LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

LOS ANGELES FIRE AND
POLICE PENSION SYSTEM

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BROWN ARMSTRONG
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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 Statements of Fiduciary Net Position of the Los Angeles Fire and Police Pension System (LAFPP) as of June 30, 2015 and 2014, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise LAFPP'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 LAFPP'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 LAFPP'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 LAFPP as of June 30, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the total pension liability of the participating employers as of June 30, 2015, was $19,385,427,756. The fiduciary net position as a percentage of the total liability as of June 30, 2015, was 89.48%. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.5%, which represents the long-term expected rate of return. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 6 to the financial statements, the financial statements include investments that are not listed on a national exchange or for which quoted market prices are not available. These investments include private equity, real estate, and hedge funds. Such investments totaled $3,305,574,403 (17% of total assets) at June 30, 2015. Where a publicly listed price is not available, the management of LAFPP uses alternative sources of information including audited financial statements, unaudited interim reports, independent appraisals, and similar evidence to determine the fair value of the investments. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 November 9, 2015, on our consideration of LAFPP'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 LAFPP'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
November 9, 2015

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (LAFPP) is an overview of its fiscal operations for the year ended June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2015, was $17.3 and $1.4 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet LAFPP's obligations to members and their beneficiaries.

- Net position increased by $344.9 million or 2.0% and increased by $88.4 million or 6.8% for the Pension Plan and Health Subsidy Plan, respectively.

- As of June 30, 2015, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 91.5% and 45.4%, respectively.

- Additions to the Pension Plan's net position decreased by $1.9 billion or 59.9% from $3.2 billion to $1.3 billion, due primarily to the net depreciation in the fair value of investments in 2015.

- Deductions from the Pension Plan's net position increased by $63.9 million or 7.3% over the prior year from $872.9 million to $936.7 million.

- Additions to the Health Subsidy Plan's net position decreased by $130.8 million or 39.5% from $330.9 million to $200.1 million, due to the net depreciation in the fair value of investments in 2015.

- Deductions from the Health Subsidy Plan's net position increased by $6.4 million or 6.1% over the prior year from $105.4 million to $111.8 million in 2015.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 67 IMPLEMENTATION

LAFPP's financial statements, notes to the financial statements, and required supplementary information were prepared in accordance with the reporting requirements of GASB Statement No. 67. The most recent actuarial valuation as of June 30, 2015, used the Entry Age Normal Cost Method in the preparation of the valuation.

The Total Pension Liability for the Pension Plan at June 30, 2015, was $19,385,427,756, and the Fiduciary Net Position was $17,346,554,076. Thus, the Net Pension Liability for the Pension Plan was $2,038,873,680, and the Plan Fiduciary Net Position as a percentage of the total pension liability was 89.48%.

The Notes to Financial Statements provide additional disclosures to comply with GASB Statement No. 67 implementation as follows:

- Plan Membership
- Investments (allocation by asset class, expected long-term rate of return by asset class, and the annual money-weighted rate of return)
- Investments greater than 5% of the Plan's Fiduciary Net Position
- Net Pension Liability (and the components of Net Pension Liability)
- Significant actuarial assumptions used to measure Total Pension Liability

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the financial statements of LAFPP, 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 13 to 37 of this report.

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

- Schedule of Funding Progress – Health Subsidy Plan
- Schedule of Employer Contributions – Health Subsidy Plan
- Schedule of Employer's Net Pension Liability
- Schedule of Changes in Employer's Net Pension Liability and Related Ratios
- Schedule of Employer Contributions – Pension Plan
- Schedule of Investment Returns

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)

	2015	2014	Change	% Change
Cash	$ 955	$ 1,347	$ (392)	-29.1%
Receivables/Prepayments	237,392	299,184	(61,792)	-20.7%
Investments	18,916,665	18,518,838	397,827	2.1%
Capital Assets	12,613	11,835	778	6.6%
Total Assets	19,167,625	18,831,204	336,421	1.8%
Liabilities	1,821,071	1,829,547	(8,476)	-0.5%
Net Position	$ 17,346,554	$ 17,001,657	$ 344,897	2.0%

Net position increased by $344.9 million (2%) to $17.3 billion from the prior fiscal year. Assets increased in value by $336.4 million when compared with the prior fiscal year, attributable to appreciation of investments due to favorable market conditions.

Condensed Statement of Plan Net Position
(In Thousands)

	2014	2013	Change	% Change
Cash	$ 1,347	$ 6,244	$ (4,897)	-78.4%
Receivables/Prepayments	299,184	413,824	(114,640)	-27.7%
Investments	18,518,838	16,151,828	2,367,010	14.7%
Capital Assets	11,835	-	11,835	100.0%
Total Assets	18,831,204	16,571,896	2,259,308	13.6%
Liabilities	1,829,547	1,891,523	(61,976)	-3.3%
Net Position	$ 17,001,657	$ 14,680,373	$ 2,321,284	15.8%

Pension Plan (Continued)

Changes in Fiduciary Net Position

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

	2015	2014	Change	% Change
Additions				
Employer Contributions	$ 480,332	$ 440,698	$ 39,634	9.0%
Member Contributions	126,771	124,395	2,376	1.9%
Net Investment Income	669,668	2,626,143	(1,956,475)	-74.5%
Other Income	4,849	2,899	1,950	67.3%
Total Additions	1,281,620	3,194,135	(1,912,515)	-59.9%
Deductions				
Pension Benefits	915,163	856,036	59,127	6.9%
Refund of Contributions	3,746	2,950	796	27.0%
Administrative Expenses	17,814	13,865	3,949	28.5%
Total Deductions	936,723	872,851	63,872	7.3%
Net Increase	344,897	2,321,284	(1,976,387)	-85.1%
Net Position, Beginning of Year	17,001,657	14,680,373	2,321,284	15.8%
Net Position, End of Year	$ 17,346,554	$ 17,001,657	$ 344,897	2.0%

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

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

Contributions for fiscal year 2015 totaled $607.1 million, up by $42.0 million or 7.4% over fiscal year 2014. The increase in contributions was due to an increase in the actuarially determined contribution rate. The employer contribution rate for fiscal year 2015 was 36.54% of covered payroll compared to 34.72% of covered payroll for fiscal year 2014.

Net investment income amounted to $669.7 million, a decrease in net investment income of $1.9 billion or 74.5% when compared with $2.6 billion from the prior fiscal year. Investment income decreased in 2015 due to unfavorable capital markets.

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

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

Deductions for the fiscal year ended June 30, 2015, totaled $936.7 million, an increase of $63.9 million over 2014. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

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

	2014	2013	Change	% Change
Additions				
Employer Contributions	$ 440,698	$ 375,448	$ 65,250	17.4%
Member Contributions	124,395	121,778	2,617	2.1%
Net Investment Income	2,626,143	1,705,251	920,892	54.0%
Other Income	2,899	2,525	374	14.8%
Total Additions	3,194,135	2,205,002	989,133	44.9%
Deductions				
Pension Benefits	856,036	856,237	(201)	0.0%
Refund of Contributions	2,950	3,267	(317)	-9.7%
Administrative Expenses	13,865	12,200	1,665	13.6%
Total Deductions	872,851	871,704	1,147	0.1%
Net Increase	2,321,284	1,333,298	987,986	74.1%
Net Position, Beginning of Year	14,680,373	13,347,075	1,333,298	10.0%
Net Position, End of Year	$ 17,001,657	$ 14,680,373	$ 2,321,284	15.8%

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)

	2015	2014	Change	% Change
Cash	$ 76	$ 102	$ (26)	-25.5%
Receivables/Prepaids	27,294	30,520	(3,226)	-10.6%
Investments	1,505,961	1,408,826	97,135	6.9%
Capital Assets	1,004	900	104	11.6%
Total Assets	1,534,335	1,440,348	93,987	6.5%
Liabilities	143,788	138,165	5,623	4.1%
Net Position	$ 1,390,547	$ 1,302,183	$ 88,364	6.8%

Net position increased by $88.3 million (6.8%) to $1.39 billion when compared to $1.30 billion of the prior fiscal year due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the Health Subsidy.

Condensed Statement of Plan Net Position
(In Thousands)

	2014	2013	Change	% Change
Cash	$ 102	$ 454	$ (352)	-77.5%
Receivables/Prepaids	30,520	37,444	(6,924)	-18.5%
Investments	1,408,826	1,174,916	233,910	19.9%
Capital Assets	900	-	900	100.0%
Total Assets	1,440,348	1,212,814	227,534	18.8%
Liabilities	138,165	136,163	2,002	1.5%
Net Position	$ 1,302,183	$ 1,076,651	$ 225,532	20.9%

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position

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

	2015	2014	Change	% Change
Additions				
Contributions	$ 148,477	$ 138,107	$ 10,370	7.5%
Net Investment Income	51,291	192,600	(141,309)	-73.4%
Other Income	371	213	158	74.2%
Total Additions	200,139	330,920	(130,781)	-39.5%
Deductions				
Benefit Payments	110,411	104,371	6,040	5.8%
Administrative Expenses	1,364	1,017	347	34.1%
Total Deductions	111,775	105,388	6,387	6.1%
Net Increase	88,364	225,532	(137,168)	-60.8%
Net Position, Beginning of Year	1,302,183	1,076,651	225,532	20.9%
Net Position, End of Year	$ 1,390,547	$ 1,302,183	$ 88,364	6.8%

Additions to Fiduciary Net Position

Total additions to net position decreased $130.8 million compared to fiscal year 2014. This is due primarily to a decrease in net investment income by $141.3 million, mostly attributed to unfavorable capital markets, and an increase in contributions of $10.4 million or 7.5% over fiscal year 2014. For fiscal year 2015, the employer contribution rate is 11.3% of covered payroll compared to 10.57% for fiscal year 2014.

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 $111.8 million or 6.1% 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 Fiduciary Net Position
(In Thousands)

	2014	2013	Change	% Change
Additions				
Contributions	$ 138,107	$ 132,939	$ 5,168	3.9%
Net Investment Income	192,600	118,124	74,476	63.0%
Other Income	213	175	38	21.7%
Total Additions	330,920	251,238	79,682	31.7%
Deductions				
Benefit Payments	104,371	98,306	6,065	6.2%
Administrative Expenses	1,017	845	172	20.4%
Total Deductions	105,388	99,151	6,237	6.3%
Net Increase	225,532	152,087	73,445	48.3%
Net Position, Beginning of Year	1,076,651	924,564	152,087	16.4%
Net Position, End of Year	$ 1,302,183	$ 1,076,651	$ 225,532	20.9%

Debt Administration Mortgage Payable

At June 30, 2015, LAFPP had a combined total of $206.2 million in mortgage payable for the Pension Plan and Health Subsidy Plan. LAFPP paid down $25.3 million and added $63.0 million during the year for an ending balance of $206.2 million.

Current Year Changes

GASB issued the *Implementation Guide* for GASB Statement No. 68 in late January 2014. LAFPP, through our professional organizations, management, and consultants, worked together with our plan sponsors to evaluate and implement these new requirements as prescribed within the required time frame.

REQUEST FOR INFORMATION

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

Raymond P. Ciranna, General Manager
Los Angeles Fire and Police Pension System
360 E. Second Street, Suite 400
Los Angeles, CA 90012

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2015 AND 2014

	2015			2014		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	$ 954,823	$ 76,014	$ 1,030,837	$ 1,347,076	$ 102,479	$ 1,449,555
Receivables						
Accrued Interest and Dividends	49,710,417	3,957,458	53,667,875	46,466,784	3,534,971	50,001,755
Contributions	6,686,968	-	6,686,968	6,109,845	-	6,109,845
Due from Brokers	180,990,731	14,408,716	195,399,447	246,602,831	18,760,368	265,363,199
Total Receivables	237,388,116	18,366,174	255,754,290	299,179,460	22,295,339	321,474,799
Prepaid Health Subsidy	3,737	8,928,092	8,931,829	4,232	8,224,596	8,228,828
Investments at Fair Value						
Temporary	650,292,676	51,769,958	702,062,634	797,305,321	60,655,189	857,960,510
U.S. Government Obligations	1,949,302,525	155,184,448	2,104,486,973	1,871,171,885	142,349,838	2,013,521,723
Domestic Corporate Bonds	1,610,722,591	128,230,016	1,738,952,607	1,331,856,288	101,321,278	1,433,177,566
Foreign Bonds	18,172	1,447	19,619	6,326,552	481,294	6,807,846
Domestic Stocks	6,790,804,582	540,617,603	7,331,422,185	6,935,869,711	527,647,909	7,463,517,620
Foreign Stocks	3,484,205,332	277,378,433	3,761,583,765	3,378,350,372	257,008,793	3,635,359,165
Real Estate	1,451,891,514	115,585,436	1,567,476,950	1,319,437,440	100,376,511	1,419,813,951
Alternative Investments	1,609,930,495	128,166,958	1,738,097,453	1,479,783,920	112,574,908	1,592,358,828
Total Investments	17,547,167,887	1,396,934,299	18,944,102,186	17,120,101,489	1,302,415,720	18,422,517,209
Capital Assets	12,613,071	1,004,129	13,617,200	11,835,315	900,374	12,735,689
Securities Lending Collateral	1,369,497,118	109,025,998	1,478,523,116	1,398,736,181	106,409,182	1,505,145,363
TOTAL ASSETS	19,167,624,752	1,534,334,706	20,701,959,458	18,831,203,753	1,440,347,690	20,271,551,443
LIABILITIES						
Accounts Payable and Accrued Expenses	12,157,055	904,019	13,061,074	9,875,685	688,063	10,563,748
Benefits in Process of Payment	20,739,437	527,080	21,266,517	17,646,356	387,491	18,033,847
Due to Brokers	227,650,771	18,123,333	245,774,104	246,591,117	18,759,477	265,350,594
Mortgage Payable	190,996,840	15,205,305	206,202,145	156,606,650	11,913,887	168,520,537
Security Deposit	29,455	2,345	31,800	90,347	6,873	97,220
Securities Lending Collateral	1,369,497,118	109,025,998	1,478,523,116	1,398,736,181	106,409,182	1,505,145,363
TOTAL LIABILITIES	1,821,070,676	143,788,080	1,964,858,756	1,829,546,336	138,164,973	1,967,711,309
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	$ 17,346,554,076	$ 1,390,546,626	$ 18,737,100,702	$ 17,001,657,417	$ 1,302,182,717	$ 18,303,840,134

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	$ 480,332,251	$ 148,476,512	$ 628,808,763	$ 440,698,260	$ 138,106,847	$ 578,805,107
Member Contributions	126,770,882	-	126,770,882	124,394,889	-	124,394,889
Total Contributions	607,103,133	148,476,512	755,579,645	565,093,149	138,106,847	703,199,996
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	189,380,584	14,504,946	203,885,530	2,274,456,889	166,807,499	2,441,264,388
Interest	105,684,530	8,094,538	113,779,068	103,466,280	7,588,164	111,054,444
Dividends	214,597,751	16,436,367	231,034,118	209,258,753	15,346,929	224,605,682
Net Real Estate Income	67,776,657	5,191,117	72,967,774	59,874,324	4,391,152	64,265,476
Income from Alternative Investments	29,306,707	2,244,645	31,551,352	33,417,573	2,450,828	35,868,401
Securities Lending Income	8,013,539	613,769	8,627,308	7,947,591	582,872	8,530,463
Less: Securities Lending Expense	(799,855)	(61,262)	(861,117)	(793,457)	(58,192)	(851,649)
Other Income	126,083,194	9,656,903	135,740,097	3,759,251	275,702	4,034,953
Subtotal	740,043,107	56,681,023	796,724,130	2,691,387,204	197,384,954	2,888,772,158
Less: Investment Manager Expense	(70,374,872)	(5,390,118)	(75,764,990)	(65,243,367)	(4,784,915)	(70,028,282)
Net Investment Income	669,668,235	51,290,905	720,959,140	2,626,143,837	192,600,039	2,818,743,876
Other Income						
Miscellaneous	4,849,056	371,397	5,220,453	2,898,644	212,586	3,111,230
Total Other Income	4,849,056	371,397	5,220,453	2,898,644	212,586	3,111,230
TOTAL ADDITIONS	1,281,620,424	200,138,814	1,481,759,238	3,194,135,630	330,919,472	3,525,055,102
DEDUCTIONS						
Pension Benefits	915,163,279	-	915,163,279	856,035,663	-	856,035,663
Payment of Health Subsidy	-	100,933,453	100,933,453	-	95,076,096	95,076,096
Payment of Medicare Reimbursement	-	9,477,016	9,477,016	-	9,294,803	9,294,803
Refund of Contributions	3,746,037	-	3,746,037	2,950,391	-	2,950,391
Administrative Expenses	17,814,449	1,364,436	19,178,885	13,865,199	1,016,867	14,882,066
TOTAL DEDUCTIONS	936,723,765	111,774,905	1,048,498,670	872,851,253	105,387,766	978,239,019
NET INCREASE	344,896,659	88,363,909	433,260,568	2,321,284,377	225,531,706	2,546,816,083
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	17,001,657,417	1,302,182,717	18,303,840,134	14,680,373,040	1,076,651,011	15,757,024,051
End of Year	$ 17,346,554,076	$ 1,390,546,626	$ 18,737,100,702	$ 17,001,657,417	$ 1,302,182,717	$ 18,303,840,134

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

NOTE 1 – DESCRIPTION OF THE PLANS

The Los Angeles Fire and Police Pension System (the System or LAFPP) 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 – <u>DESCRIPTION OF THE PLANS</u> (Continued)

<u>Pension Plan</u> (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.

<u>Health Subsidy Plan</u>

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter; Section 4.2018 of the Administrative Code; and related ordinances. Members who retire from the System with at least 10 years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60.

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, 2014, the maximum subsidy amount is $1,344.38 per month. The maximum monthly subsidy for fiscal years 2014 and 2013 was $1,256.43 and $1,174.23, respectively. The System also reimburses Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

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, 2015 and 2014, total net position in the amounts of $1,390,546,626 and $1,302,182,717, 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 for in order 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 2015 and 2014 was $1,344.38 and $1,256.43, 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

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 $42.80 for the period of January 1, 2014, through December 31, 2014, and $43.24 for the period of January 1, 2015, through June 30, 2015. 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, 5, and 6 who have at least 25 years of service and who are at least age 50 are eligible for DROP. The Administrative Code was amended August 8, 2014, to add Tier 6 members.

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%.

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, 2015 and 2014, 1,359 and 1,277 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately $280,813,494 and $284,935,292, 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 PENSION PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE LEGAL TEXT OF THE CITY CHARTER AND LOS ANGELES CITY ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership at June 30, 2015 and 2014, are as follows:

	2015	2014
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	1	2
Tier 4	183	193
Tier 5	7,207	7,715
Tier 6	1,215	802
	8,606	8,712
Active Vested:		
Tier 1	-	-
Tier 2	22	47
Tier 3	835	868
Tier 4	140	157
Tier 5	3,465	3,313
Tier 6	-	-
	4,462	4,385
Pensioners and Beneficiaries:		
Tier 1	444	498
Tier 2	7,975	8,167
Tier 3	559	532
Tier 4	251	227
Tier 5	3,364	3,078
Tier 6	-	-
	12,593	12,502
	25,661	25,599

Capital Assets

Capital assets are items that benefit more than one fiscal year. LAFPP's capital asset represents the land and the building acquired that will serve as its headquarters. Improvements to the building are in progress before it will be put to use and will be capitalized and subject to depreciation.

Fiduciary Net Position

There are no additional capital assets acquired for this fiscal year other than the Capital Improvement Project for the System's headquarters.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting

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

Investments and Method Used to Value Investments

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

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

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

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

Investments are carried at fair value. The fair value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their estimated fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the investment managers of investee limited partnerships. The sole hedge fund investment is valued by the fund manager based upon the information received from individual hedge funds in which monies are invested. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers with periodic external valuations.

Cash

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

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

NOTE 3 – FUNDING POLICY AND CONTRIBUTION INFORMATION

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

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

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

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

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

Accordingly, the City's contributions as determined by the System's actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2015 and 2014, were to be as follows ($ in millions):

Fiscal Year Ended June 30, 2015

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age normal cost	$ -	$ 1.98	$16.22	$ 6.34	$224.44	$4.72	$ 2.46	$ 0.02
Unfunded supplemental present value amount	$ 16.42	$ 43.62	$ 18.10	$ 10.03	$ 131.90	$ 3.48	$ 1.15	$ 0.01
Health subsidy entry age normal cost	$ -	$ 0.27	$ 3.99	$ 1.44	$ 45.14	$2.09	$ 0.59	$ 0.01
Health subsidy unfunded actuarial accrued liability annual amount	$ 1.94	$ 49.35	$ 4.69	$ 2.86	$ 35.04	$ 0.93	$ 0.13	$ -

Fiscal Year Ended June 30, 2014

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age normal cost	$ -	$ 2.62	$16.35	$6.72	$223.41	$2.63	$ 2.34	$ 0.01
Unfunded supplemental present value amount	$ 16.24	$ 31.51	$ 12.58	$ 7.39	$ 117.33	$ 1.72	$ 0.91	$ 0.01
Health subsidy entry age normal cost	$ -	$ 0.36	$ 3.89	$1.50	$ 43.39	$1.18	$ 0.54	$ -
Health subsidy unfunded actuarial accrued liability annual amount	$ 1.83	$ 46.03	$ 3.63	$ 2.59	$ 32.60	$ 0.46	$ 0.11	$ -

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

During fiscal year 2015, total contributions of $628,808,763 from the employer and $126,770,882 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, 2013. For the Pension Plan, fiscal year 2015 employer contributions included $256.2 million for entry age normal cost and $224.7 million for the unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2015 employer contributions consisted of $53.5 million for entry age normal cost and $94.9 million for the unfunded actuarial accrued liability annual amount.

During fiscal year 2014, total contributions of $578,805,107 from the employer and $124,394,889 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, 2012. For the Pension Plan, fiscal year 2014 employer contributions included $254.1 million for entry age normal cost and $187.7 million for the unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2014 employer contributions consisted of $50.9 million for entry age normal cost and $87.3 million for the unfunded actuarial accrued liability annual amount.

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

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.

<u>Pension Plan</u>

The June 30, 2015 and 2014 annual valuations determined the funding status to be 91.5% and 86.6%, respectively. For 2015, if the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 91.5% to 94.6%.

The funded status of the Pension Plan as of June 30, 2015, 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)
$ 16,770,060,026	$ 18,337,507,075	$ 1,567,447,049	91.5%	$ 1,405,171,210	111.5%

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

Valuation Date	June 30, 2015
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	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and expected returns on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013, have been combined and will be recognized in equal amounts over a period of six years from that date. 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	7.50%, net of investment expenses
Inflation Rate	3.25%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increase	Ranges from 4.75 to 11.50% based on service.
COLAs	3.25% 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) projected to 2022 with scale BB set back one year for members. RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year for beneficiaries.
Disabled	RP-2000 Combined Health Mortality Table (separate for males and females) projected to 2022 with scale BB set forward one year.

Health Subsidy Plan

The June 30, 2015 and 2014 annual valuations determined the funding status to be 45.4% and 43.2%, respectively. If the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 45.4% to 46.9% for 2015.

The funded status of the Health Subsidy Plan as of June 30, 2015, 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)
$ 1,344,333,306	$ 2,962,702,884	$ 1,618,369,578	45.5%	$ 1,405,171,211	115.2%

The schedule 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, 2015
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
Early Retirement Incentive Programs (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, 2015:

19 years for bases established on June 30, 2014
24 years for assumption change base established on June 30, 2014
20 years for bases established on June 30, 2015

Asset Valuation Method — Market value of assets less unrecognized returns in each of the last seven 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. Deferred gains and losses as of June 30, 2013, have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.

Actuarial Assumptions:

Investment Rate of Return	7.50%
Inflation Rate	3.25%
Across-the-Board Pay Increase	0.75%
Projected Salary Increase	4.00%

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Health Care Cost Trend Rate (to calculate following year's premium):

Medical	6.75% in 2015-2016, then decreasing by 0.25% for each year for seven years until it reaches an ultimate rate of 5%.
Dental	5% for all years
Medicare Part B Premium	5% for all years
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, 2015 (e.g., Fire Kaiser), increase with medical trend.
	For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2015 (e.g., Police Blue Cross PPO), 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, 2013, and the economic assumptions study as of June 30, 2014:

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	Out of the total of 1.00% of payroll in administrative expense, 0.06% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.06% of payroll payable at the beginning of the year.
Spouse Age Difference	Husbands are assumed to be 3 years older than wives.

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	75	90
25 and over	95	95

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

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

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/domestic partner coverage is based on census data.
Implicit Subsidy	No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums, except for one small group (Fire Blue and Fire California Care) that has some active/retiree experience blending.

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 / Domestic Partner
Fire Medical PPO	75	$ 1,435.13	$ 1,435.13	$ 787.87
Fire Kaiser	15	1,435.13	1,435.13	787.87
Fire Blue Cross HMO	5	1,435.13	1,435.13	787.87
Fire California Care HMO	5	1,435.13	1,435.13	787.87
Police Blue Cross PPO	65	1,435.13	1,435.13	787.87
Police Blue Cross HMO	15	1,435.13	1,435.13	787.87
Police Kaiser	20	1,435.13	1,435.13	787.87
Dental	80	43.24	43.24	-

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

For Participants Age 65 and Over:

		Maximum Subsidies		
Plan	Assumed Election Percentage	Single	Married	Surviving Spouse / Domestic Partner
Fire Medical PPO	85	$ 523.25	$ 837.93	$ 523.25
Fire Kaiser	15	523.25	758.56	523.25
Fire Blue Cross HMO	0	523.25	1,387.36	523.25
Fire California Care HMO	0	523.25	1,399.09	523.25
Police Blue Cross PPO	75	523.25	987.15	523.25
Police Blue Cross HMO	10	523.25	995.29	523.25
Police Kaiser	15	523.25	508.38	523.25
Dental	80	43.24	43.24	-
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 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Net Pension Liability

GASB Statement No. 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of LAFPP's net pension liability at June 30, 2015 and 2014, were as follows:

Schedule of Net Pension Liability
For the Year Ended June 30

	2015	2015
Total Pension Liability	$ 19,385,427,756	$ 18,861,992,028
Less: Fiduciary Net Position	17,346,554,076	16,989,704,585
Net Pension Liability	$ 2,038,873,680	$ 1,872,287,443
Fiduciary Net Position as a Percentage of the Total Pension Liability	89.48%	90.07%

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents 0.07% of LAFPP's fiduciary net position as of June 30, 2014.

Sensitivity Analysis. In accordance with GASB Statement No. 67, changes to the total pension liability and net pension liability must be reported as of June 30, 2015 and 2014. The net pension liability changes when there are changes in the discount rate. The following, from page 6 of Segal Consulting's GASB Statement No. 67 report, presents the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50 percent) or 1-percentage point higher (8.50 percent) than the current rate (7.50 percent).

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of LAFPP as of June 30, 2015 and 2014, calculated using the discount rate of 7.50%, as well as what LAFPP's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
LAFPP's Net Pension Liability as of June 30, 2015	$ 4,618,797,137	$ 2,038,873,680	$ (81,182,624)
LAFPP's Net Pension Liability as of June 30, 2014	$ 4,386,029,023	$ 1,872,287,443	$ (192,812,153)

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.

NOTE 5 – SECURITIES LENDING (Continued)

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

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

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

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

As of June 30, 2015 and 2014, the fair value of securities lent was $1,629,911,635 and $1,610,850,465, respectively, and the fair value of collateral received was $1,673,918,158 and $1,653,458,227, respectively. Of the $1,673,918,158 collateral received as of June 30, 2015, $1,478,523,116 was cash collateral and $195,395,042 represented the fair value of non-cash collateral; and of the $1,653,458,227 collateral received as of June 30, 2014, $1,505,145,363 was cash collateral and $148,312,864 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2015 and 2014.

Fair value of collateral received for loaned securities as of June 30, 2015:

Loaned Securities	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 69,479,923	$ 115,570,390	$ 185,050,313
Domestic Corporate Fixed Income Securities	138,925,755	5,117,640	144,043,395
International Stocks	1,270,117,438	74,707,012	1,344,824,450
	$ 1,478,523,116	$ 195,395,042	$ 1,673,918,158

NOTE 5 – SECURITIES LENDING (Continued)

Fair value of loaned securities as of June 30, 2015:

Loaned Securities	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 64,649,502	$ 107,455,215	$ 172,104,717
Domestic Corporate Fixed Income Securities	136,005,033	5,012,581	141,017,614
International Stocks	1,243,616,133	73,173,171	1,316,789,304
	$ 1,444,270,668	$ 185,640,967	$ 1,629,911,635

Fair value of collateral received for loaned securities as of June 30, 2014:

Loaned Securities	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 83,978,605	$ 113,972,099	$ 197,950,704
Domestic Corporate Fixed Income Securities	94,043,912	674,300	94,718,212
International Stocks	1,327,122,846	33,666,465	1,360,789,311
	$ 1,505,145,363	$ 148,312,864	$ 1,653,458,227

Fair value of loaned securities as of June 30, 2014:

Loaned Securities	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 78,551,470	$ 106,816,931	$ 185,368,401
Domestic Corporate Fixed Income Securities	92,040,204	661,283	92,701,487
International Stocks	1,299,772,762	33,007,815	1,332,780,577
	$ 1,470,364,436	$ 140,486,029	$ 1,610,850,465

For the fiscal years ended June 30, 2015 and 2014, securities lending income amounted to $8,627,308 and $8,530,463, respectively, while securities lending expenses amounted to $861,117 and $851,649, 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.

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

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2015, cash and temporary investments consisted of $1,030,837 cash held by the City Treasurer's office and $702,062,634 in collective short-term investment funds (STIF). At June 30, 2014, cash and temporary investments consisted of $1,449,555 cash held by the City Treasurer's office and $857,960,510 in collective STIF. Cash held by the City Treasurer's office is pooled with funds of other City agencies and is not individually identifiable.

<u>Credit Risk</u>

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.

As of June 30, 2015, 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 per Standard & Poor's	Fair Value	Percentage
AAA	$ 1,662,215,812	48.86%
AA	92,569,862	2.72%
A	396,504,222	11.65%
BBB	551,206,854	16.20%
BB	234,969,108	6.90%
B	234,765,036	6.90%
CCC	68,039,456	2.00%
CC	10,096,881	0.30%
C	1,617,042	0.05%
Not Rated	150,324,548	4.42%
Subtotal	3,402,308,821	100.00%
U.S. Government Issued or Guaranteed Securities	441,150,378	
Total Fixed Income Investments	$ 3,843,459,199	

As of June 30, 2014, 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 per Standard & Poor's	Fair Value	Percentage
AAA	$ 1,551,036,490	51.63%
AA	78,108,606	2.60%
A	263,364,762	8.77%
BBB	477,905,029	15.91%
BB	214,403,697	7.13%
B	232,553,783	7.74%
CCC	55,108,160	1.83%
CC	8,019,735	0.27%
C	548,175	0.02%
Not Rated	123,097,238	4.10%
Subtotal	3,004,145,675	100.00%
U.S. Government Issued or Guaranteed Securities	449,361,460	
Total Fixed Income Investments	$ 3,453,507,135	

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

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2015 and 2014, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to $16,388,935 and $15,778,549, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2015 and 2014, 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, 2015 and 2014, the System's sole hedge fund investment of $94,401,493 and $92,572,645, private equity of $1,643,695,970 and $1,499,786,183, and commingled real estate funds of $844,297,078 and $744,051,612, 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, 2015 and 2014, 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 2015

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	$ 48,312,810	16.06
Commercial Mortgages	31,303,306	29.31
Corporate Bonds	1,568,964,619	24.93
Government Agencies Bonds	68,252,384	10.11
Government Bonds	812,774,864	10.82
Government Mortgage Backed Securities	360,552,616	25.20
Index Linked Government Bonds	864,570,166	9.64
Non-Government Backed Collateralized Mortgage Obligations	50,384,435	18.76
Bond Index Fund	38,343,999	N/A
Total Fixed Income Investments	$ 3,843,459,199	

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

Interest Rate Risk (Continued)

Fiscal Year 2014

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	$ 30,749,093	12.21
Commercial Mortgages	42,816,225	29.49
Corporate Bonds	1,327,267,704	16.54
Government Agencies Bonds	75,075,133	9.29
Government Bonds	780,898,434	8.09
Government Mortgage Backed Securities	355,296,636	25.66
Index Linked Government Bonds	810,769,340	9.53
Non-Government Backed Collateralized Mortgage Obligations	2,342,080	22.05
Bond Index Fund	28,292,490	N/A
Total Fixed Income Investments	$ 3,453,507,135	

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

Fiscal Year 2015

Investment Type	Fair Value
Asset Backed Securities	$ 48,312,810
Commercial Mortgages	31,303,306
Government Agencies Bonds	68,252,384
Government Mortgage Backed Securities	360,552,616
Index Linked Government Bonds	864,570,166
Non-Government Backed Collateralized Mortgage Obligations	50,384,435
Total Asset-Backed Investments	$ 1,423,375,717

Fiscal Year 2014

Investment Type	Fair Value
Asset Backed Securities	$ 30,749,093
Commercial Mortgages	42,816,225
Government Agencies Bonds	75,075,133
Government Mortgage Backed Securities	355,296,636
Index Linked Government Bonds	810,769,340
Non-Government Backed Collateralized Mortgage Obligations	2,342,080
Total Asset-Backed Investments	$ 1,317,048,507

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, 2015, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 134,416,997
Brazilian Real	61,246,089
British Pound Sterling	752,673,535
Canadian Dollar	74,717,478
Chilean Peso	4,557,430
Colombian Peso	1,903,380
Czech Koruna	4,908,206
Danish Krone	57,220,071
Egyptian Pound	264,536
Euro	807,506,169
Hong Kong Dollar	267,133,299
Hungarian Forint	3,559,997
Indian Rupee	86,544,415
Indonesian Rupiah	26,690,641
Japanese Yen	627,167,328
Malaysian Ringgit	15,932,527
Mexican Peso	25,271,361
New Israeli Shekel	10,116,741
New Taiwan Dollar	120,116,155
New Zealand Dollar	4,134,894
Nigerian Naira	2,357,230
Norwegian Krone	21,233,784
Philippine Peso	7,529,593
Polish Zloty	12,563,320
Qatari Rial	106,447
Singapore Dollar	39,815,255
South African Rand	86,923,631
South Korean Won	156,144,814
Swedish Krona	74,339,607
Swiss Franc	234,346,714
Thai Baht	16,908,748
Turkish Lira	23,252,992
	$ 3,761,603,384

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

Foreign Currency Risk (Continued)

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2014, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 132,010,519
Brazilian Real	59,565,590
British Pound Sterling	709,216,698
Canadian Dollar	44,200,412
Chilean Peso	5,024,528
Colombian Peso	3,125,648
Czech Koruna	4,785,204
Danish Krone	49,520,219
Euro	849,981,479
Hong Kong Dollar	245,199,693
Hungarian Forint	4,263,469
Indian Rupee	72,862,127
Indonesian Rupiah	31,450,563
Japanese Yen	623,544,987
Malaysian Ringgit	23,262,574
Mexican Peso	27,390,390
New Israeli Shekel	7,256,567
New Taiwan Dollar	119,039,641
New Zealand Dollar	3,586,906
Nigerian Naira	5,045,379
Norwegian Krone	18,468,717
Philippine Peso	6,215,424
Polish Zloty	12,759,218
Singapore Dollar	36,544,690
South African Rand	78,006,672
South Korean Won	153,262,867
Swedish Krona	88,204,111
Swiss Franc	181,746,597
Thai Baht	19,802,229
Turkish Lira	26,823,894
	$ 3,642,167,012

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

Discount Rate

The actuary, Segal Consulting, defines Investment Return (discount rate) as the rate of earnings of the Pension Plan from its investments, including interest, dividends, and capital gain and loss of adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. (LAFPP's June 30, 2015 Other Post-Employment Benefits (OPEB) Report from Segal Consulting, page 57).

The discount rate for the June 30, 2015 and 2014 valuations is 7.50%. Additional details regarding the calculation of the discount rate can be found in the Actuarial Assumptions section of the Required Supplementary Information Notes.

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

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on Pension Plan investments, gross of Pension Plan investment expense, for the years ended June 30, 2015 and 2014, was 4.14% and 17.84%, respectively. The source for the rate of return was the June 30, 2015 and 2014 Investment Hierarchy provided by the custodian bank, Northern Trust.

NOTE 7 – DERIVATIVE INSTRUMENTS

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

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period. For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities. They can also trade as over the counter securities and the market values would then be determined by the value of a reference security or value that would typically be publicly priced. For assets traded over the counter and held at the custodian bank an independent pricing service is involved in calculating the price of the derivative security using the value of the reference security or reference value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2015 financial statements are as follows ($ in thousands):

	Changes in Fair Value		Fair Value at June 30, 2015		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts		$ -	Investment	$ -	$ (25,131)
Futures - Longs	Investment Loss	2,862	Investment	-	16,258
Forwards	Investment Loss	688	Investment	680	-
Options	Investment Loss	206	Investment	65	-
Rights and Warrants	Investment Revenue	(741)	Investment	195	-
Swaps	Investment Revenue	(344)	Investment	55	-

At June 30, 2015, the System held futures – shorts and futures – longs with a notional value of $(25,131,497) and $(16,258,301), respectively, with a realized loss of $2,862,268 for the fiscal year. The System held forwards with a fair value of $680,443, options with a fair value of $64,825, rights and warrants with a fair value of $195,384, and swaps with the fair value of $54,613. Losses of $688,202 were reported for the fiscal year for forwards and $206,210 for swaps, and earnings of $740,865 were reported for rights and warrants and $344,323 for swaps for the fiscal year.

NOTE 7 – DERIVATIVE INSTRUMENTS (Continued)

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 financial statements are as follows ($ in thousands):

	Changes in Fair Value		Fair Value at June 30, 2014		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts		$ -	Investment	$ -	$ (98)
Futures - Longs	Investment Revenue	(1,551)	Investment	-	1,571
Forwards	Investment Loss	393	Investment	6	-
Rights and Warrants	Investment Revenue	(934)	Investment	160	-

At June 30, 2014, the System held futures – shorts and futures – longs with a notional value of $(98,085) and $(1,571,286), respectively, with a realized gain of $1,550,949 for the fiscal year. The System held forwards with a fair value of $6,526 and rights and warrants with a fair value of $159,770. A loss of $392,887 was reported for the fiscal year for forwards and earnings of $934,301 were reported for rights and warrants for the fiscal year.

NOTE 8 – CAPITAL ASSETS

The System's capital assets comprise land and a building that was acquired in July 2013 for $12,735,689, and a capital improvement program which totaled $881,511 as of June 30, 2015. This building will become the System's headquarters that will provide long-term control over its future space needs and lease costs. A capital improvement program is in process as of June 30, 2015, to address the seismic, HVAC, tenant improvements, and other needs before the move from the existing lease space.

NOTE 9 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2015, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $14,653 to $185,292. For fiscal year 2014, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $72,603 to $679,752.

The mortgages mature from February 2016 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
2016	$ 11,964,843	$ 8,985,884	$ 20,950,727
2017	27,951,544	7,360,947	35,312,491
2018	15,957,762	6,841,096	22,798,858
2019	34,791,399	6,887,335	41,678,734
2020	1,932,333	4,877,475	6,809,808
2021-2025	108,418,103	11,492,441	119,910,544
2026-2030	4,427,516	1,258,646	5,686,162
2031-2034	758,644	35,525	794,169
	$ 206,202,144	$ 47,739,349	$ 253,941,493

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

NOTE 9 – MORTGAGES PAYABLE (Continued)

The following is a summary of mortgage payable activity for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Mortgage Payable	$ 168,520,537	$ 63,050,000	$ 25,368,393	$ 206,202,144

NOTE 10 – OPERATING LEASE

The System leases office space under an operating lease that can be discontinued with appropriate notice to the building management. The annual lease payments for the fiscal years ended June 30, 2015 and 2014, were $854,071 and $869,768, respectively.

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

Year Ended June 30	
2016	$ 430,000 [(1)]
	$ 430,000

[(1)] LAFPP can discontinue its current lease with appropriate notice to the building management. Due to LAFPP's anticipated move to the new headquarters in calendar year 2015, LAFPP has budgeted half the 2015 amount to cover lease expenses for July 2015 to December 2015.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were $1,742,423,013 and $1,674,326,359 as of June 30, 2015 and 2014, respectively.

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

LAFPP has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1,208,200,000 and $1,419,000,000 at June 30, 2015 and 2014, respectively.

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

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018. 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 health care 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 12 – DONATIONS

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

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

As previously reported in fiscal year ending June 30, 2005, the System has been informed that the Internal Revenue Service is disputing the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System. The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of donated private equity since August 2005. The System has received the following income from these donations: $2,685,000 in 2002; $2,918,066 in 2003; $14,402,308 in 2004; $7,791,262 in 2005; none in 2006; $864,281 in 2007; $67,568 in 2008; $50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, or 2015.

NOTE 13 – RISKS AND UNCERTAINTIES

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

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2015, which is the date the financial statements were issued. In addition to those noted below, there were no additional subsequent events to disclose.

Retiree Health Subsidy Freeze Litigation

Fry, et al. v. City of Los Angeles concerns the City's ordinance freezing the retiree health subsidy benefit by the City for those active LAFPP members who retired or entered DROP on or after July 15, 2011, and who did not elect to contribute an extra 2% of their salary. At that time, approximately 30% of the active membership did not choose to contribute the extra 2% of salary. The petitioners sued the City and argued that the City's "freeze ordinance" illegally impaired their vested rights to a retiree health subsidy that would increase over time.

On July 28, 2014, the Court ruled that the petitioners have a vested right to a "non-frozen" health subsidy in retirement. The Court ruled that petitioners had a right to the Board exercising its discretion in setting the subsidy rate, but not a right to any particular amount of subsidy. However, the ruling did not address: 1) whether members who elected to contribute the additional 2% would be entitled to a refund, or 2) whether retirees who had to make up the difference in premiums in excess of the 2011 subsidy level would be entitled to a refund.

NOTE 14 – <u>SUBSEQUENT EVENTS</u> (Continued)

Retiree Health Subsidy Freeze Litigation (Continued)

On September 5, 2014, the Los Angeles County Superior Court issued an official Writ restoring the Board's authority to provide the current "non-frozen" subsidy to pensioners who were impacted by the City's "freeze" ordinance. Accordingly, on the October 31st pension payments, LAFPP provided the current "non-frozen" subsidy to pensioners who were impacted by the freeze. Subsequently, the City filed a Notice of Appeal on October 29, 2014, and a Verified Petition for Writ of Mandate and Request for Immediate Stay on November 3, 2014.

On November 12, 2014, the Court of Appeal granted a stay on the Writ issued by the trial court on September 5th. As a result of the stay, beginning with the November 30th pension payments and until otherwise ordered by the court, LAFPP will once again provide a frozen subsidy to those pensioners and to any future retirees who did not elect to contribute the additional 2% of their salary.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN
(UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
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%
June 30, 2014	1,200,874,444	2,783,282,885	1,582,408,441	43.2%	1,402,715,039	112.8%
June 30, 2015	1,344,333,306	2,962,702,884	1,618,369,578	45.5%	1,405,171,211	115.2%

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN
(UNAUDITED)

Fiscal Years Ending	Annual Required Contribution	Actual Contribution	Percent Contributed
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%
2014	138,106,847	138,106,847	100.00%
2015	148,476,512	148,476,512	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.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY

NET PENSION LIABILITY
(Amounts in 000's)

Date*	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)[1]	Net Pension Liability (NPL)*	Funded Status (FNP/TPL)	Covered Payroll	NPL as % of Covered Payroll
6/30/2015	7.50%	$19,385,428	$17,346,554	$ 2,038,874	89.5%	$1,316,969	155%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.1%	1,308,149	143%
6/30/2013	7.75%	18,264,528	14,680,373	3,584,155	80.4%	1,277,031	281%

Source: June 30, 2015 and 2014 actuarial valuations prepared by the System actuary, Segal Consulting.

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

[1] Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents 0.07% of LAFPP's fiduciary net position as of June 30, 2014.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

CHANGES IN TOTAL PENSION LIABILITY
(Amounts in 000's)

	June 30, 2015	June 30, 2014
Total Pension Liability:		
Service Cost	$ 368,700	$ 368,018
Interest	1,384,527	1,392,552
Benefit Payments	(918,909)	(858,986)
Administrative Expenses	-	-
Experience Losses (Gains)	(310,882)	(234,638)
Assumption Changes	-	(69,482)
Benefit Changes	-	-
Net Change	523,436	597,464
Total Pension Liability at Beginning of Year	18,861,992	18,264,528
Total Pension Liability at End of Year (a)	$ 19,385,428	$ 18,861,992

CHANGES IN FIDUCIARY NET POSITION
(Amounts in 000's)

	June 30, 2015	June 30, 2014
Fiduciary Net Position:		
Employer Contributions	$ 480,332	$ 440,698
Member Contributions	126,771	124,395
Net Investment Income	686,470	2,617,090
Benefit Payments	(918,909)	(858,986)
Administrative Expenses	(17,815)	(13,865)
Net Change (Gain)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	16,989,705	14,680,373
Fiduciary Net Position at End of Year* (b)[1]	$ 17,346,554	$ 16,989,705
Net Pension Liability (a)-(b)	$ 2,038,874	$ 1,872,287
Fiduciary Net Position as a Percentage of the Total Pension Liability	89.48%	90.07%
Covered Payroll	$ 1,316,968,607	$ 1,308,148,504
Net Pension Liability as a Percentage of Covered Payroll	154.82%	143.12%

Source: June 30, 2015 actuarial valuation prepared by the System actuary, Segal Consulting. Segal Consulting's GASB 67 report is available online at www.lafpp.com.

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

[1] Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents 0.07% of LAFPP's fiduciary net position as of June 30, 2014.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN

Fiscal Year Ending*	Actuarially Determined Contribution**	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll	Contribution as % of Covered Payroll [3]
6/30/2015	$ 480,332	$ 480,332	$ -	$ 1,316,696	36%
6/30/2014	440,698	440,698	-	1,308,149	34%
6/30/2013	375,448	375,448	-	1,277,031	29%
6/30/2012	321,593	321,593	-	1,213,396	27%
6/30/2011	277,092	277,092	-	1,289,857	21%
6/30/2010	250,517	250,517	-	1,266,312	20%
6/30/2009	238,698	238,698	-	1,253,659	19%
6/30/2008[1]	261,635	261,635	-	1,188,972	22%
6/30/2007	224,946	224,946	-	1,130,297	20%
6/30/2006	143,946	143,946	-	N/A[2]	N/A[2]

Source is the June 30, 2015 and 2014 actuarial valuations prepared by the System actuary, Segal Consulting.

* GASB Statement No. 67 requires this information be reported for 10 years.

** As required by applicable Contribution Agreements with the City.

(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.

(2) Not Available.

(3) Contribution rate as a percentage of covered payroll reflects discount applied when the employer prepays its contributions. This rate has been "backed" into by dividing the actual contributions by the budgeted covered payroll.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF INVESTMENT RETURNS

	2015*	2014*
Annual money-weighted rate of return, gross of investment expense	4.14%(**)	17.84%(**)

Source is the June 30, 2015 and 2014 Investment Hierarchy provided by the System's custodian bank, Northern Trust.

* GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as they become available.

** The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on pension plan investments, gross of pension plan investment expense, for the years ended June 30, 2015 and 2014, was 4.14% and 17.84%, respectively. The source for the rate of return was the June 30, 2015 and 2014 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2015 and 2014, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

Summary of Significant Accounting Policies

Implementation of Governmental Accounting Standards Board (GASB) 67. The Los Angeles Fire and Police Pension System (LAFPP) implemented GASB Statement No. 67 (GASB 67), *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, effective fiscal year ending June 30, 2014. GASB 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Plans*, and also replaces the requirements of GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. The objective of GASB 67 is to improve financial reporting by state and local government pension plans.

Asset Allocation Policy and Expected Long-Term Rate of Return by Asset Class. The allocation of investment assets within the LAFPP portfolio is approved by the Board of Fire and Police Pension Commissioners (Board) as outlined in the Board Investment Policies. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return 2015	Long-Term Expected Real Rate of Return 2014
Large Cap U.S. Equity	23.00%	6.03%	6.03%
Small Cap U.S. Equity	6.00%	6.71%	6.71%
Developed International Equity	16.00%	6.71%	6.71%
Emerging Markets Equity	5.00%	8.02%	8.02%
U.S. Core Fixed Income	14.00%	0.52%	0.52%
High Yield Bonds	3.00%	2.81%	2.81%
Real Estate	10.00%	4.73%	4.73%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.43%	0.43%
Commodities	5.00%	4.67%	4.67%
Cash	1.00%	-0.19%	-
Unconstrained Fixed Income	2.00%	2.50%	2.50%
Private Equity	10.00%	9.25%	9.25%
Total Portfolio	100.00%	5.12%	5.12%

Rate of Return. For the years ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, gross of pension plan investment expense, was 4.14% and 17.84%, respectively. The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested.

Summary of Significant Accounting Policies (Continued)

Concentrations. If the Pension Plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the Pension Plan's fiduciary net position, the Pension Plan should disclose information as required by paragraph 30b(3) of GASB 67. As of June 30, 2015 and 2014, LAFPP's investment portfolio contained no such concentrations.

Net Pension Liability

The components of the net pension liability of the Pension Plan at June 30, 2015 and 2014, were as follows:

Net Pension Liability (in millions)

	2015	2014
Total pension liability	$ 19,385	$ 18,862
Fiduciary net position*	17,347	16,990
Net pension liability	$ 2,038	$ 1,872

Fiduciary net position as a percentage of the total pension liability is 89.48% and 90.07% for 2015 and 2014, respectively.

**Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments. Subsequent adjustments resulted in a net increase of $11,952,832 which represents 0.07% of LAFPP's net position as of June 30, 2014.*

Actuarial Assumptions. The total pension liability as of June 30, 2015 and 2014, was remeasured as of June 30, 2015 and 2014, to reflect the following actuarial assumptions that the Board has approved for use in the pension funding valuation as of June 30, 2015 and 2014:

Inflation	3.25%
Salary increases	Ranges from 4.75% to 11.50% based on years of service, including inflation
Investment rate of return	7.50%, including inflation but net of Pension Plan investment expense
Other assumptions	See analysis of actuarial experience during the period July 1, 2010, through June 30, 2013, and Appendix A of that report for the service retirement rates after they have been adjusted to be based on the earlier date of first participation in the Deferred Retirement Option Plan (DROP).

Summary of Significant Accounting Policies (Continued)

Discount Rate: The discount rates used to measure the total pension liability were 7.50% and 7.50% as of June 30, 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015 and 2014.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of LAFPP as of June 30, 2015 and 2014, calculated using the discount rate of 7.50%, as well as what LAFPP's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
LAFPP's Net Pension Liability as of June 30, 2015	$ 4,618,797,137	$ 2,038,873,680	$ (81,182,624)
LAFPP's Net Pension Liability as of June 30, 2014	$ 4,386,029,023	$ 1,872,287,443	$ (192,812,153)