LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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INDEPENDENT AUDITOR'S REPORT

To the Board of Fire and Police Pension Commissioners
Los Angeles Fire and Police Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2018 and 2017, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on the respective financial statements for each plan, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2018 and 2017, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Simpson & Simpson

Los Angeles, California
November 16, 2018

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2018, was $20.5 billion and $1.9 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.

- Net position increase by $1.5 billion or 7.8% and increased by $212.0 million or 12.7% for the Pension Plan and Health Subsidy Plan, respectively.

- As of June 30, 2018, the date of the most recent funding actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 92.86% and 51.28%, respectively.

- Additions to the Pension Plan's net position decreased by $344.5 million or 12.1% from $2.8 billion to $2.5 billion, due primarily to lesser appreciation in the fair value of investments in fiscal year 2018 relative to fiscal year 2017.

- Deductions from the Pension Plan's net position increased by $65.5 million or 6.9% over fiscal year 2017 from $949.2 million to $1.0 billion.

- Additions to the Health Subsidy Plan's net position decreased by $10.2 million or 2.9% from $354.6 million to $344.4 million, due to lesser appreciation in the fair value of investments in fiscal year 2018 relative to fiscal year 2017.

- Deductions from the Health Subsidy Plan's net position increased by $8.3 million or 6.7% over fiscal year 2017 from $124.2 million to $132.5 million in the fiscal year 2018.

- The total pension liability for the Pension Plan at June 30, 2018, was $21.7 billion, and the fiduciary net position was $20.4 billion. Thus, the net pension liability for the Pension Plan was $1.3 billion, and the fiduciary net position as a percentage of the total pension liability was 94.23%.

- The total Other Post-Employment Benefits (OPEB) liability for the Health Subsidy Plan at June 30, 2018, was $3.6 billion, and the fiduciary net position was $1.9 billion. Thus, the net pension liability for the Pension Plan was $1.7 billion, and the fiduciary net position as a percentage of the total pension liability was 52.33%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the financial statements of the System, which are:

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

The Statement of Fiduciary Net Position is a snapshot of account balances at year-end. It indicates the amount of assets available for payment to retirees, beneficiaries, and any current liabilities owed at year-end.

The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the fiduciary net position during the year.

The above statements are on a full accrual basis of accounting. Investment gains and losses are shown at trade date, and account balances are based on fair values recognizing both realized and unrealized gains and losses on investments.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 14 to 53 of this report.

The *Required Supplementary Information* (RSI) section includes the following six schedules:

Pension Plan:
- Schedule of Changes in Net Pension Liability and Related Ratio
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Pension Liability

Health Subsidy Plan:
- Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Other Postemployment Benefits Liability

FINANCIAL ANALYSIS

Pension Plan

Fiduciary Net Position

A summary of the Pension Plan's net position and changes in net position is presented below:

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2018	2017	Change	% Change
Cash	$ 1,748	$ 1,468	$ 280	19.1%
Receivables/Prepayments	177,363	186,266	(8,903)	-4.8%
Investments	21,175,122	20,616,058	559,064	2.7%
Capital Assets	23,757	24,540	(783)	-3.2%
Total Assets	21,377,990	20,828,332	549,658	2.6%
Liabilities	895,411	1,829,929	(934,518)	-51.1%
Net Position	$ 20,482,579	$ 18,998,403	$ 1,484,176	7.8%

Net position increased by $1.5 billion (7.8%) to $20.5 billion from fiscal year 2017. Assets increased in value by $549.6 million when compared with the prior fiscal year 2017, attributable to appreciation of investments due to favorable market conditions.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Cash	$ 1,468	$ 2,024	$ (556)	-27.5%
Receivables/Prepayments	186,266	122,778	63,488	51.7%
Investments	20,616,058	18,775,169	1,840,889	9.8%
Capital Assets	24,540	21,873	2,667	12.2%
Total Assets	20,828,332	18,921,844	1,906,488	10.1%
Liabilities	1,829,929	1,817,568	12,361	0.7%
Net Position	$ 18,998,403	$ 17,104,276	$ 1,894,127	11.1%

Net position increased by $1.9 billion (11.1%) to $19.0 billion from fiscal year 2016. Assets increased in value by $1.9 billion when compared with fiscal year 2016, attributable to appreciation of investments due to favorable market conditions.

Pension Plan (Continued)

Changes in Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2018	2017	Change	% Change
Additions				
Employer Contributions	$ 460,967	$ 454,309	$ 6,658	1.5%
Member Contributions	145,425	128,900	16,525	12.8%
Net Investment Income	1,886,956	2,256,694	(369,738)	-16.4%
Other Income	5,536	3,436	2,100	61.1%
Total Additions	2,498,884	2,843,339	(344,455)	-12.1%
Deductions				
Pension Benefits	991,013	925,903	65,110	7.0%
Refund of Contributions	3,786	4,175	(389)	-9.3%
Administrative Expenses	19,909	19,134	775	4.1%
Total Deductions	1,014,708	949,212	65,496	6.9%
Net Increase (Decrease)	1,484,176	1,894,127	(409,951)	-21.6%
Net Position, Beginning of Year	18,998,403	17,104,276	1,894,127	11.1%
Net Position, End of Year	$ 20,482,579	$ 18,998,403	$ 1,484,176	7.8%

<u>Additions to Fiduciary Net Position</u>

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

Contributions for fiscal year 2018 totaled $606.4 million, up by $23.2 million or 4.0% over fiscal year 2017. The employer's contribution for fiscal year 2018 was $461.0 million compared to $454.3 million for fiscal year 2017. The increase in employer's contributions was due to the increase in required contribution and contributions received as a result of the Airport Police officers transfer from LACERS to the System in fiscal year 2018. The increase in members' contribution was due to an increase in membership in Tier 6.

Net investment income amounted to $1.9 billion, a decrease in net investment income of $369.7 million or 16.4% when compared with $2.3 billion from fiscal year 2017. Investment income decreased in fiscal year 2018 due to less lesser appreciation in the fair value of investments in fiscal year 2018 relative to fiscal year 2017.

<u>Deductions from Fiduciary Net Position</u>

Costs associated with the Pension Plan include benefit payments to members, refund of contributions due to termination and member death, and administrative expenses.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions for the fiscal year ended June 30, 2018, totaled $1.0 billion, up by $65.5 million or 6.9% over fiscal year 2017. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2017.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Additions				
Employer Contributions	$ 454,309	$ 478,385	$ (24,076)	-5.0%
Member Contributions	128,900	129,734	(834)	-0.6%
Net Investment Income	2,256,694	156,205	2,100,489	1344.7%
Other Income	3,436	3,108	328	10.6%
Total Additions	2,843,339	767,432	2,075,907	270.5%
Deductions				
Pension Benefits	925,903	987,296	(61,393)	-6.2%
Refund of Contributions	4,175	3,067	1,108	36.1%
Administrative Expenses	19,134	19,347	(213)	-1.1%
Total Deductions	949,212	1,009,710	(60,498)	-6.0%
Net Increase (Decrease)	1,894,127	(242,278)	2,136,405	-881.8%
Net Position, Beginning of Year	17,104,276	17,346,554	(242,278)	-1.4%
Net Position	$ 18,998,403	$ 17,104,276	$ 1,894,127	11.1%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2017 totaled $583.2 million, down by $24.9 million or 4.1% over fiscal year 2016. The decrease in employer's contributions was due to the decrease in required contribution in fiscal year 2017. The employer's contribution for fiscal year 2017 was $454.3 million compared to $478.4 million for fiscal year 2016.

Net investment income amounted to $2.3 billion, an increase in net investment income of $2.1 billion or 1344.7% when compared with $156.2 million from fiscal year 2016. Investment income increased in fiscal year 2017 due to favorable market conditions.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions from Fiduciary Net Position

Costs associated with the Pension Plan include benefit payments to members, refund of contributions due to termination and member death, and administrative expenses.

Deductions for the fiscal year ended June 30, 2017, totaled $949.2 million, a decrease of $60.5 million over fiscal year 2016. The decrease was due primarily to the decrease in retiree benefit payments resulting from a decrease in the number of Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2016.

Health Subsidy Plan

A summary of the Health Subsidy Plan's net position and changes in net position is presented below:

Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2018	2017	Change	% Change
Cash	$ 159	$ 128	$ 31	24.2%
Receivables/Prepayments	25,939	25,604	335	1.3%
Investments	1,930,589	1,797,379	133,210	7.4%
Capital Assets	2,166	2,134	32	1.5%
Total Assets	1,958,853	1,825,245	133,608	7.3%
Liabilities	81,062	159,419	(78,357)	-49.2%
Net Position	$ 1,877,791	$ 1,665,826	$ 211,965	12.7%

Net position increased by $212.0 million (12.7%) to $1.9 billion when compared to fiscal year 2017 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy and the result of favorable market conditions.

Health Subsidy Plan (Continued)

Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Cash	$ 128	$ 169	$ (41)	-24.3%
Receivables/Prepayments	25,604	18,763	6,841	36.5%
Investments	1,797,379	1,564,177	233,202	14.9%
Capital Assets	2,134	1,822	312	17.1%
Total Assets	1,825,245	1,584,931	240,314	15.2%
Liabilities	159,419	149,527	9,892	6.6%
Net Position	$ 1,665,826	$ 1,435,404	$ 230,422	16.1%

Net position increased by $230.4 million (16.1%) to $1.7 billion when compared to fiscal year 2016 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy.

Changes in Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2018	2017	Change	% Change
Additions				
Contributions	$ 178,979	$ 165,170	$ 13,809	8.4%
Net Investment Income	165,453	189,381	(23,928)	-12.6%
Other Income	-	39	(39)	-100.0%
Total Additions	344,432	354,590	(10,158)	-2.9%
Deductions				
Benefits Payment	130,722	122,562	8,160	6.7%
Administrative Expenses	1,745	1,606	139	8.7%
Total Deductions	132,467	124,168	8,299	6.7%
Net Increase	211,965	230,422	(18,457)	-8.0%
Net Position, Beginning of Year	1,665,826	1,435,404	230,422	16.1%
Net Position	$ 1,877,791	$ 1,665,826	$ 211,965	12.7%

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Additions to Fiduciary Net Position

Total additions to net position decreased by $10.2 million compared to fiscal year 2017. This is due primarily to lesser appreciation in the fair value of investments which decreased by $25.7 million or 16.3% over fiscal year 2017. For fiscal year 2018, net investment income was $165.5 million compared to $189.4 million in fiscal year 2017.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were $132.5 million, $8.3 million or 6.7% more than the total deductions of fiscal year 2017. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2017	2016	Change	% Change
Additions				
Contributions	$ 165,170	$ 150,315	$ 14,855	9.9%
Net Investment Income	189,381	12,522	176,859	1412.4%
Other Income	39	249	(210)	-84.3%
Total Additions	354,590	163,086	191,504	117.4%
Deductions				
Benefits Payment	122,562	116,678	5,884	5.0%
Administrative Expenses	1,606	1,551	55	3.5%
Total Deductions	124,168	118,229	5,939	5.0%
Net Increase	230,422	44,857	185,565	413.7%
Net Position, Beginning of Year	1,435,404	1,390,547	44,857	3.2%
Net Position	$ 1,665,826	$ 1,435,404	$ 230,422	16.1%

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Additions to Fiduciary Net Position

Total additions to net position increased by $191.5 million compared to fiscal year 2016. This is due primarily to an increase in net investment income by $176.9 million, mostly attributed to favorable market conditions, and an increase in contributions of $14.9 million or 9.9% over fiscal year 2016. For fiscal year 2017, employer contribution was $165.2 million compared to $150.3 million in fiscal year 2016 due to an increase in required employer's contribution.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were $124.2 million, $5.9 million or 5.0% more than the total deductions of fiscal year 2016. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

REQUEST FOR INFORMATION

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

Raymond P. Ciranna, General Manager
Los Angeles Fire and Police Pension System
701 E. Third Street, Suite 200
Los Angeles, CA 90013

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2018 AND 2017

	2018			2017		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	$ 1,748,472	$ 159,412	$ 1,907,884	$ 1,467,868	$ 127,974	$ 1,595,842
Receivables						
Accrued Interest and Dividends	58,620,825	5,344,609	63,965,434	53,577,921	4,671,108	58,249,029
Contributions	8,560,537	-	8,560,537	2,945,722	-	2,945,722
Due from Brokers	110,179,156	10,045,312	120,224,468	129,740,348	11,311,212	141,051,560
Total Receivables	177,360,518	15,389,921	192,750,439	186,263,991	15,982,320	202,246,311
Prepaid Health Subsidy	2,071	10,548,759	10,550,830	2,612	9,622,248	9,624,860
Investments at Fair Value						
Temporary	1,429,879,100	130,365,694	1,560,244,794	1,034,325,371	90,176,061	1,124,501,432
U.S. Government Obligations	2,400,176,886	218,830,197	2,619,007,083	2,192,318,765	191,133,928	2,383,452,693
Corporate Bonds	1,494,592,267	136,265,757	1,630,858,024	1,595,889,017	139,135,121	1,735,024,138
Foreign Bonds	21,572,192	1,966,791	23,538,983	3,478,909	303,303	3,782,212
Domestic Stocks	7,760,974,506	707,587,673	8,468,562,179	7,266,875,297	633,551,307	7,900,426,604
Foreign Stocks	4,085,666,128	372,500,513	4,458,166,641	3,790,112,806	330,435,135	4,120,547,941
Real Estate	1,274,863,019	116,232,486	1,391,095,505	1,388,035,599	121,013,742	1,509,049,341
Alternative Investments	2,227,754,091	203,109,974	2,430,864,065	1,957,356,291	170,649,087	2,128,005,378
Total Investments	20,695,478,189	1,886,859,085	22,582,337,274	19,228,392,055	1,676,397,684	20,904,789,739
Capital Assets	23,756,816	2,165,969	25,922,785	24,540,357	2,134,022	26,674,379
Securities Lending Collateral	479,644,445	43,730,397	523,374,842	1,387,666,262	120,981,541	1,508,647,803
TOTAL ASSETS	21,377,990,511	1,958,853,543	23,336,844,054	20,828,333,145	1,825,245,789	22,653,578,934
LIABILITIES						
Accounts Payable and Accrued Expenses	19,032,948	1,697,321	20,730,269	10,340,953	869,950	11,210,903
Benefits in Process of Payment	15,052,256	835,776	15,888,032	11,043,094	874,149	11,917,243
Due to Brokers	223,979,350	20,420,764	244,400,114	232,403,127	20,261,708	252,664,835
Mortgage Payable	157,678,900	14,375,984	172,054,884	188,452,481	16,429,939	204,882,420
Security Deposit	23,562	2,148	25,710	23,648	2,062	25,710
Securities Lending Collateral	479,644,445	43,730,397	523,374,842	1,387,666,262	120,981,541	1,508,647,803
TOTAL LIABILITIES	895,411,461	81,062,390	976,473,851	1,829,929,565	159,419,349	1,989,348,914
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	$ 20,482,579,050	$ 1,877,791,153	$ 22,360,370,203	$ 18,998,403,580	$ 1,665,826,440	$ 20,664,230,020

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2018 AND 2017

	2018			2017		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	$ 460,966,593	$ 178,979,312	$ 639,945,905	$ 454,308,852	$ 165,170,422	$ 619,479,274
Member Contributions	145,424,650	-	145,424,650	128,900,736	-	128,900,736
Total Contributions	606,391,243	178,979,312	785,370,555	583,209,588	165,170,422	748,380,010
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	1,508,491,973	132,268,262	1,640,760,235	1,882,904,793	158,012,564	2,040,917,357
Interest	131,240,652	11,507,501	142,748,153	116,309,376	9,760,633	126,070,009
Dividends	251,005,757	22,008,798	273,014,555	233,045,202	19,557,054	252,602,256
Net Real Estate Income	50,086,601	4,391,716	54,478,317	56,818,584	4,768,191	61,586,775
Income from Alternative Investments	26,560,377	2,328,879	28,889,256	18,696,615	1,569,012	20,265,627
Securities Lending Income	7,242,965	635,081	7,878,046	8,677,850	728,241	9,406,091
Less: Securities Lending Expense	(1,012,708)	(88,795)	(1,101,503)	(1,096,682)	(92,033)	(1,188,715)
Other Income	882,174	77,351	959,525	19,722,827	1,655,131	21,377,958
Subtotal	1,974,497,791	173,128,793	2,147,626,584	2,335,078,565	195,958,793	2,531,037,358
Less: Investment Manager Expense	(87,541,591)	(7,675,861)	(95,217,452)	(78,384,510)	(6,577,994)	(84,962,504)
Net Investment Income	1,886,956,200	165,452,932	2,052,409,132	2,256,694,055	189,380,799	2,446,074,854
Other Income						
Miscellaneous	5,536,029	-	5,536,029	3,435,838	38,946	3,474,784
Total Other Income	5,536,029	-	5,536,029	3,435,838	38,946	3,474,784
TOTAL ADDITIONS	2,498,883,472	344,432,244	2,843,315,716	2,843,339,481	354,590,167	3,197,929,648
DEDUCTIONS						
Pension Benefits	991,013,490	-	991,013,490	925,903,130	-	925,903,130
Payment of Health Subsidy	-	119,850,212	119,850,212	-	112,744,840	112,744,840
Payment of Medicare Reimbursement	-	10,871,700	10,871,700	-	9,816,800	9,816,800
Refund of Contributions	3,786,094	-	3,786,094	4,174,935	-	4,174,935
Administrative Expenses	19,908,418	1,745,619	21,654,037	19,134,171	1,605,732	20,739,903
TOTAL DEDUCTIONS	1,014,708,002	132,467,531	1,147,175,533	949,212,236	124,167,372	1,073,379,608
NET INCREASE	1,484,175,470	211,964,713	1,696,140,183	1,894,127,245	230,422,795	2,124,550,040
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	18,998,403,580	1,665,826,440	20,664,230,020	17,104,276,335	1,435,403,645	18,539,679,980
End of Year	$ 20,482,579,050	$ 1,877,791,153	$ 22,360,370,203	$ 18,998,403,580	$ 1,665,826,440	$ 20,664,230,020

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

NOTE 1 – DESCRIPTION OF THE PLANS

The Los Angeles Fire and Police Pension System (the System or LAFPP) was established by the City of Los Angeles (the City) in 1899 and operates under the provisions of the City Charter and Administrative Code. The System is a single employer public employee retirement system whose main function is to provide retirement benefits to the safety members employed by the City.

The System is administered by a Board of Fire and Police Pension Commissioners (Board) composed of five commissioners who are appointed by the Mayor, two commissioners elected by Police members of the System and two commissioners elected by Fire members of the System. Under the provisions of the City Charter and Administrative Code and the State Constitution, the Board has the responsibility to administer the Pension Plan and Health Subsidy Plan.

Pension Plan

The System's Pension Plan is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain Harbor Port Police and Airport police officers of the City of Los Angeles. The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ended June 30, 1983 or have since been hired. The System is composed of six tiers. Effective July 1, 2011, a new pension tier, Tier 6, was added. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997, and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of August 6, 1999. Tier 4 includes members hired from July 1, 1997 through December 31, 2001, and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2011, and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 5 was the tier for all Harbor Port police officers hired on or after January 8, 2006 through June 30, 2011. Harbor Port police officers hired before January 8, 2006, who were members of LACERS, were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

Tier 6 was established for all firefighters, police and Harbor Port police officers hired on or after July 1, 2011. Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and elected to opt out of LACERS by the December 12, 2014 deadline. Effective January 7, 2018, Tier 6 also includes all new Airport police officers, as well as any Airport police officers hired prior to January 7, 2018 who elected to transfer to Tier 6 from LACERS at their own expense.

NOTE 1 – <u>DESCRIPTION OF THE PLANS</u> <u>(Continued)</u>

<u>Pension Plan (Continued)</u>

Tier 1 members hired prior to January 17, 1927, with 20 years of service are entitled to annual pension benefits equal to 50%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 members hired on or after January 17, 1927, with 20 or more years of service are entitled to annual pension benefits equal to 40%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 has no minimum age requirement and provides for unlimited post-employment cost-of-living adjustments (COLA) based on the Consumer Price Index (CPI). Tier 1 members who were active as of July 1, 1982, and who terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board-approved interest if they did not qualify for a pension or if they waived their pension entitlements.

Tier 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 2 has no minimum age requirement and provides for unlimited post-employment COLAs based on the CPI. Tier 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 3 members must be at least age 50 with 10 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 20% of the monthly average of a member's salary during any 12 consecutive months of service as a Plan member (one-year average compensation), increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Tier 3 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The Los Angeles City Council (City Council) may grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 4 members must have at least 20 years of service to be entitled to a service pension. There is no minimum age requirement. Annual pension benefits are equal to 40% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 4 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The City Council may grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment before they are eligible for pension benefits do not receive a refund of contributions.

Tier 5 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter; Section 4.2018 of the Administrative Code; and related ordinances. Health subsidy benefits are available to members and their covered dependents (e.g. spouses/domestic partners, children) on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for health subsidy benefits. Members who retire from the System with at least 10 years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55. Tier 6 members who retire on a service-connected disability pension are eligible for a minimum health subsidy at age 55 if they have fewer than 10 years of service.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. The maximum monthly subsidy for fiscal years 2018 and 2017 was $1,627.73 and $1,535.59, respectively. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

The System began pre-funding the health subsidy benefits effective with the 1989-1990 plan year. Full funding was phased in over four years.

Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted for in order to comply with Internal Revenue Code Section 401 (h).

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Health Insurance Premium Reimbursement Program

Effective January 1, 2001, members of the System are entitled to post-employment health insurance premium reimbursements under Section 4.1163 of the Administrative Code.

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The pensioner (whether living or deceased) must meet minimum age requirements and service requirements for a health subsidy. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the State of California but not within a Board-approved health plan zip code service area. They may not be enrolled in a Board-approved plan. Effective April 6, 2017, pensioners or qualified surviving spouses/domestic partners may reside anywhere and be eligible to participate in this program.

The reimbursement paid is a percentage of the maximum subsidy for health care. The System also reimburses basic Medicare Part B premiums for any pensioner or qualified surviving spouse/domestic partner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

Dental Subsidy Plan

Members who retire from the System with at least 10 years of service, are age 55 years or older, and are enrolled in a Board-approved dental plan, are eligible for dental subsidy benefits. Surviving spouses, domestic partners, and dependents are not covered by this subsidy.

The benefit paid is a percentage of a maximum subsidy for dental care based on the lower of the dental subsidy in effect for LACERS (civilian retirees) or active Safety Members. The maximum monthly subsidy was $44.60 for calendar years 2018 and 2017. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the maximum.

Deferred Retirement Option Plan

Effective May 1, 2002, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3, 5, and 6 who have at least 25 years of service and who are at least age 50 are eligible for DROP.

Members who enroll continue to work and receive their active salary for up to five years. Enrolled members continue to contribute to the System until they have completed the maximum number of years required for their tier but cease to earn additional retirement service and salary credits. Monthly pension benefits that would have been paid to enrolled members are credited to their DROP accounts. DROP account balances earn interest at an annual rate of 5%.

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive the proceeds from their DROP account and a monthly benefit based on their service and salary at the beginning date of their DROP participation, plus applicable COLAs.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

At June 30, 2018 and 2017, 1,442 and 1,303 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately $299,626,972 and $266,979,075, respectively.

Two Percent Opt-In

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree health subsidies and reimbursements for members of the System who retired or entered DROP on or after July 15, 2011. This ordinance added language to the Los Angeles Administrative Code to freeze the maximum monthly non-Medicare subsidy at the July 1, 2011, rate of $1,097.41 per month, and freeze the maximum monthly Medicare subsidy as of the January 1, 2011, rate of $480.41 per month. However, the ordinance also provided that members may make an irrevocable election to contribute towards vesting increases in the maximum medical subsidy, as allowed by an applicable Memorandum of Understanding.

Members who opted-in to make the additional two-percent pension contributions are entitled to the current maximum medical subsidy benefit and all future subsidy increases once they retire and become eligible to receive a subsidy. The opt-in period for the majority of the members began August 15, 2011, and closed September 29, 2011.

SINCE THE PENSION PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE LEGAL TEXT OF THE CITY CHARTER AND LOS ANGELES CITY ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan Membership

The components of the System's Pension Plan membership at June 30, 2018 and 2017, are as follows:

	2018	2017
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	-
Tier 4	150	175
Tier 5	5,645	6,093
Tier 6	2,929	2,399
	8,724	8,667
Active Vested:		
Tier 1	-	-
Tier 2	8	10
Tier 3	712	759
Tier 4	115	110
Tier 5	3,881	3,781
Tier 6	2	-
	4,718	4,660
Pensioners and Beneficiaries:		
Tier 1	306	349
Tier 2	7,262	7,519
Tier 3	676	639
Tier 4	308	289
Tier 5	4,337	4,039
Tier 6	1	1
	12,890	12,836
Vested Terminated		
Tier 3	56	44
Tier 5	300	213
Tier 6	178	117
	534	374
	26,866	26,537

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Financial Reporting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as outlined by the Governmental Accounting Standards Board (GASB).

Investments and Method Used to Value Investments

Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, U.S. Treasury bills, and repurchase agreements along with bonds, stocks, and alternative investments, are reported at fair value. Pooled temporary investments represent funds invested in a custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A1 or P-1 by Moody's Investors Service and Standard & Poor's, respectively, or equivalent quality as determined by the custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year-end. Resulting gains or losses are included in the System's Statements of Changes in Fiduciary Net Position.

The category of alternative investments includes private equity and hedge funds. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies. Hedge funds are pooled investment programs that invest in a wide variety of asset classes and use a wide variety of approaches. The use of leverage and short selling is a common characteristic.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on the accrual basis of accounting. The corresponding proceeds due from sales are reported on the Statements of Fiduciary Net Position as receivables and labeled due from brokers, and amounts payable for purchases are reported as liabilities and labeled due to brokers. Dividend income is recorded on ex-dividend date and interest income is accrued as earned.

Investments are carried at fair value. The fair value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their estimated fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the investment managers of investee limited partnerships.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments (Continued)

The sole hedge fund investment is valued by the fund manager based upon the information received from individual hedge funds in which monies are invested. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers with periodic external valuations.

Cash

Cash consists primarily of an undivided interest in the cash held by the City Treasurer. These monies are pooled with the monies of other City agencies and invested by the City Treasurer's office.

Capital Assets

Capital assets include land, building, improvements, computer/software, furniture and fixtures that are used in operation. Assets with an individual cost of at least $5,000 and an estimated useful life of more than one year are capitalized. Capital assets are valued at acquisition cost plus the cost of improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the building and improvements (20-year), computer/software (10-year) and furniture and fixtures (5-year). The System acquired the Neptune Building in fiscal year 2013 and occupied as the headquarters in fiscal year 2016. Recorded values of land and building were assigned based on a ratio obtained from the November 2016 independent appraisal report.

Mortgage Payable

Effective July1, 2017, mortgage payable are stated at fair value. The fair value of mortgage loans payable is presented at the amount at which the liability could be transferred to a market participant, exclusive of direct transaction costs such as prepayment penalties. The fair value of mortgage loans payable have been determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates and/or interest rate spreads for loans of comparable quality and maturity, (ii) the value of the underlying collateral, (iii) the credit risk of the borrower based on key elements of the real estate investment's valuation, (iv) market based loan-to-value and debt-service-coverage ratios relative to each mortgage loan payable valuation, and (v) key terms such as assumability, recourse provisions and guaranties. These inputs are considered within a discounted cash flow model used to determine the estimated fair value of mortgage loans payable. Prior to July 1, 2017, mortgage payable consists of the outstanding unpaid principal balance on the loans.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 years. Actual results could differ from those estimates.

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of the Tier 5 required contribution rate contingent on the System remaining at least 100% actuarially funded for pension benefits. Since July 1, 2006, Tier 5 members have been required to contribute 9% of salary because the System has remained less than 100% actuarially funded for pension benefits as determined by the System's actuary. Tier 6 members are required to contribute 9% of salary for regular pension contributions. Tier 6 members are also required to make an additional pension contribution of 2% of salary to support the City's ability to fund retiree health benefits. Airport police officers who transferred to Tier 6 from LACERS are required to contribute to the System at their same LACERS contribution rates until they retire.

The City Charter specifies that the City will make the following contributions each year:

A. An amount equal to the City's share of defined entry age normal costs.

B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4, and 5, any "unfunded liability" resulting from plan amendments shall be amortized over a 25-year period, and actuarial experience gains and losses shall be amortized over a 20-year period. For Tier 6, the unfunded liabilities shall be funded in accordance with the actuarial funding method adopted by the Board upon the advice of the consulting actuary. Charter Amendment G, effective April 8, 2011, now provides that with the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses for all Tiers.

C. An amount to provide for the Health Subsidy Plan.

Accordingly, the City's contributions as determined by the System's actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2018 and 2017, were as follows ($ in thousands):

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

Fiscal Year Ended June 30, 2018

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry Age Cost	$ -	$ 350	$ 15,466	$ 6,189	$ 220,050	$ 21,335	$ 2,449	$ 251
Unfunded Supplemental Present Value amount	14,846	5,887	40,494	18,811	88,833	10,368	721	95
Pension Administrative Expenses	-	13	849	327	10,637	1,241	114	15
Health Subsidy Entry Age Cost	-	50	4,340	1,590	51,547	9,576	743	95
Health Subsidy Unfunded Actuarial Accrued Liability	1,701	59,735	5,313	3,159	35,299	4,120	151	20
Health Administrative Expenses	-	1	56	22	701	82	8	1
Total	$ 16,547	$ 66,036	$ 66,518	$ 30,098	$ 407,067	$ 46,722	$ 4,186	$ 477

During fiscal year 2018, total contributions of $639,945,905 from the employer and $145,424,650 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2016. For the Pension Plan, fiscal year 2018 employer contributions included $266.0 million for entry age normal cost, $180.1 million for the unfunded supplemental present value annual amount, $13.2 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2018 employer contributions consisted of $67.9 million for entry age normal cost and $109.5 million for the unfunded actuarial accrued liability annual amount, and $0.9 million for health administrative expense. The total employer contributions for 2018 also included $2.3 million from LACERS for Airport Police officers who opted to transfer from LACERS to the System.

Fiscal Year Ended June 30, 2017

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry Age Cost	$ -	$ 768	$ 15,509	$ 6,399	$ 221,606	$ 13,543	$ 2,454	$ 153
Unfunded Supplemental Present Value amount	15,019	10,793	32,102	16,189	98,825	7,338	828	68
Pension Administrative Expenses	-	28	850	335	10,592	786	114	9
Health Subsidy Entry Age Cost	-	108	4,118	1,550	48,772	5,782	705	61
Health Subsidy Unfunded Actuarial Accrued Liability	1,846	57,008	4,704	2,768	34,222	2,541	136	11
Health Administrative Expenses	-	2	56	22	698	52	8	1
Total	$ 16,865	$ 68,707	$ 57,339	$ 27,263	$ 414,715	$ 30,042	$ 4,245	$ 303

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

During fiscal year 2017, total contributions of $619,479,274 from the employer and $128,900,736 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2015. For the Pension Plan, fiscal year 2017 employer contributions included $260.4 million for entry age normal cost, $181.1 million for the unfunded supplemental present value annual amount, $12.7 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2017 employer contributions consisted of $61.1 million for entry age normal cost and $103.2 million for the unfunded actuarial accrued liability annual amount, and $0.8 million for health administrative expense.

NOTE 4 – NET PENSION LIABILITY

The components of the System's net pension liability (NPL) at June 30, 2018 and 2017, were as follows:

	2018	2017
Total Pension Liability	$ 21,736,849,050	$ 20,814,044,544
Less: Fiduciary Net Position	20,482,579,050	18,998,403,580
Net Pension Liability	$ 1,254,270,000	$ 1,815,640,964
Fiduciary Net Position as a Percentage of the Total Pension Liability	94.23%	` 91.28%

The NPL was measured as of June 30, 2018 and June 30, 2017 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2017 and 2016 respectively.

Actuarial Assumptions

The TPL as of June 30, 2018 was determined by actuarial valuation as of June 30, 2017. The TPL as of June 30, 2017 that was determined by an actuarial valuation as of June 30, 2016, was re-measured as of June 30, 2017 to reflect the actuarial assumptions that the Board has approved for use in the pension funding valuation as of June 30, 2017. Those actuarial assumptions were based on the result of an experience study for the period from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin. They are the same as the assumptions used in the June 30, 2018 funding actuarial valuation for the Pension Plan. The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2018 and 2017:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30% to 12.00% based on years of service, including inflation.
Investment Return Rate	7.25%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%

NOTE 4 – NET PENSION LIABILITY (Continued)

Actuarial Assumptions (continued)

Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	Healthy: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set back one year for members. Headcount-Weighted RP-2014 Health Annuitant Mortality Table projected 20 years with two-dimensional Scale MP 2016, set forward one year for beneficiaries.
	Disabled: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year.

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2018 and 2017 are summarized in the following table:

	Target Allocation Percentage		Long Term Expected Real Rate of Return	
Asset Class	2018	2017	2018	2017
Large Cap U.S. Equity	23.00%	23.00%	5.61%	5.61%
Small Cap U.S. Equity	6.00%	6.00%	6.37%	6.37%
Developed International Equity	16.00%	16.00%	6.96%	6.96%
Emerging Markets Equity	5.00%	5.00%	9.28%	9.28%
U.S. Core Fixed Income	12.00%	12.00%	1.06%	1.06%
High Yield Bonds	3.00%	3.00%	3.65%	3.65%
Real Estate	10.00%	10.00%	4.37%	4.37%
Treasury Inflation Protected Securities (TIPS)	5.00%	5.00%	0.94%	0.94%
Commodities	5.00%	5.00%	3.76%	3.76%
Cash	1.00%	1.00%	-0.17%	-0.17%
Unconstrained Fixed Income	2.00%	2.00%	2.50%	2.50%
Private Equity	12.00%	12.00%	7.50%	7.50%
Total Portfolio	100.00%	100.00%	5.11%	5.11%

NOTE 4 – NET PENSION LIABILITY (Continued)

Discount Rate

The discount rate used to measure the TPL was 7.25% as of June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2018 and 2017.

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2018 and 2017, calculated using the discount rate of 7.25% for 2018 and 2017, as well as what the System's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NPL as of June 30, 2018	$ 4,210,457,814	$ 1,254,270,000	$ (1,163,202,289)
NPL as of June 30, 2017	$ 4,660,690,819	$ 1,815,640,964	$ (509,824,651)

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY

The components of the System's net Other Postemployment Benefits (OPEB) liability at June 30, 2018 and 2017, were as follows:

	2018	2017
Total OPEB Liability	$ 3,588,131,652	$ 3,357,827,513
Less: Fiduciary Net Position	1,877,791,153	1,665,826,440
Net OPEB Liability	$ 1,710,340,499	$ 1,692,001,073
Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.33%	49.61%

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY

The Net OPEB Liability (NOL) was measured as of June 30, 2018 and June 30, 2017. The Health Subsidy's Net Position was valued as of the measurement date, while the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuation as of June 30, 2018 and 2017, respectively. The NOLs as of June 30, 2018 and 2017 reflects the impact of the excise tax imposed in 2022 (deferred from 2020) by Affordable Care Act (ACA).

Actuarial Assumptions

The TOL as of June 30, 2018 and 2017 were determined by actuarial valuations as of June 30, 2018 and 2017, respectively. The actuarial assumptions were based on the results of an experience study for the period from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin. They are the same as the assumptions used in the June 30, 2018 and 2017 funding actuarial valuations for the Health Subsidy Plan with the exception of the inclusion of the impact of the excise tax on high-cost health plans.

The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2018 and 2017:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30 to 12.00% based on years of service, including inflation.
Investment Return Rate	7.25%, including inflation but net of investment expenses.
Real Across-the Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	Healthy: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set back one year for members. Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year for beneficiaries Disabled: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2018 and 2017 are summarized in the following table:

	Target Allocation Percentage		Long Term Expected Real Rate of Return	
Asset Class	2018	2017	2018	2017
Large Cap U.S. Equity	23.00%	23.00%	5.61%	5.61%
Small Cap U.S. Equity	6.00%	6.00%	6.37%	6.37%
Developed International Equity	16.00%	16.00%	6.96%	6.96%
Emerging Markets Equity	5.00%	5.00%	9.28%	9.28%
U.S. Core Fixed Income	12.00%	12.00%	1.06%	1.06%
High Yield Bonds	3.00%	3.00%	3.65%	3.65%
Real Estate	10.00%	10.00%	4.37%	4.37%
Treasury Inflation Protected Securities (TIPS)	5.00%	5.00%	0.94%	0.94%
Commodities	5.00%	5.00%	3.76%	3.76%
Cash	1.00%	1.00%	-0.17%	-0.17%
Unconstrained Fixed Income	2.00%	2.00%	2.50%	2.50%
Private Equity	12.00%	12.00%	7.50%	7.50%
Total Portfolio	100.00%	100.00%	5.11%	5.11%

Discount Rate

The discount rates used to measure the TOL was 7.25% as of June 30, 2018 and 2017. As contributions that are required to be made by the City to amortize the unfunded Actuarial Accrued Liability in the funding valuation are determined on an actuarial basis, the future Actuarially Determined Contributions and current Plan assets, when projected in accordance with the method prescribed by GASB 74, are expected to be sufficient to make all benefit payments to current members.

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Sensitivity Analysis

The following presents the NOL of the System as of June 30, 2018 and 2017, calculated using the discount rate of 7.25%, as well as what the System's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NOL as of June 30, 2018	$ 2,236,706,572	$ 1,710,340,499	$ 1,281,286,903
NOL as of June 30, 2017	$ 2,187,404,248	$ 1,692,001,073	$ 1,288,489,584

Sensitivity Analysis to Changes in Trend Rate

The following presents the NOL of the Health Subsidy Plan of the System as of June 30, 2018, as well as what the System's NOL would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current Discount	1% Increase
NOL as of June 30, 2018	$ 1,242,463,802	$ 1,710,340,499	$ 2,350,115,477
NOL as of June 30, 2017	$ 1,251,151,237	$ 1,692,001,073	$ 2,287,799,178

Additional information from the actuarial valuations as of June 30, 2018 and 2017 are as follows:

	June 30, 2018	June 30, 2017
Non-Medicare medical plan	7.00%, graded down to an ultimate of 4.50% over 10 years	7.00%, graded down to an ultimate of 4.50% over 10 years
Medicare medical plans	6.50%, graded down to an ultimate of 4.50% over 8 years	6.50%, graded down to an ultimate of 4.50% over 8 years
Dental and Medicare Part B	4.00%	4.50%
Medical Subsidy Trend	For employees not subject to freeze For all non-Medicare retirees, increase at lesser of 7% or medical trend. For Medicare retirees with single-party premium, increase with medical trend. For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2018 and 2017 (e.g., Fire Kaiser), increase with medical trend. For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2018 and 2017 (e.g., Police Blue Cross PPO), increase with lesser of 7% or medical trend.	

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

The following assumptions were adopted by the Board based on the July 1, 2013 through June 30, 2016 actuarial experience study and the economic assumptions study for June 30, 2018 and 2017 actuarial valuations:

Actuarial Cost Method — Entry age normal, level percent of pay.

Administrative Expenses — Out of the total of 1.25% of payroll in administrative expense, 0.09% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.09% of payroll payable at the beginning of the year.

Spouse Age Difference — Male retirees are assumed to be 3 years older than wives. Female retirees are assumed to be 2 years younger than husbands.

Participation

Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation for Current Retirees Age 55-64 Without Subsidy Upon Attaining Age 65 (Percentage)
10-14	45	80	63.64
15-19	60	85	62.50
20-24	75	90	60.00
25 and over	95	95	0.00

Medicare Coverage — 100% of future retirees are assumed to elect Medicare Parts A and B.

Dental Coverage — 85% of future retirees are assumed to elect dental coverage.

Spousal Coverage — Of future retirees receiving a medical subsidy, 80% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data.

Implicit Subsidy — No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums.

Other actuarial assumptions on mortality rates, termination rates, retirement rates, net investment return, and future benefit accruals are the same as for Pension Plan benefits.

The per capita cost assumptions were based on premium, subsidy, and census data provided by the System and are summarized as follows:

NOTE 5 – <u>NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY</u> (Continued)

For Participants under Age 65:

	Maximum Subsidies							
	2018				2017			
Plan	Assumed Election %	Single	Married	Surviving Spouse	Assumed Election %	Single	Married	Surviving Spouse
Fire Medical	80	$1,725.39	$1,725.39	$ 853.39	80	$1,627.73	$1,627.73	$ 826.43
Fire Kaiser	10	1,725.39	1,725.39	853.39	10	1,627.73	1,627.73	826.43
Fire Blue Cross	5	1,725.39	1,725.39	853.39	5	1,627.73	1,627.73	826.43
Fire California Care	5	1,725.39	1,725.39	853.39	5	1,627.73	1,627.73	826.43
Fire Vivity Value	0	1,725.39	1,725.39	853.39	0	1,627.73	1,627.73	826.43
Fire HDHP PPO	0	1,725.39	1,725.39	853.39	0	-	-	-
Police Blue Cross PPO	60	1,725.39	1,725.39	853.39	65	1,627.73	1,627.73	826.43
Police Blue Cross HMO	15	1,725.39	1,725.39	853.39	15	1,627.73	1,627.73	826.43
Police Kaiser	25	1,725.39	1,725.39	853.39	20	1,627.73	1,627.73	826.43
Dental	85	44.60	44.60	-	85	44.60	44.60	-

For Participants Age 65 and Over:

	Maximum Subsidies							
	2018				2017			
Plan	Assumed Election %	Single	Married	Surviving Spouse	Assumed Election %	Single	Married	Surviving Spouse
Fire Medical	85	$ 542.51	$ 803.61	$ 542.51	85	$ 505.93	$ 818.13	$ 205.93
Fire Kaiser	15	542.51	524.92	542.51	15	505.93	496.36	253.18
Fire Blue Cross	0	542.51	1,566.34	542.51	0	505.93	1,485.70	505.93
Fire California Care	0	542.51	1,557.80	542.51	0	505.93	1,475.69	505.93
Fire Vivity Value	0	542.51	1,583.47	542.51	0	505.93	1,502.10	505.93
Fire HDHP PPO	0	542.51	633.89	542.51	0	-	-	-
Police Blue Cross PPO	75	542.51	1,362.97	542.51	75	505.93	1,187.12	505.93
Police Blue Cross HMO	10	542.51	1,200.23	542.51	10	505.93	1,151.64	505.93
Police Kaiser	15	542.51	452.25	542.51	15	505.93	405.50	205.26
Dental	85	44.60	44.60	-	85	44.60	44.60	-
Medicare	100	134.00	134.00	-	100	134.00	134.00	134.00

Note: The System pays the lower of the member's subsidy or member's medical plan premium.

Beginning January 1, 2018, the Harbor Port Police and Airport Police officers, upon reaching eligibility to retire, have a choice of retiree medical and dental plans through either the Los Angeles Police Relief Association (LAPRA) or United Firefighters of Los Angeles City. In order to estimate the liability beginning with the June 30, 2017 valuation, the actuary assumed that, effective January 1, 2018 Harbor Port Police retirees previously assumed to enroll in a LACERS plan will enroll in LAPRA retiree health plans in proportion to those assumed for future System Police retirees.

NOTE 5 – NET OTHER POSTEMPLOYEMENT BENEFITS LIABILITY (Continued)

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2018 and 2017, are as follows:

	2018	2017
Retired Members	9,264	9,145
Beneficiaries	1,649	1,687
Vested Terminated Members	899	882
Active Members	13,442	13,327
	25,254	25,041

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2018, cash and temporary investments consisted of $ 1,907,884 cash held by the City Treasurer's office and $1,560,244,794 in collective short-term investment funds (STIF). At June 30, 2017, cash and temporary investments consisted of $1,595,842 cash held by the City Treasurer's office and $1,124,501,432 in collective STIF. Cash held by the City Treasurer's office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

The System measures and categorizes its investments using fair value measurements guidelines established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The levels of valuation inputs are as follows:

Level 1 – Quoted prices for identical assets or liabilities in an active market
Level 2 – Observable inputs other than quoted market prices; and,
Level 3 – Unobservable inputs.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Fair Value of Investments (continued)

At June 30, 2018, the System has the following recurring fair value measurements ($ in thousands):

	June 30, 2018	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 2,122,366	$ -	$ 2,122,366	$ -
U.S. Agencies	496,232	-	496,128	104
Municipal/Provincial Bonds	19,024	-	19,024	-
Collateralized Debt Obligations	168,519	-	167,102	1,417
Commercial Paper	12,170	-	12,170	-
Corporate Bonds	1,436,670	-	1,436,670	-
Total Debt Securities	4,254,981	-	4,253,460	1,521
Equity Securities				
Common Stock	12,854,408	12,831,568	19,012	3,828
Preferred Stock	72,072	72,072	-	-
Other	135	130	-	5
Total Equity Securities	12,926,615	12,903,770	19,012	3,833
Real Estate	644,044	-	-	644,044
Total Investments by Fair Value Level	$ 17,825,640	$ 12,903,770	$ 4,272,472	$ 649,398

Investments Measured at the Net Asset value (NAV) ($ in thousands):

Private Equity Partnerships	$ 2,328,362
Commingled Real Estate Funds	747,052
Hedge Funds	102,734
Corporate Debt Securities	18,014
U.S. Agencies Debt Securities	410
Total Investments Measured at NAV	$ 3,196,572

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities such as U.S. Treasuries, U.S. Agencies, municipal bonds, collateralized debt obligations, commercial paper, corporate bonds and other equity securities are classified in Level 2. They are valued using quoted prices for identical securities in markets that are not active. The value prices observed used market-based inputs.

Debt securities, namely collateralized debt obligations and corporate bonds, classified in Level 3 are valued using unobservable inputs which can be extrapolated data, proprietary models or indicative quotes. Other equity securities classified in Level 3 are valued using uncorroborated indicative quotes.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Fair Value of Investments (continued)

Real estate corporate accounts investments are valued based on an independent appraisal or other methods using various techniques including models. Real estate corporate accounts are scheduled for independent appraisal on a rolling 3-year period.

The System's investments such as private equity partnerships, comingled real estate funds, hedge funds, asset/mortgage-backed security funds and commercial mortgages are valued using the net asset value (NAV). Real estate pooled investments are valued based on an independent appraisal or other methods using various techniques including models. Hedge funds generally do not have readily obtainable market values and take the form of limited partnerships. Valuation is either based on the partnerships audited financial statements or from the most recently available internal valuation.

Investments measured at the NAV ($ in thousands):

Investment Strategy	Fair value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity Partnerships	$ 2,328,362	$ 1,316,735	N/A	-
Commingled Real Estate Funds [1]	747,052	223,832	Quarterly	90-179 days
Hedge Funds	102,734	-	Quarterly	90 days
Corporate Debt Securities	18,014	-	Anytime	-
U.S. Agencies Debt Securities	410	-	N/A	-
Total Investments Measured at NAV	$ 3,196,572			

[1] This type of investment includes $270 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Investment Policy

The Board is responsible for adopting an investment policy using the "prudent person standard" per Article XI, Section 1106 (c) of the City Charter. Investments are made with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

The Board's adopted allocation policy effective during fiscal years 2018 and 2017 were as follow:

Asset Class	2018	2017
Large Cap U.S. Equity	23%	23%
Small Cap U.S. Equity	6%	6%
Developed International Equity	16%	16%
Emerging Markets Equity	5%	5%
U.S. Core Fixed Income	12%	14%
High Yield Bonds	3%	3%
Real Estate	10%	10%
TIPS	5%	5%
Commodities	5%	5%
Cash	1%	1%
Unconstrained Fixed Income	2%	2%
Private Equity	12%	10%
Total Portfolio	100%	100%

Credit Risk

Credit risk is the risk that an issuer or a counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Credit Risk (continued)

As of June 30, 2018, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 2,214,812,124	58.84%
AA	90,967,740	2.42%
A	347,848,642	9.24%
BBB	403,255,653	10.71%
BB	255,989,503	6.80%
B	244,331,695	6.49%
CCC	54,471,982	1.45%
CC	10,098,113	0.27%
C	3,833,298	0.10%
Not Rated	138,416,822	3.68%
Subtotal	3,764,025,572	100.00%
U.S. Government Issued or Guaranteed Securities	509,378,518	
Total Fixed Income Investments	$ 4,273,404,090	

As of June 30, 2017, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 1,848,640,044	52.25%
AA	81,536,954	2.30%
A	358,403,106	10.13%
BBB	510,072,726	14.42%
BB	226,984,235	6.42%
B	262,679,682	7.42%
CCC	60,665,888	1.71%
CC	8,076,644	0.23%
C	4,548,013	0.13%
Not Rated	176,255,461	4.98%
Subtotal	3,537,862,753	100.00%
U.S. Government Issued or Guaranteed Securities	584,396,290	
Total Fixed Income Investments	$ 4,122,259,043	

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2018 and 2017, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to $28,087,525 and $15,831,287, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2018 and 2017, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2018 and 2017, the System's sole hedge fund investment of $102,734,392 and $98,169,432, private equity of $2,328,362,307 and $2,029,592,446, and commingled real estate funds of $747,051,796 and $762,084,031, were exposed to custodial credit risk, respectively.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2018 and 2017, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System manages its exposure to interest rate risk by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Bloomberg Barclays US Aggregate Bond Index for core fixed income investments, (2) the Bloomberg Barclays US Government/Credit Long-Term Bond Index for long duration investments, and (3) the B of A ML High Yield Master II Index for high yield investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the System's investments to interest rate fluctuations is provided in the following table that shows the weighted average effective duration of the System's fixed income investments by investment type.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Interest Rate Risk (Continued)

Fiscal Year 2018

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	$ 79,534,019	12.69
Bank Loans	12,170,059	5.31
Commercial Mortgage-Backed	37,360,922	26.38
Commercial Paper	11,518,376	0.79
Corporate Bonds	1,351,935,379	10.41
Corporate Convertible Bonds	8,526,945	4.74
Government Agencies Bonds	69,632,607	8.76
Government Bonds	1,194,699,042	11.44
Government Mortgage-Backed Securities	345,584,543	21.38
Government Issued Commercial Mortgage-Backed	20,863,457	5.79
Index Linked Government Bonds	962,141,571	9.23
Municipal/Provincial Bonds	20,497,588	53.92
Non-Government Backed Collateralized Mortgage Obligations	59,967,739	22.68
Short Term Bills and Notes	7,949,551	0.17
Foreign Bonds	1,125,562	3.75
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	89,896,730	N/A
Total Fixed Income Investments	$ 4,273,404,090	

Fiscal Year 2017

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	$ 75,273,558	11.93
Bank Loans	7,497,881	4.74
Collateralized Bonds	790,000	9.05
Commercial Mortgage-Backed	15,823,773	23.65
Corporate Bonds	1,482,014,086	10.98
Corporate Convertible Bonds	8,176,084	5.84
Government Agencies Bonds	47,387,823	9.33
Government Bonds	1,041,980,438	10.60
Government Mortgage-Backed Securities	355,182,920	20.48
Government Issued Commercial Mortgage-Backed	50,357,242	5.32
Index Linked Government Bonds	842,495,185	9.40
Municipal/Provincial Bonds	21,566,034	57.96
Non-Government Backed Collateralized Mortgage Obligations	55,716,015	22.00
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	117,998,004	N/A
Total Fixed Income Investments	$ 4,122,259,043	

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Interest Rate Risk (Continued)

Highly sensitive investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. The following are asset-backed investments by investment type:

Investment Type	2018 Fair Value	2017 Fair Value
Asset-Backed Securities	$ 79,534,019	$ 75,273,558
Commercial Mortgage - Backed	37,360,922	15,823,773
Government Agencies Bonds	69,632,607	47,387,823
Government Mortgage-Backed Securities	366,448,000	405,540,162
Index Linked Government Bonds	962,141,571	842,495,185
Non-Government Backed Collateralized Mortgage Obligations	59,967,739	55,716,015
Total Asset-Backed Investments	$ 1,575,084,858	$ 1,442,236,516

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 16% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks.

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2018 and 2017 are as follows:

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Foreign Currency Risk (Continued)

Foreign Currency Type	2018	2017
United Arab Emirates Dirham	$ 3,472,750	$ 4,667,428
Australian Dollar	160,740,305	153,550,821
Brazilian Real	68,482,495	68,477,971
British Pound Sterling	707,082,640	641,371,528
Canadian Dollar	157,934,004	89,248,266
Chilean Peso	6,094,404	5,304,906
Colombian Peso	2,499,041	2,042,929
Czech Koruna	5,464,240	5,544,309
Danish Krone	62,145,313	61,314,852
Euro	1,312,520,572	1,047,711,691
HK offshore Chinese Yuan Renminbi	21,593,480	-
Hong Kong Dollar	336,389,195	279,778,439
Hungarian Forint	3,914,969	8,109,594
Indian Rupee	86,721,699	98,508,669
Indonesian Rupiah	34,449,110	35,735,098
Japanese Yen	666,544,540	645,191,555
Kenyan Shilling	5,836,280	3,851,280
Malaysian Ringgit	16,020,309	16,756,158
Mexican Peso	54,056,452	41,589,434
New Israeli Shekel	5,451,753	7,856,209
New Taiwan Dollar	163,834,830	153,555,393
New Zealand Dollar	20,568,931	5,853,269
Norwegian Krone	28,648,913	21,020,804
Philippine Peso	6,184,490	10,028,309
Polish Zloty	7,905,028	14,821,022
Qatari Rial	-	223,372
Singapore Dollar	42,929,333	37,316,830
South African Rand	93,108,290	80,135,644
South Korean Won	219,801,696	217,709,310
Swedish Krona	95,220,407	101,368,041
Swiss Franc	218,734,725	230,820,366
Thai Baht	21,275,503	20,784,062
Turkish Lira	11,211,705	14,082,594
	$ 4,646,837,402	$ 4,124,330,153

Note: The foreign currency total comprises foreign stocks, foreign bonds, and currency holdings.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on the investment of the Pension Plan and Health Subsidy Plan, gross of investment expense, for the years ended June 30, 2018 and 2017, was 9.21% and 13.27%, respectively. The source for the rate of return was the June 30, 2018 and 2017 Investment Hierarchy provided by the custodian bank, Northern Trust.

NOTE 7 – SECURITIES LENDING

The System has entered into various short-term arrangements with its custodian, whereby investments are loaned to various brokers, as selected by the custodian. The lending arrangements are collateralized by cash, letters of credit, and marketable securities held on the System's behalf by the custodian. These agreements provide for the return of the investments and for a payment of: a) a fee when the collateral is marketable securities or letters of credit, or b) interest earned when the collateral is cash on deposit.

Upon direction of the Board, the custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to the borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a reasonable determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examinations Council Supervisory Policy on Securities Lending.

These agreements provide the return of the securities and revenue determined by the type of collateral received (from which the custodian's fee is deducted). The securities on loan to brokers are shown at their fair value on the System's Statements of Fiduciary Net Position.

As required by GASB, cash received as collateral on securities lending transactions is reported as an asset, and the liabilities from these transactions are reported in the Statements of Fiduciary Net Position. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

NOTE 7 – SECURITIES LENDING (Continued)

As of June 30, 2018 and 2017, the fair value of securities on loan was $1,451,867,843 and $1,621,094,413, respectively, and the fair value of collateral received was $1,494,855,698 and $1,663,433,717, respectively. Of the $1,494,855,698 collateral received as of June 30, 2018, $523,374,842 was cash collateral and $971,480,856 represented the fair value of non-cash collateral; and of the $1,663,433,717 collateral received as of June 30, 2017, $1,508,647,803 was cash collateral and $154,785,914 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2018 and 2017:

Fair value of collateral received for loaned securities as of June 30, 2018:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 261,474,564	$ 35,811,210	$ 297,285,774
Domestic Corporate Fixed Income Securities	30,853,920	110,389,499	141,243,419
Domestic Equities	161,313,599	690,993,739	852,307,338
International Fixed Income Securities	781,573	-	781,573
International Equities	68,951,186	134,286,408	203,237,594
	$ 523,374,842	$ 971,480,856	$ 1,494,855,698

Fair value of loaned securities as of June 30, 2018:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 255,630,200	$ 35,035,699	$ 290,665,899
Domestic Corporate Fixed Income Securities	30,098,831	107,344,638	137,443,469
Domestic Equities	157,418,579	674,254,463	831,673,042
International Fixed Income Securities	727,301	-	727,301
International Equities	65,651,903	125,706,229	191,358,132
	$ 509,526,814	$ 942,341,029	$ 1,451,867,843

NOTE 7 – SECURITIES LENDING (Continued)

Fair value of collateral received for loaned securities as of June 30, 2017:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 250,922,055	$ 2,055,821	$ 252,977,876
Domestic Corporate Fixed Income Securities	162,630,952	16,136,630	178,767,582
Domestic Equities	1,011,071,296	75,346,640	1,086,417,936
International Fixed Income Securities	490,784	-	490,784
International Equities	83,532,716	61,246,823	144,779,539
	$ 1,508,647,803	$ 154,785,914	$ 1,663,433,717

Fair value of loaned securities as of June 30, 2017:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 245,138,671	$ 2,010,764	$ 247,149,435
Domestic Corporate Fixed Income Securities	158,879,808	15,836,532	174,716,340
Domestic Equities	988,431,758	73,828,131	1,062,259,889
International Fixed Income Securities	452,264	-	452,264
International Equities	79,070,230	57,446,255	136,516,485
	$ 1,471,972,731	$ 149,121,682	$ 1,621,094,413

For the fiscal years ended June 30, 2018 and 2017, securities lending income amounted to $7,878,046 and $9,406,091, respectively, while securities lending expenses amounted to $1,101,503 and $1,188,715, respectively.

NOTE 8 – DERIVATIVE INSTRUMENTS

The System, through its outside investment managers, holds investments in swaps, options, rights, and warrants and enters into futures and forward foreign currency contracts to manage portfolio risk or use them as substitutes for owning securities. Forward contracts are subject to credit risk if the counter-parties to the contracts are unable to meet the terms of the contract. Futures contracts have little credit risk, as organized exchanges are the guarantors. Due to the level of risk associated with derivative investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amount reported in the financial statements.

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period.

NOTE 8 – DERIVATIVE INSTRUMENTS (Continued)

For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities.

They can also trade as over the counter securities and the market values would then be determined by the value of a reference security or value that would typically be publicly priced. For assets traded over the counter and held at the custodian bank an independent pricing service is involved in calculating the price of the derivative security using the value of the reference security or reference value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2018 financial statements are as follows:

	Changes in Fair Value		Fair Value at June 30, 2018		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts	-	$ -	Investment	$ -	$ (71,009,047)
Futures - Longs	Investment Loss	10,101,889	Investment	-	188,610,523
Forwards	Investment Loss	(121,654)	Investment	(3,660)	-
Options	Investment Loss	409,425	Investment	45,601	
Rights/Warrants	Investment Revenue	377,925	Investment	134,901	-
Swaps	Investment Revenue	4,942,264	Investment	201,503	

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2017 financial statements are as follows:

	Changes in Fair Value		Fair Value at June 30, 2017		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts	-	$ -	Investment	$ -	$ (29,396,013)
Futures - Longs	Investment Loss	(2,505,665)	Investment	-	86,342,930
Forwards	Investment Loss	805,302	Investment	(27,628)	-
Options	Investment Loss	(1,199,008)	Investment	65,977	
Rights/Warrants	Investment Revenue	226,370	Investment	145,027	-
Swaps	Investment Revenue	(8,130,361)	Investment	243,493	

NOTE 9 – CAPITAL ASSETS

The System's capital assets include land, building, computer/software, and furniture and fixtures. The land and building were acquired in July 2013 for $12,735,689, additional land for parking was purchased in December 2015 for $3,825,000, and capital improvements totaled $8,474,949 as of June 30, 2017. This building is the System's headquarters that will provide long-term control over its future space needs and lease costs. The headquarters was occupied in March 2016. Furniture and fixtures were acquired in fiscal year 2016. Computer/software represents the cost in developing the System's Pension and Retirement Information System (PARIS). PARIS project started in July 2016 and expected to be in use in 2019.

The following is a summary of the System's capital assets at June 30, 2018 and 2017:

	2018	2017
Capital Assets Not Depreciated/Amortized		
Land	$ 6,465,660	$ 6,465,660
Computer/Software under Development	2,075,259	1,823,424
Total Capital Assets Not Depreciated/Amortized	8,540,919	8,289,084
Capital Assets Depreciated/Amortized		
Building	18,777,794	18,569,978
Furniture and Fixtures	1,297,014	1,297,014
Total Capital Assets Depreciated/Amortized	20,074,808	19,866,992
Less: Accumulated Depreciation/Amortization		
Building	(2,109,286)	(1,157,444)
Furniture and Fixtures	(583,656)	(324,253)
Total Accumulated Depreciation/Amortization	(2,692,942)	(1,481,697)
Total Capital Assets Depreciated/Amortized, Net	17,381,866	18,385,295
Total Capital Assets, Net	$ 25,922,785	$ 26,674,379

NOTE 10 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2018, interest rates range from 2.90% to 7.50% per annum. The average monthly principal and interest payments range from $54,241 to $223,443. For fiscal year 2017, interest rates range from 2.90% to 7.50% per annum. The average monthly principal and interest payments range from $14,595 to $358,881.

The mortgages mature from May 2019 to September 2024. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

Year Ending	Principal	Interest	Total
2019	$ 24,068,221	$ 7,081,851	$ 31,150,072
2020	12,622,441	5,326,625	17,949,066
2021	2,000,813	5,228,250	7,229,063
2022	71,888,471	4,555,065	76,443,536
2023	553,869	2,218,694	2,772,563
2024-2025	66,643,299	747,143	67,390,442
	$ 177,777,114	$ 25,157,628	$ 202,934,742

The mortgages are secured by real estate that was purchased with the funds.

The following is a summary of mortgage payable activities for the years ended June 30, 2018 and 2017:

	Outstanding Balance June 30, 2017	Additions	Deletions	Outstanding Balance June 30, 2018	Fair Value June 30, 2018
Mortgage Payable	$ 204,882,420	-	27,105,305	$ 177,777,115	$ 172,054,884

	Outstanding Balance June 30, 2016	Additions	Deletions	Outstanding Balance June 30, 2017	Fair Value June 30, 2017
Mortgage Payable	$ 182,938,598	26,000,000	4,056,178	$ 204,882,420	$ 204,721,274

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were $1,943,111,293 and $1,864,093,970 as of June 30, 2018 and 2017, respectively.

The City Charter and the Administrative Code provide that member contributions as of June 30 and December 31 of each year earn interest at a rate based on investment earnings, exclusive of gains and losses on principal resulting from sales of securities.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1,540,567,000 and $1,380,398,000 at June 30, 2018 and 2017, respectively.

The Patient Protection and Affordable Care Act (PPACA) of 2010

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018; subsequent legislation has since postponed this provision until 2020 (subsequently deferred to 2022). If there is no change in the law or the System plan provisions between now and 2022, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment health care plans will be subject to the excise tax in 2022.

GASB 74 requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments. The June 30, 2018 and 2017 OPEB liabilities under GASB 74 reflect the excise tax from the Affordable Care Act (ACA) and related statutes.

Retiree Health Subsidy Freeze Litigation

In 2017-2018, there were two cases before the courts that involved the retiree health insurance premium subsidy program that LAFPP administers (“retiree medical subsidy”). Both pending actions were brought by the Los Angeles Police Protective League against the Board and the City.

The two cases (the “LAPPL I Action” and the “LAPPL II Action”) both seek to determine what retiree medical subsidy benefit the additional 2% salary contribution provides members who make the contribution under the unions’ and City’s 2011 Letter of Agreement (“LOA”). The union plaintiffs argue that the 2% contribution grants members the ceiling amount under LAAC § 4.1167, meaning either 7% or the medical trend rate for that year with no discretion reserved to the Board to grant anything lower. The City argues that the 2% contribution only gave those members who “opted in” the right to participate in the process that existed under LAAC § 4.1154(e) prior to the 2011 Freeze Ordinance. Under the pre-Freeze Ordinance process, the LAFPP Board may exercise its discretion in setting the annual subsidy rate and can set it up to the maximum amount of 7% or the medical trend rate, whichever is lower.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

Retiree Health Subsidy Freeze Litigation (Continued)

In the LAPPL I Action, the plaintiffs agreed to dismiss LAFPP from the action in exchange for LAFPP's agreement to be bound by the final judgment rendered in the case following the conclusion of all appeals. Under the stipulation, the plaintiffs further agreed to allow LAFPP to continue to exercise its discretion in setting the retiree medical subsidy under LAAC § 4.1154(e) as it did before the 2011 Freeze Ordinance.

The LAPPL Action I proceeded to trial, and on November 1, 2016, the trial court ruled in favor of the plaintiffs, finding that the language of the LOA was unambiguous without weighing the conflicting evidence regarding the interpretation of the LOA and the parties' intent. The City appealed, and on October 30, 2018, the Second District Court of Appeal reversed and remanded the case, and held that the trial court had committed a reversible error in failing to consider and weigh the conflicting evidence presented before the court. The Court of Appeal found that, upon consideration of the conflicting evidence in the record, the LOA was ambiguous and the trial court had essentially ignored the City's evidence in its analysis. Because the trial court erred in its contract ambiguity analysis and did not properly weigh the evidence, the case was sent back to the trial court for further proceedings consistent with the Court of Appeal's decision. The case currently awaits trial reassignment with the Los Angeles Superior Court.

While the LAPPL Action I was pending on appeal, the unions filed a second action ("LAPPL Action II") on August 10, 2017. The LAPPL Action II raises the same issues as the LAPPL Action I regarding the 2% contribution, and also asserts a new breach of fiduciary duty claim, which preserves the unions' rights to challenge LAFPP's 2017 discretionary action to set the subsidy should the unions lose in the pending LAPPL Action I. Given the similarities between the two LAPPL Actions and the dispositive effect of the first action on the second, the trial court has stayed the LAPPL Action II pending the final judgment of the LAPPL Action I.

With regard to the LAPPL Action I and LAPPL Action II, and under the stipulation with the unions, LAFPP will continue to set and implement the retiree health insurance premium subsidy increases in the same manner as it did prior to the 2011 Freeze Ordinance for members who opted-in to pay the 2% contribution. This means that LAFPP continues to exercise its discretion provided under the Los Angeles Administrative Code to set the subsidy up to and including the medical trend rate or 7%, whichever is lower, until the courts render final judgment.

DROP Program Review

On November 1, 2018, the City Administrative Officer (CAO) submitted a report to the City Council recommending approval of an ordinance amending the DROP Program. There must be two readings of the ordinance, it must be approved by the Mayor and published before it is approved. The changes, which are anticipated to be effective February 1, 2019, would impact members who enter DROP on or after the ordinance effective date. The changes include:

- Participants must serve at least 112 hours on active duty status in a given calendar month or they are not eligible for pension accrual;
- If a participant should incur a serious injury in the line of duty and is hospitalized for three days or longer as a result, the participant can continue to retain eligibility for up to twelve months;

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

DROP Program Review (continued)

- If a participant leaves active duty and becomes ineligible for pension accrual, they will be allowed to go back to work and extend their time in DROP for up to 30 additional months, once the standard five-year DROP period expires.

The CAO also submitted the results of an actuarial study evaluating the proposed changes to DROP and the future costs to the City. This is separate from the actuarial study (in progress) to evaluate cost neutrality of the DROP Program. The cost neutrality actuarial study could possibly generate additional changes to the DROP Program that is expected to only affect future DROP participants.

NOTE 12 – DONATIONS

From 1999 to 2002, the System received donations of non-voting common stock of non-public corporations, pursuant to repurchase agreements between the System and the donors, structured entirely by the donors' tax advisers. Under the terms of the agreements, the System, although the owner of the donated common stock, acknowledged that: the non-voting common shares have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968; that no public market exists with respect to the non-voting common shares; and that the common shares are subject to a right of first refusal prohibiting the System from selling or otherwise disposing of any common shares without first offering to sell them to the donor.

The shares are recorded at carry and market values of zero for the following reasons: (1) there is no public market for the shares, (2) the System does not have the right to sell or otherwise dispose of the shares until the agreed upon future date, and (3) the shares were received as a donation for no consideration. Donation income is only recorded if cash dividends are received from the stock while in the possession of the System or when the stock is sold.

As previously reported in fiscal year ending June 30, 2005, the System has been informed that the Internal Revenue Service is disputing the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System.

The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of donated private equity since August 2005. The System has received the following income from these donations: $2,685,000 in 2002; $2,918,066 in 2003; $14,402,308 in 2004; $7,791,262 in 2005; none in 2006; $864,281 in 2007; $67,568 in 2008; $50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, 2015 or 2016. The System sold the remaining donated stocks in February 2017 for a total of $21,185,000 and received cash of $10,299,250 and promissory notes of $10,885,750. In 2018, the System received cash of $5,442,875 with a remaining balance on the promissory note of $5,442,875.

NOTE 13 – RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 16, 2018, which is the date the financial statements were issued. There were no additional subsequent events to disclose.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABLITY AND RELATED RATIO
($ in Thousands)
(Unaudited)

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability:					
Service Cost	$ 390,743	$ 367,600	$ 365,956	$ 368,700	$ 368,018
Interest	1,502,656	1,436,068	1,399,576	1,384,527	1,392,552
Benefit Payments	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Experience Losses (Gains)	21,700	(320,404)	(595,188)	(310,882)	(234,638)
Assumption Changes	-	695,450	-	-	(69,482)
Other [1]	2,505	-	-	-	-
Net Change	922,804	1,248,636	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	20,814,045	19,565,409	19,385,428	18,861,992	18,264,528
Total Pension Liability at End of Year (a)	$ 21,736,849	$ 20,814,045	$ 19,565,409	$ 19,385,428	$ 18,861,992
Fiduciary Net Position					
Employer Contributions [2]	$ 459,632	$ 454,309	$ 478,385	$ 480,332	$ 440,698
Employee Contributions [2]	145,112	128,900	129,734	126,771	124,395
Net Investment Income	1,892,870	2,260,130	159,313	686,470	2,617,090
Benefit Payments	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	(19,908)	(20,816)	(19,346)	(17,815)	(13,865)
Other [1]	2,505	-	-	-	-
Net Change	1,485,411	1,892,445	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	18,996,722	17,104,277	17,346,554	16,989,705	14,680,373
Fiduciary Net Position at End of Year (b)	$ 20,482,133	$ 18,996,722	$ 17,104,277	$ 17,346,554	$ 16,989,705
Net Pension Liability (a)-(b)	$ 1,254,716	$ 1,817,323	$ 2,461,132	$ 2,038,874	$ 1,872,287
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.23%	91.27%	87.42%	89.48%	90.07%
Covered Employee Payroll	$ 1,451,996	$ 1,397,245	$ 1,351,788	$ 1,316,969	$ 1,308,149
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	86.41%	130.06%	182.06%	154.82%	143.12%

Notes to Schedule:
GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

(1) Includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police members who elected to join the System in Tier 6.

(2) Excludes the transfer of employer and employee contributions referenced in footnote (1).

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
($ in Thousands)
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Employee Payroll	Contribution as % of Payroll [1]
6/30/2018	$ 459,632 [2]	$ 459,632 [2]		$ 1,451,996	31.66%
6/30/2017	454,309	454,309	-	1,397,245	32.51%
6/30/2016	478,385	478,385	-	1,351,788	35.39%
6/30/2015	480,332	480,332	-	1,316,969	36.47%
6/30/2014	440,698	440,698	-	1,308,149	33.69%
6/30/2013	375,448	375,448	-	1,277,031	29.40%
6/30/2012	321,593	321,593	-	1,213,396	26.50%
6/30/2011	277,092	277,092	-	1,289,857	21.48%
6/30/2010	250,517	250,517	-	1,266,312	19.78%
6/30/2009	238,698	238,698	-	1,253,659	19.04%

Notes to Schedule:

[1] Contribution rate as a percentage of covered payroll reflects discount applied when the employer prepays its contributions. This rate has been “backed” into by dividing the actual contributions by the budgeted covered payroll.

[2] Figures excluded amounts transferred from the Los Angeles City Employees’ Retirement System (LACERS) for the Airport Police members who elected to join the Pension Plan in Tier 6.

Methods and assumptions used to establish "actuarially determined contribution" (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2018 were based on the June 30, 2016 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Port Police, or Airport).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions:	
June 30, 2016 valuation	
Investment rate of return	7.50%, net of investment expenses
Inflation rate	3.25%
Administrative Expenses:	Out of the total 1.00% of payroll in administrative expense, 0.94% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 0.91% of payroll payable at beginning of the year.
Real across-the-board salary	0.75%
Projected salary increases	Ranges from 4.75% to 11.50% based on years of service
Cost of living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, gross of investment expense	9.21%	13.27%	1.04%	4.14%	18%

Notes to schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2018, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY
($ in Thousands)
(Unaudited)

Date	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Funded Status (FNP/TPL)	Covered Employee Payroll	NPL % Pay
6/30/2018	7.25%	$ 21,736,849	$ 20,482,133	$ 1,254,716	94.23%	$ 1,451,996	86.41%
6/30/2017	7.25%	20,814,045	18,996,722	1,817,323	91.27%	1,397,245	130.06%
6/30/2016	7.50%	19,565,409	17,104,277	2,461,132	87.42%	1,351,788	182.06%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.48%	1,316,969	154.82%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.07%	1,308,149	143.12%
6/30/2013	7.75%	16,989,705	14,680,373	2,309,332	86.41%	1,277,031	180.84%

Notes to schedule:
GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS
LIABLITY AND RELATED RATIO
($ in Thousands)
(Unaudited)

	June 30, 2018	June 30, 2017	June 30, 2016
Total OPEB Liability:			
Service Cost	$ 69,940	$ 65,407	$ 61,292
Interest	243,769	231,285	222,424
Benefit Payments	(130,722)	(122,561)	(116,678)
Experience Losses (Gains)	(16,532)	(144,022)	(50,071)
Assumption Changes	63,332	248,049	-
Other (1)	517	-	-
Net Change in total OPEB liablity	230,304	278,158	116,967
Total OPEB Liability at Beginning of Year	3,357,828	3,079,670	2,962,703
Total OPEB Liability at End of Year (a)	$ 3,588,132	$ 3,357,828	$ 3,079,670
Fiduciary Net Position			
Employer Contributions (2)	$ 178,462	$ 165,170	$ 150,315
Net Investment Income	166,040	189,420	12,771
Benefit Payments	(130,722)	(122,561)	(116,678)
Administrative Expenses	(1,745)	(1,747)	(1,551)
Other (1)	517	-	-
Net Change	212,552	230,282	44,857
Fiduciary Net Position at Beginning of Year	1,665,686	1,435,404	1,390,547
Fiduciary Net Position at End of Year (b)	$ 1,878,238	$ 1,665,686	$ 1,435,404
Net OPEB Liability (a)-(b)	$ 1,709,894	$ 1,692,142	$ 1,644,266
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.35%	49.61%	46.61%
Covered Employee Payroll	$ 1,451,996	$ 1,397,245	$ 1,351,788
Plan OPEB Liability as a Percentage of Covered Employee Payroll	117.76%	121.11%	121.64%

Notes to schedule:
GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

(1) Includes employer contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police members who elected to join the System in Tier 6.

(2) Excludes the transfer of employer contributions referenced in footnote (1).

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF EMPLOYER CONTRIBUTION
($ in Thousands)
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Employee Payroll	Contribution as % of Payroll
6/30/2018	$ 178,462 [1]	$ 178,462 [1]	$ -	$ 1,451,996	12.29%
6/30/2017	165,170	165,170	-	1,397,245	11.82%
6/30/2016	150,315	150,315	-	1,351,788	11.12%
6/30/2015	148,477	148,477	-	1,316,969	11.27%
6/30/2014	138,107	138,107	-	1,308,149	10.56%
6/30/2013	132,939	132,939	-	1,277,031	10.41%
6/30/2012	122,972	122,972	-	1,213,396	10.13%
6/30/2011	111,681	111,681	-	1,289,857	8.66%
6/30/2010	106,648	106,648	-	1,266,312	8.42%
6/30/2009	98,445	88,179	10,266	1,253,659	7.85%

Notes to schedule:

[1] Exclude the transfer of employer contributions for all new Airport Police members from the Los Angeles City Employees’ Retirement System (LACERS) who elected to join the Pension Plan in Tier 6.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

Methods and assumptions used to establish “actuarially determined contribution” (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2018 were based on the June 30, 2016 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions:	
June 30, 2015 valuation	
Investment rate of return	7.50%, net of investment expenses
Inflation rate	3.25%
Administrative Expenses:	Out of the total 1.00% of payroll in administrative expense, 0.94% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 0.91% of payroll payable at beginning of the year.
Real across-the-board salary	0.75%
Projected salary increases	Ranges from 4.75% to 11.50% based on years of service
Cost of living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	2018	2017	2016
Annual money-weighted rate of return, gross of investment expense	9.21%	13.27%	1.04%

Notes to schedule:
GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2016 through 2018, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
REQUIRED SUPPLMENTARY INFORMATION
HEALTH SUBSIDY PLAN
SCHEDULE OF EMPLOYER'S NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY
($ in Thousands)
(Unaudited)

Date	Discount Rate	Total OPEB Liability (TOL)	Fiduciary Net Position (FNP)	Net OPEB Liability (NOL)	Funded Status (FNP/TPL)	Covered Employee Payroll	NOL % Pay
6/30/2018	7.25%	$ 3,588,132	$ 1,878,238	$ 1,709,894	52.35%	$ 1,451,996	117.76%
6/30/2017	7.25%	3,357,828	1,665,686	1,692,142	49.61%	1,397,245	121.11%
6/30/2016	7.50%	3,079,670	1,435,404	1,644,266	46.61%	1,351,788	121.64%

Notes to schedule:
GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Fire and Police Pension Commissioners
Los Angeles Fire and Police Pension System

We have audited, in accordance with the 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, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2018, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
November 16, 2018