CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

CITY OF LOS ANGELES
FIRE AND POLICE PENSION SYSTEM

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Los Angeles Fire and Police Pension System as of June 30, 2013 and 2012, and the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the Los Angeles Fire and Police Pension System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 an opinion on these financial statements based on our audit. 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 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 Los Angeles Fire and Police Pension System'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 Los Angeles Fire and Police Pension System'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 basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Los Angeles Fire and Police Pension System as of June 30, 2013 and 2012, and the changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the Los Angeles Fire and Police Pension System implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

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 basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 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 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* in considering the Los Angeles Fire and Police Pension System's internal control over financial reporting and compliance and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 9, 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, 2013.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2013, was $14.7 billion and $1.08 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 increased by $1.3 billion or 10.0% and increased by $152.1 million or 16.4% for the Pension Plan and Health Subsidy Plan, respectively.

- As of June 30, 2013, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 83.1% and 38.5%, respectively.

- Additions to the Pension Plan's net position increased by $1.5 billion or 229.6% from $669.0 million to $2.2 billion, due primarily to the net appreciation in the fair value of investments in 2013.

- Deductions to the Pension Plan's net position increased by $25.6 million or 3.0% over the prior year from $846.1 million to $871.7 million.

- Additions to the Health Subsidy Plan's net position increased by $113.4 million or 82.3% from $137.8 million to $251.2 million, due to the net appreciation in the fair value of investments in 2013.

- Deductions from the Health Subsidy Plan's net position increased by $4.7 million or 5.0% over the prior year from $94.4 million to $99.1 million in 2013.

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 11 to 35 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 36 and 37 of this report.

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)

	2013	2012	Change	% Change
Cash	$ 6,244	$ 5,648	$ 596	10.6%
Receivables/Prepayments	413,824	169,419	244,405	144.3%
Investments	16,151,828	14,759,688	1,392,140	9.4%
Total Assets	16,571,896	14,934,755	1,637,141	11.0%
Liabilities	1,891,523	1,587,680	303,843	19.1%
Net Position	$ 14,680,373	$ 13,347,075	$ 1,333,298	10.0%

Net position increased by $1.3 billion (10.0%) to $14.7 billion from the prior fiscal year. Assets increased in value by $1.6 billion when compared with the prior fiscal year, attributable to securities lending cash collateral of $1.25 billion received, investment income, and by appreciation of investments due to favorable market conditions.

Condensed Statement of Plan Net Position
(In Thousands)

	2012	2011	Change	% Change
Cash	$ 5,648	$ 5,045	$ 603	12.0%
Receivables/Prepayments	169,419	71,119	98,300	138.2%
Investments	14,759,688	13,980,134	779,554	5.6%
Total Assets	14,934,755	14,056,298	878,457	6.2%
Liabilities	1,587,680	532,110	1,055,570	198.4%
Net Position	$ 13,347,075	$ 13,524,188	$ (177,113)	-1.3%

Pension Plan (Continued)

Changes in Fiduciary Net Position

Condensed Statement of Changes in Fiduciary Net Position
(In Thousands)

	2013	2012	Change	% Change
Additions				
Employer Contributions	$ 375,448	$ 321,593	$ 53,855	16.7%
Member Contributions	121,778	120,099	1,679	1.4%
Net Investment Income	1,705,251	225,458	1,479,793	656.3%
Other Income	2,525	1,877	648	34.5%
Total Additions	2,205,002	669,027	1,535,975	229.6%
Deductions				
Benefits Payment	856,237	831,191	25,046	3.0%
Refund of Contributions	3,267	1,338	1,929	144.2%
Administrative Expenses	12,200	13,611	(1,411)	-10.4%
Total Deductions	871,704	846,140	25,564	3.0%
Net Increase (Decrease)	1,333,298	(177,113)	1,510,411	852.8%
Net Position, Beginning of Year	13,347,075	13,524,188	(177,113)	-1.3%
Net Position, End of Year	$ 14,680,373	$ 13,347,075	$ 1,333,298	10.0%

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 2013 totaled $497.2 million, up by $55.5 million or 12.6% over fiscal year 2012. 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 2013 was 27.5% of covered payroll compared to 24.0% of covered payroll for fiscal year 2012.

Net investment income amounted to $1.7 billion, an increase in net investment income of $1.5 billion or 656.3% when compared with $225.5 million from the prior fiscal year. Investment income increased in 2013 due to favorable capital markets.

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, 2013, totaled $871.7 million, an increase of $25.5 million over 2012. 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.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

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

	2012	2011	Change	% Change
Additions				
Employer Contributions	$ 321,593	$ 277,092	$ 44,501	16.1%
Member Contributions	120,099	105,535	14,564	13.8%
Net Investment Income	225,458	2,538,155	(2,312,697)	-91.1%
Other Income	1,877	2,124	(247)	-11.6%
Total Additions	669,027	2,922,906	(2,253,879)	-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	13,611	12,662	949	7.5%
Total Deductions	846,140	802,668	43,472	5.4%
Net Increase (Decrease)	(177,113)	2,120,238	(2,297,351)	-108.4%
Net Position, Beginning of Year	13,524,188	11,403,950	2,120,238	18.6%
Net Position, End of Year	$ 13,347,075	$ 13,524,188	$ (177,113)	-1.3%

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)

	2013	2012	Change	% Change
Cash	$ 454	$ 388	$ 66	17.0%
Receivables/Prepaids	37,444	18,645	18,799	100.8%
Investments	1,174,916	1,013,673	161,243	15.9%
Total Assets	1,212,814	1,032,706	180,108	17.4%
Liabilities	136,163	108,142	28,021	25.9%
Net Position	$ 1,076,651	$ 924,564	$ 152,087	16.4%

Net position increased by $152.1 million (16.4%) to $1.07 billion when compared to $925.0 million of the prior fiscal year due to an increase in the actuarially determined employer contribution towards health and prepayment of the Health Subsidy.

Condensed Statement of Plan Net Position
(In Thousands)

	2012	2011	Change	% Change
Cash	$ 388	$ 329	$ 59	17.9%
Receivables	18,645	4,359	14,286	327.7%
Investments	1,013,673	910,546	103,127	11.3%
Total Assets	1,032,706	915,234	117,472	12.8%
Liabilities	108,142	34,031	74,111	217.8%
Net Position	$ 924,564	$ 881,203	$ 43,361	4.9%

Changes in Fiduciary Net Position

Condensed Statement of Changes in Fiduciary Net Position
(In Thousands)

	2013	2012	Change	% Change
Additions				
Contributions	$ 132,939	$ 122,972	$ 9,967	8.1%
Net Investment Income	118,124	14,690	103,434	704.1%
Other Income	175	122	53	43.4%
Total Additions	251,238	137,784	113,454	82.3%
Deductions				
Benefits Payment	98,306	93,536	4,770	5.1%
Administrative Expenses	845	887	(42)	-4.7%
Total Deductions	99,151	94,423	4,728	5.0%
Net Increase	152,087	43,361	108,726	250.7%
Net Position, Beginning of Year	924,564	881,203	43,361	4.9%
Net Position, End of Year	$ 1,076,651	$ 924,564	$ 152,087	16.4%

Additions to Fiduciary Net Position

Total additions to net position increased $113.0 million compared to fiscal year 2012. This is due primarily to an increase in net investment income by $103.0 million, mostly attributed to favorable capital markets, and an increase in contributions of $9.9 million or 8.1% over fiscal year 2012. For fiscal year 2013, the employer contribution rate is 9.7% of covered payroll compared to 9.2% for fiscal year 2012.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Current year deductions were $4.7 million or 5.0% 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.

Health Subsidy Plan (Continued)

Condensed Statement of Changes in Plan Net Position
(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 Position, Beginning of Year	881,203	702,982	178,221	25.4%
Net Position, End of Year	$ 924,564	$ 881,203	$ 43,361	4.9%

Debt Administration Mortgage Payable

At June 30, 2013, the System had a combined total of $192,425,131 in mortgage payable for the Pension Plan and Health Subsidy Plan. The System paid down $15,064,999 and added $0 during the year for an ending balance of $192,425,131.

Future Changes

As discussed in Note 2, Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68 will have a significant impact on reporting for future periods.

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:

Raymond P. Ciranna, 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 FIDUCIARY NET POSITION
JUNE 30, 2013 AND 2012

	2013			2012		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	$ 6,243,889	$ 454,193	$ 6,698,082	$ 5,647,790	$ 387,882	$ 6,035,672
Receivables						
Accrued Interest and Dividends	47,014,998	3,419,965	50,434,963	45,451,754	3,121,557	48,573,311
Contributions	5,490,442	-	5,490,442	5,144,476	-	5,144,476
Due from Brokers	361,314,364	26,282,731	387,597,095	118,823,242	8,160,598	126,983,840
Total Receivables	413,819,804	29,702,696	443,522,500	169,419,472	11,282,155	180,701,627
Prepaid Health Subsidy	4,772	7,740,927	7,745,699	-	7,363,396	7,363,396
Investments at Fair Value						
Temporary	547,839,247	39,850,925	587,690,172	492,172,520	33,801,656	525,974,176
U.S. Government Obligations	1,597,254,678	116,187,507	1,713,442,185	1,682,432,384	115,546,882	1,797,979,266
Domestic Corporate Bonds	1,320,386,482	96,047,559	1,416,434,041	1,374,946,321	94,429,211	1,469,375,532
Foreign Bonds	1,713,327	124,631	1,837,958	17,405,729	1,195,399	18,601,128
Domestic Stocks	5,958,717,825	433,449,078	6,392,166,903	5,003,234,954	343,614,522	5,346,849,476
Foreign Stocks	2,563,866,624	186,500,797	2,750,367,421	2,137,109,111	146,773,383	2,283,882,494
Real Estate	1,148,402,028	83,537,065	1,231,939,093	1,158,264,541	79,547,837	1,237,812,378
Alternative Investments	1,767,344,218	128,560,161	1,895,904,379	1,691,150,749	116,145,646	1,807,296,395
Total Investments	14,905,524,429	1,084,257,723	15,989,782,152	13,556,716,309	931,054,536	14,487,770,845
Securities Lending Collateral	1,246,303,273	90,658,598	1,336,961,871	1,202,971,011	82,618,209	1,285,589,220
TOTAL ASSETS	16,571,896,167	1,212,814,137	17,784,710,304	14,934,754,582	1,032,706,178	15,967,460,760
LIABILITIES						
Accounts Payable and Accrued Expenses	7,948,122	520,663	8,468,785	7,570,804	481,768	8,052,572
Benefits in Process of Payment	23,975,096	371,439	24,346,535	17,260,715	326,196	17,586,911
Due to Brokers	433,919,740	31,564,191	465,483,931	165,721,870	11,381,524	177,103,394
Mortgage Payable	179,376,896	13,048,235	192,425,131	194,155,806	13,334,324	207,490,130
Securities Lending Collateral	1,246,303,273	90,658,598	1,336,961,871	1,202,971,011	82,618,209	1,285,589,220
TOTAL LIABILITIES	1,891,523,127	136,163,126	2,027,686,253	1,587,680,206	108,142,021	1,695,822,227
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	$ 14,680,373,040	$ 1,076,651,011	$ 15,757,024,051	$ 13,347,074,376	$ 924,564,157	$ 14,271,638,533

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

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	$ 375,448,092	$ 132,939,191	$ 508,387,283	$ 321,593,433	$ 122,971,851	$ 444,565,284
Member Contributions	121,777,654	-	121,777,654	120,099,124	-	120,099,124
Total Contributions	497,225,746	132,939,191	630,164,937	441,692,557	122,971,851	564,664,408
Investment Income (Loss)						
Net Appreciation (Depreciation) in Fair Value of Investments, Including Gain and Loss on Sales	1,345,525,723	93,205,808	1,438,731,531	(91,411,397)	(5,956,145)	(97,367,542)
Interest	105,000,214	7,273,462	112,273,676	113,081,586	7,368,121	120,449,707
Dividends	193,583,363	13,409,698	206,993,061	169,456,008	11,041,343	180,497,351
Net Real Estate Income	64,904,411	4,495,988	69,400,399	59,570,573	3,881,474	63,452,047
Income from Alternative Investments	37,171,522	2,574,906	39,746,428	16,740,574	1,090,775	17,831,349
Securities Lending Income	8,444,788	584,978	9,029,766	5,950,645	387,730	6,338,375
Less: Securities Lending Expense	(843,478)	(58,429)	(901,907)	(594,240)	(38,719)	(632,959)
Other Income	3,451,327	239,077	3,690,404	1,285,334	83,749	1,369,083
Subtotal	1,757,237,870	121,725,488	1,878,963,358	274,079,083	17,858,328	291,937,411
Less: Investment Manager Expense	(51,987,110)	(3,601,195)	(55,588,305)	(48,621,792)	(3,168,078)	(51,789,870)
Net Investment Income	1,705,250,760	118,124,293	1,823,375,053	225,457,291	14,690,250	240,147,541
Other Income						
Miscellaneous	2,525,693	174,957	2,700,650	1,876,735	122,284	1,999,019
Total Other Income	2,525,693	174,957	2,700,650	1,876,735	122,284	1,999,019
TOTAL ADDITIONS	2,205,002,199	251,238,441	2,456,240,640	669,026,583	137,784,385	806,810,968
DEDUCTIONS						
Pension Benefits	856,236,598	-	856,236,598	831,190,554	-	831,190,554
Payment of Health Subsidy	-	89,451,074	89,451,074	-	85,304,547	85,304,547
Payment of Medicare Reimbursement	-	8,855,383	8,855,383	-	8,232,089	8,232,089
Refund of Contributions	3,266,578	-	3,266,578	1,338,502	-	1,338,502
Administrative Expenses	12,200,359	845,130	13,045,489	13,610,954	886,857	14,497,811
TOTAL DEDUCTIONS	871,703,535	99,151,587	970,855,122	846,140,010	94,423,493	940,563,503
NET INCREASE (DECREASE)	1,333,298,664	152,086,854	1,485,385,518	(177,113,427)	43,360,892	(133,752,535)
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	13,347,074,376	924,564,157	14,271,638,533	13,524,187,803	881,203,265	14,405,391,068
End of Year	$ 14,680,373,040	$ 1,076,651,011	$ 15,757,024,051	$ 13,347,074,376	$ 924,564,157	$ 14,271,638,533

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

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 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 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, 2012 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, 2012. 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, 2012, the maximum subsidy amount is $1,174.23 per month. The maximum monthly subsidy for fiscal years 2013 and 2012 was $1,097.41. 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, 2013 and 2012, total net position in the amounts of $1,076,651,011 and $924,564,157, respectively, was 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 2013 and 2012 was $1,174.23 and $1,097.41, 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 $44.41 for the period of January 1, 2012, through December 31, 2012, and $42.80 for the period of January 1, 2013, through June 30, 2013. 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, 2013 and 2012, 1,190 and 1,193 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately $250,665,204 and $237,048,190, 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, 2013 and 2012, are as follows:

	2013	2012
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	3	4
Tier 4	197	199
Tier 5	8,046	8,237
Tier 6	562	355
	8,808	8,795
Active Vested:		
Tier 1	-	-
Tier 2	58	87
Tier 3	892	918
Tier 4	166	184
Tier 5	3,300	3,412
Tier 6	-	-
	4,416	4,601
Pensioners and Beneficiaries:		
Tier 1	555	600
Tier 2	8,357	8,535
Tier 3	494	466
Tier 4	216	197
Tier 5	2,810	2,582
Tier 6	-	-
	12,432	12,380
	25,656	25,776

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).

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 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 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 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 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 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. 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 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Implementation of New Accounting Pronouncements</u>

For the year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The primary change as a result of implementing this statement was renaming as net position what was previously reported as net assets. The City does not have any deferred inflows or outflows to report.

On June 25, 2012, GASB approved new accounting and reporting standards for pensions. GASB Statement No. 67, *Financial Reporting for Pension Plans,* replaces Statement No. 25 for Plan reporting and GASB Statement No. 68, *Accounting for Financial Reporting for Pension Plans,* replaces Statement No. 27 for Employer reporting. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

For the City, the new standards build upon the existing framework for financial reports, enhances the note disclosures and required supplementary information, and requires the presentation of new information about annual money-weighted rates of return in the notes to the basic financial statements. The City is currently planning for the implementation of GASB No. 67, *Financial Reporting for Pension Plans*, for its June 30, 2014 year-end.

The new standards require the City and outside Districts to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time and provide a more comparable measure of the annual costs of pension benefits by employer. This proportionate share is based on the employer's long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For the City and outside Districts, the new financial reporting provisions are effective for fiscal year ending June 30, 2015.

The City will establish a Task Force comprised of key stakeholders from the City, outside Districts, and external professional service providers to discuss the requirements for implementation of the new accounting standards, GASB Statements No. 67 and No. 68. The Task Force will work toward establishing timelines and a framework for preliminary implementation decisions.

GASB issued the Implementation Guide for GASB Statement No. 67 in late June 2013. Limited guidance has been available for GASB Statement No. 68 thus far. However, GASB anticipates releasing the GASB Statement No. 68 Implementation Guide in the first quarter of 2014.

NOTE 3 – <u>FUNDING POLICY AND CONTRIBUTION INFORMATION</u>

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.

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.

NOTE 3 – <u>FUNDING POLICY AND CONTRIBUTION INFORMATION</u> (Continued)

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, 2013 and 2012, were to be as follows ($ in millions):

Fiscal Year Ended June 30, 2013

	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	$ 3.50	$15.67	$6.50	$216.57	$2.67	$ 1.98	$ 0.07
Unfunded supplemental present value amount *	$16.84	$ 8.23	$ 7.72	$5.08	$ 89.60	$1.33	$ 0.65	$ 0.03
Health subsidy entry age cost*	N/A	$ 0.47	$ 3.54	$1.41	$ 40.60	$0.93	$ 0.44	$ 0.02
Health subsidy unfunded actuarial accrued liability annual amount*	$ 2.13	$ 46.24	$ 3.37	$2.52	$ 30.75	$0.41	$ 0.11	$ -

*Stated in million dollars.

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.

During fiscal year 2013, total contributions of $508,387,283 from the employer and $121,777,654 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 2013 employer contributions included $246.0 million for normal cost and $129.0 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2013 employer contributions consisted of $47.4 million for normal cost and $85.5 million for unfunded actuarial accrued liability annual amount.

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

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.

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, 2013 and 2012 annual valuations determined the funding status to be 83.1% and 83.7%, respectively. For 2013, if the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 83.1% to 83.5%.

The funded status of the Pension Plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
$ 14,657,712,639	$ 17,632,425,090	$ 2,974,712,451	83.1%	$ 1,367,236,866	217.6%

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.

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

Valuation Date	June 30, 2013
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.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

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 seven-year period. Unrecognized return established before July 1, 2008, was recognized over a five-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
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.

Health Subsidy Plan

The June 30, 2013 and 2012 annual valuations determined the funding status to be 38.5% and 37.1%, respectively. If the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 38.5% to 38.7%.

The funded status of the Health Subsidy Plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
$ 1,013,399,583	$ 2,633,792,545	$ 1,620,392,962	38.5%	$ 1,367,236,866	118.5%

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.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

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

Valuation Date	June 30, 2013
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, 2013:

23 years for bases established prior to June 30, 2012
19 years for bases established on June 30, 2012
20 years for bases established on June 30, 2013

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 seven-year period. Unrecognized return established before July 1, 2008, was recognized over a five-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.

Actuarial Assumptions:

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

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

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

Medical	8.0% in 2013-2014, then decreasing by 0.5% for each year for six years until it reaches an ultimate rate of 5%.
Dental	5%
Medicare Part B Premium	The 2014-2015 premiums are assumed to be 2.5% higher than 2013-2014 premiums (based on 2014 calendar year premium remaining unchanged from 2013). All subsequent 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 retires, 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, 2013 (e.g., Police Kaiser), increase with medical trend. For Medicare retirees with 2-Party premium greater than the maximum subsidy as of July 1, 2013 (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 — 80% 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:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse
Fire Medical PPO	75	$ 1,256.43	$ 1,256.43	$ 681.72
Fire Kaiser	15	1,256.43	1,256.43	681.72
Fire Blue Cross HMO	5	1,256.43	1,256.43	681.72
Fire California Care HMO	5	1,256.43	1,256.43	681.72
Police Blue Cross PPO	65	1,256.43	1,256.43	681.72
Police California Care HMO	15	1,256.43	1,256.43	681.72
Police Kaiser	20	1,256.43	1,256.43	681.72
Dental	80	42.80	42.80	-

Note: The fund pays the lower of the member’s subsidy or member’s medical plan premium.

NOTE 4 – <u>FUNDED STATUS AND FUNDING PROGRESS</u> (Continued)

<u>Health Subsidy Plan</u> (Continued)

For Participants Age 65 and Over:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse
Fire Medical PPO	85	$ 452.93	$ 727.79	$ 452.93
Fire Kaiser	10	452.93	756.08	452.93
Fire Blue Cross HMO	5	452.93	1,201.17	452.93
Fire California Care HMO	0	452.93	1,035.91	452.93
Police Blue Cross PPO	75	452.93	917.40	452.93
Police California Care HMO	10	452.93	918.05	452.93
Police Kaiser	15	452.93	440.51	452.93
Dental	80	42.80	42.80	-
Medicare B	100	104.90	104.90	104.90

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

NOTE 5 – <u>SECURITIES LENDING</u>

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 Fiduciary Net Position.

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 Fiduciary Net Position. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

NOTE 5 – SECURITIES LENDING (Continued)

As of June 30, 2013 and 2012, the fair value of securities lent was $1,606,643,493 and $1,421,442,839, respectively, and the fair value of collateral received was $1,658,291,108 and $1,442,912,340, respectively. Of the $1,658,291,108 collateral received as of June 30, 2013, $1,336,961,871 was cash collateral and $321,329,237 represented the fair value of non-cash collateral; and 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 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 security lending transactions as of June 30, 2013 and 2012.

Fair value of collateral received for loaned securities as of June 30, 2013:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 1,111,226,419	$ 44,374,919	$ 1,155,601,338
Domestic Corporate Fixed Income Securities	144,962,974	-	144,962,974
International Stocks	80,772,478	276,954,318	357,726,796
	$ 1,336,961,871	$ 321,329,237	$ 1,658,291,108

Fair value of loaned securities as of June 30, 2013:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 1,085,487,583	$ 43,333,250	$ 1,128,820,833
Domestic Corporate Fixed Income Securities	141,546,587	-	141,546,587
International Stocks	76,117,719	260,158,354	336,276,073
	$ 1,303,151,889	$ 303,491,604	$ 1,606,643,493

NOTE 5 – SECURITIES LENDING (Continued)

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

Securities Lent	Cash	Non-Cash	Total Collateral Securities
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
	$ 1,285,589,220	$ 157,323,120	$ 1,442,912,340

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

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
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
	$ 1,272,430,098	$ 149,012,741	$ 1,421,442,839

For the fiscal years ended June 30, 2013 and 2012, securities lending income amounted to $9,029,766 and $6,338,375, respectively, while securities lending expenses amounted to $901,907 and $632,959, 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, 2013, cash and temporary investments consisted of $6,698,082 cash held by the City Treasurer’s office and $587,690,172 in collective short-term investment funds (STIF). 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 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, 2013, 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	$ 1,300,328,977	48.55%
AA	77,735,517	2.90%
A	287,312,090	10.73%
BBB	432,594,131	16.15%
BB	201,379,140	7.52%
B	217,383,485	8.11%
CCC	50,943,522	1.90%
CC	7,195,078	0.27%
C	511,291	0.02%
Not Rated	103,075,796	3.85%
Subtotal	2,678,459,027	100.00%
U.S. Government Issued or Guaranteed Securities	453,255,157	
Total Fixed Income Investments	$ 3,131,714,184	

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:

Quality Rating	Fair Value	Percentage
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	$ 3,285,955,926	

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, 2013 and 2012, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to $10,584,998 and $18,348,839, respectively.

NOTE 6 – <u>CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS</u> (Continued)

<u>Custodial Credit Risk</u> (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, 2013 and 2012, 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, 2013 and 2012, the System's investments in hedge fund of funds of $549,054,089 and $598,713,969, private equity of $1,346,850,290 and $1,208,584,553, and commingled real estate funds of $589,790,484 and $587,101,735, were exposed to custodial credit risk, respectively.

<u>Concentration of Credit Risk</u>

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, 2013 and 2012, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

<u>Interest Rate Risk</u>

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 2013

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	$ 49,496,120	49.49
Commercial Mortgages	54,593,562	29.13
Corporate Bonds	1,285,295,376	16.41
Government Agencies Bonds	57,374,270	4.29
Government Bonds	562,829,453	12.85
Government Mortgage Backed Securities	366,922,761	21.64
Index Linked Government Bonds	731,669,504	9.42
Non-Government Backed Collateralized Mortgage Obligations	2,694,144	22.81
Bond Index Fund*	20,838,994	N/A
Total Fixed Income Investments	$ 3,131,714,184	

* Shares are in commingled fixed income funds.

NOTE 6 – <u>CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS</u> (Continued)

<u>Interest Rate Risk</u> (Continued)

Fiscal Year 2012

Investment Type	Fair Value	Weighted Average Maturity (in Years)
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*	11,409,395	N/A
Total Fixed Income Investments	$ 3,285,955,926	

* Shares are in commingled fixed income funds.

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

Fiscal Year 2013

Investment Type	Fair Value
Asset Backed Securities	$ 49,496,120
Commercial Mortgages	54,593,562
Government Agencies Bonds	57,374,270
Government Mortgage Backed Securities	366,922,761
Index Linked Government Bonds	731,669,504
Non-Government Backed Collateralized Mortgage Obligations	2,694,144
	$ 1,262,750,361

Fiscal Year 2012

Investment Type	Fair Value
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
	$ 1,372,085,961

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, 2013, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 91,492,220
Brazilian Real	57,847,147
British Pound Sterling	490,118,766
Canadian Dollar	21,767,245
Chilean Peso	4,985,118
Colombian Peso	973,751
Czech Koruna	859,506
Danish Krone	27,930,359
Euro	674,756,331
Hong Kong Dollar	171,343,450
Hungarian Forint	1,052,021
Indian Rupee	39,825,597
Indonesian Rupiah	25,798,825
Japanese Yen	468,849,496
Malaysian Ringgit	27,147,597
Mexican Peso	32,424,956
New Israeli Shekel	3,997,741
New Taiwan Dollar	106,044,594
New Zealand Dollar	1,629,822
Norwegian Krone	15,819,721
Philippine Peso	6,068,139
Polish Zloty	9,454,949
Singapore Dollar	22,736,482
South African Rand	56,683,471
South Korean Won	138,097,722
Swedish Krona	65,112,478
Swiss Franc	144,693,772
Thai Baht	20,120,651
Turkish Lira	24,573,452
	$ 2,752,205,379

Note: The foreign currency total is comprised of foreign stocks and foreign bonds.

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, 2012, are as follows:

Foreign Currency Type	Fair Value
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
Colombian 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
	$ 2,302,483,622

Note: The foreign currency total is comprised of foreign stocks and foreign bonds.

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.

NOTE 7 – DERIVATIVE INSTRUMENTS (Continued)

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.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2013 financial statements are as follows ($ in thousands):

	Changes in Fair Value			Fair Value at June 30, 2013			Notional	
Type	Classification		Amount	Classification		Amount		Amount
Investment Derivatives:								
Futures - Shorts		$	-	Investment	$	-	$	-
Futures - Longs	Investment Revenue		(1,798)	Investment		-		(2,194)
Forwards	Investment Revenue		(754)	Investment		167		-
Rights/Warrants	Investment Revenue		(960)	Investment		36		-

At June 30, 2013, the System held futures-longs with a notional value of $(2,193,610) with a realized gain of $1,797,509 for the fiscal year. The System held forwards with a fair value of $167,087 and rights and warrants with a fair value of $36,726. Earnings of $754,519 were reported for the fiscal year for forwards and $960,351 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, 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):

	Changes in Fair Value			Fair Value at June 30, 2012			Notional	
Type	Classification		Amount	Classification		Amount		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 future longs with the notional value of $3,573,525 and 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 for forwards and loss of $1,111,030 for rights and warrants were reported for the fiscal year.

NOTE 8 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2013, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $17,550 to $850,000. For fiscal year 2012, interest rates range from 2.94% to 7.50% per annum. Monthly principal and interest payments range from $43,348 to $929,868.

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:

Year Ending	Principal	Interest	Total
2014	$ 43,805,240	$ 7,561,521	$ 51,366,761
2015	8,116,004	7,012,842	15,128,846
2016	36,652,903	6,502,462	43,155,365
2017	39,175,519	4,182,325	43,357,844
2018	1,477,970	3,803,594	5,281,564
2019-2023	55,271,221	10,003,627	65,274,848
2024-2028	3,883,076	1,803,086	5,686,162
2029-2031	4,043,198	505,731	4,548,929
	$ 192,425,131	$ 41,375,188	$ 233,800,319

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, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Mortgage Payable	$ 207,490,130	$ -	$ 15,064,999	$ 192,425,131

NOTE 9 – OPERATING LEASE

The System leases office space under an operating lease that expires on April 14, 2017. The annual lease payments for the fiscal years ended June 30, 2013 and 2012, were $865,108 and $913,374, respectively.

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

Year Ended June 30	
2014	$ 876,354
2015	865,108
2016	876,354
2017	902,639
	$ 3,520,455

NOTE 10 – 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 $1,586,973,508 and $1,498,454,279 as of June 30, 2013 and 2012, respectively.

NOTE 10 – <u>COMMITMENTS AND CONTINGENCIES</u> (Continued)

<u>Termination Rights</u> (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.

<u>Investment Commitment</u>

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1,050,565,956 and $962,188,539 at June 30, 2013 and 2012, respectively. As of June 30, 2013, the System settled with the State of Arizona over the value received in a taking of property that was owned by the System.

<u>The Patient Protection and Affordable Care Act (PPACA) of 2010</u>

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 – <u>DONATIONS</u>

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, 2012, or 2013.

NOTE 12 – <u>RISKS AND UNCERTAINTIES</u>

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 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2013, which is the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 2004	$ 11,735,696,180	$ 11,389,980,813	$ (345,715,367)	103.0%	$ 1,001,003,937	-34.5%
June 30, 2005	11,634,113,683	12,357,524,467	723,410,784	94.1%	1,037,444,701	69.7%
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%
June 30, 2013	14,657,712,639	17,632,425,090	2,974,712,451	83.1%	1,367,236,866	217.6%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 2004	$ 605,998,904	$ 1,009,062,407	$ 403,063,503	60.1%	$ 1,001,003,937	40.3%
June 30, 2005	597,199,108	1,257,504,654	660,305,546	47.5%	1,037,444,701	63.6%
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%
June 30, 2013	1,013,399,583	2,633,792,545	1,620,392,962	38.5%	1,367,236,866	118.5%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2013

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

Fiscal Years Ending	Annual Required Contribution	Actual Contribution	Percent Contributed
2004	$ 97,465,612	$ 97,465,612	100.00%
2005	135,853,688	135,853,688	100.00%
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%
2013	375,448,092	375,448,092	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)

Fiscal Years Ending	Annual Required Contribution	Actual Contribution	Percent Contributed
2004	$ 38,737,255 (1)	$ 38,737,255	100.00%
2005	31,541,933 (1)	31,541,933	100.00%
2006	31,413,281 (1)	31,413,281	100.00%
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%
2013	132,939,191	132,939,191	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 Statements 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.