LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2016, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan. The financial statements of the System as of and for the year ended June 30, 2015, were audited by another auditor whose report dated November 9, 2015, expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2016, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Simpson & Simpson

Los Angeles, California
November 21, 2016

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 (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2016. 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, 2016, was $17.1 billion and $1.4 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.

- Net position decreased by $242.3 million or 1.4% and increased by $44.9 million or 3.2% for the Pension Plan and Health Subsidy Plan, respectively.

- As of June 30, 2016, the date of the most recent actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 93.9% and 48.1%, respectively.

- Additions to the Pension Plan's net position decreased by $514.2 million or 40.1% from $1.3 billion to $767.4 million, due primarily to the net depreciation in the fair value of investments in fiscal year 2016.

- Deductions from the Pension Plan's net position increased by $73.0 million or 7.8% over fiscal year 2015 from $936.7 million to $1.0 billion.

- Additions to the Health Subsidy Plan's net position decreased by $37.1 million or 18.5% from $200.1 million to $163.1 million, due to the net depreciation in the fair value of investments in fiscal year 2016.

- Deductions from the Health Subsidy Plan's net position increased by $6.5 million or 5.8% over fiscal year 2015 from $111.8 million to $118.2 million in the fiscal year 2016.

- The total pension liability for the Pension Plan at June 30, 2016, was $19.6 billion, and the fiduciary net position was $17.1 billion. Thus, the net pension liability for the Pension Plan was $2.5 billion, and the fiduciary net position as a percentage of the total pension liability was 87.42%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 15 to 50 of this report.

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

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

FINANCIAL ANALYSIS

Pension Plan

Fiduciary Net Position

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

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Cash	$ 2,024	$ 955	$ 1,069	111.9%
Receivables/Prepayments	122,778	237,392	(114,614)	-48.3%
Investments	18,775,169	18,916,665	(141,496)	-0.7%
Capital Assets	21,873	12,613	9,260	73.4%
Total Assets	18,921,844	19,167,625	(245,781)	-1.3%
Liabilities	1,817,568	1,821,071	(3,503)	-0.2%
Net Position	$ 17,104,276	$ 17,346,554	$ (242,278)	-1.4%

Net position decreased by $242.3 million (1.4%) to $17.1 billion from fiscal year 2015. Assets decreased in value by $245.8 million when compared with the prior fiscal year 2015, attributable to depreciation of investments due to unfavorable market conditions.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

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

Net position increased by $344.9 million (2.0%) to $17.3 billion from fiscal year 2014. Assets increased in value by $336.4 million when compared with fiscal year 2014, attributable to appreciation of investments due to favorable market conditions.

Pension Plan (Continued)

Changes in Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Additions				
Employer Contributions	$ 478,385	$ 480,332	$ (1,947)	-0.4%
Member Contributions	129,734	126,771	2,963	2.3%
Net Investment Income	156,205	669,668	(513,463)	-76.7%
Other Income	3,108	4,849	(1,741)	-35.9%
Total Additions	767,432	1,281,620	(514,188)	-40.1%
Deductions				
Pension Benefits	987,296	915,163	72,133	7.9%
Refund of Contributions	3,067	3,746	(679)	-18.1%
Administrative Expenses	19,347	17,814	1,533	8.6%
Total Deductions	1,009,710	936,723	72,987	7.8%
Net Increase (Decrease)	(242,278)	344,897	(587,175)	-170.2%
Net Position, Beginning of Year	17,346,554	17,001,657	344,897	2.0%
Net Position	$ 17,104,276	$ 17,346,554	$ (242,278)	-1.4%

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 2016 totaled $608.1 million, up by $1.0 million or 0.2% over fiscal year 2015. The increase in members' contributions was due to an increase in membership in Tier 6. The members' contribution for fiscal year 2016 was $129.7 million compared to $126.8 million for fiscal year 2015.

Net investment income amounted to $156.2 million, a decrease in net investment income of $513.5 million or 76.7% when compared with $669.7 million from fiscal year 2015. Investment income decreased in fiscal year 2016 due to unfavorable market conditions.

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.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions for the fiscal year ended June 30, 2016, totaled $1.0 billion, an increase of $73.0 million over fiscal year 2015. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

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

Additions to Fiduciary Net Position

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

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

Net investment income amounted to $669.7 million, a decrease in net investment income of $1.9 billion or 74.5% when compared with $2.6 billion from fiscal year 2014. Investment income decreased in fiscal year 2015 due to unfavorable market conditions.

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions from Fiduciary Net Position

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

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

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)

	2016	2015	Change	% Change
Cash	$ 169	$ 76	$ 93	122.4%
Receivables/Prepayments	18,763	27,294	(8,531)	-31.3%
Investments	1,564,177	1,505,961	58,216	3.9%
Capital Assets	1,822	1,004	818	81.5%
Total Assets	1,584,931	1,534,335	50,596	3.3%
Liabilities	149,527	143,788	5,739	4.0%
Net Position	$ 1,435,404	$ 1,390,547	$ 44,857	3.2%

Net position increased by $44.9 million (3.2%) to $1.4 billion when compared to fiscal year 2015 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy.

Condensed Statement of Fiduciary Net Position
($ in Thousands)

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

Net position increased by $88.3 million (6.8%) to $1.4 billion when compared to $1.3 billion of fiscal year 2014 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the Health Subsidy.

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position

Condensed Statement of Fiduciary Net Position
($ in Thousands)

	2016	2015	Change	% Change
Additions				
Contributions	$ 150,315	$ 148,477	$ 1,838	1.2%
Net Investment Income	12,522	51,291	(38,769)	-75.6%
Other Income	249	371	(122)	-32.9%
Total Additions	163,086	200,139	(37,053)	-18.5%
Deductions				
Benefits Payment	116,678	110,411	6,267	5.7%
Administrative Expenses	1,551	1,364	187	13.7%
Total Deductions	118,229	111,775	6,454	5.8%
Net Increase	44,857	88,364	(43,507)	-49.2%
Net Position, Beginning of Year	1,390,547	1,302,183	88,364	6.8%
Net Position	$ 1,435,404	$ 1,390,547	$ 44,857	3.2%

Additions to Fiduciary Net Position

Total additions to net position decreased by $37.1 million compared to fiscal year 2015. This is due primarily to a decrease in net investment income by $38.8 million, mostly attributed to unfavorable market conditions, offset by an increase in contributions of $1.8 million or 1.2% over fiscal year 2015. For fiscal year 2016, employer contribution was $150.3 million compared to $148.5 million in fiscal year 2015 due to an increase in covered payroll.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were $118.2 million or 5.8% more than the total deductions of fiscal year 2015. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Condensed Statement of Fiduciary Net Position
($ in Thousands)

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

Additions to Fiduciary Net Position

Total additions to net position decreased $130.8 million compared to fiscal year 2014. This is due primarily to a decrease in net investment income by $141.3 million, mostly attributed to unfavorable market conditions, and an increase in contributions of $10.4 million or 7.5% over fiscal year 2014. For fiscal year 2015, the employer contribution rate is 11.3% of covered payroll compared to 10.6% for fiscal year 2014.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Fiscal year 2015 deductions were $111.8 million or 6.1% more than the total deductions of fiscal year 2014. This is due primarily to an increase in the medical and dental insurance premiums and an increase in the number of eligible pensioners and beneficiaries.

Debt Administration Mortgage Payable

At June 30, 2016, the System had a combined total of $182.9 million in mortgage payable for the Pension Plan and Health Subsidy Plan. The System paid down $23.3 million during the year for an ending balance of $182.9 million.

Health Subsidy Plan (Continued)

Current Year Changes

GASB issued Statement No. 72, Fair Value Measurement and Application, in February 2015. This statement improves financial reporting by clarifying the definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures. The System, through its professional organizations, management, and consultants, worked to evaluate and implement the new requirements as prescribed within the required time frame.

REQUEST FOR INFORMATION

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

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016 AND 2015

	2016			2015		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ASSETS						
Cash	$ 2,023,847	$ 168,609	$ 2,192,456	$ 954,823	$ 76,014	$ 1,030,837
Receivables						
Accrued Interest and Dividends	51,966,161	4,329,351	56,295,512	49,710,417	3,957,458	53,667,875
Contributions	7,499,627		7,499,627	6,686,968		6,686,968
Due from Brokers	63,304,733	5,273,978	68,578,711	180,990,731	14,408,716	195,399,447
Total Receivables	122,770,521	9,603,329	132,373,850	237,388,116	18,366,174	255,754,290
Prepaid Health Subsidy	7,376	9,159,638	9,167,014	3,737	8,928,092	8,931,829
Investments at Fair Value						
Temporary	929,116,882	77,405,622	1,006,522,504	650,292,676	51,769,958	702,062,634
U.S. Government Obligations	2,080,871,205	173,359,386	2,254,230,591	1,949,302,525	155,184,448	2,104,486,973
Corporate Bonds	1,656,749,063	138,025,361	1,794,774,424	1,610,722,591	128,230,016	1,738,952,607
Foreign Bonds	6,711,342	559,128	7,270,470	18,172	1,447	19,619
Domestic Stocks	6,412,878,444	534,263,081	6,947,141,525	6,790,804,582	540,617,603	7,331,422,185
Foreign Stocks	3,186,510,937	265,471,296	3,451,982,233	3,484,205,332	277,378,433	3,761,583,765
Real Estate	1,392,083,051	115,975,780	1,508,058,831	1,451,891,514	115,585,436	1,567,476,950
Alternative Investments	1,739,350,013	144,906,925	1,884,256,938	1,609,930,495	128,166,958	1,738,097,453
Total Investments	17,404,270,937	1,449,966,579	18,854,237,516	17,547,167,887	1,396,934,299	18,944,102,186
Capital Assets	21,873,006	1,822,261	23,695,267	12,613,071	1,004,129	13,617,200
Securities Lending Collateral	1,370,898,246	114,210,854	1,485,109,100	1,369,497,118	109,025,998	1,478,523,116
TOTAL ASSETS	18,921,843,933	1,584,931,270	20,506,775,203	19,167,624,752	1,534,334,706	20,701,959,458
LIABILITIES						
Accounts Payable and Accrued Expenses	11,998,804	953,252	12,952,056	12,157,055	904,019	13,061,074
Benefits in Process of Payment	31,977,504	814,774	32,792,278	20,739,437	527,080	21,266,517
Due to Brokers	233,799,426	19,478,055	253,277,481	227,650,771	18,123,333	245,774,104
Mortgage Payable	168,869,885	14,068,713	182,938,598	190,996,840	15,205,305	206,202,145
Security Deposit	23,733	1,977	25,710	29,455	2,345	31,800
Securities Lending Collateral	1,370,898,246	114,210,854	1,485,109,100	1,369,497,118	109,025,998	1,478,523,116
TOTAL LIABILITIES	1,817,567,598	149,527,625	1,967,095,223	1,821,070,676	143,788,080	1,964,858,756
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	$ 17,104,276,335	$ 1,435,403,645	$ 18,539,679,980	$ 17,346,554,076	$ 1,390,546,626	$ 18,737,100,702

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2016 AND 2015

	2016			2015		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
ADDITIONS						
Contributions						
Employer Contributions	$ 478,385,438	$ 150,315,374	$ 628,700,812	$ 480,332,251	$ 148,476,512	$ 628,808,763
Member Contributions	129,733,559		129,733,559	126,770,882		126,770,882
Total Contributions	608,118,997	150,315,374	758,434,371	607,103,133	148,476,512	755,579,645
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	(221,126,477)	(17,726,095)	(238,852,572)	189,380,584	14,504,946	203,885,530
Interest	117,592,847	9,426,560	127,019,407	105,684,530	8,094,538	113,779,068
Dividends	226,490,236	18,156,069	244,646,305	214,597,751	16,436,367	231,034,118
Net Real Estate Income	76,412,712	6,125,449	82,538,161	67,776,657	5,191,117	72,967,774
Income from Alternative Investments	24,137,732	1,934,946	26,072,678	29,306,707	2,244,645	31,551,352
Securities Lending Income	8,202,075	657,500	8,859,575	8,013,539	613,769	8,627,308
Less: Securities Lending Expense	(818,709)	(65,629)	(884,338)	(799,855)	(61,262)	(861,117)
Other Income	(3,132,218)	(251,087)	(3,383,305)	126,083,194	9,656,903	135,740,097
Subtotal	227,758,198	18,257,713	246,015,911	740,043,107	56,681,023	796,724,130
Less: Investment Manager Expense	(71,553,142)	(5,735,893)	(77,289,035)	(70,374,872)	(5,390,118)	(75,764,990)
Net Investment Income	156,205,056	12,521,820	168,726,876	669,668,235	51,290,905	720,959,140
Other Income						
Miscellaneous	3,107,832	249,132	3,356,964	4,849,056	371,397	5,220,453
Total Other Income	3,107,832	249,132	3,356,964	4,849,056	371,397	5,220,453
TOTAL ADDITIONS	767,431,885	163,086,326	930,518,211	1,281,620,424	200,138,814	1,481,759,238
DEDUCTIONS						
Pension Benefits	987,296,111		987,296,111	915,163,279		915,163,279
Payment of Health Subsidy		107,064,398	107,064,398		100,933,453	100,933,453
Payment of Medicare Reimbursement		9,614,045	9,614,045		9,477,016	9,477,016
Refund of Contributions	3,067,069		3,067,069	3,746,037		3,746,037
Administrative Expenses	19,346,446	1,550,864	20,897,310	17,814,449	1,364,436	19,178,885
TOTAL DEDUCTIONS	1,009,709,626	118,229,307	1,127,938,933	936,723,765	111,774,905	1,048,498,670
NET INCREASE (DECREASE)	(242,277,741)	44,857,019	(197,420,722)	344,896,659	88,363,909	433,260,568
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	17,346,554,076	1,390,546,626	18,737,100,702	17,001,657,417	1,302,182,717	18,303,840,134
End of Year	$ 17,104,276,335	$ 1,435,403,645	$ 18,539,679,980	$ 17,346,554,076	$ 1,390,546,626	$ 18,737,100,702

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

NOTE 1 – DESCRIPTION OF THE PLANS

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

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

Pension Plan

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

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

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

Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and who elected to opt out of the LACERS by December 12, 2014 deadline.

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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

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

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

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

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Health Subsidy Plan

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

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

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the 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, 2015, the maximum subsidy amount is $1,438.49 per month. The maximum monthly subsidy for fiscal years 2015 and 2014 was $1,344.38 and $1,256.43, 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.

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, 2016 and 2015, total net position in the amounts of $1,435,403,645 and $1,390,546,626, 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).

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Health Insurance Premium Reimbursement Program

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

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The pensioner (whether living or deceased) must 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 2016 and 2015 was $1,438.49 and $1,344.38, 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 $43.24 for the period of January 1, 2015, through June 30, 2016. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3, 5, and 6 who have at least 25 years of service and who are at least age 50 are eligible for DROP. The Administrative Code was amended August 8, 2014, to add Tier 6 members.

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

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.

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

At June 30, 2016 and 2015, 1,243 and 1,359 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately $239,562,356 and $280,813,494, 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 an additional two percent pension contributions are entitled to the current maximum medical subsidy benefit and all future subsidy increases once they retire and become eligible to receive a subsidy. The opt-in period for the majority of the members began August 15, 2011, and closed September 29, 2011.

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

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan Membership

The components of the System's Pension Plan membership at June 30, 2016 and 2015, are as follows:

	2016	2015
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	1
Tier 4	178	183
Tier 5	6,588	7,207
Tier 6	1,781	1,215
	8,547	8,606
Active Vested:		
Tier 1	-	-
Tier 2	12	22
Tier 3	799	835
Tier 4	121	140
Tier 5	3,571	3,465
Tier 6	-	-
	4,503	4,462
Pensioners and Beneficiaries:		
Tier 1	403	444
Tier 2	7,738	7,975
Tier 3	594	559
Tier 4	275	251
Tier 5	3,809	3,364
Tier 6	-	-
	12,819	12,593
Vested Terminated		
Tier 3	44	39
Tier 5	47	47
Tier 6	37	26
	128	112
	25,997	25,773

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Financial Reporting

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

Investments and Method Used to Value Investments

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments (Continued)

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

Cash

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

Capital Assets

Capital assets include land, building, improvements, and furniture and fixtures that are used in operation. Assets with an individual cost of at least $5,000 and an estimated useful life of more than one year are capitalized. Capital assets are valued at acquisition cost plus the cost of improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the building and improvements (20-year) and furniture and fixtures (5-year). The System did not record depreciation expense on the building acquired in fiscal year 2015 and occupied as the headquarters in fiscal year 2016, since a separate valuation for the land and building is not available as of June 30, 2016. An independent appraisal will be obtained to establish the valuation basis for the land and building. The System will begin recording depreciation expense of the headquarters in 2017.

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.

Reclassifications

Certain reclassifications have been made in the fiscal year 2015 notes to financial statements in order to conform to the current year presentation.

Implementation of New Accounting Pronouncements

The System adopted Governmental Accounting Standard Board (GASB) Statement No. 72 (GASB 72), Fair Value Measurement and Application, effective at the beginning of fiscal year 2016. This Statement provides guidance for applying fair value to investments and disclosures related to all fair value measurements. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

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, 2016 and 2015, were as follows ($ in thousands):

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

Fiscal Year Ended June 30, 2016

	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	$ -	$ 1,688	$ 15,613	$ 6,756	$ 220,890	$ 7,314	$ 2,337	$ 38
Unfunded supplemental present value amount	15,482	28,132	24,783	12,994	122,491	4,979	956	20
Pension Administrative Expenses	-	61	853	354	10,496	427	109	2
Health subsidy entry age cost	-	221	3,882	1,523	44,982	3,409	610	19
Health subsidy unfunded actuarial accrued liability	1,878	50,905	4,555	2,813	33,218	1,350	136	3
Health Administrative Expenses	-	4	56	23	692	28	7	-
Total	$ 17,360	$ 81,011	$ 49,742	$ 24,463	$ 432,769	$ 17,507	$ 4,155	$ 82

During fiscal year 2016, total contributions of $628,700,812 from the employer and $129,733,559 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, 2014. For the Pension Plan, fiscal year 2016 employer contributions included $254.6 million for entry age normal cost, $209.8 million for the unfunded supplemental present value annual amount, $12.3 million for pension administrative expense and $1.6 million transfer from LACERS for sworn officers who opted to transfer from the Department of General Services. For the Health Subsidy Plan, fiscal year 2016 employer contributions consisted of $54.6 million for entry age normal cost and $94.9 million for the unfunded actuarial accrued liability annual amount, and $0.8 million for health administrative expense.

Fiscal Year Ended June 30, 2015

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Entry age cost	$ -	$ 1,982	$ 16,215	$ 6,336	$ 223,886	$ 4,723	$ 2,462	$ 24
Unfunded supplemental present value amount	16,421	43,619	18,099	10,026	131,895	3,483	1,147	14
Health subsidy entry age cost	-	269	3,994	1,442	45,137	2,090	593	9
Health subsidy unfunded actuarial accrued liability	1,938	49,348	4,687	2,865	35,043	925	134	2
Total	$ 18,359	$ 95,218	$ 42,995	$ 20,669	$ 435,961	$ 11,221	$ 4,336	$ 49

During fiscal year 2015, total contributions of $628,808,763 from the employer and $126,770,882 from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2013. For the Pension Plan, fiscal year 2015 employer contributions included $255.6 million for entry age normal cost and $224.7 million for the unfunded supplemental present value annual amount. For the Health Subsidy Plan, fiscal year 2015 employer contributions consisted of $53.5 million for entry age normal cost and $94.9 million for the unfunded actuarial accrued liability annual amount.

NOTE 4 – NET PENSION LIABILITY

The components of the System's net pension liability (NPL) at June 30, 2016 and 2015, were as follows:

	2016	2015
Total Pension Liability	$ 19,565,408,718	$ 19,385,427,756
Less: Fiduciary Net Position	17,104,276,335	17,346,554,076
Net Pension Liability	$ 2,461,132,383	$ 2,038,873,680
Fiduciary Net Position as a Percentage of the Total Pension Liability	87.42%	89.48%

The NPL was measured as of June 30, 2016 and June 30, 2015 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2015 and 2014 respectively.

Actuarial Assumptions

The TPL as of June 30, 2016 and 2015 were determined by actuarial valuations as of June 30, 2015 and 2014, respectively. The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of an experience study for the period from July 1, 2010 through June 30, 2013. They are the same as the assumptions used in the June 30, 2016 funding actuarial valuation for the Pension Plan. The following actuarial assumptions were applied to all periods included in the measurement:

Investment Return Rate	7.50%, including inflation but net of investment expenses
Inflation Rate	3.25%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increase	Ranges from 4.75 to 11.50% based on service.
COLAs	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.
Mortality	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 – NET PENSION LIABILITY (Continued)

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2016 and 2015 are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return 2016	Long-Term Expected Real Rate of Return 2015
Large Cap U.S. Equity	23.00%	6.03%	6.03%
Small Cap U.S. Equity	6.00%	6.71%	6.71%
Developed International Equity	16.00%	6.71%	6.71%
Emerging Markets Equity	5.00%	8.02%	8.02%
U.S. Core Fixed Income	14.00%	0.52%	0.52%
High Yield Bonds	3.00%	2.81%	2.81%
Real Estate	10.00%	4.73%	4.73%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.43%	0.43%
Commodities	5.00%	4.67%	4.67%
Cash	1.00%	-0.19%	-0.19%
Unconstrained Fixed Income	2.00%	2.50%	2.50%
Private Equity	10.00%	9.25%	9.25%
Total Portfolio	100.00%	5.12%	5.12%

Discount Rate

The discount rates used to measure the TPL was 7.50% as of June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2016 and 2015.

NOTE 4 – <u>NET PENSION LIABILITY</u> (Continued)

<u>Sensitivity Analysis</u>

The following presents the NPL of the System as of June 30, 2016 and 2015, calculated using the discount rate of 7.50%, as well as what the System's NPL 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%)
Net pension liability as of June 30, 2016	$ 5,059,215,255	$ 2,461,132,383	$ 325,047,115
Net pension liability as of June 30, 2015	4,618,797,137	2,038,873,680	(81,182,624)

NOTE 5 – <u>FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN</u>

The June 30, 2016 and 2015 annual actuarial valuations determined the Health Subsidy Plan's funding status to be 48.1% and 45.5%, respectively. If the deferred loss were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 48.1% to 46.6% for fiscal year 2016.

The funded status of the Health Subsidy Plan as of June 30, 2016, the most recent actuarial valuation date, is as follows ($ in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
$ 1,480,810	$ 3,079,670	$ 1,598,860	48.1%	$ 1,400,808	114.1%

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

NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN (Continued)

Additional information as of the most recent actuarial valuation is as follows:

Valuation Date: June 30, 2016

Actuarial Cost Method: Entry Age Normal, Level Percent of Pay

Amortization Method: Closed amortization periods. On September 6, 2012, the Board adopted the following amortization policy:

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

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

Remaining Amortization: As of June 30, 2016:
18 years for bases established on June 30, 2014
23 years for assumption change base established on June 30, 2014
19 years for bases established on June 30, 2015

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

Actuarial assumptions:

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

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

Medical	7.00% in 2016-2017, then decreasing by 0.25% for each year for eight years until it reaches an ultimate rate of 5%.
Dental	5% for all years
Medicare Part B Premium	5% for all years

NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN (Continued)

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, 2016 (e.g., Fire Kaiser) increase with medical trend. For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2016 (e.g., Police Blue Cross PPO), increase with lesser of 7% or medical trend.

The following assumptions were adopted by the Board based on the July 1, 2010 through June 30, 2013 actuarial experience study and the economic assumptions study for June 30, 2014 actuarial valuation:

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 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN (Continued)

Participation

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

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

Dental Coverage — 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 with a subsidy, spousal/domestic partner coverage is based on census data.

Implicit Subsidy — No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums, except for one small group (Fire Blue Cross 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:

NOTE 5 – <u>FUNDED STATUS AND FUNDING PROGRESS - HEALTH SUBSIDY PLAN</u> (Continued)

For Participants under Age 65:

Plan	Assumed Election Percentage	Maximum Subsidies: Single	Maximum Subsidies: Married/With Domestic Partner	Maximum Subsidies: Eligible Survivor
Fire Medical	80	$ 1,535.59	$ 1,535.59	$ 748.03
Fire Kaiser	10	1,535.59	1,535.59	748.03
Fire Blue Cross	5	1,535.59	1,535.59	748.03
Fire California Care	5	1,535.59	1,535.59	748.03
Police Blue Cross PPO	65	1,535.59	1,535.59	748.03
Police Blue Cross HMO	15	1,535.59	1,535.59	748.03
Police Kaiser	20	1,535.59	1,535.59	748.03
Dental	80	43.24	43.24	-

For Participants Age 65 and Over:

Plan	Assumed Election Percentage	Maximum Subsidies: Single	Maximum Subsidies: Married/With Domestic Partner	Maximum Subsidies: Eligible Survivor
Fire Medical	85	$ 487.71	$ 764.31	$ 487.71
Fire Kaiser	15	487.71	765.04	487.71
Fire Blue Cross	0	487.71	1,390.57	487.71
Fire California Care	0	487.71	1,429.48	487.71
Police Blue Cross PPO	75	487.71	1,034.71	487.71
Police Blue Cross HMO	10	487.71	1,083.27	487.71
Police Kaiser	15	487.71	413.64	487.71
Dental	80	43.24	43.24	-
Medicare B	100	121.80	121.80	121.80

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

NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS – HEALTH SUBSIDY PLAN (Continued)

The Harbor Port Police, upon reaching eligibility to retire, have a choice of retiree medical plans with contracts at the Los Angeles City Employees Retirement System (LACERS), but will only be eligible for a subsidy up to the System's maximum medical subsidy limit. In order to estimate the liability in the June 30, 2016 valuation, the actuary assumed that Harbor Port Police will select similar plans at LACERS roughly in proportion to those assumed for future System Police retirees. For pre-65 retirees, the actuary has assumed that 65% will enroll in the Anthem Blue Cross PPO and 35% will enroll in the Kaiser Permanente HMO, available through LACERS. For retirees over age 65, the actuary has assumed that 85% will enroll in the Anthem Blue Cross PPO Medicare Plan and 15% will enroll in the Kaiser Permanente Senior Advantage HMO, available through LACERS.

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2016 and 2015, are as follows:

	2016	2015
Retired members	8,970	8,827
Beneficiaries	1,678	1,664
Vested terminated members	1,010	900
Active members	13,050	13,068
Total	24,708	24,459

NOTE 6 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2016, cash and temporary investments consisted of $ 2,192,456 cash held by the City Treasurer's office and $1,006,522,504 in collective short-term investment funds (STIF). At June 30, 2015, cash and temporary investments consisted of $1,030,837 cash held by the City Treasurer's office and $702,062,634 in collective STIF. Cash held by the City Treasurer's office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

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

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

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

Fair Value of Investments (continued)

At June 30, 2016, the System has the following recurring fair value measurements ($ in thousands):

	June 30, 2016	Level 1	Level 2	Level 3
Investments by fair value level				
Debt Securities				
U.S. Treasuries	$ 1,809,140	$ -	$ 1,809,140	$ -
U.S. Agencies	455,431	-	455,431	-
Municipal/Provincial Bonds	22,662	-	22,662	-
Collateralized Debt Obligations	159,575	-	158,883	692
Commercial Paper	13,478	-	13,478	-
Corporate Bonds	1,588,184	-	1,583,933	4,251
Total Debt Securities	4,048,470	-	4,043,527	4,943
Equity Securities				
Common Stock	10,313,920	10,284,914	25,057	3,949
Preferred Stock	65,370	65,370	-	-
Other	19,833	19,422	-	411
Total Equity Securities	10,399,123	10,369,706	25,057	4,360
Other				
Miscellaneous	540	-	-	540
Total Other	540	-	-	540
Total Investments by Fair Value Level	$ 14,448,133	$ 10,369,706	$ 4,068,584	$ 9,844

Investment measured at the net asset value (NAV)	
Private Equity Partnerships	$ 1,781,886
Real Estate	1,508,059
Global Macro Strategy Hedge Funds	89,884
Asset/Mortgage-Backed Securty Funds	18,146
Commercial mortgages	1,607
Total Investments Measured at NAV	$ 3,399,582

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

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

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

Fair Value of Investments (continued)

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

Investment measured at the NAV ($ in thousands):

Investment Strategy	Fair value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity Partnerships	$ 1,781,886	$ 1,115,600	N/A	-
Real Estate [1]	1,508,059	149,935	Quarterly	90-179 days
Hedge Funds	89,884	-	Quarterly	90 days
Corporate Debt Securities	18,146	-	Anytime	-
U.S. Agencies Debt Securities	1,607	-	N/A	-
Total Investments Measured at NAV	$ 3,399,582	$ 1,265,535		

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

The System has unfunded commitments of $1.1 billion in private equity partnerships and $ 150.0 million in real estate. The System's investments in hedge funds can be redeemed quarterly with 90 days redemption notice period.

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

Investment Policy

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

The Board's adopted allocation policy effective during fiscal years 2016 and 2015 was as follow:

Asset Class	Target Allocation
Large Cap U.S. Equity	23.00%
Small Cap U.S. Equity	6.00%
Developed International Equity	16.00%
Emerging Markets Equity	5.00%
U.S. Core Fixed Income	14.00%
High Yield Bonds	3.00%
Real Estate	10.00%
TIPS	5.00%
Commodities	5.00%
Cash	1.00%
Unconstrained Fixed Income	2.00%
Private Equity	10.00%
Total Portfolio	100.00%

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

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.

As of June 30, 2016, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

Quality Rating	Fair Value	Percentage
AAA	$ 2,007,917,033	56.11%
AA	78,875,356	2.20%
A	169,680,320	4.74%
BBB	527,733,053	14.75%
BB	283,612,585	7.93%
B	239,760,978	6.70%
CCC	89,472,791	2.50%
CC	9,208,526	0.26%
C	4,697,756	0.13%
Not Rated	167,317,312	4.68%
Subtotal	3,578,275,710	100.00%
U.S. Government Issued or Guaranteed Securities	477,999,775	
Total Fixed Income Investments	$ 4,056,275,485	

As of June 30, 2015, the quality ratings of the System's fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

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

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

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2016 and 2015, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to $20,990,095 and $16,388,935, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2016 and 2015, 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, 2016 and 2015, the System's sole hedge fund investment of $89,884,101 and $94,401,493, private equity of $1,794,372,836 and $1,643,695,970, and commingled real estate funds of $811,271,154 and $844,297,078, 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, 2016 and 2015, 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.

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

Interest Rate Risk (Continued)

Fiscal Year 2016

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	$ 62,061,565	12.85
Bank Loans	13,477,834	4.24
Collateralized Bonds	722,823	11.20
Commercial Mortgage-Backed	32,793,101	27.00
Corporate Bonds	1,517,554,082	11.72
Corporate Convertible Bonds	4,060,104	5.53
Government Agencies	61,351,121	10.62
Government Bonds	998,976,584	9.51
Government Mortgage-Backed Securities	333,801,710	21.47
Government Issued Commercial Mortgage-Backed	50,471,494	5.21
Index Linked Government Bonds	847,475,962	9.68
Municipal/Provincial Bonds	27,759,497	51.24
Non-Government Backed Collateralized Mortgage Obligations	63,997,544	17.97
Short Term Bills and Notes	17,150,711	0.37
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	24,621,353	N/A
	$ 4,056,275,485	

Fiscal Year 2015

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset-Backed Securities	$ 48,312,810	16.06
Bank Loans	22,469,812	5.24
Commercial Mortgage-Backed	31,303,306	29.31
Corporate Bonds	1,543,929,785	10.69
Corporate Convertible Bonds	2,565,022	9.00
Government Agencies	68,252,384	10.11
Government Bonds	812,774,864	10.82
Government Mortgage-Backed Securities	290,704,245	21.68
Government Issued Commercial Mortgage-Backed	36,810,174	3.52
Index Linked Government Bonds	864,570,166	9.64
Municipal/Provincial Bonds	21,185,587	56.73
Non-Government Backed Collateralized Mortgage Obligations	50,384,435	18.76
Asset/Mortgage-Backed Securities/Other Fixed Income Funds	50,196,609	N/A
Total Fixed Income Investments	$ 3,843,459,199	

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

Interest Rate Risk (Continued)

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

Fiscal Year 2016

Investment Type	Fair Value
Asset-Backed Securities	$ 62,061,565
Commercial Mortgages	32,793,101
Government Agencies Bonds	61,351,121
Government Mortgage-Backed Securities	384,273,204
Index Linked Government Bonds	847,475,962
Non-Government Backed Collateralized Mortgage Obligations	63,997,544
Total Asset-Backed Investments	$ 1,451,952,497

Fiscal Year 2015

Investment Type	Fair Value
Asset-Backed Securities	$ 48,312,810
Commercial Mortgages	31,303,306
Government Agencies Bonds	68,252,384
Government Mortgage-Backed Securities	327,514,418
Index Linked Government Bonds	864,570,166
Non-Government Backed Collateralized Mortgage Obligations	50,384,435
Total Asset-Backed Investments	$ 1,390,337,519

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 16% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks.

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2016, are as follows:

Foreign Currency Type	Fair Value
Australian Dollar	$ 136,172,755
Brazilian Real	68,770,576
British Pound Sterling	597,966,881
Canadian Dollar	76,165,978
Chilean Peso	4,678,345
Colombian Peso	1,759,088
Czech Koruna	4,442,975
Danish Krone	56,954,764
Euro	791,132,861
Hong Kong Dollar	236,032,336
Hungarian Forint	5,532,415
Indian Rupee	89,443,923
Indonesian Rupiah	29,573,588
Japanese Yen	561,044,186
Kenyan Shilling	1,519,664
Malaysian Ringgit	16,935,085
Mexican Peso	29,379,649
New Israeli Shekel	9,079,602
New Taiwan Dollar	114,052,533
New Zealand Dollar	9,731,784
Norwegian Krone	16,240,107
Philippine Peso	10,572,734
Polish Zloty	11,439,909
Qatari Rial	392,632
Singapore Dollar	30,147,446
South African Rand	72,386,323
South Korean Won	161,046,026
Swedish Krona	84,596,007
Swiss Franc	200,569,904
Thai Baht	18,400,211
Turkish Lira	13,092,416
	$ 3,459,252,703

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

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, 2015, are as follows:

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

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

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

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on Pension Plan investments, gross of Pension Plan investment expense, for the years ended June 30, 2016 and 2015, was 1.04% and 4.14%, respectively. The source for the rate of return was the June 30, 2016 and 2015 Investment Hierarchy provided by the custodian bank, Northern Trust.

NOTE 7 – SECURITIES LENDING

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

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

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

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

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

NOTE 7 – <u>SECURITIES LENDING</u> (Continued)

As of June 30, 2016 and 2015, the fair value of securities on loan was $1,620,830,719 and $1,629,911,635, respectively, and the fair value of collateral received was $1,655,817,773 and $1,673,918,158, respectively. Of the $1,655,817,773 collateral received as of June 30, 2016, $1,485,109,100 was cash collateral and $170,708,673 represented the fair value of non-cash collateral; and of the $1,673,918,158 collateral received as of June 30, 2015, $1,478,523,116 was cash collateral and $195,395,042 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2016 and 2015:

Fair value of collateral received for loaned securities as of June 30, 2016:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 221,562,890	$ 2,414,668	$ 223,977,558
Domestic Corporate Fixed Income Securities	143,884,301	7,282,071	151,166,372
Domestic Equities	1,018,524,744	19,041,552	1,037,566,296
International Equities	101,137,165	141,970,382	243,107,547
	$ 1,485,109,100	$ 170,708,673	$ 1,655,817,773

Fair value of loaned securities as of June 30, 2016:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 217,546,807	$ 2,374,683	$ 219,921,490
Domestic Corporate Fixed Income Securities	141,521,564	7,195,126	148,716,690
Domestic Equities	1,003,855,259	18,771,465	1,022,626,724
International Equities	96,394,432	133,171,383	229,565,815
	$ 1,459,318,062	$ 161,512,657	$ 1,620,830,719

NOTE 7 – SECURITIES LENDING (Continued)

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

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 247,703,159	$ 16,110,400	$ 263,813,559
Domestic Corporate Fixed Income Securities	138,925,755	5,117,640	144,043,395
Domestic Equities	1,022,414,279	60,498,572	1,082,912,851
International Equities	69,479,923	113,668,430	183,148,353
	$ 1,478,523,116	$ 195,395,042	$ 1,673,918,158

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

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	$ 242,690,660	$ 15,794,725	$ 258,485,385
Domestic Corporate Fixed Income Securities	136,005,033	5,012,581	141,017,614
Domestic Equities	1,000,925,473	57,378,446	1,058,303,919
International Equities	64,649,502	107,455,214	172,104,716
	$ 1,444,270,668	$ 185,640,966	$ 1,629,911,634

For the fiscal years ended June 30, 2016 and 2015, securities lending income amounted to $8,859,575 and $8,627,308, respectively, while securities lending expenses amounted to $884,338 and $861,117, respectively.

NOTE 8 – DERIVATIVE INSTRUMENTS

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

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period. For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities. They can also

NOTE 8 – DERIVATIVE INSTRUMENTS (Continued)

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows ($ in thousands):

	Changes in Fair Value		Fair Value at June 30, 2016		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts	-	$ -	Investment	$ -	$ (54,023)
Futures - Longs	Investment Loss	(6,584)	Investment	-	108,426
Forwards	Investment Loss	(653)	Investment	171	-
Options	Investment Loss	(312)	Investment	45	
Rights/Warrants	Investment Revenue	679	Investment	209	-
Swaps	Investment Revenue	2,995	Investment	(705)	

At June 30, 2016, the System held futures – shorts and futures – longs with a notional value of $(54,022,816) and $108,426,473, respectively, with a realized loss of $6,583,622 for the fiscal year. The System held forwards with a fair value of $171,434, options with a fair value of $44,836, rights and warrants with a fair value of $208,834, and swaps with the fair value of $(705,375). Losses of $652,641 were reported for the fiscal year for forwards and $312,451 for options, and earnings of $678,584 were reported for rights and warrants and $2,995,085 for swaps for the fiscal year.

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

	Changes in Fair Value		Fair Value at June 30, 2015		Notional
Type	Classification	Amount	Classification	Amount	Amount
Investment Derivatives:					
Futures - Shorts	-	$ -	Investment	$ -	$ (25,131)
Futures - Longs	Investment Loss	(2,862)	Investment	-	16,258
Forwards	Investment Loss	(688)	Investment	608	-
Options	Investment Loss	(206)	Investment	65	
Rights/Warrants	Investment Revenue	741	Investment	195	-
Swaps	Investment Revenue	344	Investment	55	

NOTE 8 – DERIVATIVE INSTRUMENTS (Continued)

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

NOTE 9 – CAPITAL ASSETS

The System's capital assets comprise the land and building that was acquired in July 2013 for $12,735,689, additional land for parking that was purchased in December 2015 for $3,825,000, and capital improvements totaled $5,902,415 as of June 30, 2016. This building is the System's headquarters that will provide long-term control over its future space needs and lease costs. Ongoing capital improvement program as of June 30, 2016, will address the tenant improvements and other needs. Furniture and fixtures were also acquired in fiscal year 2016. The headquarters was occupied in March 2016.

The following is a summary of the System's capital assets at June 30, 2016 and 2015:

	2016	2015
Land and Building	$ 22,463,104	$ 13,617,200
Furniture and Fixtures	1,297,014	-
Accumulated Depreciation	(64,851)	-
Furniture and Fixtures-Net	1,232,163	-
Total Capital Assets	$ 23,695,267	$ 13,617,200

NOTE 10 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2016, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $7,438 to $189,798. For fiscal year 2015, interest rates range from 2.94% to 7.50% per annum. The average monthly principal and interest payments range from $14,653 to $185,292.

The mortgages mature from September 2016 to June 2025. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

Year Ending	Principal	Interest	Total
2017	$ 27,462,170	$ 7,125,475	$ 34,587,645
2018	15,440,724	6,458,803	21,899,527
2019	34,244,149	6,093,778	40,337,927
2020	1,350,258	4,316,876	5,667,134
2021	24,307,720	3,644,119	27,951,839
2022-2025	80,133,577	6,260,091	86,393,668
	$ 182,938,598	$ 33,899,142	$ 216,837,740

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

The following is a summary of mortgage payable activities for the years ended June 30, 2016 and 2015:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Mortgage Payable	$ 206,202,145	$ -	$ 23,263,547	$ 182,938,598

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
Mortgage Payable	$ 168,520,538	$ 63,050,000	$ 25,368,393	$ 206,202,145

NOTE 11 – OPERATING LEASE

The System leases office space under an operating lease that was discontinued with appropriate notice to the building management. The annual lease payments for the fiscal years ended June 30, 2016 and 2015, were $655,521 and $854,071, respectively.

There are no minimum lease commitment for future fiscal years.

NOTE 12 – 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 $1,768,610,823 and $1,742,423,013 as of June 30, 2016 and 2015, respectively.

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

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1,265,535,468 and $1,208,200,000 at June 30, 2016 and 2015, respectively.

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

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018; subsequent legislation has since postponed this provision until 2020. If there is no change in the law or the System plan provisions between now and 2020, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment health care plans will be subject to the excise tax in 2020. GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Pension Plans. This Statement requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments. Statement No. 74 is effective for the fiscal years beginning after June 15, 2016.

Retiree Health Subsidy Freeze Litigation

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

On September 5, 2014, the Los Angeles County Superior Court issued an official Writ restoring the Board's authority to provide the current "non-frozen" subsidy to pensioners who were impacted by the City's "freeze" ordinance. Accordingly, on the October 31st pension payments, the System 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.

On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate issued by the Los Angeles County Superior Court authorizing the Board) "to exercise its discretion, previously delegated to it by the City in an ordinance, to set the maximum subsidy…without regard to later City ordinances 'freezing' the subsidy…" The Court of Appeal agreed with the City's position that there was not a vested right to a LAFPP Board-determined subsidy. The Court of Appeal found that the City Council continued to retain the final decision authority over the subsidy even while delegating to the LAFPP Board determination of subsidy increases. On March 25, 2016, the Second Appellate Court denied the plaintiffs' petition for rehearing.

On April 14, 2016, the plaintiffs filed a Petition for Review with the California Supreme Court. On June 16, 2016, the California Supreme Court denied the Petition for Review. The matter has been remanded to the trial court to resolve the issues in accordance with the Court of Appeal's opinion.

NOTE 13 – DONATIONS

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

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

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

NOTE 13 – DONATIONS (Continued)

The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of donated private equity since August 2005. The System has received the following income from these donations: $2,685,000 in 2002; $2,918,066 in 2003; $14,402,308 in 2004; $7,791,262 in 2005; none in 2006; $864,281 in 2007; $67,568 in 2008; $50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, 2015 or 2016.

NOTE 14 – 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 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 2016, which is the date the financial statements were issued. In addition to those noted below, there were no additional subsequent events to disclose.

Measure SSS – Airport Police Officers Pension Changes

On November 8, 2016, Measure SSS was included in the ballot. If this measure passes, it will amend the Los Angeles City Charter to enroll new Airport Peace Officers into the Fire and Police Pension System; allow current Airport Peace Officers to transfer into the Fire and Police Pension System; and allow new Airport Police Chiefs to enroll in the City Employees' Retirement System.

Charter Amendment SSS would do the following:

•Enroll all city employees appointed on or after January 7, 2018 who perform police or firefighting duties for the Airports Department in Tier 6 of the sworn employee retirement system (LAFPP).

•Allow sworn peace officers appointed to the Airports Department before January 7, 2018 the option to transfer from the city's civilian employee retirement plan (LACERS) to Tier 6 of the sworn employee retirement system (LAFPP), at their expense.

•Give any Airports Department Chief of Police appointed on or after January 7, 2018 who is not already a member of the sworn employee retirement system the option to enroll in the city's civilian employee retirement plan (LACERS).

The final result for this measure is not available as of November 21, 2016, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN
($ in Thousands)
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 2007	$ 687,096	$1,656,653	$ 969,557	41.5%	$1,135,592	85.4%
June 30, 2008	767,648	1,836,840	1,069,192	41.8%	1,206,589	88.6%
June 30, 2009	809,677	2,038,659	1,228,982	39.7%	1,357,249	90.5%
June 30, 2010	817,276	2,537,825	1,720,549	32.2%	1,356,986	126.8%
June 30, 2011	882,890	2,557,607	1,674,717	34.5%	1,343,963	124.6%
June 30, 2012	927,362	2,499,289	1,571,927	37.1%	1,341,914	117.1%
June 30, 2013	1,013,400	2,633,793	1,620,393	38.5%	1,367,237	118.5%
June 30, 2014	1,200,874	2,783,283	1,582,409	43.2%	1,402,715	112.8%
June 30, 2015	1,344,333	2,962,703	1,618,370	45.5%	1,405,171	115.2%
June 30, 2016	1,480,810	3,079,670	1,598,860	48.1%	1,400,808	114.1%

See accompanying independent auditor’s report.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN
($ in Thousands)
(Unaudited)

Fiscal Years Ending	Annual Required Contribution	Actual Contribution	Percent Contributed
2007	$ 55,163 [1]	$ 55,163	100.0%
2008	98,033 [2]	78,257	79.8%
2009	98,445 [3]	88,179	89.6%
2010	106,648	106,648	100.0%
2011	111,681	111,681	100.0%
2012	122,972	122,972	100.0%
2013	132,939	132,939	100.0%
2014	138,107	138,107	100.0%
2015	148,477	148,477	100.0%
2016	150,315	150,315	100.0%

(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
($ in Thousands)
(Unaudited)

Date*	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)		Net Pension Liability (NPL)	Funded Status (FNP/TPL)	Covered Employee Payroll	NPL % Pay
6/30/2016	7.50%	$19,565,409	$ 17,104,276		$ 2,461,132	87.4%	$ 1,351,788	182.1%
6/30/2015	7.50%	19,385,428	17,346,554		2,038,874	89.5%	1,316,969	154.8%
6/30/2014	7.50%	18,861,992	16,989,705	(1)	1,872,287	90.1%	1,308,149	143.1%
6/30/2013	7.75%	16,989,705	14,680,373		3,584,155	86.4%	1,277,031	280.7%

* 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.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY
AND RELATED RATIOS
($ in Thousands)
(Unaudited)

	6/30/2016*	6/30/2015*	6/30/2014*
Total Pension Liability:			
Service Cost	$ 365,956	$ 368,700	$ 368,018
Interest	1,399,576	1,384,527	1,392,552
Benefit Payments	(990,363)	(918,909)	(858,986)
Administrative Expenses	-	-	-
Experience Losses (Gains)	(595,188)	(310,882)	(234,638)
Assumption Changes	-	-	(69,482)
Benefit Changes	-	-	-
Net Change	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	19,385,428	18,861,992	18,264,528
Total Pension Liability at End of Year (a)	$ 19,565,409	$ 19,385,428	$ 18,861,992
Fiduciary Net Position:			
Employer Contributions	$ 478,385	$ 480,332	$ 440,698
Member Contributions	129,734	126,771	124,395
Net Investment Income	159,313	686,470	2,617,090
Benefit Payments	(990,363)	(918,909)	(858,986)
Administrative Expenses	(19,346)	(17,815)	(13,865)
Net Change	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	17,346,554	16,989,705	14,680,373
Fiduciary Net Position at End of Year (b)	$ 17,104,277	$ 17,346,554	$ 16,989,705 (1)
Net Pension Liability/(Asset) (a)-(b)	$ 2,461,132	$ 2,038,874	$ 1,872,287
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.42%	89.48%	90.07%
Covered Employee Payroll	$ 1,351,788	$ 1,316,969	$ 1,308,149
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	182.06%	154.82%	143.12%

* 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.

See accompanying independent auditor's report.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUITON – PENSION PLAN
($ in Thousands)
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Employee Payroll	Contribution as % of Payroll [2]
6/30/2016	$ 478,385	$ 478,385	-	$ 1,351,788	35.4%
6/30/2015	480,332	480,332	-	1,316,969	36.5%
6/30/2014	440,698	440,698	-	1,308,149	33.7%
6/30/2013	375,448	375,448	-	1,277,031	29.4%
6/30/2012	321,593	321,593	-	1,213,396	26.5%
6/30/2011	277,092	277,092	-	1,289,857	21.5%
6/30/2010	250,517	250,517	-	1,266,312	19.8%
6/30/2009	238,698	238,698	-	1,253,659	19.0%
6/30/2008[1]	261,635	261,635	-	1,188,972	22.0%
6/30/2007	224,946	224,946	-	1,130,297	19.9%

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

See accompanying independent auditor's report.

<u>Notes to Schedule of Employer Contribution – Pension Plan</u>

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

The assumptions used in establishing the ADC for the year ended June 30, 2016 were based on the June 30, 2014 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions: June 30, 2014 valuation	
Investment rate of return	7.50%, net of investment expenses
Inflation rate	3.25%
Administrative Expenses:	Out of the total 1.00% of payroll in administrative expense, 0.94% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 0.91% of payroll payable at beginning of the year.
Real across-the-board salary	0.75%
Projected salary increases	Ranges from 4.75% to 11.50% based on years of service
Cost of living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5, and 6 retirement income.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	2016*	2015*	2014*
Annual money-weighted rate of return, gross of investment expense**	1.04%	4.14%	18%

* 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 source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2016, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2016, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 21, 2016. The financial statements of the System as of and for the year ended June 30, 2015, were audited by another auditor whose report dated November 9, 2015, expressed unmodified opinion on those financial statements.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Simpson & Simpson

Los Angeles, California
November 21, 2016