

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM**

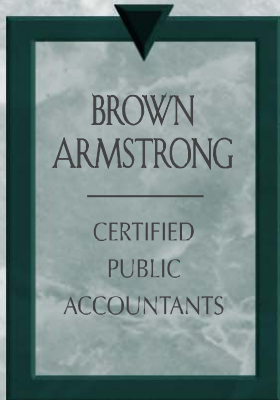
FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

**CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Plan Net Assets of the Los Angeles Fire and Police Pension System as of June 30, 2012, and the related Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of Los Angeles Fire and Police Pension System management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Los Angeles Fire and Police Pension System as of and for the year ended June 30, 2011, were audited by other auditors, whose report dated January 20, 2012, expressed an unqualified opinion.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Los Angeles Fire and Police Pension System as of June 30, 2012, and its changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013, on our consideration of the Los Angeles Fire and Police Pension 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the 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

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limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
January 10, 2013

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Fire and Police Pension System (the System or the Plan) for the year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- Net assets at the close of the fiscal year ended June 30, 2012, were \$13.3 billion and \$925.0 million for the Pension Plan and Health Subsidy Plan, respectively. All of the net assets are available to meet the System's obligations to members and their beneficiaries.
- Net assets decreased by \$177.1 million or 1.3% and increased by \$43.3 million or 4.9% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2012, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 83.7% and 37.1%, respectively.
- Additions to the Pension Plan's net assets decreased by \$2.3 billion or 77.1% from \$2.9 billion to \$669.0 million, due primarily to the net depreciation in the fair value of investments in 2012.
- Deductions to the Pension Plan's net assets increased by \$43.0 million or 5.4% over the prior year from \$802.7 million to \$846.1 million.
- Additions to the Health Subsidy Plan's net assets decreased by \$130.5 million or 48.6% from \$268.2 million to \$137.8 million, due to the net depreciation in the fair value of investments in 2012.
- Deductions from the Health Subsidy Plan's net assets increased by \$4.4 million or 4.9% over the prior year from \$90.0 million to \$94.4 million in 2012.

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 Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

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

The Statement of Changes in Plan Net Assets reports additions to and deductions from the plan net assets during the year.

The above statements are on a full accrual basis of accounting. Investment gains and losses are shown at trade date, and account balances are based on 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 10 to 33 of this report.

Required Supplementary Information: This report presents certain required supplementary information concerning the Pension Plan's and Health Subsidy Plan's progress in funding to provide pension and health benefits to members. The report also provides summary information on employer contributions. The required supplementary information is on pages 34 and 35 of this report.

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

FINANCIAL ANALYSIS

Pension Plan

Plan Net Assets

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

Condensed Statement of Plan Net Assets (In Thousands)				
	2012	2011	Change	% Change
Cash	\$ 5,648	\$ 5,045	\$ 603	12.0%
Receivables	169,419	71,119	98,300	138.2%
Investments	13,556,716	13,980,134	(423,418)	-3.0%
Securities Lending Collateral	1,202,971	-	1,202,971	N/A
Total Assets	14,934,754	14,056,298	878,456	6.2%
Liabilities	1,587,680	532,110	1,055,570	198.4%
Net Assets	\$ 13,347,074	\$ 13,524,188	\$ (177,114)	-1.3%

Net assets decreased by \$177.1 million (1.3%) to \$13.3 billion from the prior fiscal year. Assets increased in value by \$878.5 million when compared with the prior fiscal year, attributable to securities lending cash collateral of \$1.2 billion received offset by depreciation of investments due to poor market conditions.

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Pension Plan (Continued)

Changes in Plan Net Assets

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

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Additions				
Employer Contributions	\$ 321,593	\$ 277,092	\$ 44,501	16.1%
Member Contributions	120,099	105,535	14,564	13.8%
Net Investment Income	225,457	2,538,155	(2,312,698)	-91.1%
Other Income	<u>1,877</u>	<u>2,124</u>	<u>(247)</u>	-11.6%
Total Additions	669,026	2,922,906	(2,253,880)	-77.1%
Deductions				
Benefits Payment	831,191	786,861	44,330	5.6%
Refund of Contributions	1,338	3,145	(1,807)	-57.5%
Administrative Expenses	<u>13,611</u>	<u>12,662</u>	<u>949</u>	7.5%
Total Deductions	<u>846,140</u>	<u>802,668</u>	<u>43,472</u>	5.4%
Net Increase (Decrease)	(177,114)	2,120,238	(2,297,352)	-108.4%
Net Assets, Beginning of Year	<u>13,524,188</u>	<u>11,403,950</u>	<u>2,120,238</u>	18.6%
Net Assets, End of Year	<u>\$ 13,347,074</u>	<u>\$ 13,524,188</u>	<u>\$ (177,114)</u>	-1.3%

Additions to Plan Net Assets

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 2012 totaled \$441.7 million, up by \$59.0 million or 15.4% over fiscal year 2011. The increase in contributions was due to the net of an increase in the actuarial determined contribution rate. The employer contribution rate for fiscal year 2012 was 24.0% of covered payroll compared to 20.6% of covered payroll for fiscal year 2011.

Net investment gains amounted to \$225.5 million, a decrease in net investment gain of \$2.3 billion or 91.1% when compared with \$2.5 billion from the prior fiscal year. Investment income decreased in 2012 due to unfavorable capital markets.

Deductions from Plan Net Assets

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, 2012, totaled \$846.1 million, an increase of \$43.5 million over 2011. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners, beneficiaries, and DROP pay-out.

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Health Subsidy Plan

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

Plan Net Assets

Condensed Statement of Plan Net Assets
(In Thousands)

	2012	2011	Change	% Change
Cash	\$ 388	\$ 329	\$ 59	17.9%
Receivables	11,282	4,359	6,923	158.8%
Prepaid	7,363	-	7,363	NA
Investments	931,055	910,546	20,509	2.3%
Securities Lending	82,618	-	82,618	NA
Total Assets	1,032,706	915,234	117,472	12.8%
Liabilities	108,142	34,031	74,111	217.8%
Net Assets	\$ 924,564	\$ 881,203	\$ 43,361	4.9%

Net assets increased by \$43.3 million (4.9%) to \$925.0 million when compared to \$881.2 million of the prior fiscal year due to an increase in actuarially determined employer contribution towards health and prepayment of the Health Subsidy.

Changes in Plan Net Assets

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

	2012	2011	Change	% Change
Additions				
Contributions	\$ 122,972	\$ 111,681	\$ 11,291	10.1%
Net Investment Income	14,690	156,461	(141,771)	-90.6%
Other Income	122	131	(9)	-6.9%
Total Additions	137,784	268,273	(130,489)	-48.6%
Deductions				
Benefits Payment	93,536	89,271	4,265	4.8%
Administrative Expenses	887	781	106	13.6%
Total Deductions	94,423	90,052	4,371	4.9%
Net Increase	43,361	178,221	(134,860)	-75.7%
Net Assets, Beginning of Year	881,203	702,982	178,221	25.4%
Net Assets, End of Year	\$ 924,564	\$ 881,203	\$ 43,361	4.9%

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Health Subsidy Plan (Continued)

Additions to Plan Net Assets

Total additions to net assets decreased \$130.0 million compared to fiscal year 2011. This is due primarily to a decrease in net investment income by \$141.8 million mostly attributed to unfavorable capital markets, and an increase in contributions of \$11.3 million or 10.1% over fiscal year 2011. For fiscal year 2012, the employer contribution rate is 9.2% of covered payroll compared to 8.3% for fiscal year 2011.

Deductions from Plan Net Assets

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Current year deductions were \$4.4 million or 4.9% more than the total deductions of the prior year. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of pensioners and beneficiaries.

Debt Administration Mortgage Payable

At June 30, 2011, the System had \$238.4 million in mortgage payable. The System paid down \$56.8 million and added \$25.9 million during the year for an ending balance of \$207.5 million.

Future Changes

As discussed in Note 2, GASB Statements No. 67 and No. 68 will have a significant impact on reporting for future periods. Also, as discussed in Note 13, the California Public Employees Pension Reform Act of 2013 is currently being analyzed for impact on the System.

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

William S. Raggio, Interim General Manager
City of Los Angeles Fire and Police Pension System
360 E. Second Street, Suite 400
Los Angeles, CA 90012

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2012 AND 2011**

	2012			2011		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	\$ 5,647,790	\$ 387,882	\$ 6,035,672	\$ 5,044,952	\$ 328,585	\$ 5,373,537
Receivables						
Accrued Interest and Dividends	45,451,754	3,121,557	48,573,311	45,318,563	2,951,664	48,270,227
Contributions	5,144,476	-	5,144,476	4,196,667	-	4,196,667
Due from Brokers	118,823,242	8,160,598	126,983,840	21,603,670	1,407,078	23,010,748
Total Receivables	169,419,472	11,282,155	180,701,627	71,118,900	4,358,742	75,477,642
Prepaid Health Subsidy	-	7,363,396	7,363,396	-	-	-
Investments at Fair Value						
Temporary	492,172,520	33,801,656	525,974,176	591,937,996	38,553,782	630,491,778
U.S. Government Obligations	1,682,432,384	115,546,882	1,797,979,266	1,729,429,603	112,640,264	1,842,069,867
Domestic Corporate Bonds	1,374,946,321	94,429,211	1,469,375,532	1,118,181,142	72,828,763	1,191,009,905
Foreign Bonds	17,405,729	1,195,399	18,601,128	17,726,891	1,154,578	18,881,469
Domestic Stocks	5,003,234,954	343,614,522	5,346,849,476	5,624,750,153	366,348,153	5,991,098,306
Foreign Stocks	2,137,109,111	146,773,383	2,283,882,494	2,283,651,627	148,737,550	2,432,389,177
Real Estate	1,158,264,541	79,547,837	1,237,812,378	1,054,001,972	68,648,681	1,122,650,653
Alternative Investments	1,691,150,749	116,145,646	1,807,296,395	1,560,454,311	101,634,657	1,662,088,968
Total Investments	13,556,716,309	931,054,536	14,487,770,845	13,980,133,695	910,546,428	14,890,680,123
Securities Lending Collateral	1,202,971,011	82,618,209	1,285,589,220	-	-	-
TOTAL ASSETS	14,934,754,582	1,032,706,178	15,967,460,760	14,056,297,547	915,233,755	14,971,531,302
LIABILITIES						
Accounts Payable and Accrued Expenses	7,570,804	481,768	8,052,572	8,852,470	539,056	9,391,526
Benefits in Process of Payment	17,260,715	326,196	17,586,911	13,125,933	265,838	13,391,771
Due to Brokers	165,721,870	11,381,524	177,103,394	286,310,963	18,647,849	304,958,812
Mortgage Payable	194,155,806	13,334,324	207,490,130	223,820,378	14,577,747	238,398,125
Securities Lending Collateral	1,202,971,011	82,618,209	1,285,589,220	-	-	-
TOTAL LIABILITIES	1,587,680,206	108,142,021	1,695,822,227	532,109,744	34,030,490	566,140,234
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	\$ 13,347,074,376	\$ 924,564,157	\$ 14,271,638,533	\$ 13,524,187,803	\$ 881,203,265	\$ 14,405,391,068

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012			2011		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	\$ 321,593,433	\$ 122,971,851	\$ 444,565,284	\$ 277,092,251	\$ 111,681,208	\$ 388,773,459
Member Contributions	120,099,124	-	120,099,124	105,534,628	-	105,534,628
Total Contributions	441,692,557	122,971,851	564,664,408	382,626,879	111,681,208	494,308,087
Investment Income (Loss)						
Net Appreciation (Depreciation) in Fair Value of Investments, Including Gain and Loss on Sales	(91,411,397)	(5,956,145)	(97,367,542)	2,267,008,678	139,746,840	2,406,755,518
Interest	113,081,586	7,368,121	120,449,707	76,976,680	4,745,129	81,721,809
Dividends	169,456,008	11,041,343	180,497,351	185,389,183	11,428,078	196,817,261
Net Real Estate Income	59,570,573	3,881,474	63,452,047	36,921,244	2,275,963	39,197,207
Income from Alternative Investments	16,740,574	1,090,775	17,831,349	17,635,470	1,087,116	18,722,586
Securities Lending Income	5,950,645	387,730	6,338,375	2,367,899	145,966	2,513,865
Less: Securities Lending Expense	(594,240)	(38,719)	(632,959)	(259,291)	(15,984)	(275,275)
Other Income	1,285,334	83,749	1,369,083	4,471,989	275,670	4,747,659
Subtotal	274,079,083	17,858,328	291,937,411	2,590,511,852	159,688,778	2,750,200,630
Less: Investment Manager Expense	(48,621,792)	(3,168,078)	(51,789,870)	(52,357,054)	(3,227,483)	(55,584,537)
Net Investment Income	225,457,291	14,690,250	240,147,541	2,538,154,798	156,461,295	2,694,616,093
Other Income						
Miscellaneous	1,876,735	122,284	1,999,019	2,123,865	130,923	2,254,788
Total Other Income	1,876,735	122,284	1,999,019	2,123,865	130,923	2,254,788
TOTAL ADDITIONS	669,026,583	137,784,385	806,810,968	2,922,905,542	268,273,426	3,191,178,968
DEDUCTIONS						
Pension Benefits	831,190,554	-	831,190,554	786,860,516	-	786,860,516
Payment of Health Subsidy	-	85,304,547	85,304,547	-	81,401,095	81,401,095
Payment of Medicare Reimbursement	-	8,232,089	8,232,089	-	7,870,389	7,870,389
Refund of Contributions	1,338,502	-	1,338,502	3,145,172	-	3,145,172
Administrative Expenses	13,610,954	886,857	14,497,811	12,662,390	780,557	13,442,947
TOTAL DEDUCTIONS	846,140,010	94,423,493	940,563,503	802,668,078	90,052,041	892,720,119
NET INCREASE (DECREASE)	(177,113,427)	43,360,892	(133,752,535)	2,120,237,464	178,221,385	2,298,458,849
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	13,524,187,803	881,203,265	14,405,391,068	11,403,950,339	702,981,880	12,106,932,219
End of Year	\$ 13,347,074,376	\$ 924,564,157	\$ 14,271,638,533	\$ 13,524,187,803	\$ 881,203,265	\$ 14,405,391,068

The notes are an integral part of these financial statements.

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 – DESCRIPTION OF THE PLANS

The City of Los Angeles Fire and Police Pension System (the System or the Plan) operates under the City of Los Angeles Charter and Administrative Code provisions, which provide that the funding requirements of the System will be satisfied by the City of Los Angeles (the City). The funding requirements of the System are determined by the result of annual actuarial valuations.

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 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 members' 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 June 30, 1998. 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 6 was established for all firefighters and police officers hired on or after July 1, 2011.

Tier 6 is also the current tier for all Harbor Port Police officers hired on or after July 1, 2011. 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 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 of Fire and Police Pension Commissioners (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.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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 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, and Section 4.2018 of the Administrative Code, and related ordinances. Members who retire from the System with at least ten years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60.

Temporary subsidies are available to certain groups at earlier ages. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the System's 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. Effective July 1, 2011, the maximum subsidy amount is \$1,097.41 per month. The maximum monthly subsidy for fiscal year 2011 was \$1,025.62. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

Health subsidy benefits are available to members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for health subsidy benefits.

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

At June 30, 2012 and 2011, total net assets in the amounts of \$924,564,157 and \$881,203,265, respectively, were available for the Health Subsidy Plan. Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted to comply with Internal Revenue Code Section 401 (h).

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 have at least ten years of sworn service and must meet minimum age requirements on the effective date of retirement. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the State of California but not within a City-approved health plan zip code service area. They may not be enrolled in a City-approved plan.

The reimbursement paid is a percentage of the maximum subsidy for health care. The maximum monthly subsidy for fiscal years 2012 and 2011 were \$1,097.41 and \$1,025.62, respectively. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses basic Medicare Part B premiums for any pensioner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to post-employment dental subsidy benefits under Section 4.1164 of the Administrative Code.

Members who retire from the System with at least 10 years of service, are age 55 years or older, and are enrolled in a City-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 amount was \$36.16 for the period of January 1, 2011, through December 31, 2011, and \$44.14 for the period of January 1, 2012, through June 30, 2012. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

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 and 5 who have at least 25 years of service and who are at least age 50 are eligible for DROP. Participation in DROP by Tier 6 members is subject to amendment of the Administrative Code.

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%.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive 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.

At June 30, 2012 and 2011, 1,193 and 1,201 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$237,048,190 and \$224,699,403, 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 additional 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 PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE CITY CHARTER AND ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)Membership

The components of the System's membership at June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	4	4
Tier 4	199	204
Tier 5	8,237	8,416
Tier 6	355	-
	<u>8,795</u>	<u>8,624</u>
Active Vested:		
Tier 1	-	-
Tier 2	87	115
Tier 3	918	933
Tier 4	184	193
Tier 5	3,412	3,567
Tier 6	-	-
	<u>4,601</u>	<u>4,808</u>
Pensioners and Beneficiaries:		
Tier 1	600	686
Tier 2	8,535	8,727
Tier 3	466	459
Tier 4	197	185
Tier 5	2,582	2,335
Tier 6	-	-
	<u>12,380</u>	<u>12,392</u>
	<u><u>25,776</u></u>	<u><u>25,824</u></u>

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 Plan Net Assets.

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 to do so. The use of leverage and short selling is a common characteristic. The System invests in hedge funds using what are known as fund of funds. The System hires a manager skilled in the selection of hedge funds that then builds a diversified portfolio of individual hedge funds.

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 Plan Net Assets 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 stated market 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 fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net asset 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. Hedge Fund of Funds investments are valued by the fund manager based upon the information they receive from individual hedge fund managers with which they have invested monies. 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.

Cash

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

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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Accounting Pronouncements

GASB Statement No. 67 – *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25* improves financial reporting by state and local governmental pension plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The new standards will be implemented as scheduled.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pension Plans—an Amendment of GASB Statement No 25* revises and establishes new financial reporting requirements for governments that provide their employees with defined benefit pensions. The new standards require employers to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. For employers, the new financial reporting provisions are effective for its fiscal year ending June 30, 2015.

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. Tier 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.

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, 5 and 6, any “unfunded liability” resulting from plan amendments shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-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. With the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses.
- 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, 2012 and 2011 to be as follows (\$ in millions):

Fiscal Year Ended June 30, 2012

	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*	N/A	\$ 3.99	\$ 15.38	\$ 6.62	\$ 208.55	\$ 0.37	\$ 2.06	\$ 0.04
Unfunded supplemental present value amount *	\$ 16.84	\$(12.39)	\$ 6.56	\$ 3.82	\$ 68.83	\$ 0.16	\$ 0.74	\$ 0.02
Health subsidy entry age cost*	N/A	\$ 0.57	\$ 3.33	\$ 1.40	\$ 38.46	\$ 0.12	\$ 0.50	\$ 0.01
Health subsidy unfunded actuarial accrued liability annual amount*	\$ 2.27	\$ 43.74	\$ 3.19	\$ 2.08	\$ 27.16	\$ 0.08	\$ 0.06	\$ -

*Stated in million dollars

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

Fiscal Year Ended June 30, 2011

	Fire and Police					Harbor Port Police
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 5
Entry age cost*	N/A	\$ 4.40	\$ 15.87	\$ 6.67	\$ 206.87	\$ 1.98
Amortization of unfunded liability*	\$ 17.60	\$(29.55)	\$ 5.14	\$ 2.87	\$ 44.65	\$ 0.60
Health subsidy plan	N/A	\$ 0.55	\$ 3.47	\$ 1.43	\$ 39.27	\$ 0.42
Health subsidy unfunded actuarial accrued liability annual amount*	\$ 2.01	\$ 37.74	\$ 3.10	\$ 2.10	\$ 21.43	\$ 0.07

*Stated in million dollars.

During fiscal year 2012, total contributions of \$564,664,408 (\$444,565,284 from the employer and \$120,099,124 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, 2010. For the Pension Plan, fiscal year 2012 employer contributions included \$237.0 million for normal cost and \$84.6 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2012 employer contributions consisted of \$44.4 million for normal cost and \$78.6 million for unfunded actuarial accrued liability annual amount.

During fiscal year 2011, total contributions of \$494,308,087 (\$388,773,459 from the employer and \$105,534,628 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, 2009. For the Pension Plan, fiscal year 2011 employer contributions included \$235.8 million for normal cost and \$41.3 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2011 employer contributions consisted of \$45.1 million for normal cost and \$66.5 million for unfunded actuarial accrued liability annual amount.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS

The System engages an actuarial firm to conduct annual actuarial valuations of the Pension Plan and Health Subsidy Plan to monitor the System's funding status and funding integrity.

Pension Plan

The June 30, 2012 and 2011 annual valuations determined the funding status to be 83.7% and 86.3%, respectively. For 2012, if the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 83.7% to 77.9%.

The funded status of the Pension Plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (\$ in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) / (c)
\$ 14,251,914	\$ 17,030,833	\$ 2,778,919	83.7%	\$ 1,341,914	207.1%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	For Tier 1, level dollar amortization is used 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).

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	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. Unrecognized return established after July 1, 2008, is recognized over a seven-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
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Actuarial Assumptions:

Investment Return Rate	7.75%
Inflation Rate	3.50%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increase	Ranges from 5.25 to 12.25% based on service.
Cost-of-Living Adjustments	3.50% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

Mortality Rates:

Healthy	RP-2000 Combined Healthy Mortality Table (separate for males and females) set back four years for members. RP-2000 Combined Health Mortality Table (separate for males and females) set back two years for beneficiaries.
Disabled	RP-2000 Combined Health Mortality Table (separate for males and females) set back two years.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan

The June 30, 2012 and 2011 annual valuations determined the funding status to be 37.1% and 34.5%, respectively. If the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 37.1% to 34.6%.

The funded status of the Health Subsidy Plan as of June 30, 2012, the most recent actuarial valuation date, is as follows (\$ in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
\$ 927,362	\$ 2,499,289	\$ 1,571,927	37.1%	\$ 1,341,914	117.1%

The schedules of funding progress, presented as RSI following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method	Closed amortization periods. On September 6, 2012, the Board adopted the following amortization policy:

Type of Base	Amortization Period (Closed)
Actuarial Gains or Losses ⁽¹⁾	20
Assumption or Method Changes	25
Plan Amendments	15
ERIPs	5
Actuarial Surplus	30

⁽¹⁾ Retiree health assumption changes are treated as gains and losses and amortized over 20 years.

Remaining Amortization Period	As of June 30, 2012:
	24 years for bases established prior to June 30, 2012
	20 years for bases established on June 30, 2012

Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. Unrecognized return established after July 1, 2008, is recognized over a seven-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
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NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Actuarial Assumptions:

Investment Rate of Return	7.75%
Inflation Rate	3.50%
Across-the-Board Pay Increase	0.75%
Projected Salary Increase	4.25%

Health care cost trend rate (to calculate following year's premium):

Medical	8.5% in 2012-2013, then decreasing by 0.5% for each year for seven years until it reaches an ultimate rate of 5%.
Dental	5%
Medicare Part B Premium	The 2013-2014 and all subsequent fiscal year premiums are assumed to be 5% greater than the prior year premium.
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, 2012 (e.g., Police Blue Cross), increase with medical trend. For Medicare retirees with 2-Party premium greater than the maximum subsidy as of July 1, 2012 (e.g., Police Blue Cross), increase with lesser of 7% or medical trend.

The following assumptions were adopted by the System's Board based on the actuarial experience study as of June 30, 2010, and the economic assumptions study as of June 30, 2010:

Data	Detailed census data and the System's financial data for post-employment benefits were provided by the System.
Actuarial Cost Method	Entry age normal, level percent of pay.
Administrative Expenses	No administrative expenses were valued separately from the claim costs.
Spouse Age Difference	Husbands are assumed to be 4 years older than wives.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Participation

Service Range (Years)	Assumption for Future Retirees Under 65 (Percentage)	Assumption for Future Retirees Over 65 (Percentage)
10-14	45	80
15-19	60	85
20-24	70	90
25 and over	95	95

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

Dental Coverage 75% 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, spousal 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:

For Participants under Age 65:

Plan	Assumed Election Percentage	Maximum Subsidies		
		Single	Married	Surviving Spouse
Fire Medical PPO	75	\$ 1,174.23	\$ 1,174.23	\$ 593.62
Fire Kaiser	15	1,174.23	1,174.23	593.62
Fire Blue Cross HMO	5	1,174.23	1,174.23	593.62
Fire California Care HMO	5	1,174.23	1,174.23	593.62
Police Blue Cross PPO	65	1,174.23	1,174.23	593.62
Police California Care HMO	15	1,174.23	1,174.23	593.62
Police Kaiser	20	1,174.23	1,174.23	593.62
Dental	75	44.14	44.14	-

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)Health Subsidy Plan (Continued)

For Participants Age 65 and Over:

Plan	Assumed Election Percentage	Maximum Subsidies		
		Single	Married	Surviving Spouse
Fire Medical PPO	90	\$ 423.45	\$ 699.66	\$ 423.45
Fire Kaiser	10	423.45	755.66	423.45
Fire Blue Cross HMO	0	423.45	924.35	423.45
Fire California Care HMO	0	423.45	764.30	423.45
Police Blue Cross PPO	75	423.45	870.03	423.45
Police California Care HMO	10	423.45	823.06	423.45
Police Kaiser	15	423.45	441.05	423.45
Dental	75	44.14	44.14	-
Medicare B*	100	99.90	99.90	99.90

*Note: For January 1 to December 31, 2011, the Medicare Part B premium was either \$96.40, \$110.50, or \$115.40 depending upon the year a member enrolled and whether they were subjected to the income adjusted Medicare Part B premium.

NOTE 5 – 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 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 Plan Net Assets.

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

NOTE 5 – SECURITIES LENDING (Continued)

As of June 30, 2012 and 2011, the fair value of securities lent was \$1,421,442,839 and \$393,761,554, respectively, and the fair value of collateral received was \$1,442,912,340 and \$407,252,526, respectively. Of the \$1,442,912,340 collateral received as of June 30, 2012, \$1,285,589,220 was cash collateral and \$157,323,120 represented the fair value of non-cash collateral; and of the \$407,252,526 collateral received as of June 30, 2011, there was no cash collateral reported and \$407,252,526 represented the 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 Plan Net Assets.

The following represents the balances relating to the security lending transactions as of June 30, 2012 and 2011.

Fair value of collateral received for loaned securities as of June 30, 2012:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Collateral Securities</u>
U.S. Government and Agency Securities	\$ 921,140,219	\$ 22,702,166	\$ 943,842,385
Domestic Corporate Fixed Income Securities	179,946,570	-	179,946,570
International Stocks	184,502,431	134,620,954	319,123,385
	<u>\$ 1,285,589,220</u>	<u>\$ 157,323,120</u>	<u>\$ 1,442,912,340</u>

Fair value of loaned securities as of June 30, 2012:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Fair Value of Underlying Securities</u>
U.S. Government and Agency Securities	\$ 914,399,782	\$ 22,657,469	\$ 937,057,251
Domestic Corporate Fixed Income Securities	177,849,930	-	177,849,930
International Stocks	180,180,386	126,355,272	306,535,658
	<u>\$ 1,272,430,098</u>	<u>\$ 149,012,741</u>	<u>\$ 1,421,442,839</u>

NOTE 5 – SECURITIES LENDING (Continued)

Fair value of collateral received for loaned securities as of June 30, 2011:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ -	\$ 202,739,831	\$ 202,739,831
Domestic Corporate Fixed Income Securities	-	20,770,902	20,770,902
International Stocks	-	183,741,793	183,741,793
	<u>\$ -</u>	<u>\$ 407,252,526</u>	<u>\$ 407,252,526</u>

Fair value of loaned securities as of June 30, 2011:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	\$ -	\$ 199,097,441	\$ 199,097,441
Domestic Corporate Fixed Income Securities	-	20,356,958	20,356,958
International Stocks	-	174,307,155	174,307,155
	<u>\$ -</u>	<u>\$ 393,761,554</u>	<u>\$ 393,761,554</u>

For the fiscal years ended June 30, 2012 and 2011, securities lending income amounted to \$6,338,375 and \$2,513,865, respectively, while securities lending expenses amounted to \$632,959 and \$275,275, respectively.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS

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 System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2012, cash and temporary investments consisted of \$6,035,672 cash held by the City Treasurer’s office and \$525,974,176 in collective short-term investment funds (STIF). At June 30, 2011, cash and temporary investments consisted of \$5,373,537 cash held by the City Treasurer’s office and \$630,491,778 in collective STIF. Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable.

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, 2012, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 103,937,554	3.26%
AA	52,660,719	1.65%
A	379,962,698	11.91%
BBB	983,428,727	30.83%
BB	66,952,816	2.10%
B	77,625,398	2.43%
CCC	41,956,412	1.32%
CC	13,753,126	0.43%
C	1,991,806	0.06%
Not Rated	1,467,929,586	46.01%
Subtotal	3,190,198,842	100.00%
U.S. Government Issued or Guaranteed Securities	95,757,084	
Total Fixed Income Investments	<u>\$ 3,285,955,926</u>	

As of June 30, 2011, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 1,266,448,127	42.66%
AA	107,361,075	3.62%
A	205,927,728	6.94%
BBB	238,462,555	8.03%
BB	220,102,014	7.42%
B	221,462,650	7.46%
CCC	45,728,790	1.54%
CC	7,473,710	0.25%
C	1,738,536	0.06%
Not Rated	653,580,922	22.02%
Subtotal	2,968,286,107	100.00%
U.S. Government Issued or Guaranteed Securities	83,675,134	
Total Fixed Income Investments	<u>\$ 3,051,961,241</u>	

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, 2012 and 2011, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$18,348,839 and \$25,042,723, respectively.

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

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, 2012 and 2011, 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, 2012 and 2011, the System's investments in hedge fund of funds of \$598,713,969 and \$598,654,338, private equity of \$1,208,584,553 and \$1,063,434,630, and commingled real estate funds of \$587,101,735 and \$530,167,289, 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, 2012 and 2011, 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. One of the ways the System manages its exposure to interest rate risk is by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Barclays US Aggregate Bond Index for core fixed income investments, (2) the 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.

Fiscal Year 2012

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in Years)</u>
Asset Backed Securities	\$ 111,169,244	5.33
Commercial Mortgages	41,054,629	27.85
Corporate Bonds	1,284,924,347	18.65
Government Agencies Bonds	57,175,552	4.44
Government Bonds	617,536,223	31.83
Government Mortgage Backed Securities	390,719,282	21.47
Index Linked Government Bonds	766,223,197	9.97
Non-Government Backed Collateralized Mortgage Obligations	5,744,057	20.88
Bond Index Fund*	<u>11,409,395</u>	N/A
Total Fixed Income Investments	<u>\$ 3,285,955,926</u>	

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

Fiscal Year 2011

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in Years)</u>
Asset Backed Securities	\$ 55,462,798	9.41
Commercial Mortgages	40,939,657	28.55
Corporate Bonds	1,054,353,868	15.09
Government Agencies Bonds	72,266,758	4.50
Government Bonds	602,859,784	22.18
Government Mortgage Backed Securities	535,420,207	22.56
Index Linked Government Bonds	664,552,438	9.62
Non-Government Backed Collateralized Mortgage Obligations	11,790,377	16.43
Bond Index Fund*	14,315,354	N/A
 Total Fixed Income Investments	 <u><u>\$ 3,051,961,241</u></u>	

* Shares are in commingled fixed income funds.

Investments that are highly sensitive to interest rate risk are as follows:

Fiscal Year 2012

<u>Investment Type</u>	<u>Fair Value</u>
Asset Backed Securities	\$ 111,169,244
Commercial Mortgages	41,054,629
Government Agencies Bonds	57,175,552
Government Mortgage Backed Securities	390,719,282
Index Linked Government Bonds	766,223,197
Non-Government Backed Collateralized Mortgage Obligations	5,744,057
	<u><u>\$ 1,372,085,961</u></u>

Fiscal Year 2011

<u>Investment Type</u>	<u>Fair Value</u>
Asset Backed Securities	\$ 55,462,798
Commercial Mortgages	40,939,657
Government Agencies Bonds	72,266,758
Government Mortgage Backed Securities	535,420,207
Index Linked Government Bonds	664,552,438
Non-Government Backed Collateralized Mortgage Obligations	11,790,377
	<u><u>\$ 1,380,432,235</u></u>

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)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 18% 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, 2012, are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value</u>
Australian Dollar	\$ 60,157,586
Brazilian Real	64,294,125
British Pound Sterling	403,431,353
Canadian Dollar	47,315,672
Chilean Peso	7,345,984
Columbian Peso	798,298
Czech Koruna	1,786,081
Danish Krone	20,966,827
Euro	504,320,456
Hong Kong Dollar	171,069,603
Hungarian Forint	1,712,719
Indian Rupee	35,841,686
Indonesian Rupiah	19,401,738
Japanese Yen	374,201,124
Malaysian Ringgit	22,148,438
Mexican Peso	23,686,532
New Israeli Shekel	2,408,126
New Taiwan Dollar	87,693,143
New Zealand Dollar	512,708
Norwegian Krone	14,873,346
Peruvian Nuevo Sol	666,844
Philippine Peso	7,834,664
Polish Zloty	8,683,196
Singapore Dollar	26,362,070
South African Rand	58,581,578
South Korean Won	128,795,413
Swedish Krona	52,159,858
Swiss Franc	118,121,213
Thai Baht	19,292,285
Turkish Lira	18,020,956
	<u>\$ 2,302,483,622</u>

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

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2011, are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value</u>
Australian Dollar	\$ 57,762,580
Brazilian Real	63,282,764
British Pound Sterling	389,017,167
Canadian Dollar	82,835,336
Chilean Peso	827,596
Czech Koruna	4,093,252
Danish Krone	25,392,173
Euro	701,079,354
Hong Kong Dollar	161,605,669
Hungarian Forint	1,760,103
Indian Rupee	41,758,680
Indonesian Rupiah	24,231,706
Japanese Yen	426,138,552
Malaysian Ringgit	15,364,162
Mexican Peso	24,912,869
New Taiwan Dollar	59,132,665
New Zealand Dollar	5,311,923
Norwegian Krone	9,099,974
Philippine Peso	10,066,007
Polish Zloty	11,231,543
Singapore Dollar	12,572,569
South African Rand	27,587,883
South Korean Won	100,381,466
Swedish Krona	54,978,194
Swiss Franc	127,197,560
Thai Baht	7,754,620
Turkish Lira	5,894,279
	<u>\$ 2,451,270,646</u>

NOTE 7 – DERIVATIVE INSTRUMENTS

The System, through its outside investment managers, 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 counterparties 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 value 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 7 – DERIVATIVE INSTRUMENTS (Continued)

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are as follows (\$ in thousands):

Type	Changes in Fair Value		Fair Value at June 30, 2012		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivatives:					
Futures - Shorts		\$ -	Investment	\$ -	\$ (14,119)
Futures - Longs	Investment Loss	503	Investment	-	3,574
Forwards	Investment Revenue	(1,769)	Investment	(28)	-
Rights/Warrants	Investment Loss	1,111	Investment	108	-

At June 30, 2012, the System held futures-shorts with a notional value of (\$14,118,906) and the futures-longs with the notional value of \$3,573,525 with a realized loss of \$503,264 for the fiscal year. The System held forwards with a fair value of (\$27,837) and rights and warrants with a fair value of \$108,178. Earnings of \$1,769,285 were reported for the fiscal year for forwards and loss of \$1,111,030 was reported for rights and warrants respectively for the fiscal year.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows (\$ in thousands):

Type	Changes in Fair Value		Fair Value at June 30, 2011		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivatives:					
Futures - Shorts	Investment Income	\$ -	Investment	\$ -	\$ (11,387)
Futures - Longs	Realized Loss	1,142	Investment	-	-
Forwards	Unrealized Loss	345	Investment	(248)	-
	Realized Loss	7,915			
Rights/Warrants	Unrealized Gain	(1,160)	Investment	1,241	-
	Realized Gain	(645)			

At June 30, 2011, the System held futures-shorts with a notional value of (\$11,387,023) and the future longs with a realized loss of \$1,141,783 for the fiscal year. The System held forwards with a fair value of (\$247,925) and rights and warrants with a fair value of \$1,241,107. Loss of \$8,260,107 for forwards and earnings of \$1,805,252 for rights and warrants were reported for the fiscal year.

NOTE 8 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2012, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from \$43,348 to \$929,868. For fiscal year 2011, interest rates range from 4.03% to 7.50% per annum. Monthly principal and interest payments range from \$47,790 to \$459,542.

NOTE 8 – MORTGAGES PAYABLE (Continued)

The mortgages mature from January 2014 to June 2031. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 520,173	\$ 11,158,419	\$ 11,678,592
2014	10,976,163	10,604,429	21,580,592
2015	13,443,093	9,628,464	23,071,557
2016	36,675,080	9,037,935	45,713,015
2017	81,923,615	5,218,673	87,142,288
2018-2022	56,025,732	12,741,805	68,767,537
2023-2027	3,883,076	1,803,086	5,686,162
2028-2031	4,043,198	505,731	4,548,929
	<u>\$ 207,490,130</u>	<u>\$ 60,698,542</u>	<u>\$ 268,188,672</u>

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

The following is a summary of mortgage payable activity for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Pay-Downs</u>	<u>Balance June 30, 2012</u>
Mortgage Payable	<u>\$ 238,398,125</u>	<u>\$ 25,900,000</u>	<u>\$(56,807,995)</u>	<u>\$ 207,490,130</u>

NOTE 9 – OPERATING LEASE

The System leases office space under an operating lease that expires on April 14, 2014. The annual lease payments for the fiscal years ended June 30, 2011 and 2012, were \$1,042,094 and \$913,374, respectively.

The minimum lease commitment for future fiscal years is as follows:

Year Ended June 30	
2013	\$ 840,000
2014	<u>810,000</u>
	<u>\$ 1,650,000</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIESTermination 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 \$1,498,454,279 and \$1,417,834,361 as of June 30, 2012 and 2011, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Termination Rights (Continued)

The Charter and the Administrative Code of the City of Los Angeles 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 \$962,188,539 and \$3,206,716,538 at June 30, 2012 and 2011, respectively. As of June 30, 2012, the System was in negotiation with the State of Arizona over the value received in a taking of property that was owned by the System and may result in additional payment to the System.

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. If there is no change in the law or the System plan provisions between now and 2018, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment healthcare plans will be subject to the excise tax in 2018. GASB has not yet issued any guidance on accounting or financial reporting of this potential future liability.

NOTE 11 – 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 donation of 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, nor 2012.

NOTE 12 – 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 Plan Net Assets.

NOTE 13 – SUBSEQUENT EVENTS

On September 12, 2012, Governor Jerry Brown signed Assembly Bill 340, known as the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), into law. The new law is complex and broad-reaching and takes effect on January 1, 2013. The System is currently working with the City to analyze CalPEPRA and determine how it will apply to the City of Los Angeles.

Management has evaluated subsequent events through January 10, 2013, which is the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2012**

**SCHEDULE 1A
SCHEDULE OF FUNDING PROGRESS – PENSION PLAN
(UNAUDITED)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>UAAL</u>	<u>Funded Ratio</u>	<u>Total System Payroll</u>	<u>UAAL as a % of Payroll</u>
June 30, 2006	\$ 12,121,402,902	\$ 12,811,383,737	\$ 689,980,835	94.6%	\$ 1,092,814,844	63.1%
June 30, 2007	13,215,668,458	13,324,089,628	108,421,170	99.2%	1,135,591,951	9.5%
June 30, 2008	14,153,296,122	14,279,115,742	125,819,620	99.1%	1,206,589,277	10.4%
June 30, 2009	14,256,610,416	14,817,145,691	560,535,275	96.2%	1,357,248,936	41.3%
June 30, 2010	14,219,580,662	15,520,624,313	1,301,043,651	91.6%	1,356,986,475	95.9%
June 30, 2011	14,337,669,409	16,616,476,266	2,278,806,857	86.3%	1,343,963,356	169.6%
June 30, 2012	14,251,913,532	17,030,833,184	2,778,919,652	83.7%	1,341,913,739	207.1%

**SCHEDULE 1B
SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN
(UNAUDITED)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>UAAL</u>	<u>Funded Ratio</u>	<u>Total System Payroll</u>	<u>UAAL as a % of Payroll</u>
June 30, 2006	\$ 613,782,166	\$ 1,631,187,439	\$ 1,017,405,273	37.6%	\$ 1,092,814,844	93.1%
June 30, 2007	687,096,380	1,656,653,149	969,556,769	41.5%	1,135,591,951	85.4%
June 30, 2008	767,647,562	1,836,840,337	1,069,192,775	41.8%	1,206,589,277	88.6%
June 30, 2009	809,676,978	2,038,658,698	1,228,981,720	39.7%	1,357,248,936	90.5%
June 30, 2010	817,275,977	2,537,825,016	1,720,549,039	32.2%	1,356,986,475	126.8%
June 30, 2011	882,890,188	2,557,606,524	1,674,716,336	34.5%	1,343,963,356	124.6%
June 30, 2012	927,361,635	2,499,288,516	1,571,926,881	37.1%	1,341,913,739	117.1%

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2012**

**SCHEDULE 2A
SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN
(UNAUDITED)**

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2006	\$ 143,945,802	\$ 143,945,802	100.00%
2007	224,946,082	224,946,082	100.00%
2008 ⁽¹⁾	261,635,491	261,635,491	100.00%
2009	238,697,929	238,697,929	100.00%
2010	250,516,858	250,516,858	100.00%
2011	277,092,251	277,092,251	100.00%
2012	321,593,433	321,593,433	100.00%

- (1) Figures include amounts transferred and contributed during the fiscal year that were related to the transfer of certain Harbor Port Police members from the Los Angeles City Employees' Retirement System (LACERS).

**SCHEDULE 2B
SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN
(UNAUDITED)**

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2007	\$ 55,162,681 ⁽¹⁾	\$ 55,162,681	100.00%
2008	98,033,338 ⁽²⁾	78,257,328	79.83%
2009	98,444,833 ⁽³⁾	88,178,910	89.57%
2010	106,648,282	106,648,282	100.00%
2011	111,681,208	111,681,208	100.00%
2012	122,971,851	122,971,851	100.00%

- (1) Payable at the beginning of the year. For years 2007 and prior, Annual Required Contribution may not have been determined in compliance with GASB Statement No. 43 and No. 45 due to maximum amortization period and/or for the medical trend rate employed.
- (2) Based on the beginning of year contribution rate of 8.15% of compensation calculated in the June 30, 2006 valuation before the phase-in, the Annual Required Contribution dollar amount has been approximated by applying the ratio of the contribution before the phase-in to the contribution after the phase-in as determined in the June 30, 2006 valuation to the actual contributions made during 2007-2008.
- (3) Based on the beginning of year contribution rate of 7.89% of compensation calculated in the June 30, 2007 valuation before phase-in. The Annual Required Contribution has been approximated by applying the ratio of the contribution before phase-in to the contribution after the phase-in made during 2008-2009 as determined in the June 30, 2007 valuation to the actual contributions.