

**LOS ANGELES FIRE AND
POLICE PENSION SYSTEM**

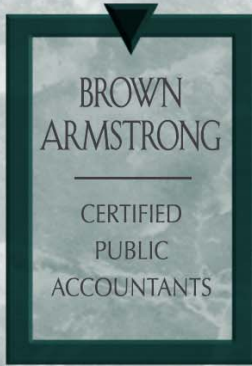
FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

**LOS ANGELES FIRE AND
POLICE PENSION SYSTEM**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
 FINANCIAL STATEMENTS:	
Statements of Fiduciary Net Position.....	11
Statements of Changes in Fiduciary Net Position	12
Notes to Financial Statements.....	13
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Health Subsidy Plan.....	40
Schedule of Employer Contributions – Health Subsidy Plan.....	41
Schedule of Employer's Net Pension Liability	42
Schedule of Changes in Employer's Net Pension Liability and Related Ratios	43
Schedule of Employer Contributions	44
Schedule of Investment Returns.....	45
Notes to Required Supplementary Information	46



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Los Angeles Fire and Police Pension System as of June 30, 2014 and 2013, and the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the Los Angeles Fire and Police Pension System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Los Angeles Fire and Police Pension System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Los Angeles Fire and Police Pension System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

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Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Los Angeles Fire and Police Pension System as of June 30, 2014 and 2013, 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 2 to the financial statements, during the year ended June 30, 2014, the Los Angeles Fire and Police Pension System implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of the Los Angeles Fire and Police Pension System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Los Angeles Fire and Police Pension System's internal control over financial reporting and compliance and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 8, 2014

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

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, 2014. 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, 2014, was \$17.0 and \$1.3 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 \$2.32 billion or 15.8% and increased by \$225.5 million or 20.9% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2014, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 86.6% and 43.2%, respectively.
- Additions to the Pension Plan's net position increased by \$989.1 million or 44.9% from \$2.20 billion to \$3.19 billion, due primarily to the net appreciation in the fair value of investments in 2014.
- Deductions to the Pension Plan's net position increased by \$1.1 million or 0.1% over the prior year from \$871.7 million to \$872.9 million.
- Additions to the Health Subsidy Plan's net position increased by \$79.7 million or 31.7% from \$251.2 million to \$330.9 million, due to the net appreciation in the fair value of investments in 2014.
- Deductions from the Health Subsidy Plan's net position increased by \$6.2 million or 6.3% over the prior year from \$99.2 million to \$105.4 million in 2014.

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

**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, 2014, used the Entry Age Normal Cost Method in the preparation of the valuation.

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

The Total Pension Liability for the Plan at June 30, 2014, was \$18,861,992,028, and the Fiduciary Net Position was \$16,989,704,585. Thus, the Net Pension Liability for the Plan was \$1,872,287,443, and the Plan Fiduciary Net Position as a percentage of the total pension liability was 90.07%.

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

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

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

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

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 11 to 35 of this report.

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
- Schedule of Investment Returns

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

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)

	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%

Net position increased by \$2.32 billion (15.8%) to \$17.0 billion from the prior fiscal year. Assets increased in value by \$2.26 billion 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)

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

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

Pension Plan (Continued)

Changes in Fiduciary Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>% Change</u>
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	<u>2,899</u>	<u>2,525</u>	<u>374</u>	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	<u>13,865</u>	<u>12,200</u>	<u>1,665</u>	13.6%
Total Deductions	<u>872,851</u>	<u>871,704</u>	<u>1,147</u>	0.1%
Net Increase	2,321,284	1,333,298	987,986	74.1%
Net Position, Beginning of Year	<u>14,680,373</u>	<u>13,347,075</u>	<u>1,333,298</u>	10.0%
Net Position, End of Year	<u><u>\$ 17,001,657</u></u>	<u><u>\$ 14,680,373</u></u>	<u><u>\$ 2,321,284</u></u>	15.8%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2014 totaled \$565.1 million, up by \$67.9 million or 13.6% over fiscal year 2013. The increase in contributions was due to an increase in the actuarial determined contribution rate. The employer contribution rate for fiscal year 2014 was 31.4% of covered payroll compared to 27.5% of covered payroll for fiscal year 2013.

Net investment income amounted to \$2.63 billion, an increase in net investment income of \$920.9 million or 54.0% when compared with \$1.7 billion from the prior fiscal year. Investment income increased in 2014 due to favorable capital markets.

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2014, totaled \$872.8 million, an increase of \$1.15 million over 2013. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

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

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

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

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

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

Health Subsidy Plan

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

Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
(In Thousands)

	2014	2013	Change	% Change
Cash	\$ 102	\$ 454	\$ (352)	-77.5%
Receivables/Prepays	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%

Net position increased by \$225.5 million (20.9%) to \$1.3 billion when compared to \$1.07 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)

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

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

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position

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				
Benefits Payment	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	<u>\$ 1,302,183</u>	<u>\$ 1,076,651</u>	<u>\$ 225,532</u>	20.9%

Additions to Fiduciary Net Position

Total additions to net position increased \$79.7 million compared to fiscal year 2013. This is due primarily to an increase in net investment income by \$74.5 million, mostly attributed to favorable capital markets, and an increase in contributions of \$5.2 million or 3.9% over fiscal year 2013. For fiscal year 2014, the employer contribution rate is 9.8% of covered payroll compared to 9.7% for fiscal year 2013.

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 \$105.4 million or 6.3% 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.

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

Health Subsidy Plan (Continued)

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

	2013	2012	Change	% Change
Additions				
Contributions	\$ 138,107	\$ 122,972	\$ 15,135	12.3%
Net Investment Income	192,600	14,690	177,910	1211.1%
Other Income	213	122	91	74.6%
Total Additions	330,920	137,784	193,136	140.2%
Deductions				
Benefits Payment	104,371	93,536	10,835	11.6%
Administrative Expenses	845	887	(42)	-4.7%
Total Deductions	105,216	94,423	10,793	11.4%
Net Increase	225,704	43,361	182,343	420.5%
Net Position, Beginning of Year	924,564	881,203	43,361	4.9%
Net Position, End of Year	<u>\$ 1,150,268</u>	<u>\$ 924,564</u>	<u>\$ 225,704</u>	24.4%

Debt Administration Mortgage Payable

At June 30, 2014, LAFPP had a combined total of \$168.5 million in mortgage payable for the Pension Plan and Health Subsidy Plan. The System paid down \$43.2 million and added \$19.3 million during the year for an ending balance of \$168.5 million.

Future Changes

GASB issued the *Implementation Guide* for GASB Statement No. 68 in late January 2014. The Los Angeles Fire and Police Pension System through our professional organizations, management, and consultants, will work 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 the System's finances. Questions concerning any of the information provided in this report or requests or requests for additional information should be addressed to:

Raymond P. Ciranna, General Manager
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, 2014 AND 2013**

	2014			2013		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	\$ 1,347,076	\$ 102,479	\$ 1,449,555	\$ 6,243,889	\$ 454,193	\$ 6,698,082
Receivables						
Accrued Interest and Dividends	46,466,784	3,534,971	50,001,755	47,014,998	3,419,965	50,434,963
Contributions	6,109,845	-	6,109,845	5,490,442	-	5,490,442
Due from Brokers	246,602,831	18,760,368	265,363,199	361,314,364	26,282,731	387,597,095
Total Receivables	299,179,460	22,295,339	321,474,799	413,819,804	29,702,696	443,522,500
Prepaid Health Subsidy	4,232	8,224,596	8,228,828	4,772	7,740,927	7,745,699
Investments at Fair Value						
Temporary	797,305,321	60,655,189	857,960,510	547,839,247	39,850,925	587,690,172
U.S. Government Obligations	1,871,171,885	142,349,838	2,013,521,723	1,597,254,678	116,187,507	1,713,442,185
Domestic Corporate Bonds	1,331,856,288	101,321,278	1,433,177,566	1,320,386,482	96,047,559	1,416,434,041
Foreign Bonds	6,326,552	481,294	6,807,846	1,713,327	124,631	1,837,958
Domestic Stocks	6,935,869,711	527,647,909	7,463,517,620	5,958,717,825	433,449,078	6,392,166,903
Foreign Stocks	3,378,350,372	257,008,793	3,635,359,165	2,563,866,624	186,500,797	2,750,367,421
Real Estate	1,319,437,440	100,376,511	1,419,813,951	1,148,402,028	83,537,065	1,231,939,093
Alternative Investments	1,479,783,920	112,574,908	1,592,358,828	1,767,344,218	128,560,161	1,895,904,379
Total Investments	17,120,101,489	1,302,415,720	18,422,517,209	14,905,524,429	1,084,257,723	15,989,782,152
Capital Assets	11,835,315	900,374	12,735,689	-	-	-
Securities Lending Collateral	1,398,736,181	106,409,182	1,505,145,363	1,246,303,273	90,658,598	1,336,961,871
TOTAL ASSETS	18,831,203,753	1,440,347,690	20,271,551,443	16,571,896,167	1,212,814,137	17,784,710,304
LIABILITIES						
Accounts Payable and Accrued Expenses	9,875,685	688,063	10,563,748	7,948,122	520,663	8,468,785
Benefits in Process of Payment	17,646,356	387,491	18,033,847	23,975,096	371,439	24,346,535
Due to Brokers	246,591,117	18,759,477	265,350,594	433,919,740	31,564,191	465,483,931
Mortgage Payable	156,606,650	11,913,887	168,520,537	179,376,896	13,048,235	192,425,131
Security Deposit	90,347	6,873	97,220	-	-	-
Securities Lending Collateral	1,398,736,181	106,409,182	1,505,145,363	1,246,303,273	90,658,598	1,336,961,871
TOTAL LIABILITIES	1,829,546,336	138,164,973	1,967,711,309	1,891,523,127	136,163,126	2,027,686,253
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	\$ 17,001,657,417	\$ 1,302,182,717	\$ 18,303,840,134	\$ 14,680,373,040	\$ 1,076,651,011	\$ 15,757,024,051

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, 2014 AND 2013**

	2014			2013		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	\$ 440,698,260	\$ 138,106,847	\$ 578,805,107	\$ 375,448,092	\$ 132,939,191	\$ 508,387,283
Member Contributions	124,394,889	-	124,394,889	121,777,654	-	121,777,654
Total Contributions	<u>565,093,149</u>	<u>138,106,847</u>	<u>703,199,996</u>	<u>497,225,746</u>	<u>132,939,191</u>	<u>630,164,937</u>
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	2,274,456,889	166,807,499	2,441,264,388	1,345,525,723	93,205,808	1,438,731,531
Interest	103,466,280	7,588,164	111,054,444	105,000,214	7,273,462	112,273,676
Dividends	209,258,753	15,346,929	224,605,682	193,583,363	13,409,698	206,993,061
Net Real Estate Income	59,874,324	4,391,152	64,265,476	64,904,411	4,495,988	69,400,399
Income from Alternative Investments	33,417,573	2,450,828	35,868,401	37,171,522	2,574,906	39,746,428
Securities Lending Income	7,947,591	582,872	8,530,463	8,444,788	584,978	9,029,766
Less: Securities Lending Expense	(793,457)	(58,192)	(851,649)	(843,478)	(58,429)	(901,907)
Other Income	3,759,251	275,702	4,034,953	3,451,327	239,077	3,690,404
Subtotal	2,691,387,204	197,384,954	2,888,772,158	1,757,237,870	121,725,488	1,878,963,358
Less: Investment Manager Expense	(65,243,367)	(4,784,915)	(70,028,282)	(51,987,110)	(3,601,195)	(55,588,305)
Net Investment Income	<u>2,626,143,837</u>	<u>192,600,039</u>	<u>2,818,743,876</u>	<u>1,705,250,760</u>	<u>118,124,293</u>	<u>1,823,375,053</u>
Other Income						
Miscellaneous	2,898,644	212,586	3,111,230	2,525,693	174,957	2,700,650
Total Other Income	<u>2,898,644</u>	<u>212,586</u>	<u>3,111,230</u>	<u>2,525,693</u>	<u>174,957</u>	<u>2,700,650</u>
TOTAL ADDITIONS	<u>3,194,135,630</u>	<u>330,919,472</u>	<u>3,525,055,102</u>	<u>2,205,002,199</u>	<u>251,238,441</u>	<u>2,456,240,640</u>
DEDUCTIONS						
Pension Benefits	856,035,663	-	856,035,663	856,236,598	-	856,236,598
Payment of Health Subsidy	-	95,076,096	95,076,096	-	89,451,074	89,451,074
Payment of Medicare Reimbursement	-	9,294,803	9,294,803	-	8,855,383	8,855,383
Refund of Contributions	2,950,391	-	2,950,391	3,266,578	-	3,266,578
Administrative Expenses	13,865,199	1,016,867	14,882,066	12,200,359	845,130	13,045,489
TOTAL DEDUCTIONS	<u>872,851,253</u>	<u>105,387,766</u>	<u>978,239,019</u>	<u>871,703,535</u>	<u>99,151,587</u>	<u>970,855,122</u>
NET INCREASE	2,321,284,377	225,531,706	2,546,816,083	1,333,298,664	152,086,854	1,485,385,518
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	14,680,373,040	1,076,651,011	15,757,024,051	13,347,074,376	924,564,157	14,271,638,533
End of Year	<u>\$ 17,001,657,417</u>	<u>\$ 1,302,182,717</u>	<u>\$ 18,303,840,134</u>	<u>\$ 14,680,373,040</u>	<u>\$ 1,076,651,011</u>	<u>\$ 15,757,024,051</u>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – DESCRIPTION OF THE PLANS

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

Pension Plan

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

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997 and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of June 30, 1998. Tier 4 includes members hired from July 1, 1997 through December 31, 2001 and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2012 and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 6 was established for all firefighters and police officers hired on or after July 1, 2011.

Tier 6 is also the current tier for all Harbor Port Police officers hired on or after July 1, 2011. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2012. Harbor Port Police officers hired before January 8, 2006 who were members of LACERS were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

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

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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

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

Tier 5 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

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

Health Subsidy Plan

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

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

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the System's Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. Effective July 1, 2013, the maximum subsidy amount is \$1,256.43 per month. The maximum monthly subsidy for fiscal years 2013 and 2012 was \$1,174.23 and \$1,097.41, 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, 2014 and 2013, total net position in the amounts of \$1,302,182,717 and \$1,076,651,011, 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 2014 and 2013 was \$1,256.43 and \$1,174.23, 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, 2013, through December 31, 2013, and \$42.80 for the period of January 1, 2014, through June 30, 2014. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

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

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

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

At June 30, 2014 and 2013, 1,277 and 1,191 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$284,935,292 and \$250,665,204, respectively.

Two Percent Opt-In

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

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

SINCE THE PLAN INCLUDES DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE CITY CHARTER AND ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)Membership

The components of the System's membership at June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	2	3
Tier 4	193	197
Tier 5	7,715	8,046
Tier 6	802	562
	<u>8,712</u>	<u>8,808</u>
Active Vested:		
Tier 1	-	-
Tier 2	47	58
Tier 3	868	892
Tier 4	157	166
Tier 5	3,313	3,300
Tier 6	-	-
	<u>4,385</u>	<u>4,416</u>
Pensioners and Beneficiaries:		
Tier 1	498	555
Tier 2	8,167	8,357
Tier 3	532	494
Tier 4	227	216
Tier 5	3,078	2,810
Tier 6	-	-
	<u>12,502</u>	<u>12,432</u>
	<u><u>25,599</u></u>	<u><u>25,656</u></u>

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 will be subject to depreciation.

Fiduciary Net Position

There are no additional capital assets acquired for this fiscal year other than the headquarters (land and building).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis of Presentation

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

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, or equivalent quality as determined by the custodian.

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

The category of alternative investments includes private equity and hedge funds. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies. Hedge funds are pooled investment programs that invest in a wide variety of asset classes and use a wide variety of approaches to do so. The use of leverage and short selling is a common characteristic. The System invests in hedge funds using what are known as fund of funds. The System hires a manager skilled in the selection of hedge funds that then builds a diversified portfolio of individual hedge funds.

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

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

Cash

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

Use of Estimates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Accounting Pronouncements

The System adopted Governmental Accounting Standards Board (GASB) Statement No. 67 (GASB 67), *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25* (GASB 25), effective at the beginning of the fiscal year. GASB 67 replaces the requirements of GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Plans*, and also replaces the requirement of GASB Statement No. 50, *Pension Disclosures*. The objective of GASB 67 is to improve financial reporting by state and local government pension plans, such as LAFPP.

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, 2014 and 2013, were to be as follows (\$ in millions):

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 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 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 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

Fiscal Year Ended June 30, 2013

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age cost	N/A	\$ 3.50	\$ 15.67	\$ 6.50	\$ 216.57	\$ 2.67	\$ 1.98	\$ 0.07
Unfunded supplemental present value amount	\$ 16.84	\$ 8.23	\$ 7.72	\$ 5.08	\$ 89.60	\$ 1.33	\$ 0.65	\$ 0.03
Health subsidy entry age cost	N/A	\$ 0.47	\$ 3.54	\$ 1.41	\$ 40.60	\$ 0.93	\$ 0.44	\$ 0.02
Health subsidy unfunded actuarial accrued liability annual amount	\$ 2.13	\$ 46.24	\$ 3.37	\$ 2.52	\$ 30.75	\$ 0.41	\$ 0.11	\$ -

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 normal cost and \$187.7 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2014 employer contributions consisted of \$50.9 million for normal cost and \$87.3 million for unfunded actuarial accrued liability annual amount.

During fiscal year 2013, total contributions of \$508,387,283 from the employer and \$121,777,654 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2010. For the Pension Plan, fiscal year 2013 employer contributions included \$246.0 million for normal cost and \$129.0 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2013 employer contributions consisted of \$47.4 million for normal cost and \$85.5 million for unfunded actuarial accrued liability annual amount.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS

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

Pension Plan

The June 30, 2014 and 2013 annual valuations determined the funding status to be 86.6% and 83.1%, respectively. For 2014, if the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 86.6% to 93.8%.

The funded status of the Pension Plan as of June 30, 2014, 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)
\$ 15,678,480,269	\$ 18,114,229,307	\$ 2,435,749,038	86.6%	\$ 1,402,715,039	173.6%

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	For Tier 1, level dollar amortization is used ending on June 30, 2037. For Tiers 2, 3, and 4, level percent of payroll amortization with multiple layers is used as a percent of TOTAL valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).

Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.

Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 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.
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Actuarial Assumptions:

Investment Return Rate	7.50%
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.
Cost-of-Living Adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

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.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan

The June 30, 2014 and 2013 annual valuations determined the funding status to be 43.2% and 38.5%, respectively. If the deferred gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 43.2% to 46.8% for 2014.

The funded status of the Health Subsidy Plan as of June 30, 2014, 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)
\$ 1,200,874,444	\$ 2,783,282,885	\$ 1,582,408,441	43.2%	\$ 1,402,715,039	112.8%

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

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method	Closed amortization periods. On September 6, 2012, the Board adopted the following amortization policy:

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

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

Remaining Amortization Period	As of June 30, 2014:
	22 years for bases established prior to June 30, 2012
	18 years for bases established on June 30, 2012
	19 years for bases established on June 30, 2013

Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. 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.
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NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Actuarial Assumptions:

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

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

Medical	7.0% in 2014-2015, then decreasing by 0.25% for each year for eight years until it reaches an ultimate rate of 5%.
Dental	5%
Medicare Part B Premium	5%
Medical Subsidy Trend	For employees not subject to freeze: For all non-Medicare retirees, increase at lesser of 7% or medical trend. For Medicare retirees with single party premium, increase with medical trend. For Medicare retirees with 2-Party premium less than or equal to the maximum subsidy as of July 1, 2014 (e.g., Fire Kaiser), increase with medical trend. For Medicare retirees with 2-Party premium greater than the maximum subsidy as of July 1, 2014 (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.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Participation

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

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

Dental Coverage 80% of future retirees are assumed to elect dental coverage.

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

Implicit Subsidy No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums, 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:

Plan	Assumed Election Percentage	Maximum Subsidies		
		Single	Married	Surviving Spouse
Fire Medical PPO	75	\$ 1,344.38	\$ 1,344.38	\$ 729.83
Fire Kaiser	15	1,344.38	1,344.38	729.83
Fire Blue Cross HMO	5	1,344.38	1,344.38	729.83
Fire California Care HMO	5	1,344.38	1,344.38	729.83
Police Blue Cross PPO	65	1,344.38	1,344.38	729.83
Police California Care HMO	15	1,344.38	1,344.38	729.83
Police Kaiser	20	1,344.38	1,344.38	729.83
Dental	80	42.80	42.80	-

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

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

For Participants Age 65 and Over:

Plan	Assumed Election Percentage	Maximum Subsidies		
		Single	Married	Surviving Spouse
Fire Medical PPO	85	\$ 493.74	\$ 787.84	\$ 493.74
Fire Kaiser	10	493.74	771.76	493.74
Fire Blue Cross HMO	5	493.74	1,256.43	493.74
Fire California Care HMO	0	493.74	1,283.36	493.74
Police Blue Cross PPO	75	493.74	887.21	493.74
Police California Care HMO	10	493.74	909.06	493.74
Police Kaiser	15	493.74	466.66	493.74
Dental	80	42.80	42.80	-
Medicare B	100	104.90	104.90	104.90

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

Net Pension Liability

GASB 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 (the Plan's) net pension liability at June 30, 2014, were as follows:

	<u>2014</u>
Total Pension Liability	\$ 18,861,992,028
Less: Fiduciary Net Position	<u>16,989,704,585</u>
Net Pension Liability	<u>\$ 1,872,287,443</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	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 .07% of LAFPP's fiduciary net position.

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Net Pension Liability (Continued)

Sensitivity Analysis. In accordance with GASB 67, changes to the total pension liability and net pension liability must be reported as of June 30, 2014. The net pension liability changes when there are changes in the discount rate. The following, from page 6 of Segal Consulting's GASB 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, 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, 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.

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 assets, and the liabilities from these transactions are reported in the Statements of Fiduciary Net Position. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

NOTE 5 – SECURITIES LENDING (Continued)

As of June 30, 2014 and 2013, the fair value of securities lent was \$1,610,850,465 and \$1,606,643,493, respectively, and the fair value of collateral received was \$1,653,458,227 and \$1,658,291,108, respectively. 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; and of the \$1,658,291,108 collateral received as of June 30, 2013, \$1,336,961,871 was cash collateral and \$321,329,237 represented the value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the security lending transactions as of June 30, 2014 and 2013.

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

Securities Lent	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:

Securities Lent	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

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

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

NOTE 5 – SECURITIES LENDING (Continued)

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

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

For the fiscal years ended June 30, 2014 and 2013, securities lending income amounted to \$8,530,463 and \$9,029,766, respectively, while securities lending expenses amounted to \$851,649 and \$901,907, respectively.

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS

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

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2014, cash and temporary investments consisted of \$1,449,555 cash held by the City Treasurer’s office and \$857,960,510 in collective short-term investment funds (STIF). At June 30, 2013, cash and temporary investments consisted of \$6,698,082 cash held by the City Treasurer’s office and \$587,690,172 in collective STIF. Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable.

Credit Risk

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

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

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:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
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	<u>123,097,238</u>	<u>4.10%</u>
Subtotal	3,004,145,675	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	<u>449,361,460</u>	
Total Fixed Income Investments	<u>\$ 3,453,507,135</u>	

As of June 30, 2013, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 1,300,328,977	48.55%
AA	77,735,517	2.90%
A	287,312,090	10.73%
BBB	432,594,131	16.15%
BB	201,379,140	7.52%
B	217,383,485	8.11%
CCC	50,943,522	1.90%
CC	7,195,078	0.27%
C	511,291	0.02%
Not Rated	<u>103,075,796</u>	<u>3.85%</u>
Subtotal	2,678,459,027	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	<u>453,255,157</u>	
Total Fixed Income Investments	<u>\$ 3,131,714,184</u>	

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2014 and 2013, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$15,778,549 and \$10,584,998, respectively.

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

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2014 and 2013, 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, 2014 and 2013, the System's investments in hedge fund of funds of \$92,572,645 and \$549,054,089, private equity of \$1,499,786,183 and \$1,346,850,290, and commingled real estate funds of \$744,051,612 and \$589,790,484, 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, 2014 and 2013, 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.

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	

* Shares are in commingled fixed income funds.

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

Fiscal Year 2013

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

* Shares are in commingled fixed income funds.

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

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

Fiscal Year 2014

<u>Investment Type</u>	<u>Fair Value</u>
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	<u>2,342,080</u>
Total Fixed Income Investments	<u>\$ 1,317,048,507</u>

Fiscal Year 2013

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

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

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 18% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks.

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

<u>Foreign Currency Type</u>	<u>Fair Value</u>
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
	<u>\$ 3,642,167,012</u>

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

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

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2013, are as follows:

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

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 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, 2014 OPEB Report from Segal, page 57).

The discount rate for the June 30, 2014 valuation 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 year ended June 30, 2014, was 17.84%. The source for the rate of return was the June 30, 2014 Investment Hierarchy provided by the custodian bank, Northern Trust.

NOTE 7 – DERIVATIVE INSTRUMENTS

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 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):

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

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

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

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

NOTE 8 – CAPITAL ASSETS

The System's capital asset is comprised of land and building which was acquired in July 2013 for \$12,735,689. This will become the System's headquarters which will provide long-term control over its future space needs and lease costs. A capital improvement program is being developed 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 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. For fiscal year 2013, interest rates range from 2.94% to 7.50% per annum. Monthly principal and interest payments range from \$17,550 to \$850,000.

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 871,245	\$ 8,167,028	\$ 9,038,273
2016	11,733,932	7,865,392	19,599,324
2017	52,683,751	6,072,635	58,756,386
2018	15,940,349	4,797,770	20,738,119
2019	24,057,089	4,677,552	28,734,641
2020-2024	56,725,582	8,335,870	65,061,452
2025-2029	4,368,145	1,318,017	5,686,162
2030-2034	2,140,444	134,021	2,274,465
	<u>\$ 168,520,537</u>	<u>\$ 41,368,285</u>	<u>\$ 209,888,822</u>

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

The following is a summary of mortgage payable activity for the year ended June 30, 2014:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Mortgage Payable	<u>\$ 192,425,131</u>	<u>\$ 19,295,406</u>	<u>\$ 43,200,000</u>	<u>\$ 168,520,537</u>

NOTE 10 – OPERATING LEASE

The System leases office space under an operating lease that can be discontinued after April 2015. The annual lease payments for the fiscal years ended June 30, 2014 and 2013, were \$869,768 and \$865,108, respectively.

NOTE 10 – OPERATING LEASE (Continued)

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

Year Ended June 30	
2015	\$ 860,000
2016	<u>430,000</u> ⁽¹⁾
	<u>\$ 1,290,000</u>

(1) LAFPP can discontinue its current lease after April 2015 with appropriate notice to the building management. Due to LAFPP's anticipated move to the new headquarters in calendar year 2015, LAFPP would like to budget 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 \$1,674,326,359 and \$1,586,973,508 as of June 30, 2014 and 2013, 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

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1,419,000,000 and \$1,050,565,956 at June 30, 2014 and 2013, 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 healthcare plans will be subject to the excise tax in 2018. GASB has not yet issued any guidance on accounting or financial reporting of this potential future liability.

NOTE 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.

NOTE 12 – DONATIONS (Continued)

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

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

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 December 8, 2014, 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.

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.

NOTE 14 – SUBSEQUENT EVENTS (Continued)

Ordinance Allowing Former OPS Officer Service Purchases

The General Services Department's Office of Public Safety (OPS) was consolidated into the Los Angeles Police Department (LAPD) in July 2012 and these OPS officers are members of LACERS. However, these OPS officers were given the opportunity to transfer to regular LAPD police officer classifications following an abbreviated academy training period and to opt out of membership in LACERS to become members of LAFPP Tier 6.

In addition, pursuant to a March 2013 Charter amendment, in conjunction with their change in employment status, the members in question will be offered the option to purchase their years of LACERS service credit they earned while employed in specific OPS officer classifications. The Charter amendment requires these purchases to be cost neutral. Pursuant to the OPS service purchase ordinance, all employees who elect to become members of LAFPP will have until June 30, 2015, to initiate an agreement to purchase their OPS service.

REQUIRED SUPPLEMENTARY INFORMATION

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2014**

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 2005	\$ 597,199,108	\$ 1,257,504,654	\$ 660,305,546	47.5%	\$ 1,037,444,701	63.6%
June 30, 2006	613,782,166	1,631,187,439	1,017,405,273	37.6%	1,092,814,844	93.1%
June 30, 2007	687,096,380	1,656,653,149	969,556,769	41.5%	1,135,591,951	85.4%
June 30, 2008	767,647,562	1,836,840,337	1,069,192,775	41.8%	1,206,589,277	88.6%
June 30, 2009	809,676,978	2,038,658,698	1,228,981,720	39.7%	1,357,248,936	90.5%
June 30, 2010	817,275,977	2,537,825,016	1,720,549,039	32.2%	1,356,986,475	126.8%
June 30, 2011	882,890,188	2,557,606,524	1,674,716,336	34.5%	1,343,963,356	124.6%
June 30, 2012	927,361,635	2,499,288,516	1,571,926,881	37.1%	1,341,913,739	117.1%
June 30, 2013	1,013,399,583	2,633,792,545	1,620,392,962	38.5%	1,367,236,866	118.5%
June 30, 2014	1,200,874,444	2,783,282,885	1,582,408,441	43.2%	1,402,715,039	112.8%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
JUNE 30, 2014**

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

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2005	\$ 31,541,933 ⁽¹⁾	\$ 31,541,933	100.00%
2006	31,413,281 ⁽¹⁾	31,413,281	100.00%
2007	55,162,681 ⁽¹⁾	55,162,681	100.00%
2008	98,033,338 ⁽²⁾	78,257,328	79.83%
2009	98,444,833 ⁽³⁾	88,178,910	89.57%
2010	106,648,282	106,648,282	100.00%
2011	111,681,208	111,681,208	100.00%
2012	122,971,851	122,971,851	100.00%
2013	132,939,191	132,939,191	100.00%
2014	138,106,847	138,106,847	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
JUNE 30, 2014**

Net Pension Liability
(Amounts in 000's)

<u>Date*</u>	<u>Discount Rate</u>	<u>Total Pension Liability (TPL)</u>	<u>Fiduciary Net Position (FNP)¹</u>	<u>Net Pension Liability (NPL)*</u>	<u>Funded Status (FNP/TPL)</u>	<u>Covered Payroll</u>	<u>NPL %Pay</u>
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%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	281%

Source: June 30, 2014 actuarial valuation prepared by 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 .07% of LAFPP's fiduciary net position.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY
AND RELATED RATIOS
JUNE 30, 2014**

Changes in Total Pension Liability
(Amounts in 000's)

	June 30, 2014
Total Pension Liability:	
Service Cost	\$ 368,018
Interest	1,392,552
Benefit Payments	(858,986)
Administrative Expenses	-
Experience Losses (Gains)	(234,638)
Assumption Changes	(69,482)
Benefit Changes	-
	597,464
Net Change	597,464
Total Pension Liability at Beginning of Year	18,264,528
Total Pension Liability at End of Year (a)	\$ 18,861,992

Changes in Fiduciary Net Position
(Amounts in 000's)

	June 30, 2014
Fiduciary Net Position:	
Employer Contributions	\$ 440,698
Member Contributions	124,395
Net Investment Income	2,617,090
Benefit Payments	(858,986)
Administrative Expenses	(13,865)
	2,309,332
Net Change (Gain)	2,309,332
Fiduciary Net Position at Beginning of Year	14,680,373
Fiduciary Net Position at End of Year* (b) ¹	\$ 16,989,705
Net Pension Liability/(Asset) (a)-(b)	\$ 1,872,287
Plan fiduciary net position as a percentage of the total pension liability	90.07%
Covered employee payroll	\$ 1,308,148,504
Plan net position liability as a percentage of covered employee payroll	143.12%

Source: June 30, 2014 actuarial valuation prepared by System actuary, Segal Consulting. GASB 67 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 .07% of LAFPP's fiduciary net position.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2014**

Schedule of Employer Contributions
(Amounts in 000's)

Fiscal Year Ending*	Actuarially Determined Contribution**	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll	Contribution as % of Payroll ⁽³⁾
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⁾
6/30/2005	135,854	135,854	-	N/A ⁽²⁾	N/A ⁽²⁾

Source is the June 30, 2014 actuarial valuation prepared by 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 payroll reflect discount applied when the employer prepaays its contributions. This rate has been "backed" into by dividing the actual contributions by the budgeted covered-employee payroll.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF INVESTMENT RETURNS
JUNE 30, 2014**

2014*

Annual money-weighted rate of return, gross of investment expense

17.84%^(**)

Source is the June 30, 2014 Investment Hierarchy provided by 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 year ended June 30, 2014, was 17.84%. The source for the rate of return was the June 30, 2014 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal year 2013-2014, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.*

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

Summary of Significant Accounting Policies

Implementation of GASB 67. The Plan implemented GASB Statement No. 67 (GASB 67), Financial Reporting for Pension Plans, and an amendment of GASB Statement No. 25, effective at the beginning of the year. 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. 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 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
Large Cap U.S. Equity	23.00%	6.03
Small Cap U.S. Equity	6.00%	6.71
Developed International Equity	16.00%	6.71
Emerging Markets Equity	5.00%	8.02
U.S. Core Fixed Income	14.00%	0.52
High Yield Bonds	3.00%	2.81
Real Estate	10.00%	4.73
TIPS	5.00%	0.43
Commodities	5.00%	4.67
Cash	1.00%	-
Unconstrained Fixed Income	2.00%	2.50
Private Equity	<u>10.00%</u>	<u>9.25</u>
Total Portfolio	100.00%	5.12

Rate of return. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, gross of pension plan investment expense, was 17.84 percent. The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested.

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 Statement 67.] As of June 30, 2014 and 2013, LAFPP's investment portfolio contained no such concentrations.

Net Pension Liability

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

Net Pension Liability (in millions)

Total pension liability	\$18,862
Plan fiduciary net position*	<u>16,990</u>
Plan's net pension liability	<u>\$ 1,872</u>

Plan fiduciary net position as a percentage of the total pension liability is 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 .07% of LAFPP's net position.*

Actuarial assumptions. The total pension liability as of June 30, 2014 was remeasured as of June 30, 2014 to reflect the following actuarial assumptions that the Board of Commissioners has approved for use in the pension funding valuation as of June 30, 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 for the service retirement rates after they have been adjusted to be based on the earlier date of first participation in the DROP.

Discount rate: The discount rates used to measure the total pension liability were 7.50% and 7.75% as of June 30, 2014 and June 30, 2013, 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, 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, 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, 2014	\$4,386,029,023	\$1,872,287,443	(\$192,812,153)