the governmental organizations. The payment settlement included an immediate payout of $127,800, bill credits of $17,200 to be issued over a 10-year period and $15,000 in payments to be paid over a 3-year period the last of which is to be paid no later than December 2010.

As provided in the Power System's rate structure, beginning in July 2014, customers' bills include a charge, for this legal settlement, to be collected over a 10-year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset. The balance of this legal settlement at June 30, 2016 and 2015 is $128,000 and $144,000, respectively, net of annual amortization of $16,000.

(c) Regulatory Assets – Solar Incentive Programs

As part of the California Solar Incentive Program, initiated by 2006 Senate Bill 1 (SB1), the Power System implemented a multiyear program to provide customers with solar incentives for installing solar panels and necessary equipment to generate energy. The program per SB1 will conclude at the end of the calendar year 2016.

As provided in the Power System's rate structure, beginning April 2011, customers' bills include a charge, for these solar incentive programs, to be collected over a 15-year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset. The balance of solar incentive programs at June 30, 2016 and 2015 is $200,121 and $165,400, respectively, net of annual amortization of $10,172 and $8,500, respectively.

(d) Regulatory Assets – Energy Efficiency Programs

As part of the Power System's ongoing efforts to reduce energy consumption and improve the environment, the Power System implemented numerous multi- year programs. The program began in June 2012 and expected to continue through 2020. At June 30, 2016 and 2015, the Power System has 26 energy efficiency programs.

As provided in the Power System's rate structure, beginning July 2011, customers' bills include a charge, for these energy efficiency programs, to be collected over a 5 to 15 year period depending on the program. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset. The balance of energy efficiency programs at

June 30, 2016 and 2015 is $282,239 and $239,705, respectively, net of annual amortization of $30,103 and $22,725, respectively.

(e) Regulatory Assets – Customer Care and Billing System

In 2013, the Power System implemented the Customer Care and Billing system. The implementation of the system required significant investment in training of the Power System's employees.

As provided in the Power System's rate structure, beginning January 2014, customers' bills include a charge, related to training for the customer care and billing system, to be collected over a 10 year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset. The balance of CC&B costs at June 30, 2016 and 2015 is $36,314 and $41,073 net of annual amortization of $6,532 and $2,773, respectively. As of June 30, 2015, these amounts were included in general plant as part of the software costs.

(f) Regulatory Assets – Pension

In connection with the recognition of the net pension liability under GASB Statement No. 68, the Power System established a regulatory asset in the amount of $1,563,012, equal to the net pension liability reported at July 1, 2013. The pension regulatory asset is expected to be amortized over a period not to exceed 15 years. Amortization of the regulatory asset totaled $267,780 and $255,766, for the years ended June 30, 2016 and 2015, respectively.

(g) Over Recovered Costs

As provided in the Electric Rate Ordinances, the Department is required to maintain balancing accounts to record differences between specific costs incurred and amounts billed through rates to recover those costs, Over Recovered Costs is a shown as a current liability on the Statement of Net Position and represents the balance in the balancing accounts when the amount billed through rates exceeds the costs the Department has incurred.

(h) Deferred Inflows from Regulated Business Activities

These amounts represent revenues collected from customers where funds are deferred for future stabilization or deferred because the earnings process is not complete. For the year ended June 30, 2016, the Power System did not recognize any of these revenues. For the year ended June 30, 2015, the Power System recognized $226,000 of these revenues.

(7) Cash, Cash Equivalents, and Investments

(a) Restricted and Other Investments

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

		June 30	
		2016	**2015**
Restricted and other investments:			
Restricted investments:			
Debt reduction funds	$	453,883	500,017
Nuclear decommissioning funds		133,372	129,347
Natural gas fund		215	216
Hazardous waste treatment fund		2,241	2,217
SCPPA Palo Verde investment		4,987	9,724
Total restricted investments	$	594,698	641,521

The Power System also has $31 million and $11 million of cash collateral received from securities lending transactions in the City's securities lending program as of June 30, 2016 and 2015, respectively. See notes 7(b) and 8.

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

(i) Debt Reduction Funds

The debt reduction funds were established during fiscal year 1997 to provide for the payment of principal and interest on long-term debt obligations and purchased power obligations arising from the Department's participation in IPP and SCPPA (see note 5). The Department has transferred funds from purchased power pre-collections into these funds. Funds from operations may also be transferred by management as funds become available.

(ii) Nuclear Decommissioning Funds

Nuclear decommissioning funds will be used to pay the Department's share of decommissioning PVNGS at the end of its useful life. See note 1(g).

(iii) Natural Gas Fund

The natural gas fund was established to serve as a depository to pay for costs and to post margin or collateral in connection with contracts for the purchase and delivery of financial transactions for natural gas. These transactions are entered into to stabilize the natural gas portion of the Department's fuel for generation costs.

(iv) Hazardous Waste Treatment Storage and Disposal Fund

The hazardous waste treatment storage and disposal fund was established to provide financial assurance for closure of the Main Street treatment and disposal facility.

(v) SCPPA Palo Verde Investment

The SCPPA Palo Verde investment is a fixed-rate investment held by SCPPA to be drawn down over the next two years to pay for purchased power obligations arising from the Department's participation in the SCPPA Palo Verde project. The fixed interest rate is 4.97% and the maturity date is June 25, 2017.

As of June 30, 2016, the Power System's restricted investments and their maturities are as follows (amounts in thousands):

		Investment maturities				
Investment type	**Fair value**	**1 to 30 days**	**31 to 60 days**	**61 to 365 days**	**366 days to 5 years**	**Over 5 years**
U.S. government securities	$ 25,090	—	—	10,006	15,084	—
U.S. agencies	256,779	19,998	24,992	65,090	126,565	20,134
Supranationals	9,014	—	—	9,014	—	—
Medium-term corporate notes	122,144	8,077	5,005	36,330	72,732	—
Commercial paper	16,844	5,997	1,098	9,749	—	—
Certificates of deposit	62,026	11,002	3,001	48,023	—	—
California local agency bonds	36,486	5,000	6,503	8,027	16,956	—
California state bonds	14,166	—	—	8,953	5,213	—
Other state bonds	39,923	5,000	6,501	9,121	19,301	—
Money market funds	7,239	7,239	—	—	—	—
SCPPA Palo Verde investment	4,987	—	—	4,987	—	—
	$ 594,698	62,313	47,100	209,300	255,851	20,134

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

		Investment maturities				
Investment type	**Fair value**	**1 to 30 days**	**31 to 60 days**	**61 to 365 days**	**366 days to 5 years**	**Over 5 years**
U.S. government securities	$ 5,005	—	—	5,005	—	—
U.S. agencies	289,155	4,447	—	120,320	123,706	40,682
Medium-term corporate notes	125,860	6,130	3,840	36,399	79,491	—
Commercial paper	77,726	32,749	24,996	19,981	—	—
Certificates of deposit	21,001	6,000	10,001	5,000	—	—
California local agency bonds	27,100	3,375	5,740	5,727	12,258	—
California state bonds	21,422	—	—	14,907	6,515	—
Other state bonds	47,519	5,000	4,552	12,253	25,714	—
Bankers' acceptances	300	—	300	—	—	—
Money market funds	16,709	16,709	—	—	—	—
SCPPA Palo Verde investment	9,724	—	—	—	9,724	—
	$ 641,521	74,410	49,429	219,592	257,408	40,682

Interest Rate Risk: The Department's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. government and U.S. government agency securities; 5 years for medium-term corporate notes, California local agency obligations, California state obligations, and other state obligations; 270 days for commercial paper; 397 days for certificates of deposit; and 180 days for bankers' acceptances.

Credit Risk: Under its investment policy and the Government 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 in 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. Of the U.S. government agency securities in the portfolio as of June 30, 2016, $252,351,411 (98%) was rated with either the highest or second highest possible credit ratings by the Nationally Recognized Statistical Rating Organizations that rated them and $4,427,249 (2%) was not rated. Of the U.S. government agency securities in the portfolio as of June 30, 2015, $281,809,203 (97%) was rated with either the highest or second highest possible credit ratings by the NRSROs that rated them and $7,345,461 (3%) was not rated.

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. Of the Power System's investments in corporate notes as of June 30, 2016, $4,052,297 (3%) was rated in the category of AAA, $58,192,071 (48%) was rated in the category of AA, and $59,825,246 (49%) was rated in the category of A by at least one NRSRO. The remaining $74,730 (less than 1%) of investments in corporate notes was not rated. Of the Power System's investments in corporate notes as of June 30, 2015, $5,088,865 (4%) was rated in the category of AAA, $63,151,049 (50%) was rated in the category of AA, and $57,491,795 (46%) was rated in the category of A by at least one NRSRO. The remaining $128,455 (less than 1%) of investments in corporate notes was not rated.

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, 2016 and 2015, all of the Power 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 provides that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs and that for nonnegotiable certificates of deposit, the full amount of principal and interest is insured by the Federal Deposit Insurance Corporation or National Credit Union Administration. As of June 30, 2016, the Power System's investments in certificates of deposits included $61,025,451 of

(Continued)

negotiable certificates of deposit with at least the highest letter and number rating as provided by at least two NRSROs and $1,000,000 of nonnegotiable certificates of deposit fully insured by the FDIC. As of June 30, 2015, the Power System's investments in certificates of deposits included $20,001,170 of negotiable certificates of deposit with at least the highest letter and number rating as provided by at least two NRSROs and $1,000,000 of nonnegotiable certificates of deposit fully insured by the FDIC.

The Department's investment policy specifies that California local agency obligations must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Power System's investments in California local agency bonds as of June 30, 2016, $34,480,318 (95%) was rated in the category of AA; $2,005,120 (5%) was rated in the category of A. Of the Power System's investments in California local agency bonds as of June 30, 2015, $1,375,000 (5%) was rated in the category of AAA; $23,681,297 (87%) was rated in the category of AA; $2,043,950 (8%) was rated in the category of A.

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. Of the Power System's investments in State of California obligations as of June 30, 2016, $1,231,784 (9%) was rated in the category of AAA and $12,934,431 (91%) was rated in the category of AA by at least one NRSRO. Of the Power System's investments in State of California obligations as of June 30, 2015, $3,643,316 (17%) was rated in the category of AAA and $17,779,027 (83%) was rated in the 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. Of the Power System's investments in other state obligations as of June 30, 2016, $7,223,320 (18%) was rated in the category of AAA and $32,699,881 (82%) was rated in the category of AA by at least one NRSRO. Of the Power System's investments in other state obligations as of June 30, 2015, $17,845,705 (38%) was rated in the category of AAA, $29,181,265 (61%) was rated in the category of AA, and $492,617 (1%) was rated in the category of A by at least one NRSRO.

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

The Department's investment policy specifies that money market funds may be purchased as allowed under the Government 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 in managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2016 and

2015, each of the money market funds in the portfolio had the highest possible ratings by at least two NRSROs.

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 Power System's total investments as of June 30, 2016, $115,351,927 (19%) was invested in securities issued by the Federal Home Loan Bank, $72,599,346 (12%) was invested in securities issued by the Federal Home Loan Mortgage Corporation, and $49,303,772 (8%) was invested in securities issued by the Federal National Mortgage Association.

Of the Power System's total investments as of June 30, 2015, $124,165,202 (19%) was invested in securities issued by the Federal Home Loan Bank, $73,806,433 (12%) was invested in securities issued by the Federal Home Loan Mortgage Corporation, and $67,743,647 (11%) was invested in securities issued by the Federal National Mortgage Association.

Facts and Assumptions

The Department holds investments and derivative instruments that are measured at fair value on a recurring basis. Because investing is not a core part of the Department's mission, the Department determines that the disclosures related to these investments only need to be disaggregated by major type. The Department chooses a tabular format for disclosing the levels within the fair value hierarchy. The Department categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

Level 1 inputs are quoted prices for identical assets or liabilities in an active market

Level 2 inputs are quoted prices of similar assets or liabilities in active or not active markets

Level 3 inputs are unobservable inputs using the best information available to management.

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(In thousands)

			Fair value using			
		June 30, 2016	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Not Classified**
				(In thousands)		
Investments by fair value level:						
Debt securities:						
U.S government securities	$	25,090	25,090	—	—	—
U.S agencies		256,779	—	256,779	—	—
Supranationals		9,014	—	9,014	—	—
Medium-term corporate notes		122,144	—	122,144	—	—
Municipal bonds		36,486	—	36,486	—	—
California local agency bonds		14,166	—	14,166	—	—
Other state bonds		39,923	—	39,923	—	—
Total debt securities		503,602	25,090	478,512	—	—
Other:						
Commercial Paper	$	16,844	—	16,844	—	—
Certificates of deposit		62,026	—	62,026	—	—
Money market funds		7,239	—	—	—	7,239
SCPPA Palo Verde investment		4,987	—	—	—	4,987
Total other		91,096	—	78,870	—	12,226
Total investments by fair value level	$	594,698	25,090	557,382	—	12,226
Derivative instruments:						
Financial natural gas hedges	$	23,379	—	23,379	—	—

			Fair value using		
	June 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Not Classified
			(In thousands)		
Investments by fair value level:					
Debt securities:					
U.S government securities	$ 5,005	5,005	—	—	—
U.S agencies	289,155	—	289,155	—	—
Medium-term corporate notes	125,860	—	125,860	—	—
California local agency bonds	27,100	—	27,100	—	—
California state bonds	21,422	—	21,422	—	—
Other state bonds	47,519	—	47,519	—	—
Total debt securities	516,061	5,005	511,056	—	—
Other:					
Commercial Paper	$ 77,726	—	77,726	—	—
Certificate of deposit	21,001	—	21,001	—	—
Banker's acceptances	300	—	300	—	—
Money market funds	16,709	—	—	—	16,709
SCPPA Palo Verde investment	9,724	—	—	—	9,724
Total other	125,460	—	99,027	—	26,433
Total investments by fair value level	$ 641,521	5,005	610,083	—	26,433
Derivative instruments:					
Financial natural gas hedges	$ 43,244	—	43,244	—	—

Debt and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a multidimensional relationship model or matrix pricing model utilizing market data including, but not limited to, benchmark yields, reported trades, andbroker/dealer quotes. Natural gas hedges are valued using forward market prices available from broker quotes and exchanges. The SCPPA Palo Verde Guaranteed Investment Contract is recorded at contract value and thus not required to be classified in the fair value hierarchy. Money market funds have maturities of less than one year and thus are recorded at amortized cost and not required to be classified.

(b) Pooled Cash

The Power System's cash, cash equivalents, and its collateral value of the City's securities lending program are included within the City Treasury's general and special investment pool. As of June 30, 2016 and 2015, the Power System's share of the City's general and special investment pool was $1,793,859 and $1,644,285, which represents approximately 18.0% and 17.9% of the Pool, respectively. Amounts pooled in the City Treasury's general and special investment pool are not required to be classified in the fair value hierarchy per GASB 72 since they are part of an internal investment pool.

Pooled cash is recorded as follows on the statement of position (In thousands):

Cash and cash equivalents – unrestricted	$	1,331,543	1,106,651
Cash and cash equivalents – restricted noncurrent		163,785	239,052
Cash and cash equivalents – restricted current		267,430	287,902
Cash – securities lending transactions		31,101	10,680
	$	1,793,859	1,644,285

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, and its departments: Airports, DWP, Harbor, Sewer, and the Municipal Improvement Corporation of Los Angeles. 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 and the Council File No. 94-2160, the City Treasury shall render to the Council a statement of investment policy annually. Council File No. 11-1740 was adopted on October 16, 2015, 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 30 years.

At June 30, 2016, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of investments	Amount	Investment maturities: 1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days to 5 years	Over 5 years
U.S. Treasury Bills	$ 206,762	144,991	34,991	26,780	—	—
U.S. Treasury Notes	4,695,497	—	—	36,463	4,631,290	27,744
U.S. Agencies Securities	1,362,106	335,597	130,941	430,867	445,957	18,744
Medium-Term Notes	1,321,557	20,008	—	115,563	1,185,986	—
Mutual Fund	126,632	126,632	—	—	—	—
Negotiable Certificates of Deposit	10,000	10,000	—	—	—	—
Commercial Paper	1,617,998	1,166,671	391,383	59,944	—	—
Municipal Bonds	60,885	—	—	—	60,885	—
Supranational Obligations	242,182	13,971	16,190	70,068	141,953	—
Short-Term Investment Funds	170,261	170,261	—	—	—	—
Securities Lending Short-Term Repurchase Agreement	166,278	166,278	—	—	—	—
Total general and special pools	$ 9,980,158	2,154,409	573,505	739,685	6,466,071	46,488

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, supranational obligations, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; 92 days for reverse repurchase agreements; and no maturity for mutual funds. 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 5 years, but with a maximum final maturity of 30 years.

Credit Risk. The Policy establishes minimum credit rating requirements for investments. There are no credit quality requirements 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 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank – $633 million, Federal National Mortgage Association (Fannie Mae) – $428 million, Federal Home Loan Mortgage Corporation (Freddie Mac) – $225 million, Federal Farm Credit Bank – $25 million, Federal Agriculture Mortgage Corporation (Farmer Mac) – $30 million, and Tennessee Valley Authority – $20 million. Of the City's $1 billion investments in U.S. Agencies securities, $545 million were rated AA+ by S&P and Aaa by Moody's; $817 million were not rated individually by S&P nor Moody's (issuers of these securities are rated AA+/A-1+ by S&Pand 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 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 $5 million medium-term notes was downgraded to "A-" by S&P and "Baa2" by Moody's, one issuer of $5 million medium-term notes was downgraded to "BBB+" by S&P and "Baa1" by Moody's, two issuers of $63 million medium-term notes was downgraded to "BBB+" by S&P and "A3" by Moody's, and one issuer of $20 million medium-term notes was downgraded to "A" by S&P and "Baa1" 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 regards to modifiers. The issuing corporation must be organized and operating within the United States and have assets in excess of $500 million. The City's $1 billion investments in commercial paper were rated "A-1+/A-1" by S&P and "P-1" by Moody's.

Mutual fund must receive the highest ranking by at least two nationally recognized rating agencies. The City's $127 million investment in mutual fund were rated "AAAm" by S&P and not rated by Moody's.

Negotiable certificates of deposit have no minimum rating requirement. The City's $10 million investments in negotiable certificates of deposit were rated "A-1+/A-" by S&P and "P-1" by Moody's.

Municipal bonds have no minimum rating requirement. The City's $61 million investments in municipal bonds wererated "AA/AA-" by S&P and "Aa2/Aa3" by Moody's.

Investments in supranational coupons must have a minimum of AA rating. The City's investments in supranational coupons of $142 million were rated "AAA" by S&P and "Aaa" by Moody's; $100 million were not rated individually by S&P nor Moody's. These short-term securities are backed by the full faith of the issuing entities, which arerated "AAA/Aaa".

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper or bankers' acceptances, 30% in certificates of deposit or medium-term notes, 20% in mutual funds, money market mutual funds or 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 amounts that can be invested in 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, 2016, $633 million (6%) was invested in securities issued by Federal Home Loan Bank.

(In thousands)

The following table identifies the investment types that are authorized by the Policy as of June 30, 2016:

Authorized investment type	Maximum maturity [A]	Maximum specified percentage of portfolio [B]	Minimum credit 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 – Nonpooled funds * [D]	270 days	25% of the agency's money [E]	"A-1" if long-term debt, must be rated "A" without regard to modifiers [F]
Commercial paper – pooled funds * [G]	270 days	40% of the agency's money [E]	"A-1" if long-term debt, must be rated "A" without regard to modifiers [F]
Negotiable certificates of deposit	5 years	30% [H] (combined with placement service CD)	None
Nonnegotiable certificates of deposit	5 years	None	None
Placement service deposits	5 years	30% [H] (inclusive of placement service CD)	None
Placement service certificate of deposit	5 years	30% [H] (combined negotiable CD)	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements and securities lending	92 days [I]	20%	None [J]
Medium-term notes * [K]	5 years	30%	"A" Rating
Mutual funds and money market mututal funds	N/A	20% [L]	Multiple [M N]
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	"A" Rating [O]
County pooled investments funds	N/A	None	None
Joint powers authority pool	N/A	None	Multiple [P]
Local agency investment fund (laif)	N/A	None	None
Voluntary investment program fund [G]	N/A	None	None
Supranational obligations [R]	5 years	30%	"AA" Rating

* 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% of the agency's money may be in bankers' acceptances of any one commercial bank.

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

[E] Local Agencies, other than counties or a city and county, may purchase no more than 10% of outstanding commercial paper of any single issuer.

[F] Issuing corporation must be organized and operating within the United States and have assets in excess of $500 million.

[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 30% of the agency's money may be invested in deposits, including CDs, through a placement service. No more than 30% of the agency's money may be invested in CDs through a placement service and negotiable CDs. Sections 53601.8, 53635.8 and 53601(i). Excluding purchases of certificates of deposit pursuant to section(s) 53601.8 and 53635.8, no more than 10% of the agency's money may be invested with any one private sector entity that assists in the placement of deposits.

[I] 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.

J 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.

K "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."

L No more than 10% invested in any one mutual fund.

M 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.

N 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.

O Issuer must be rated in the category "AA", or its equivalent or better as provided by a nationally recognized rating agency.

P 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 (o).

Q 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.

R Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank.

General Investment Pool Securities Lending Program. Securities lending is permitted and limited under provisions of California Government Code Section 53601. The Council approved the Securities

Lending Program 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 (the 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 is available for lending. The City loans out U.S. Treasury notes and U.S. Agencies securities (e.g., Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation, Federal Farm Credit Bank, and Tennessee Valley Authority), medium-term notes, and Supranational coupons. 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 2016, 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.

The following table provides information on securities lent and collateral received as of June 30 (in thousands):

		2016		2015
Type of investment lent:				
For cash collateral:				
U.S. Agencies securities	$	10,258		51,695
U.S. Treasury notes		142,280		—
Supranational coupons		8,054		—
Medium-term notes		2,339		6,242
Total lent for cash collateral		162,931		57,937
For noncash collateral:				
U.S. Treasury notes		415,604		693,859
U.S. Agencies securities		161,334		1,027
Medium-term notes		1,364		32,064
Total securities lent	$	741,233		784,887
Type of collateral received				
Cash collateral *	$	166,278		59,190
Noncash collateral **				
For lent U.S. Treasury notes, U.S. Agencies securities and medium-term notes		589,880		746,080
Total collateral received	$	756,158	$	805,270

* Amount represents cash collateral received and reinvested in repurchase agreements that hav mark-to-market value of the cash collateral pool at 102% for the liquidity of the portfolio and 10C for the duration portfolio for the fiscal year 2016.

** The City has no ability to pledge or sell collateral securities without borrower default.

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):

Type of Investments	Amount	Investment maturities: 1 to 30 Days	31 to 60 Days	61 to 365 Days	366 days to 5 Years	Over 5 Years
U.S. Treasury notes	$ 4,713,956	—	—	—	4,682,761	31,195
U.S. Agencies securities	1,334,694	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 5 years, but with a maximum final maturity of 30 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 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank – $316 million, Federal National Mortgage Association (Fannie Mae) – $583 million, Federal Home Loan Mortgage Corporation (Freddie Mac) – $318 million, Federal Farm Credit Bank – $42 million, Federal Agriculture Mortgage Corporation – $56 million and Tennessee Valley Authority – $20 million. Of the City's $1 billion investments in U.S. Agencies securities, $800 million were rated "AA+" by S&P and "Aaa" by Moody's; $535 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" byS&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 $2 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 million medium-term notes were downgraded to “BBB+” by S&P and “Baa1” by Moody’s, one issuer of $8 million medium-term notes was downgraded to “BBB+” by S&P and “Baa2” by Moody’s, one issuer of $8 million medium-term notes was downgraded to “A-“ by S&P and “Baa1” by Moody’s, one issuer of $5 million medium-term notes was downgraded to “A-1” by S&P and “Baa2” by Moody’s and one issuer of $7 million medium-term notes was downgraded to “BBB+” by S&P and “A3” by Moody’s. Of the City’s $2 billion investments in medium-term notes, one issuer of $25 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 million. The City’s $1 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 $43 million investments in municipal bondswere 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 million were rated “AAA” by S&P and “Aaa” by Moody’s. Investments of $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 rated “AAA/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, $583 million (6%) was invested in securities issued by Federal National Mortgage Association.

(8) Securities Lending Transactions

The Power System participates in a Securities Lending Program. As of June 30, 2016 and 2015, amounts held in the City of Los Angeles Program are as follows (collateral amounts in thousands):

Program		June 30 2016	June 30 2015
City of Los Angeles Program	$	31,101	10,680

General Investment Pool Program

The Power System participates in the City's SLP through the pooled investment fund. The Department recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. 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 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 is available for lending. The City loans out U.S. Treasury, and U.S. agencies securities, e.g., Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation, 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 2016, 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.

(9) Derivative Instruments

In June 2008, GASB issued GASB Statement No. 53. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and its significant terms and risks.

In accordance with GASB Statement No. 53, the Power System records the fair value of its hedging derivative instruments, financial natural gas hedges, on the statement of net position. As of June 30, 2016 and 2015, the fair values of the financial natural gas hedges were approximately $(23) million and approximately $(43) million, respectively.

(a) Financial Natural Gas Hedges

The Department enters into natural gas hedging contracts in order to stabilize the cost of gas needed to produce electricity to serve its customers. It is designed to cap gas prices over a portion of the forecasted gas requirements.

The Department does not speculate when entering into financial transactions. Financial hedges are variable to fixed-rate swaps and are layered by volumetric averaging. The Department is exposed to financial settlement risk if the counterparties default and/or the agreements are terminated. The Department did not receive any payments at the inception of any swap transaction.

As of June 30, 2016, the Power System's financial natural gas hedges by fiscal year are the following (amounts in thousands):

Derivative description	Notional amount (Total contract quantities*)	Contract price range dollar per unit	First effective date	Last termination date	Fair value
Financial natural gas:					
FY 2016–17	3,197,500	6.61–9.83	07/01/16	06/30/17	(14,656)
FY 2017–18	2,190,000	6.76–7.14	07/01/17	06/30/18	(8,723)
Total	5,387,500	$ 6.37–9.85	07/01/13	06/30/18	$ (23,379)

* Contract quantities in MMBtu – Million British Thermal Units

As of June 30, 2015, the Power System's financial natural gas hedges by fiscal year are the following (fair value in thousands):

Derivative description	Notional amount (Total contract quantities*)	Contract price range dollar per unit	First effective date	Last termination date	Fair value
Financial natural gas:					
FY 2015–16	4,488,000	$ 6.42–9.85	07/01/15	06/30/16	$ (21,020)
FY 2016–17	3,197,500	6.61–9.83	07/01/16	06/30/17	(14,210)
FY 2017–18	2,190,000	6.76–7.14	07/01/17	06/30/18	(8,014)
Total	9,875,500	$ 6.37–9.85	07/01/13	06/30/18	$ (43,244)

* Contract quantities in MMBtu – Million British Thermal Units

The fair value of the natural gas hedges decreased by $20 million during the year ended June 30, 2016 and is reported as a liability and is offset by a deferred outflow on the statement of net position. All fair values were estimated using forward market prices available from broker quotes and exchanges. These derivative instruments were categorized as Level 2 per GASB 72 in the Department's fair value hierarchy table at note 7.

(b) Credit Risk

The Power System is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of contractual agreements. In order to limit the risk of counterparty default, the Department has implemented a Wholesale Marketing Counterparty Evaluation Policy, which was amended and renamed as Counterparty Evaluation Credit Policy, and was approved by the Board on May 6, 2008. Under the new policy, the scope has been expanded beyond physical power to include transmission, physical natural gas, and financial natural gas. Also, the credit limit structure has been categorized into short-term and long-term structures where the short-term structure is applicable to transactions with terms of up to 18 months and the long-term structure to cover transactions beyond 18 months.

The Policy includes provisions to limit risk including the assignment of internal credit ratings to all Department's counterparties based oncounterparty and/or debt ratings; the use of expected default frequency equivalent credit rating for short-term transactions; the requirement for credit enhancements (including advance payments, irrevocable letters of credit, escrow trust accounts, and parent company guarantees) for counterparties that do not meet an acceptable level of risk; and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty.

As of June 30, 2016, the 10 financial natural gas hedge counterparties were rated by Moody's as follows: two at "Aa3", one at "Aa2", two at "A3", two at "A2", two at "A1", and one "WR". The counterparties were rated by S&P as follows: two at "AA-", one at "A+", three at "A", two at "A-", and two at "BBB+". As of June 30, 2015, the 10 financial natural gas hedge counterparties were rated by Moody's as follows: two at "Aa3", one at "Aa2", two at "A3", two at "A2", two at "A1", and one "WR". The counterparties were rated by S&P as follows: two at "AA-", one at "A+", four at "A", and three at "A-".

Based on the International Swap Dealers Association agreements, the Department or the counterparty may be required to post collateral to support the financial natural gas hedges subject to credit risk in the form of cash, negotiable debt instruments (other than interest-only and principal-only securities), or eligible letters of credit. Collateral posted is held by a custodian. As of June 30, 2016 and 2015, the fair values of the financial natural gas hedges are within the credit limits and collateral posting was not required.

(c) Basis Risk

The Department is exposed to basis risk between the financial natural gas hedges, which are settled monthly at NW Rocky Mountains Index, and the hedged gas deliveries, which are daily spot purchases at Kern River, Opal prices. However, these pricing points are in the same region and are highly correlated.

(Continued)

(d) *Termination Risk*

The Power System or its counterparties may terminate the contractual agreements if the other party fails to perform under the terms of the contract. No termination events have occurred and there are no out-of-the-ordinary termination events contained in contractual documents.

(10) Long-Term Debt

Long-term debt outstanding as of June 30, 2016 and 2015 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts as follows (amounts in thousands):

Bond issues	Date of issue	Effective-interest rate %	Fiscal year of last scheduled maturity	Principal outstanding 2016	Principal outstanding 2015
Issue of 2001, Series B	06/05/01	Variable	2035	$ 580,800	580,800
Issue of 2001, Series C1	11/15/01	4.788	2017	1,950	1,972
Issue of 2002, Series A	08/22/02	Variable	2036	388,500	388,500
Issue of 2002, Series C2	11/22/02	4.375	2018	5,220	5,291
Issue of 2004, Series C3	04/07/04	4.298	2020	4,384	4,486
Issue of 2005, Series A1	12/28/05	4.700	2041	—	25,000
Issue of 2006, Series C4	03/01/06	4.040	2017	4,913	5,010
Issue of 2007, Series A1	10/18/07	4.659	2040	237,325	320,020
Issue of 2007, Series A2	10/18/07	4.638	2033	182,120	191,125
Issue of 2008, Series A1	11/25/08	5.583	2039	200,000	200,000
Issue of 2008, Series A2	11/25/08	5.039	2033	315,605	326,045
Issue of 2009, Series A	02/19/09	4.773	2040	114,570	117,055
Issue of 2009, Series B	06/02/09	4.563	2025	172,125	172,125
Issue of 2010, Series A	06/02/10	3.898	2041	616,000	616,000
Issue of 2010, Series B	06/02/10	3.015	2023	28,485	33,190
Issue of 2010, Series C	08/25/10	2.188	2028	139,775	139,775
Issue of 2010, Series D	12/02/10	4.342	2046	760,200	760,200
Issue of 2011, Series A	06/30/11	2.715	2023	456,355	507,100
Issue of 2012, Series A	10/25/12	2.936	2036	100,355	100,355
Issue of 2012, Series B	10/25/12	4.164	2044	350,000	350,000
Issue of 2012, Series C	10/25/12	0.958	2016	—	300,000
Issue of 2013, Series A	04/02/13	2.504	2032	507,205	515,925
Issue of 2013, Series B	06/04/13	3.347	2033	452,145	452,145
Issue of 2013, Series C	06/04/13	4.441	2038	27,855	27,855
Issue of 2014, Series A	05/06/14	Variable	2039	200,000	200,000
Issue of 2014, Series B	06/10/14	4.008	2044	322,000	322,000
Issue of 2014, Series C	08/05/14	2.912	2030	198,750	198,750
Issue of 2014, Series D	10/23/14	3.785	2045	450,000	450,000
Issue of 2014, Series E	01/08/15	3.833	2045	229,000	229,000
Issue of 2015, Series A	04/16/15	3.636	2041	520,280	520,280

(Continued)

Bond issues	Date of issue	Effective-interest rate %	Fiscal year of last scheduled maturity	Principal outstanding 2016	Principal outstanding 2015
Issue of 2015, Series B	10/01/15	1.179	2019	$ 268,590	—
Issue of 2016, Series A	05/19/16	3.265	2047	275,000	—
Issue of 2016, Series B	06/23/16	3.259	2047	225,000	—
Total principal amount				8,334,507	8,060,004
Unamortized premiums and discounts				620,002	538,442
Revenue bonds, net				8,954,509	8,598,446
Revenue certificates				200,000	200,000
Debt due within one year (including current portion of variable rate debt)				(211,133)	(230,165)
				$ 8,943,376	8,568,281

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 the Power Systems' 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 Power System.

(a) Long-Term Debt Activity

The Power System had the following activity in long-term debt for the fiscal years ended June 30, 2016 and 2015 (amounts in thousands):

	Balance, July 1, 2015	Additions	Reductions	Balance, June 30, 2016	Current portion
Long-term debt:					
Bonds	$ 8,598,446	910,108	(554,045)	8,954,509	191,133
Revenue certificates	200,000	—	—	200,000	20,000
Total	$ 8,798,446	910,108	(554,045)	9,154,509	211,133

(In thousands)

	Balance, July 1, 2014	Additions	Reductions	Balance, June 30, 2015	Current portion
Long-term debt:					
Bonds	$ 7,964,755	1,619,620	(985,929)	8,598,446	210,165
Revenue certificates	200,000	—	—	200,000	20,000
Total	$ 8,164,755	1,619,620	(985,929)	8,798,446	230,165

(b) New Issuances

(i) Fiscal Year 2016

In October 2015, the Power System issued $268.6 million of Power System Revenue Bonds, 2015 Series B. The net proceeds of $300 million, including a $31.4 million issue premium net of underwriter's discount, were used to refund all of the outstanding Power System Revenue Bonds, 2012 Series C, amounting to $300 million. The transaction resulted in a net gain for accounting purposes of $3 million, which was capitalized and is being amortized over the life of the refunded bonds.

In May 2016, the Power System issued $275 million of Power System Revenue Bonds, 2016 Series A. The net proceeds of $332.5 million, including a $57 million issue premium net of underwriter's discount, were used to pay for budgeted capital improvements, and refund a portion of the Power System Revenue Bonds, 2007 Series A, Subseries A-1, amounting to $71.6 million and Subseries A-2, amounting to $9.1 million. The transaction resulted in a net present value savings of $10.5 million and a net loss for accounting purposes of $1 million, which was capitalized and is being amortized over the life of the refunded bonds.

In June 2016, the Power System issued $225 million of Power System Revenue Bonds, 2016 Series B. The net proceeds of $276.1 million, including a $51.1 million issue premium net of underwriter's discount, were deposited into the construction fund to be used for capital improvements.

(ii) Fiscal Year 2015

In August 2014, the Power System issued $198.7 million of Power System Revenue Bonds, 2014 Series C. The net proceeds of $235 million, including a $37 million issue premium net of underwriter's discount, were used to refund a portion of the Power System Revenue Bonds, 2005 Series A, Subseries A1, amounting to $27 million, and Subseries A2, amounting to $198 million. The transaction resulted in a net present value savings of $28.1 million and a net loss for accounting purposes of $7.5 million, which was capitalized and is being amortized over the life of the new bonds.

In October 2014, the Power System issued $450 million of Power System Revenue Bonds, 2014 Series D. The net proceeds of $526.1 million, including a $76.1 million issue premium net of underwriter's discount, were deposited into the construction fund to be used for capital improvements.

In January 2015, the Power System issued $229 million of Power System Revenue Bonds, 2014 Series E. The net proceeds of $267.6 million, including a $38.6 million issue premium net of underwriter's discount, were deposited into the construction fund to be used for capital improvements.

Lastly, in April 2015, the Power System issued $520 million of Power System Revenue Bonds, 2015 Series A. The net proceeds of $587.3 million, including a $67.1 million issue premium net of underwriter's discount, were used to refund a portion of the Power System Revenue Bonds, 2005 Series A, Subseries A1,amounting to $465/3 million, and all of the $117.6 million outstanding Power System Revenue Bonds, 2005 Series A, Subseries A 2. The transaction resulted in a net present value savings of $100.6 million and a net gain for accounting purposes of $7.6 million, which was capitalized and is being amortized over the life of the new bonds.

(c) Outstanding Debt Defeased

The Power System defeased certain revenue bonds in current and 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 the Power System's financial statements.

At June 30, 2016, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues		Principal outstanding
Second issue of 1993	$	6,210
Refunding issue of 1994		6,035
Issue of 1994		4,140
Issue of 2007 Series A, Subseries A 1		71,555
Issue of 2007 Series A, Subseries A 2		9,005
	$	96,945

(d) Variable Rate Bonds

In May 2014, the Power System entered into a Continuing Covenant Agreement with Wells Fargo Bank whereby the former will sell to the latter $200 million of Power System Revenue Bonds, 2014 Series A, in an index-floating rate mode under a Direct Purchase structure. The bonds will pay interest at a fixed spread of 20 basis points (0.20%) above the Securities Industry and Financial Markets Association Index for the initial three-year term. At the end of the three-year term, the Power System would have the option to either renegotiate and renew a new index floating rate term with Wells Fargo or another bank or convert the bonds to another mode, such as a fixed-rate mode or a traditional variable rate mode that utilizes a standby agreement. Under the terms of the CCA, the Power System has the option to call the bonds at par any time after one year with a 30-day notice.

As of June 30, 2016 and 2015, the Power System had $1 billion in variable rate bonds. The variable rate bonds currently bear interest at weekly and daily rates ranging from 0.19% to 0.44% as of June 30, 2016 and 0.01% to 0.28% as of June 30, 2015. The Power System 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 Power System has entered into standby and line-of-credit agreements with a syndicate of commercial banks in an initial amount of $581 million and $389 million to provide liquidity for the variable rate bonds. The extended standby agreements expire in February 2017 for the $106 million, February 2018 for the $269 million, and February 2019 for the $206 million for a total of $581 million; and in June 2017 for the $389 million.

Under the agreements, the $581 million variable rate bonds will bear interest that is payable quarterly at the greatest of (a) the Prime Rate plus 1.00%; (b) the Federal Funds Rate plus 2.00%; (c) LIBOR Quoted Rate plus 3.00%; (d) 7.00%; and (e) 7.50%, while the $389 million variable rate bonds will bear interest that is payable quarterly at the greatest of (a) the Prime Rate plus 1.00%; (b) the Federal Funds Rate plus 2.00%; (c) 7.00%; and (d) the LIBOR Index Rate plus 7.50%. The unpaid principal of each liquidity advance made by the liquidity provider is payable in 10 equal semiannual installments 90 days immediately following the related liquidity advance. At its discretion, the Power System 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 in the statement of net position as the liquidity facilities give the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that 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 was $96 million at both June 30, 2016 and 2015.

(e) Revenue Certificates

As of June 30, 2016 and 2015, the Power System has outstanding $200 million of commercial paper bearing interest at an average rate of 0.41%. The commercial paper matures not more than 270 days from the date of issuance.

The Department entered into a letter-of-credit and reimbursement agreement with a commercial bank in the amount of $200 million to provide liquidity and credit support for the Department's commercial paper program. The agreement secures the payment when due of the principal and interest on commercial paper issued on or after July 1, 2013. Drawings on the agreement will represent advances to the Department and will bear interest that is payable monthly at the highest of (a) the Prime Rate plus 1.00%; (b) Federal Funds Rate plus 2.00%; (c) the Daily One-Month LIBOR plus 3.00%; and (d) 7.00%. The unpaid principal of each advance is payable in 10 equal semiannual installments, commencing on the date six months after the advance. The Agreement terminates on July 1, 2016.

The revenue certificates have been classified as long-term debt in the statement of net position as the Agreement gives the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the Agreement or exercise its option to draw on the Agreement. The portion that would be due in the next fiscal year in the event that the outstanding revenue certificates were advanced by the commercial bank under the Agreement has been included in the current portion of long-term debt and was $20 million at both June 30, 2016 and 2015.

(f) 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:			
2017	$	94,203	322,595
2018		141,578	322,987
2019		163,862	327,152
2020		193,828	327,284
2021		212,240	319,996
2022–2026		1,244,538	1,470,830
2027–2031		1,576,739	1,189,742
2032–2036		1,591,760	895,563
2037–2041		1,586,090	577,905
2042–2046		1,477,560	156,479
2047–2051		52,109	—
Total requirements	$	8,334,507	5,910,533

Interest and amortization are net of $599 million of unamortized discount/premium and gain/loss due to issuances of new and refunding bonds.

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Power 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 and that the full amount of the revenue certificates will be renewed. Should the bondholders exercise the tender options and the Power System convert all of the revenue certificates under the line of credit, the Power System would be required to redeem the $1,369 million in variable rate bonds and revenue certificates outstanding over the next six years, as follows: $117 million in fiscal year 2017, $254 million in fiscal year 2018, $274 million in each of the fiscal years 2019 through 2021, $157 million in fiscal year 2022, and $20 million in fiscal year 2023. Accordingly, the statements of net position recognize the possibility of the exercise of the tender options and reflect the $117 million that could be due in fiscal year 2017 as a current portion of long-term debt payable. Interest and amortization include interest requirements for variable rate bonds. Variable debt interest rate in effect at June 30, 2016 averages 0.468%.

(11) Retirement Plan

(a) Plan Description

The Department has a funded contributory retirement plan covering substantially all of its employees. The Water and Power Employees' Retirement Fund operates as a single-employer defined benefit plan to provide pension benefits to eligible department employees. 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 Retirement 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 North Hope, Room 357, Los Angeles, California 90012.

(b) Benefits Provided

The Plan provides retirement benefits to eligible employees. Most employees of the Los Angeles Department of Water and Power 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 the Los Angeles City Employees' Retirement System is used to determine retirement eligibility and at least five years must be actual employment at the Department 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.

(In thousands)

(c) Plan Membership

At June 30, 2015, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	8,843
Vested terminated members entitled to, but not yet receiving benefits	1,528
Active members	9,205
Total	19,576

(d) Contributions

The Department contributes $1.10 for each $1 contributed by participants plus an actuarially determined annual required contribution 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 set as of the measurement date of June 30, 2015 (based on the July 1, 2014–July 2015 census data) was 50.62% of compensation. The average member contribution rate set as of the measurement date of June 30, 2015 (based on the July 1, 2014–July 2015 census data) was 6.53% of compensation. Most Tier 1 members contribute at 6% of compensation and all Tier 2 members contribute at 10% of compensation. Employer contributions in fiscal years 2016, 2015, and 2014 amounted to $245 million, $259 million, and $260 million, respectively. These contributions represented 97%, 99% and 98% of the annual required contributions in fiscal years 2016, 2015 and 2014, respectively.

(e) Net Pension Liability

At June 30, 2016 and 2015, the Power System reported a liability of $771 million and $861 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the same dates. The Power System's proportion of the net pension liability was based on the Power System's actuarially determined employer contributions to the pension plan for the years ended June 30, 2015 and 2014, respectively, relative to the total of the actuarially determined employer contributions for both the Power System and the Water System. At June 30, 2016 and 2015, the Power System's proportion was 67.397% and 67.656% as compared to 67.656% and 67.427% as of June 30, 2015 and 2014, respectively.

(f) Actuarial assumptions

The Department's net pension liability as of June 30, 2016 and June 30, 2015 was determined by actuarial valuations as of July 1, 2015 and July 1, 2014, respectively. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an experience study for the period from

(In thousands)

July 1, 2009 through June 30, 2012 and 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, 2015 and 2014 actuarial valuations:

Actuarial Assumptions	2015	2014
Inflation	3.25%	3.25%
Salary increases	4.75% to 10.00%	4.75% to 10.00%
Investment rate of return	7.50%	7.50%
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 Mortality Table set back one year projected to 2030 with Scale AA	Healthy: RP-2000 Combined Mortality Table set back one year projected to 2030 with Scale AA

(g) Discount Rate

The discount rate used to measure the pension liability was 7.50% as of June 30, 2016 and June 30, 2015, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that 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 Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments, which is estimated to be 104 years, to determine the total pension liability at June 30, 2016 and June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of 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 best estimates of 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:

(Continued)

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	—%
Total	100%	

(h) 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, 2016, 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 point lower (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, 2016	$ 1,733,853	771,121	(37,634)
June 30, 2015	1,815,375	860,748	59,098

(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 Resources

At June 30, 2016 and 2015, the Power System has reported deferred outflow of resources of $217,131 and $287,599, and deferred inflow of resources of $421,232 and $682,995, respectively.

The below table summarizes the deferred inflow of resource and deferred outflow of resources at June 30, 2016 and 2015 (amounts in thousands).

Deferred outflow of resources		June 30 2016	June 30 2015
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	1,061	1,400
Changes of assumptions and other inputs		216,070	286,199
Total deferred outflow of resources	$	217,131	287,599

Deferred inflow of resources		June 30 2016	June 30 2015
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	7,989	4,311
Net difference between projected and actual earnings on pension plan investments		231,847	553,659
Difference between expected and actual experience in the total pension liability		181,396	125,025
Total deferred inflow of resources	$	421,232	682,995

In addition to the deferred outflows noted above, there are also $245,462 and $258,603 of deferred outflows related to pension contributions made after the measurement date as of June 30, 2016 and 2015, 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 (amounts in thousands):

	June 30	
	2016	**2015**
2016	—	(114,861)
2017	(93,094)	(114,861)
2018	(93,094)	(114,861)
2019	(35,669)	(57,223)
2020	27,716	6,410
2021	(9,960)	—
Total	(204,101)	(395,396)

(12) Other Postemployment Benefit (Healthcare) Plan

(a) Plan Description

The Department provides certain other postemployment benefits, 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 17,244 and 16,792 for the fiscal years ended June 30, 2016 and 2015, respectively.

The health plan is a single-employer defined benefit plan. During fiscal year 2007, the Retiree Health Benefits 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 North Hope, Room 357, Los Angeles, California 90012.

(b) Funding Policy

The Department pays a monthly maximum subsidy of $1,832 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 they are entitled to 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 2016, the Department paid $73 million in retiree medical premiums. In fiscal year 2015, the Department paid $73 million in retiree medical premiums. The Power System's portion of retiree medical premium payments was $46 million and $48 million for 2016 and 2015, respectively. The remaining portion was paid by the Water System.

(c) Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost (expense) is calculated based on the employer Annual Required Contribution, 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 Power and Water fund's combined annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the net OPEB asset (amounts in thousands):

		Year ended June 30	
		2016	**2015**
Annual required contribution	$	64,253	73,354
Interest on net OPEB asset		(77,024)	(75,980)
Adjustment to annual required contribution		74,238	70,776
Annual OPEB costs		61,467	68,150
Department contributions made		(72,994)	(73,343)
Change in net OPEB asset		(11,527)	(5,193)
Net OPEB asset – beginning of year		(983,424)	(978,231)
Net OPEB asset – end of year	$	(994,951)	(983,424)

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

		Year ended June 30	
		2016	2015
Annual required contribution	$	43,692	49,880
Interest on net OPEB asset		(52,376)	(51,666)
Adjustment to annual required contribution		50,482	48,128
Annual OPEB costs		41,798	46,342
Department contributions made		(46,394)	(47,783)
Change in net OPEB asset		(4,596)	(1,441)
Net OPEB asset – beginning of year		(669,892)	(668,451)
Net OPEB asset – end of year	$	(674,488)	(669,892)

The Department's Power and Water fund's combined annual OPEB cost, the percentage of ARC contributed to the Plan, and the net postemployment asset for fiscal years 2016, 2015, and 2014 were as follows (amounts in thousands):

		2016	2015	2014
Annual OPEB cost	$	61,467	68,150	51,084
Percentage of OPEB costs contributed		119%	108%	146%
Net postemployment asset at end of year	$	994,951	983,424	978,231

(Continued)

The Power System's share in the annual OPEB cost, the percentage of ARC contributed to the Plan, and the net retirement asset for fiscal years 2016, 2015, and 2014 were as follows (amounts in thousands):

		2016	2015	2014
Annual OPEB cost	$	41,798	46,342	34,737
Percentage of OPEB costs contributed		111%	103%	146%
Net postemployment asset at end of year	$	674,488	669,892	668,451

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

On December 8, 2016, the latest actuarial study as of July 1, 2016 was completed for fiscal year 2017. As of July 1, 2016, the Department's actuarial value of assets was $2 billion and actuarial accrued liability (AAL) for benefits was $2 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $1 billion, which represents 75% funding status. The covered payroll (annual payroll of active employees covered by the Plan) was $929 million, and the ratio of the UAAL to the covered payroll was 63%.

On October 30, 2015, the latest actuarial study as of July 1, 2015 was completed for fiscal year 2016. As of July 1, 2015, the Department's actuarial value of assets was $2 billion and AAL for benefits was $2 billion, resulting in an unfunded UAAL of $0 billion, which represents 84% funding status. 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%.

As of July 1, 2014, the Department's actuarial value of assets was $1 billion and AAL for benefits was $2 billion, resulting in a UAAL of $0 billion, which represents 76% funding status. 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%.

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 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.

(Continued)

(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. Benefits are a function of civil service credits and the retiree's age.

In the July 1, 2016 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include 7.25% discount rate, which represents the expected long-term return on plan assets, and an annual healthcare cost trend rate of 6.50% initially, reduced by decrements to an ultimate rate of 5.00% over six years. Both rates include a 3.00% 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 19 years remaining.

In the July 1, 2015 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 6.75% initially, reduced by decrements to an ultimate rate of 5.00% over seven 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 20 years remaining.

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 seven 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.

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time.

(f) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act was signed into law on March 23, 2010. One key provision of the PPACA is the assessment of the excise tax on high-cost 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 is 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 Power System's allocated share of death and disability benefit plan costs and administrative expenses totaled $20 million and $21 million for fiscal years 2016 and 2015, respectively. Death and disability benefits are administered as part of the Retirement Plan and funds are maintained in separate restricted funds to pay for each benefit. Disability benefits are paid to active employees only who qualify under the Plan provisions and terminate with the employee's retirement.

(13) Other Long-Term Liabilities and Deferred Inflows

(a) Other Long-Term Liabilities and Deferred Inflows

The Power System has the following other long-term liabilities and deferred inflows (amounts in thousands):

		Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Accrued liabilities	$	3,607	—	(1,720)	1,887
Deferred inflows:					
Rate stabilization		174,001	—	—	174,001
Green Power Program		2,556	668	—	3,224
	$	176,557	668	—	177,225
Accrued workers' compensation claims	$	54,508	7,437	—	61,945
Derivative instrument liabilities	$	43,244	—	(19,865)	23,379

(In thousands)

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Accrued liabilities	$ 5,327	—	(1,720)	3,607
Deferred inflows:				
Rate stabilization	174,001	—	—	174,001
Green Power Program	2,782	—	(226)	2,556
	$ 176,783	—	(226)	176,557
Accrued workers' compensation claims	$ 56,650	—	(2,142)	54,508
Derivative instrument liabilities	$ 48,517	—	(5,273)	43,244

(b) Deferred Inflows from Regulated Business Activities

The Department has deferred inflows that are related to revenues collected from customers, but have not been earned. These funds are deferred and recognized as costs related to these deferrals are incurred.

(i) Rate Stabilization Account

In April 2008, the City Council approved an amendment to the electric rate ordinance, which required the balance of the Rate Stabilization Account to be maintained separately from the Energy Cost Adjustment Account. The ordinance also directed that the deferred amount within the Energy Cost Adjustment Account be the beginning balance of the Rate Stabilization Account. As of June 30, 2016 and 2015, the balance in the Rate Stabilization Fund was $174 million. See note 6.

(c) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their 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 2% at June 30, 2016 and at 4% as of June 30, 2015. The Department has third-party insurance coverage for workers' compensation claims in excess of $1 million.

Overall indicated reserves for workers' compensation claims, for both the Water System and the Power System, undiscounted, have increased from $100 million as of June 30, 2015 to $104 million as of June 30, 2016. The increase is mainly attributable to the number of 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 in the statement of net position as of June 30, 2016 and 2015.

Changes in the Department's undiscounted liability since June 30, 2014 are summarized as follows (amounts in thousands):

		June 30		
		2016	2015	2014
Balance at beginning of year	$	95,379	99,519	90,894
Current year claims and changes in estimates		22,843	26,727	33,945
Payments applied		(26,948)	(30,867)	(25,320)
Balance at end of year	$	91,274	95,379	99,519

The Power System's portion of the discounted reserves as of June 30, 2016 and 2015 is $62 million and $55 million, respectively.

(14) Related Parties

(a) City of Los Angeles

Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in net position before transfers to the reserve fund of the City of the prior fiscal year. Management believes such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenues, expenses, and changes in net position. The Power System also reimburses the City of Los Angeles for administrative costs incurred on behalf of the Power System. During fiscal year 2016, the Power System transferred $267 million in transfers and $22 million in administrative reimbursements.

(b) Southern California Public Power Authority

The Southern California Public Power Authority is a California Joint Powers Agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Department is a member of SCPPA and records its transactions as purchased power expense. See note 5 of the financial statements for a description of the purchased power commitments the Power System has with SCPPA.

(c) Intermountain Power Agency

IPA – The Intermountain Power Agency is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project. The Power System serves as the project manager and operating agent of IPP. See note 5 for of the financial statements for a description of the financial activities of IPA.

(d) *La Kretz Innovative Campus*

The Power System has entered into a 20-year prepaid lease agreement for $12 million to lease an office building to the La Kretz Innovative Campus, a 501(c)3 nonprofit organization. LKIC prepaid the lease in fiscal year 2015 and the $12 million is amortized to other nonoperating income starting February 2016. LKIC in turn leases some of the workspaces in the building to assist energy innovation companies with the resources needed to validate energy efficient technology. The Power System does have energy efficiency staff also located at the building to work with inventors and determine if there are new energy efficiency programs to launch.

(15) Commitments and Contingencies

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

Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in net position before transfers to the reserve fund of the City of the prior fiscal year. Management believes such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenues, expenses, and changes in net position.

The Department authorized total transfers of $267 million and $266 million in fiscal years 2016 and 2015, respectively, from the Power System to the reserve fund of the City.

(b) *Asset Retirement Obligations*

In accordance with federal guidelines LADWP has $133 million and $129 million in investments as of June 30, 2016 and 2015 to fund its portion of the decommissioning of Palo Verde Nuclear Generating Station. As funds were collected through rates to finance this reserve, a decommissioning liability of $153 million and $149 million as of June 30, 2016 and 2015 has been recorded as an increase in accumulated depreciation. Additional decommissioning funds may be needed in the future to decommission the Navajo Generating Station and other utility plant assets.

The Department’s current practice of recording asset retirement obligations as part of accumulated depreciation is consistent with industry practice. Over the next few years the Governmental Accounting Standards Board will be issuing guidance to address the accounting for such asset retirement obligations. The Department has not yet determined the impact of this guidance on the financial statements of the Power System.

(c) *Environmental Matters*

Numerous environmental laws and regulations affect the Power System’s facilities and operations. The Department monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis. The Department follows GASB Statement No. 49, *Accounting and*

(Continued)

Financial Reporting for Pollution and Remediation Obligations. 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 Power System's obligations are included in accrued expenses on the statement of net position and were approximately $29 million and $25 million as of June 30, 2016 and 2015, respectively.

(d) 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 Power System's financial position, results of operations, or cash flows as of June 30, 2016.

(e) Risk Management

The Power 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 Power System. For other significant business risks, however, the Power System has elected to self-insure. Management believes that exposure to loss arising out of self-insured business risks will not materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2016.

(f) Credit Risk

Financial instruments, which potentially expose the Power System to concentrations of credit risk, consist primarily of retail and wholesale receivables. The Power System's retail customer base is concentrated among commercial, industrial, residential, and governmental customers located within the City. Although the Power System is directly affected by the City's economy, management does not believe significant credit risk exists at June 30, 2016, except as provided in the allowance for losses. The Power System manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit.

(16) Subsequent Events

(a) Sale of Navajo

Effective July 1, 2016, the Department divested its 21.2% generation share (equivalent to 477 MW) from the coal-fired Navajo Generation Station, pursuant to the Asset Purchase and Sale Agreement, entered into with Salt River Project, Arizona. The transaction resulted in a net impairment loss for accounting purposes of $41.4 million, which included $34.1 million in utility plant assets and $7.3 million in coal inventory that was recognized during the fiscal year ended June 30, 2016 as operating and maintenance expense.

(Continued)

(b) Bond Defeasance Replacement of Revolving line of Credit

(1) The Revolving Credit Agreement with Wells Fargo Bank which provides liquidity support to the $200 million Power System Revenue Commercial Paper Notes was scheduled to expire on July 1, 2016. The Department successfully substituted the RCA effective July 1, 2016 with Royal Bank of Canada for a three-year term, to expire on June 28, 2019.

(2) On September 1, 2016, the Department exercised its option to redeem a portion of the outstanding Power System Variable Rate Demand Revenue Bonds, 2001 Series B, Subseries B-8 in the amount of $2 million, 2002 Series A, Subseries A-6 in the amount of $4 million, and all of the outstanding Power System Variable Rate Demand Revenue Bonds, 2002 Series A, Subseries A-8 in the amount of $50 million collectively, totaling $55 million. The Redeemed Variable Rate Bonds were allocated to the financing of the Navajo Generating Station. The redemption was paid out of the Power Revenue Fund.

(3) On September 19, 2016, the Department defeased a portion of the outstanding Power System Fixed Rate Revenue Bonds, 2009 Series B, 2010 Series B, 2011 Series A, and 2013 Series A collectively totaling $4 million. The Defeased Fixed Rate Bonds were allocated to the financing of the Navajo Generating Station. The defeasance was paid out of the Power Revenue Fund.

The redemption of the Redeemed Variable Rate Bonds and the defeasance of the Defeased Fixed Rate Bonds were executed pursuant to Resolution No. 015-214 and Ordinance No. 183629 dated June 17, 2015.

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Required Supplementary Information

June 30, 2016 and 2015
(Unaudited)

Schedule of the Power System's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

(Amounts in thousands other than percentages)

	2016	2015	2014
Power System's proportion of the collective net pension liability	67.397%	67.656%	67.427%
Power System's proportionate share of the collective net pension liability	$771,121	$860,748	$1,207,513
Power System's covered-employee payroll	$565,605	$554,731	$551,159
Power System's proportionate share of the collective net pension liability as a % of covered payroll	136.34%	155.16%	219.09%
Pension plan's fiduciary net position as a percentage of total pension liability	89.80%	88.41%	82.26%

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

See independent auditors' report.

(Continued)

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Required Supplementary Information

June 30, 2016 and 2015
(Unaudited)

Schedule of the Power System's Contributions

Last 10 Fiscal Years

(Amounts in thousands other than percentages)

Reporting Date for Power System June 30[1]		Actuarially determined contributions[2]	Contributions in relation to the actuarially required contributions	Contributions deficiency (excess)	Power System's covered-employee payroll	Contributions as a percentage of covered employee payroll
2016	$	263,471	256,288	7,183	565,606	45.31%
2015		262,485	260,077	2,408	554,732	46.88
2014		256,518	250,905	5,613	551,159	45.52
2013		228,830	218,515	10,315	545,461	40.06
2012		206,792	194,747	12,046	537,821	36.21
2011		136,248	136,558	(310)	521,622	26.18
2010		95,976	99,134	(3,158)	473,252	20.95
2009		91,465	96,363	(4,898)	423,646	22.75
2008		91,365	87,732	3,633	410,631	21.37
2007		74,903	68,984	5,919	390,117	17.68

(1) The measurement date under GASB 68 is on a one year lag.

(2) All actuarially determined contributions through June 30, 2014 were determined as the annual requirement under GASB 25 and 27.

See independent auditors' report.

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Required Supplementary Information

June 30, 2016 and 2015
(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
2016	$ 1,752,195	2,334,043	581,848	75%	$ 928,889	63%
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%

See accompanying independent auditors' report.