

**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

1. Does LACERS maintain participant census data, along with payroll related information? Or would testing of this information need to be performed at the City?

Yes, LACERS maintains participant census data in its Pension Administration System. However, payroll information for active employees are maintained in the City's Payroll System. LACERS staff have access to the City's Payroll System and would be able to provide information that may be needed for testing.

2. How long and how many auditors have historically been on site during interim and year-end fieldwork?

Interim field work is typically in July while year-end is usually in September. Four to seven auditors are onsite for one week during interim and year-end.

3. Has there been any significant turnover in the accounting staff over the past year or any changes you'd expect would impact fieldwork as compared to prior years?

Much like other City departments, LACERS has experienced turnover in the accounting staff in recent years. Two senior investment accountants departed within the last fiscal year. The audit firm is expected to conduct its own preliminary assessment during audit planning to determine if any adjustment should be made to its fieldwork.

4. Why are you looking to switch auditors?

Periodic RFP for City services is required by the City Contracting Policy. This is a routine RFP in compliance with City Policy.

5. How long has your current audit firm been engaged by LACERS? Does LACERS have a mandatory rotation policy for audit firms?

Over a decade. LACERS does not have a mandatory rotation policy for audit firms. LACERS does require partner rotation at least every five years.

6. Please confirm whether LACERS' or the audit firm prepares the CAFR.

Yes, LACERS prepares CAFR but auditors perform the final review before it is submitted to GFOA.

7. What, if anything, would LACERS like to see changed about their current audit process?

LACERS is not seeking specific change to the audit process at this time.

8. Were there any journal entries proposed by the audit firm during 2018/2019 audit? Is there a list of these journal entries available?

No

**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

9. Please provide a copy of the audit report for the 115 Trust as included in the scope of the RFP.

See attached Section 115 Trust Report

10. The RFP requires completion of GASB 68 and GASB 75 opinions, please provide copy of prior year reports issued.

See attached GASB 68 and 75 opinion reports

11. Was a management letter issued during the 2018/2019 audit, if so, is this available for review?

Yes

12. Investments held by the plan – how soon after year end are audited financial statements available for your harder to value investments? Also, please describe LACERS' accounting procedures related to investments reported at net asset value and level 3.

LACERS Custodian bank provide year end investment statement by August 15. Since FY19, we requested biggest 10 fund managers from each Real Estate and Private Equity to provide their financial statements or estimated market value as of June 30 within 45 days (August 15).

13. When are the GASB 68 and GASB 75 valuations available for completion of the GASB 68/75 audits?

LACERS' annual valuations are generally completed by November every year

14. Were there any adjustments proposed by the auditors for FY 2018 or FY 2019?

Proposed adjustment in FY 2018 was due to lag in reporting of real estate and private equity investments. There were no proposed adjustments in FY 2019.

15. What controls are in place to monitor and record calls and distributions for real estate and private equity investments? (internal or outside consultants?)

LACERS processes capital calls through the Custodian Bank's web application. Investment Division staff input and apply the first approval electronically. Fiscal staff (Investment accounting staff and Dept Chief Accountant) review and apply final approval.

16. If LACERS changed to new auditors what transition issues would be a concern to LACERS?

The RFP requires each proposer to provide a description of the overall approach including your approach to making transition from LACERS' prior auditor, if applicable. LACERS would evaluate any transition issue on a case by case basis.

**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

17. What reconciliation procedures are performed between the different investment managers and custodian and how often?

LACERS uses the quarterly statements provided by investment managers to reconcile the amounts posted by custodian (Northern Trust). Reconciliations are performed as quarterly statements come in. Managers usually send their quarterly statements 1-4 months after the end of the quarter.

18. Are there going to be any significant changes to the system that would significantly change its investment vehicles or benefits provided? If so, what are they?

LACERS does not anticipate any significant changes at this time.

19. How long does LACERS keep their books open for any true up of fair value of the alternative investments?

Northern Trust usually closes their books 2 weeks after month-end. LACERS usually reports fair values as indicated by Northern Trust until a true up can be performed. LACERS generally wait 1.5-2 months after year-end to close the book so that we can have access to 6/30 statements from managers to make necessary adjustments to Northern Trust data.

20. Are any of the hard to value investments audited financial statements prepared in a basis of accounting other than US GAAP?

No

21. Does LACERS have a policy to have an independent actuary re-perform the actuary calculation? If so, how often and when was the last one performed?

LACERS periodically conducts an actuarial audit. The last actuarial audit was completed in 2013, and we are currently going through an actuarial audit of June 2019 valuations, result of which is anticipated in May or June 2020.

22. Do the GASB 68 and 75 allocation reports relate to the various departments and funds within the City of Los Angeles?

Yes, see attached GASB 68 & 75 reports

23. Who performs the census data testing for the GASB 68 and 75? Is it LACERS' auditors, City of Los Angeles' Internal Auditors or External Auditors?

External Auditor

**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

24. As disclosed in the RFP, the audit fee for 2019 was \$98,000. What were the audit fees for 2018 and 2019 for the CAFR, Section 115 Trust Fund, GASB 68 and 75 Report?

CAFR review is generally included under Annual audit fee.

There was no 115 Trust for FY18.

GASB 68 and 75 were little under \$10,000 (this amount was included in the total fee of \$98,000 for FY 19)

25. Under the Minimum Qualifications section (b) would a proposed Engagement Partner who does not have a California CPA license but is allowed to practice in California under CPA Mobility Law meet the Engagement Partner minimum qualification “must be licensed to practice in the State of California”?

Yes

26. Are there any specific areas of improvement you are hoping for in the audit service experience compared to the past? If so, please describe.

LACERS desires more GASB implementation-related expertise from the auditors, particularly with respect to current Pension and OPEB related accounting and financial reporting GASBs 67, 68, 74 & 75.

27. The audit fees paid for the 2019 audits total of \$98,000 was that inclusive of out-of-pocket costs as well?

Yes

28. What has the past audit timeline looked like, did it include an interim audit testing period as well as a year-end audit testing period? If so how many weeks were they each and during what months?

Please see RFP Section IV.C.7.h on page 9 for general audit timeline.

See #2 for historical duration/timing of interim and fieldwork.

29. In order to finalize the budget for the proposed work, do you have and are you willing to share the past audit hours?

LACERS did not track audit hours. Fee paid is based on an agreed upon not-to-exceed amount.

30. Are you expecting any IT implementations of financial systems or systems over census and other relevant information for the audits in the next 3 years and if so what areas?

No

**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

31. Given the uncertainty of the COVID-19 situation and the length of lock-down requirements in place for LA County, will LACERS be willing and be capable to provide such access to necessary information for the audit all electronically if such lock-down requirements remain in place during the audit timeframe?

Yes, LACERS would work with the auditor to electronically provide necessary information needed for the audit.

32. Any significant changes expected to take place that will impact the audit of the financial statements in the next 3 years compared to the prior years?

LACERS does not anticipate any significant changes at this time.

33. Do the current external auditors utilize the work of the internal auditor or rely on the work on the internal audit function to reduce testing in any areas?

Internal audit staff coordinate and facilitate all information requests and assist external auditors by providing institutional knowledge as much as possible. However, the external auditors independently designed their own testing to inform the opinions issued.

34. Does the Fiscal Management Division draft the basic financial statements and footnotes? Or will the auditor assist with this process?

Yes, Fiscal Management Division is responsible for drafting the basic financial statements and footnotes. However, the auditors also assist with this process by suggesting revisions and/or additions, as needed.

35. Have there been any significant changes to LACERS' organization during 2020 that would impact the scope of audit work required?

No

36. Was there a Report on Internal Control or Management Letter of Recommendations issued by the auditor for FY 2019? Were there any material weaknesses or significant deficiencies in internal controls reported for 2019?

See attached Report on Internal Control and SAS 114 Letter

37. On an ongoing basis beyond the FY 2020 audit, would LACERS management be willing to allow interim audit procedures to be performed prior to the 6/30 year end?

No, LACERS would prefer interim audit procedures to start after year end as is currently the practice.

## EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS

38. Given the current environment with the COVID-19 outbreak, and the “shelter rules” that have been mandated in California and elsewhere that restrict access to printers, copying machines, and other office equipment, has LACERS considered modifying the requirement to submit spiral-bound and hard copies of the proposal? Would you be willing to accept electronic copies only?

Yes, all proposers are encouraged to submit proposals electronically.

39. Section III.A.4 of the RFP requests that the audit firm provide 30 copies of all reports in MS Word Format. What is the division of responsibility of reports preparation and production of LACERS and the audit firm?

The audit firm is expected to provide an electronic copy of audited financial statements in MS Word Format, and 30 bound copies of signed audited reports. The hard copies would be distributed to Board Members, other stakeholders, and made available to members of the public in attendance during Board presentation.

40. On the LACERS website both the basic financial statements and the CAFR are posted. Is the audit firm expected to compile and produce the basic financial statement document? Who is responsible for preparing the CAFR? Are both reports issued at the same time?

Auditors provide LACERS with basic FS with previous year and current year’s financial figures. Fiscal Management Division reviews the financial statements and add information related to actuarial valuations, GASB as well as Financial notes. For CAFR, LACERS Fiscal team prepares all. The audit firm is expected to assist by providing suggestions as needed. Audit team need to add additional language in their opinion report for CAFR. Please refer to the Auditor’s report @CAFR.

Financial statements are issued in late November and CAFR is completed usually by the 3rd week of December if not extended.

41. Please provide a list and brief description of all of the information system/applications used by LACERS that are used in financial reporting, including the following:

- a. Developed in-house or acquired by a third party  
See matrix below
- b. Hosted onsite or used as a Software-as-a-Service (SaaS)  
See matrix below
- c. The number of end-users  
See matrix below
- d. The number of super users who act as the first point of contact for end users  
Application support, staff of 3.
- e. (if in-house system) Please provide the current team size supporting the deployed application  
Application support, staff of 3.

**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

APPLICATION	DESCRIPTION	NUMBER OF USERS	VENDOR/HOSTING
Financial Management System (FMS)	Citywide financial management system inclusive of GL, cost accounting, accounts receivable, and account payable.	10	LA City
Microsoft Dynamics GP 2015	Utilized for general ledger and financial reports.	4	Microsoft/Onsite
Northern Trust Treasury PassPort	Management of bank accounts inclusive of ACH and Check payments	8	Northern Trust
PAYSR	City's payroll system.	20	LA City
PensionGold V3	Pension and health benefits, alongside payroll extracts to custodian bank.	90	LRS/Onsite

LACERS will provide additional information on the systems during the audit to the eventual contracted auditor.

42. Does LACERS have a centralized helpdesk to manage financial reporting application?

Yes

43. What IT controls framework is in place at LACERS? Has LACERS-documented IT related risks and controls relevant to its current operation environment? Does LACERS periodically test the IT controls to ensure operating effectively?

Policy related to IT controls are listed below (as adapted from LACERS IT Policy Manual). Controls are periodically tested to ensure operating effectively.

- 2100.00 Information Security Policy
- 2200.00 Passwords Standards Policy
- 2300.00 User Account Management Policy
- 2300.10 Procedures for Granting, Modifying and Deleting User
- 2300.20 Procedures for Review of User Access
- 2400.00 Security Monitoring Policy
- 2400.10 Procedures for Monitoring of Application Security
- 2400.20 Procedures for Escalation of Suspicious Activity
- 2500.00 Physical Security Policy
- 2500.10 Procedures for Granting, Deleting, Modifying Physical Access
- 5100.10 Procedures for Network Security
- 5100.20 Procedures for Monitoring Network Performance Statistics
- 5200.10 Procedures for Database Security
- 5300.00 Hardware & Software Policy
- 5400.20 Procedures for Change Control
- 5400.30 Procedures for Documentation of Application Changes
- 6100.00 Maintenance Policy

In addition, LACERS has adopted and will be implementing the Center for Internet Security (CIS) framework for cybersecurity.



**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

44. Has LACERS displayed or utilized an Identity Access Management?

LACERS leverages the latest version of Microsoft Active Directory for managing user access, roles, and privileges of user accounts on the network.

45. For information system/applications affecting financial reporting, what is the access request/provisioning process (manual/online/automated)?

User access and provisioning is tracked through helpdesk submitted requiring approval from respective managers and system owners. LACERS utilizes Numara Track-It for helpdesk requests providing workflow and notifications to streamline overall request completion.

46. For each in-house system affecting financial reporting, what is the change management process (manual/online/automated)?

All development and changes of in-house applications require development documentation. The application change requests are initiated from users with approval from the manager and owner of the applications. Finally, all changes are fully tested prior to implementation.

47. Does LACERS use electronic workflow for review and approval of transactions (investment transactions, benefit payments, etc.)

Yes

48. Does LACERS use a document management system for members documentation (e.g. participant enrollment, status changes, benefit payments, etc.)

Yes

49. Does LACERS use a document management system for member documentation (e.g. participation enrollment, status changes, benefit payments, etc.)? If so, do the auditors have direct access to this system to look up necessary information for audit purposes?

Yes

50. Section V.A.3. of the RFP asks for one spiral-bound original and 3 hard copies of the proposal. Does LACERS want 3 hard copies of the proposal bound or loose with binder clips?

Given the on-going COVID-19 situation, all proposers are now encouraged to submit their proposals electronically.

51. Section IV.C.7.i of RFP indicates that the investment advisors oversee the direction and reconciliation of the investment activity. How many investment advisors does LACERS contract with to perform this oversight?



**EXTERNAL AUDITOR RFP #4211 – RESPONSE TO QUESTIONS**

LACERS' current advisors are:  
NEPC, LLC - General Fund Consultant  
Townsend Group – Real Estate Consultant  
TorreyCove, LLC – Private Equity Consultant

52. Based on the question above, does LACERS rely on year-end reporting provided from Northern Trust to reconcile and report investment activity and disclosures in the basic financial statements?

Yes, however, LACERS reconciles the Northern Trust year-end data with statements received from managers as well as information gathered by LACERS consultants.

**THE ATTACHED REPORTS RELATE TO THE FOLLOWING QUESTIONS**

- Question #9 – Section 115 Trust Report
- Question #10 & #22 – GASB 68 & GASB 75 Opinion Reports
- Question #36 – Report on Internal Control & Required Communication (SAS 114)

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE MUNICIPALITY OF  
THE CITY OF LOS ANGELES, CALIFORNIA)  
POSTEMPLOYMENT HEALTH CARE FUND (115 TRUST)**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

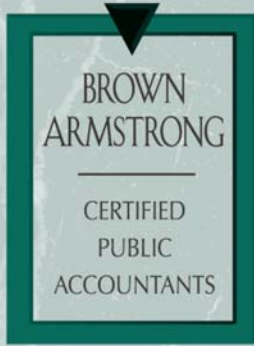
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)  
POSTEMPLOYMENT HEALTH CARE FUND (115 TRUST)**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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BROWN ARMSTRONG  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

Board of Administration  
Los Angeles City Employees' Retirement System  
Los Angeles, California

**Report on the Financial Statements**

We have audited the accompanying Statement of Fiduciary Net Position of the Los Angeles City Employees' Retirement System (LACERS) Postemployment Health Care Fund (115 Trust) as of June 30, 2019, and the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LACERS 115 Trust 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 LACERS 115 Trust'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 opinion.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the 115 Trust of LACERS as of June 30, 2019, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 4, these financial statements present only the 115 Trust, and do not purport to, and do not present fairly the financial position of LACERS, as of June 30, 2019, the changes in its financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the 115 Trust that collectively comprise the 115 Trust's basic financial statements. The Schedule of Administrative Expenses, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Administrative Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used in the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2020, on our consideration of LACERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERS 115 Trust internal control over financial reporting and compliance.

Bakersfield, California  
January 7, 2020

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Management’s Discussion and Analysis

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### Financial Highlights

- On November 9, 2018, Los Angeles City Employees’ Retirement System (LACERS or the System) Postemployment Health Care Fund (115 Trust Fund, 115 Trust or the “Fund”) was established upon City Council approval of Ordinance No. 185829 amending Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code, for the sole purpose of funding the retiree healthcare benefits for eligible LACERS retirees and beneficiaries in addition to or in lieu of the LACERS’ Health Care Coverage Account (the “401(h)”) as well as to help stabilize premium rates over time (refer to Note 1 – Postemployment Health Care Fund (115 Trust) Description on page 9).
- Effective January 1, 2019, LACERS’ fully-insured Delta Dental Preferred Provider Organization (PPO) Plan was replaced with LACERS Self-funded Delta Dental PPO Plan under the LACERS 115 Trust Fund.
- The LACERS 115 Trust fiduciary net position as of June 30, 2019 was \$2,188,937.
- The total additions to the fiduciary net position of the Fund, from Self-funded Dental (“Dental”) insurance premium, Members’ portion of premium reserve, and investment income from the Short-Term Investment were \$6,578,797. These are the only funding sources to the 115 Trust fund for this fiscal year.
- The total deductions from the fiduciary net position of the Fund were \$4,389,860, for the payment of Self-Funded Dental insurance claims and third party fee for the administration of the Dental claims and the Fund’s share in the System’s administrative expenses.

### Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to LACERS’ 115 Trust financial statements and the accompanying notes thereto. The required supplementary information and supplemental schedule provide additional financial data on the Fund’s operations. All notes to the financial Statements, additional information in the Required Supplementary Information and Supplemental Schedule apply to 115 Trust only unless indicated otherwise.

#### Financial Statements

There are two financial statements presented by the LACERS’ Health Care Fund. The Statement of Fiduciary Net Position on page 7 gives a snapshot of the account balances at year-end and shows the amount of the fiduciary net position (the difference between the assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) available to pay future benefits. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the fiduciary net position of the Fund is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on page 8 provides a view of current year additions to, and deductions from, the fiduciary net position.

#### Notes to the Financial Statements

The notes to the financial statements (Notes) provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 - 12 of this report.

#### Required Supplementary Information

In addition to the Management’s Discussion and Analysis, other required supplementary information consists of the Schedule of Investment Return for the Fund. This required supplementary information can be found on page 13 of this report.

## Management's Discussion and Analysis

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### Overview of the Financial Statements (Continued)

#### Supplemental Schedule

The supplemental schedule consists of a Schedule of Administrative Expenses. This is presented to provide additional financial information on the Fund's operations for the current fiscal year. This schedule can be found on page 14 of this report.

#### Financial Analysis

LACERS Postemployment Health Care Fund (115 Trust) was established in this fiscal year, and therefore, comparative information is not available in the foregoing analysis and reports. The 115 Trust is part of LACERS Postemployment Health Care Plan which is composed of the existing 401(h) account and the newly established 115 Trust account. Internally, LACERS accounts each in a separate fund, however, for purposes of the financial statements presentation, these are combined into one and presented in the Postemployment Healthcare Plan of LACERS.

#### Fiduciary Net Position

The following table details the components of the fiduciary net position of the Fund as of June 30, 2019. The majority of the Fund's fiduciary net position consists of cash and short-term investments, and self-funded insurance prepayment.

	<u>June 30, 2019</u>
Cash and Short-Term Investments	<u>\$ 1,801,302</u>
Receivables	
Accrued Investment Income	4,400
Accrued Insurance Premium	<u>307</u>
Total Receivables	<u>4,707</u>
Self-Funded Insurance Prepayment	<u>1,056,000</u>
Total Assets	<u>2,862,009</u>
Accrued Benefit Claims	610,363
Accrued Administrative Expenses	62,589
Accrued Investment Expenses	<u>120</u>
Total Liabilities	<u>673,072</u>
Fiduciary Net Position Restricted for Postemployment Health Care Benefits – 115 Trust	<u>\$ 2,188,937</u>

## Management's Discussion and Analysis

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### Financial Analysis (Continued)

#### Net Increase in Fiduciary Net Position

The increase in fiduciary net position during the reporting period was the net effect of factors that either added to or deducted from the fiduciary net position. The following table summarizes the changes in fiduciary net position during the fiscal year:

	<u>June 30, 2019</u>
Total Additions	\$ 6,578,797
Total Deductions	<u>4,389,860</u>
Net Increase in Fiduciary Net Position	2,188,937
Fiduciary Net Position, Beginning of Year	<u>-</u>
Fiduciary Net Position, End of Year	<u><u>\$ 2,188,937</u></u>

#### Net Increase in Fiduciary Net Position – Additions to Fiduciary Net Position

The additions to the Fund's net position that constitute the funding sources of 115 Trust health benefits are Self-Funded Dental ("Dental") Insurance Premium, Members' Insurance Premium Reserve, and Short-Term Investment Income.

In this fiscal year, the Fund recognized revenue of \$5,034,036 representing monthly dental insurance premium and \$1,056,000 one-time payment received from the existing 401(h) Health Care fund to prepay a reserve for the Dental Plan. Additionally, \$468,153 of Members' portion from the health insurance premium reserve amount was also recognized as revenue (refer to Note 2 – Summary of Significant Accounting Policies, subheading Reserves on page 10).

The following table represents the components that make up the additions to the Fund's fiduciary net position for the fiscal year ended June 30, 2019:

	<u>June 30, 2019</u>
Self-Funded Dental Insurance Premium	\$ 6,090,036
Members Insurance Premium Reserve	468,153
Net Investment Income	<u>20,608</u>
Additions to Fiduciary Net Position	<u><u>\$ 6,578,797</u></u>

#### Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position

The following table provides information related to the deductions from the Fund's fiduciary net position for the fiscal year ended June 30, 2019:

	<u>June 30, 2019</u>
Self-Funded Dental Insurance Claims	\$ 4,018,393
Administrative Expenses	<u>371,467</u>
Deductions from Fiduciary Net Position	<u><u>\$ 4,389,860</u></u>

## **Management's Discussion and Analysis**

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### **Financial Analysis (Continued)**

#### **Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position (Continued)**

The deductions from the Fund's fiduciary net position in this reporting period can be summarized as Self-Funded Dental Insurance Claims, and Administrative Expenses.

In this reporting period, the Fund paid Dental insurance claims of \$4,018,393 representing dental benefit claims paid from January through June 2019.

Administrative expenses included \$364,721 of third party fees charged for the administration of Dental benefit claims and some legal counsel cost for legal advice and guidance needed for the establishment of 115 Trust Fund (refer to Note 1 – Postemployment Health Care Fund (115 Trust) Description on page 9).

### **Requests for Information**

This financial report is designed to provide a general overview of LACERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

LACERS  
Fiscal Management Division  
PO Box 512218  
Los Angeles, CA 90051-0218

**FINANCIAL STATEMENTS**

**Statement of Fiduciary Net Position**  
**Postemployment Health Care Fund (115 Trust)**  
**As of June 30, 2019**

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	<u>2019</u>
<b>Assets</b>	
Cash and Short-Term Investments	\$ 1,801,302
Receivables	
Accrued Investment Income	4,400
Accrued Insurance Premium	<u>307</u>
Total Receivables	<u>4,707</u>
Self-Funded Insurance Prepayment	<u>1,056,000</u>
<b>Total Assets</b>	<u>2,862,009</u>
<b>Liabilities</b>	
Accrued Benefit Claims	610,363
Accrued Administrative Expenses	62,589
Accrued Investment Expenses	<u>120</u>
<b>Total Liabilities</b>	<u>673,072</u>
<b>Fiduciary Net Position Restricted for Postemployment Health Care Benefits - 115 Trust</b>	<u><b>\$ 2,188,937</b></u>

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

**Statement of Changes in Fiduciary Net Position  
Postemployment Health Care Fund (115 Trust)  
For the Fiscal Year Ended June 30, 2019**

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	<u>2019</u>
<b>Additions</b>	
Self-Funded Dental Insurance Premium	\$ 6,090,036
Members Insurance Premium Reserve	468,153
Investment Income	
Interest	21,261
Less: Investment Expenses	(566)
Investment Related Administrative Expenses	<u>(87)</u>
Net Investment Income	<u>20,608</u>
<b>Total Additions</b>	<u>6,578,797</u>
<b>Deductions</b>	
Self-Funded Dental Insurance Claims	4,018,393
Administrative Expenses	<u>371,467</u>
<b>Total Deductions</b>	<u>4,389,860</u>
<b>Net Increase in Fiduciary Net Position</b>	2,188,937
<b>Fiduciary Net Position Restricted for Postemployment Health Care Benefits – 115 Trust</b>	
<b>Beginning of Year</b>	<u>-</u>
<b>End of Year</b>	<u><u>\$ 2,188,937</u></u>

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



## Notes to the Financial Statements

### 1. Postemployment Health Care Fund (115 Trust) Description

The Los Angeles City Employees' Retirement System (LACERS or the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. The Board has seven members. Four members, one of whom shall be a retired Member of the System, shall be appointed by the Mayor subject to the approval of the City Council. Two members shall be active employee Members of the System elected by active employee Members. One shall be a retired Member of the System elected by retired Members of the System. Elected Board members serve five-year terms in office, with no term limits. The System is a Department of the Municipality of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles Annual Financial Report as a pension trust fund.

The System operates a single-employer defined benefit plan (the Retirement Plan) and a single-employer Postemployment Health Care Plan, which consist of a 401(h) fund (the 401(h) account) and a 115 Trust Fund. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor.

#### Establishment of 115 Trust

On November 9, 2018, the City Council approved Ordinance No. 185829 to amend Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code to establish the LACERS Health Care Fund (115 Trust Account) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS' retirees and beneficiaries as well as to help stabilize premium rates over time.

#### 115 Trust Administration

The City and the Board of LACERS entered into a written trust agreement for the LACERS Health Care Fund which shall provide an alternative funding mechanism, in addition to or in lieu of the existing 401(h) account described in LAAC Section 4.1102 for funding benefits under the health and welfare programs. The LACERS Health Care Fund is intended to qualify for federal tax exemption under Section 115 of the Internal Revenue Code. Because health benefits paid out of the LACERS Health Care Fund are not required to be subordinate to the Plan retirement benefits, the LACERS Health Care Fund would not become taxable if the Plan's health benefits surpass the 25% threshold. Second, the LACERS

Health Care Fund gives LACERS more flexibility to invest premium surpluses to provide for smoothing should healthcare premiums increased considerably in the future. Currently, 401(h) account cannot receive full refunds of excess premiums from insurance providers.

#### Plan Administration

LACERS administers, and provides single-employer postemployment healthcare benefits to eligible retirees and their eligible spouses/domestic partners who participate in the Retirement Plan regardless of their membership tiers. These benefits consist of subsidies, which may also apply to the coverage of other eligible dependent(s).

The Plan is currently funded by existing Health Care Coverage Account (the "401(h)") and Health Care Fund (the "115 Trust"). Health care benefit cost (except Self-funded Dental Plan benefits and its administrative cost) shall be paid first from the 401(h) account until it is depleted. Upon depletion of the 401(h), the 115 Trust shall solely fund the health benefit cost.

#### Eligibility Requirement and Benefits Provided

To be eligible for LACERS' postemployment healthcare benefits, a Member must: 1) be at least age 55; 2) have at least 10 whole years of service with LACERS; and 3) be enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

The maximum subsidies are set annually by the Board. Effective February 21, 2016, healthcare benefit eligibility requirements have changed for the Members who have periods of part-time service. Such Members are now eligible to participate in the LACERS retiree medical programs with a 10 whole years of service, even if some or all of that service was part-time, provided that the Member meets the eligibility requirements. Both Tier 1 and Tier 3 Members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and eligible Members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service.

## Notes to the Financial Statements

### 1. Postemployment Health Care Fund (115 Trust) Description (Continued)

#### Eligibility Requirement and Benefits Provided (Continued)

Eligible spouses/domestic partners of Plan Members are entitled to the System's postemployment healthcare benefits after the retired Member's death. During the 2011 fiscal year, the City adopted an ordinance ("Subsidy Cap Ordinance") to limit the maximum medical subsidy at \$1,190 for those Members who retire on or after July 1, 2011; however, Members who at any time prior to retirement made additional contributions are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2019, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). The financial statements are maintained on the accrual basis of accounting. Premiums from the Members and other expenses are recognized when due and payable.

#### Investments

##### Investment Policies

Funds of the System are invested pursuant to the System's investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private equity, and short-term investments.

During this reporting year, the funds of the 115 Trust were separately invested under short-term investment assets in order to maintain enough cash flow to pay out the monthly benefit claims and third party dental claims administrator's fee.

#### Fair Value of Investments

US GAAP requires that assets be reported at fair value in accordance with Accounting Standards Codification Topic 820 – *Fair Value Measurement and Disclosures*. Additionally, the provisions of the GASB Statement No. 72, *Fair Value Measurement and Application*, require investments to be measured at fair value as well as to classify the inputs used to determine fair value based on a three-level fair value hierarchy (refer to Note 3 – Cash and Short-Term Investments and Investments, subheading Fair Value Measurements on page 12).

The 115 Trust Fund's investments as of June 30, 2019 were all in the form of short-term investments assets, and it's reported at fair value.

#### Concentrations

The 115 Trust Fund's investments as of June 30, 2019, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

#### Receivables

As of June 30, 2019, the 115 Trust held no long-term contracts for contributions receivable from the City.

#### Administrative Expenses

All administrative expenses were funded from the 115 Trust fiduciary net position, which represents investment earnings, one-time payment received from 401(h) and premium received from the Dental Plan participating Members net of payments.

#### Reserves

As provided in the Los Angeles City Charter, LACERS fund is maintained on a reserve basis, determined in accordance with recognized actuarial methods. LACERS' established a separate reserve for the 115 Trust under the System's Postemployment Health Care Plan as follows:

115 Trust Account – This new Health Care fund currently pays the benefit claims from LACERS' self-funded Dental Plan, but ultimately will fund all health care benefits for retirees upon depletion of the existing 401(h) account reserves. The 115 Trust account currently consists of self-funded dental plan premiums and prepayments; certain retired Members' health insurance premium deductions; and short-term investment earnings; less payments for the self-funded dental plan claims and for administration fees to the third party contractor who administered the dental plan claims for the System; and certain allocated administrative expenses.

## Notes to the Financial Statements

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### 2. Summary of Significant Accounting Policies (Continued)

#### Reserves (Continued)

The 115 Trust Reserve balance as of June 30, 2019 was \$2,188,937.

#### Estimates

The preparation of the financial statements in conformity with US GAAP 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.

#### Self-funded Delta Dental Plan

Effective January 1, 2019, the LACERS fully-insured Delta Dental PPO Plan was replaced with the LACERS Self-funded Delta Dental PPO Plan under the 115 Trust. Although Delta continues to administer the plan for a fee, LACERS sets and collects premiums from enrolled Members and pays billed claims to Delta. With this arrangement, LACERS bears financial risk if claims costs exceed collected premiums. This change does not affect the maximum dental subsidy amount to the eligible retired Members.

#### Employer Contributions

There was no employer contributions required and received by 115 Trust for the fiscal year ended June 30, 2019.

## Notes to the Financial Statements

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### 3. Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of LACERS funds, and should discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims, as prescribed by Article XI Section 1106(c) of the City Charter.

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2019, for the 115 Trust was \$1,801,302.

#### Fair Value Measurements

LACERS follows GASB Statement No. 72 (GASB 72), *Fair Value Measurements and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements and disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in either a government's principal or the most advantageous market at the measurement date.

The System's investments are measured and reported within the fair value hierarchy established by US GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

#### Schedule of Investments by Fair Value Hierarchy

All 115 Trust funds were invested in the short-term investment assets during this fiscal year, and therefore, GASB 72 requirements are not applicable to the 115 Trust fund.

### 4. Relationship of the 115 Trust Financial Statements to LACERS

These financial statements present only the Postemployment Health Care Fund (115 Trust), and do not purport to, and do not present fairly the financial position of LACERS, as of June 30, 2019, the changes in its financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. The financial statements were reconciled to LACERS' Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position in LACERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019, along with information presented in the Notes to the Basic Financial Statements and the Required Supplementary Information Section (RSI). Included in LACERS' CAFR Note 3 – Postemployment Health Care Plan Description, are disclosures regarding the Plan's Net Other Postemployment Benefit (OPEB) Liability. The Plan's Net OPEB Liability as of June 30, 2019 was approximately \$522,201,000 and the Plan's Fiduciary Net Position as a percentage of the total OPEB liability was 84.3%.

### 5. Subsequent Event

#### Date of Management's Review

The potential for subsequent events was evaluated through January 7, 2020, which was the date of management's review.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Required Supplementary Information**

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**Schedule of Investment Returns  
For the Fiscal Year Ended June 30**

	<u>2019</u>
Annual money-weighted rate of return, net of investment expenses	2.4%

**Note to Schedule:**

The required disclosure about factors that significantly affect trends in the money-weighted rate of return is not provided as only one year's rate is available. As additional years' money-weighted rate of return become available, the factors that significantly affect trends in the rate of return will be disclosed.

**SUPPLEMENTAL SCHEDULE**



## Schedule of Administrative Expenses For the Fiscal Year Ended June 30, 2019

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	2019
Personnel Services:	
Salaries	\$ 431
Employee Benefits and Development	182
Total Personnel Services	613
Professional Services:	
Actuarial	12
Audit	3
Legal Counsel	5,643
Disability Evaluation	8
Retirees' Health Admin Consulting	321
Benefit Payroll Processing	9
Self-Funded Dental Plan Admin Fees	364,721
Other Consulting	5
Total Professional Services	370,722
Information Technology:	
Computer Hardware and Software	24
Computer Maintenance and Support	29
Total Information Technology	53
Leases:	
Office Space	34
Office Equipment	1
Total Leases	35
Other Expenses:	
Fiduciary Insurance	1
Educational and Due Diligence Travel	2
Office Expenses	14
Depreciation and Amortization	27
Total Other Expenses	44
Total Administrative Expenses	\$ 371,467

**LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM  
RETIREMENT PLAN (PLAN)**

**SCHEDULE OF EMPLOYER ALLOCATIONS AND  
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**

**FOR EMPLOYER REPORTING UNDER  
GOVERNMENTAL ACCOUNTING STANDARDS  
BOARD (GASB) STATEMENT NO. 68  
AS OF JUNE 30, 2019  
USING A MEASUREMENT DATE OF JUNE 30, 2018**

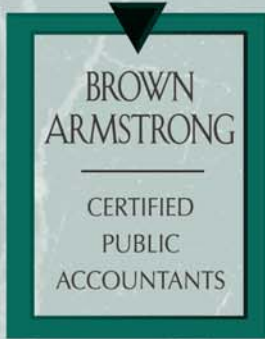
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
RETIREMENT PLAN (PLAN)**

**SCHEDULE OF EMPLOYER ALLOCATIONS AND  
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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Administration of the  
Los Angeles City Employees' Retirement System  
Los Angeles, California

### Report on the Schedules

We have audited the accompanying schedule of employer allocations of the Los Angeles City Employees' Retirement System (LACERS) Retirement Plan (Plan) for the fiscal years ended June 30, 2018 and 2017, and the related notes to the schedule. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified columns totals) included in the accompanying schedule of pension amounts by employer as of and for the fiscal year ended June 30, 2018, and the related notes to the schedule.

### Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 schedules that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LACERS preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer 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 LACERS 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

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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 schedules referred to above present fairly, in all material respects, the employer allocations for the fiscal years ended June 30, 2018 and 2017, and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for LACERS as of and for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of LACERS as of and for the fiscal year ended June 30, 2018, and our report thereon, dated November 27, 2018, expressed an unmodified opinion on those financial statements.

### Restriction on Use

Our report is intended solely for the information and use of LACERS management, the Audit Committee of LACERS, the Board of Administration of LACERS, and Plan sponsors and their auditors and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
July 22, 2019

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
RETIREMENT PLAN (PLAN)**

**SCHEDULE OF EMPLOYER ALLOCATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017**

Employer	Proportionate Shares					
	2018			2017		
	Actual Contributions	Percentage*	Net Pension Liability	Actual Contributions	Percentage*	Net Pension Liability
City	\$ 371,287,189	82.473%	\$ 4,708,641,301	\$ 373,668,441	82.423%	\$ 4,350,001,537
Airports	61,920,522	13.754%	785,272,253	62,111,588	13.700%	723,062,142
Harbor	16,987,543	3.773%	215,434,976	17,576,030	3.877%	204,608,549
Total for all Employers	<u>\$ 450,195,254</u>	<u>100.000%</u>	<u>\$ 5,709,348,530</u>	<u>\$ 453,356,059</u>	<u>100.000%</u>	<u>\$ 5,277,672,228</u>

\* The unrounded percentages are used in the allocation of the Net Pension Liability among employers.

The accompanying notes are an integral part of this schedule.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
RETIREMENT PLAN (PLAN)**

**NOTES TO SCHEDULE OF EMPLOYER ALLOCATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 1 – PLAN DESCRIPTION**

The Los Angeles City Employees' Retirement System (LACERS) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. LACERS is a Department of the Municipality of the City of Los Angeles (the City). LACERS financial statements are included in the City's Annual Financial Report as a pension trust fund. LACERS operates a single-employer defined benefit retirement plan (Plan) that provides for service and disability retirement benefits, as well as death benefits. Changes to the benefit terms require approval by the City Council.

The Plan covers all full-time personnel and department-certified part-time employees of the City, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, elected officials who elected to participate in an alternative Defined Contribution Plan, certain Port Police officers of the Harbor Department, and certain Airport Peace Officers who elected to opt out of the Plan. For the presentation of the detailed allocation, the City has requested to break out three individual entities separately, which are the City, Airports, and Harbor (Employers).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

Basis of Presentation and Basis of Accounting

Employers participating in LACERS Plan are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The Schedule of Employer Allocations along with LACERS audited financial statements, the GASB Statement No. 67 Actuarial Valuation as of June 30, 2018, and the GASB Statement No. 68 Actuarial Valuation Based on June 30, 2018 Measurement Date for Employer Reporting as of June 30, 2019 prepared by LACERS independent actuary, provide the required information for financial reporting related to LACERS that Employers may use in their financial statements.

The accompanying schedule was prepared by LACERS independent actuary and was derived from information provided by LACERS in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations.

LACERS funding policy under Article XI Sections 1158 and 1160 of the City Charter provides for periodic Employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. Upon closing the fiscal year 2017-18, LACERS recalculated Employer contributions using actual payroll incurred during the fiscal year, which was less than projected covered payroll used by the City to make the advanced payment at the beginning of the fiscal year. As a result, the Employers contributions received \$19,980,000 more, and it was credited to the Employers toward employer contributions for fiscal year 2018-19. Based on actual payroll, the effective rate for the Plan was 21.88%. Contributions for the Employers contributing to LACERS are reported on an accrual basis of accounting.

The Schedule of Employer Allocations includes the proportionate shares for each Employer, reflecting a methodology that allocates the Net Pension Liability and Pension Amounts based on each Employer's share of the total Employer contributions among the three Employers. Each Employer's share as of June 30, 2018 and 2017, is determined by the Employer's contributions for the 2017-18 and 2016-17 fiscal years, respectively.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)Use of Estimates in the Preparation of the Schedule

The preparation of this schedule 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 and disclosures during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS**

LACERS policy for contributions states that actuarially determined rates expressed as a percentage of annual covered payroll are required to finance the costs of benefits earned by LACERS Members during the year, with an additional amount to finance any unfunded liability. Employer contributions are reported in the basic financial statements and are the basis for the proportionate share calculation.



**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
RETIREMENT PLAN (PLAN)**

**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Employer	Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
	Net Pension Liability	Changes of Assumptions or Other Inputs	Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	Differences Between Actual and Expected Experience in the Total Pension Liability	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience in the Total Pension Liability	Net Excess of Actual Earnings on Pension Plan Investments	Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
City	\$ 4,708,641,301	\$ 566,558,471	\$ 17,763,839	\$ 96,245,930	\$ 680,568,240	\$ 224,196,897	\$ 107,714,930	\$ 1,285,910	\$ 333,197,737	\$ 517,652,931	\$ 9,134,408	\$ 526,787,339
Airports	785,272,253	94,486,417	4,416,810	16,051,182	114,954,409	37,389,895	17,963,897	9,244,866	64,598,658	86,330,315	(4,717,488)	81,612,827
Harbor	215,434,976	25,921,811	-	4,403,550	30,325,361	10,257,705	4,928,293	11,649,873	26,835,871	23,684,231	(4,416,920)	19,267,311
<b>Total for All Employers</b>	<b>\$ 5,709,348,530</b>	<b>\$ 686,966,699</b>	<b>\$ 22,180,649</b>	<b>\$ 116,700,662</b>	<b>\$ 825,848,010</b>	<b>\$ 271,844,497</b>	<b>\$ 130,607,120</b>	<b>\$ 22,180,649</b>	<b>\$ 424,632,266</b>	<b>\$ 627,667,477</b>	<b>\$ -</b>	<b>\$ 627,667,477</b>

The accompanying notes are an integral part of this schedule.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
RETIREMENT PLAN (PLAN)**

**NOTES TO SCHEDULE OF PENSION AMOUNTS BY EMPLOYER  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

Basis of Presentation and Basis of Accounting

For the presentation of the detailed allocation, the City of Los Angeles (the City) has requested to break out three individual entities separately, which are the City, Airports, and Harbor (Employers). Employers participating in Los Angeles City Employees' Retirement System (LACERS) defined benefit retirement plan (Plan) are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The Schedule of Pension Amounts by Employer, along with LACERS audited financial statements, the GASB Statement No. 67 Actuarial Valuation as of June 30, 2018, and the GASB Statement No. 68 Actuarial Valuation Based on June 30, 2018, Measurement Date for Employer Reporting as of June 30, 2019, prepared by LACERS independent actuary, provide the required information for financial reporting related to LACERS that Employers may use in their financial statements.

The accompanying schedule was prepared by LACERS independent actuary and was derived from information provided by LACERS in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations.

Use of Estimates in the Preparation of the Schedule

The preparation of this schedule 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 and disclosures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – ACTUARIAL ASSUMPTIONS**

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2014, through June 30, 2017. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018, and the Total Pension Liability as of the valuation date of June 30, 2018.

The components of the Plan's Net Pension Liability at June 30, 2018 and 2017, were as follows:

	<u>Fiscal Year Ended June 30, 2018</u>	<u>Fiscal Year Ended June 30, 2017</u>
Total Pension Liability	\$ 19,944,579,058	\$ 18,458,187,953
Plan Fiduciary Net Position	<u>(14,235,230,528)</u>	<u>(13,180,515,725)</u>
Plan's Net Pension Liability	<u>\$ 5,709,348,530</u>	<u>\$ 5,277,672,228</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>71.37%</u>	<u>71.41%</u>

**NOTE 2 – ACTUARIAL ASSUMPTIONS** (Continued)Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

The Total Pension Liabilities for June 30, 2018 and 2017, were determined based on the June 30, 2018 and 2017 actuarial valuations. The following actuarial assumptions were applied to the year ended June 30, 2018 included in the measurement:

**ACTUARIAL VALUATION ASSUMPTIONS**

Valuation Date	June 30, 2018
Investment Rate of Return	7.25%
Projected Salary Increases	Ranges from 3.90% to 10.00% based on years of service, including inflation
Inflation	3.00%
Cost-of-Living Adjustments	Tier 1: 3.00%, Tier 3: 2.00%, actual increases are contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum for Tier 1 and a 2.00% maximum for Tier 3.

Postemployment mortality rates for healthy retirees and beneficiaries were based on the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females) projected generationally with the two-dimensional mortality improvement scale MP-2017. Postemployment mortality rates for disabled retirees were based on the Headcount-Weighted RP-2014 Disabled Retiree Mortality Table (separate tables for males and females) projected generationally with the two-dimensional mortality improvement scale MP-2017.

For pre-retirement mortality, withdrawal rates, disability rates, and service retirement rates, the rates vary by age, gender, and/or service.

Discount Rate

The discount rate used to measure the Total Pension Liabilities was 7.25% as of June 30, 2018, and June 30, 2017. The projection of cash flows used to determine the discount rate assumed that Plan Member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and 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 of current Plan Members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2018 and 2017.

Long-Term Expected Rate of Return by Asset Class

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 subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the table on the following page:

**NOTE 2 – ACTUARIAL ASSUMPTIONS** (Continued)Long-Term Expected Rate of Return by Asset Class (Continued)

<u>Investment Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	14.00%	5.32%
U.S. Small Cap Equity	5.00%	6.07%
Developed International Large Cap Equity	17.00%	6.67%
Developed International Small Cap Equity	3.00%	7.14%
Emerging Market Equity	7.00%	8.87%
Core Bonds	13.75%	1.04%
High Yield Bonds	2.00%	3.09%
Bank Loan	2.00%	3.00%
TIPS	3.50%	0.97%
Emerging Market Debt (External)	4.50%	3.44%
Real Estate	7.00%	4.68%
Cash	1.00%	0.01%
Commodities	1.00%	3.36%
Additional Public Real Assets	1.00%	4.76%
Real Estate Investment Trust (REIT)	0.50%	5.91%
Private Debt	3.75%	5.50%
Private Equity	14.00%	8.97%
<b>Total</b>	<u>100.00%</u>	

Amortization of Deferred Outflows and Deferred Inflows of Resources

The difference between projected and actual investment earnings on pension Plan investments is amortized over 5 years on a straight-line basis. One-fifth was recognized in pension expense during the measurement period, and the remaining difference between projected and actual investment earnings on pension Plan investments at June 30, 2018, is to be amortized over the remaining periods.

The changes in assumptions and differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through LACERS determined as of June 30, 2017, the beginning of the measurement period. For the measurement period ending June 30, 2018, the average is 5.24 years. Prior period changes in assumptions and differences between expected and actual experience are continued to be recognized based on the expected remaining service lives of all employees calculated as of those prior measurement dates.

In addition, the difference between the actual Employer contributions and the proportionate share of the Employer contributions are the same as noted above. The Schedule of Pension Amounts by Employer does not reflect contributions made to LACERS Retirement Plan subsequent to the measurement date as defined in GASB Statement No. 68 paragraphs 54, 55, and 57 and GASB Statement No. 71. Appropriate treatment of such amounts is the responsibility of the Employers.

**NOTE 3 – RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS**

The components of the schedule associated with pension expense and deferred outflows and inflows of resources have been determined based on the net increase in fiduciary net position for LACERS as shown in the LACERS Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2018, and in accordance with requirements promulgated by GASB Statements No. 67 and No. 68. The net pension liability at June 30, 2018, is reported in the Notes to Los Angeles City Employees' Retirement System Basic Financial Statements and Required Supplementary Information following the Notes.

**LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM  
POSTEMPLOYMENT HEALTH CARE (OPEB) PLAN**

**SCHEDULE OF EMPLOYER ALLOCATIONS AND  
SCHEDULE OF OPEB AMOUNTS BY EMPLOYER**

**FOR EMPLOYER REPORTING UNDER  
GOVERNMENTAL ACCOUNTING STANDARDS  
BOARD (GASB) STATEMENT NO. 75  
AS OF JUNE 30, 2019  
USING A MEASUREMENT DATE OF JUNE 30, 2018**

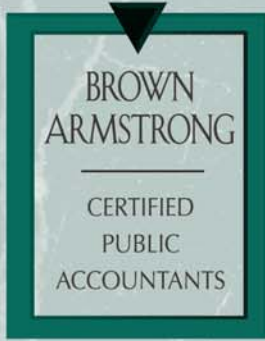
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
POSTEMPLOYMENT HEALTH CARE (OPEB) PLAN**

**SCHEDULE OF EMPLOYER ALLOCATIONS AND  
SCHEDULE OF OPEB AMOUNTS BY EMPLOYER**

**FOR EMPLOYER REPORTING UNDER  
GOVERNMENTAL ACCOUNTING STANDARDS  
BOARD (GASB) STATEMENT NO. 75  
AS OF JUNE 30, 2019  
USING A MEASUREMENT DATE OF JUNE 30, 2018**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Administration of the  
Los Angeles City Employees' Retirement System  
Los Angeles, California

### Report on the Schedules

We have audited the accompanying schedule of employer allocations of the Los Angeles City Employees' Retirement System (LACERS) Postemployment Health Care (OPEB) Plan for the fiscal years ended June 30, 2018 and 2017, and the related notes to the schedule. We have also audited the total for all entities of the columns titled net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified columns totals) included in the accompanying schedule of OPEB amounts by employer as of and for the fiscal year ended June 30, 2018, and the related notes.

### Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 schedules that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LACERS preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer 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 LACERS 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 schedule of employer allocations and specified column totals included in the schedule of OPEB amounts by employer.

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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 schedules referred to above present fairly, in all material respects, the employer allocations for the fiscal years ended June 30, 2018 and 2017, and net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating entities for LACERS as of and for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of LACERS as of and for the fiscal year ended June 30, 2018, and our report thereon, dated November 27, 2018, expressed an unmodified opinion on those financial statements.

### Restriction on Use

Our report is intended solely for the information and use of LACERS management, the Audit Committee of LACERS, the Board of Administration of LACERS, and Plan sponsors and their auditors and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
July 26, 2019



**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
POSTEMPLOYMENT HEALTH CARE (OPEB) PLAN**

**SCHEDULE OF EMPLOYER ALLOCATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017**

Employer	Proportionate Shares					
	2018			2017		
	Actual Contributions	Percentage*	Net OPEB Liability	Actual Contributions	Percentage*	Net OPEB Liability
City	\$ 83,505,493	82.753%	\$ 480,346,441	\$ 80,357,552	82.454%	\$ 467,468,218
Airports	13,616,238	13.494%	78,324,326	13,333,631	13.681%	77,566,434
Harbor	3,787,279	3.753%	21,785,465	3,766,272	3.865%	21,909,732
Total for all Employers	<u>\$ 100,909,010</u>	<u>100.000%</u>	<u>\$ 580,456,232</u>	<u>\$ 97,457,455</u>	<u>100.000%</u>	<u>\$ 566,944,384</u>

\* The unrounded percentages are used in the allocation of the Net OPEB Liability among employers.

The accompanying notes are an integral part of this schedule.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
POSTEMPLOYMENT HEALTH CARE (OPEB) PLAN**

**NOTES TO SCHEDULE OF EMPLOYER ALLOCATIONS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 1 – PLAN DESCRIPTION**

The Los Angeles City Employees' Retirement System (LACERS) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by statute in Article XVI, Section 17 of the California State Constitution and Article XI of the Los Angeles City Charter. LACERS is a Department of the Municipality of the City of Los Angeles (the City). LACERS financial statements are included in the City's Annual Financial Report as a pension trust fund. LACERS operates a single-employer defined benefit plan (the Retirement Plan). LACERS also administers and provides postemployment health care benefits (OPEB) to eligible retirees and their eligible spouses/domestic partners. Changes to the benefit terms require approval by the City Council.

The LACERS OPEB Plan covers all personnel who participate in the Retirement Plan regardless of their membership tiers. Eligibility into the OPEB Plan requires the Member 1) be at least age 55; 2) have at least 10 complete years of service with LACERS; and 3) be enrolled in a System-sponsored medical or dental plan or be a participant in the Medical Premium Reimbursement Program (MPRP). The health care plans available include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. For the presentation of the detailed allocation, the City has requested to break out three individual entities separately, which are the City, Airports, and Harbor (Employers).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

Basis of Presentation and Basis of Accounting

Employers participating in the LACERS OPEB Plan are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an Amendment of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The Schedule of Employer Allocations, along with LACERS audited financial statements, the GASB Statement No. 74 Actuarial Valuation as of June 30, 2018, and the GASB Statement No. 75 Actuarial Valuation Based on June 30, 2018 Measurement Date for Employer Reporting as of June 30, 2019 prepared by LACERS independent actuary, provide the required information for financial reporting related to LACERS that Employers may use in their financial statements.

The accompanying schedule was prepared by LACERS independent actuary and was derived from information provided by LACERS in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations.

LACERS funding policy under Article XI Sections 1158 and 1160 of the City Charter provides for periodic Employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. Upon closing the fiscal year 2017-18, LACERS recalculated the Employer contribution rate using actual payroll incurred during the fiscal year, which was smaller than projected covered payroll used by the City to make the advanced payment on July 15, 2017. As a result, Employer contributions for the OPEB Plan were \$3,766,000 more than required and this amount was returned to the Employer as a credit toward Employer contributions for fiscal year 2018-19. Based on the actual payroll, the effective rate of Employer contributions of OPEB Plan was 4.90%. Contributions for Employers contributing to LACERS are reported on an accrual basis of accounting.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES** (Continued)Basis of Presentation and Basis of Accounting (Continued)

The employer allocation schedule includes the proportionate shares for each Employer, reflecting a methodology that allocates the Net OPEB Liability and OPEB Amounts based on each Employer's share of the total Employer contributions among the three Employers. Each Employer's share as of June 30, 2018 and 2017, is determined by the Employer's contributions for the 2017-18 and 2016-17 fiscal years, respectively.

Use of Estimates in the Preparation of the Schedule

The preparation of this schedule 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 and disclosures during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS**

LACERS policy for contributions states that actuarially determined rates expressed as a percentage of annual covered payroll are required to finance the costs of benefits earned by LACERS Members during the year, with an additional amount to finance any unfunded liability. Employer contributions are reported in the basic financial statements and are the basis for the proportionate share calculation.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
POSTEMPLOYMENT HEALTH CARE (OPEB) PLAN**

**SCHEDULE OF OPEB AMOUNTS BY EMPLOYER  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Employer	Deferred Outflows of Resources					Deferred Inflows of Resources				OPEB Expense		
	Net Postemployment Health Care (OPEB) Liability	Differences Between Actual and Expected Experience	Changes of Assumptions or Other Inputs	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Excess of Actual over Projected Earnings on OPEB Plan Investments	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan OPEB Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total OPEB Expense
City	\$ 480,346,441	\$ 11,180,860	\$ 83,632,947	\$ 2,691,173	\$ 97,504,980	\$ 5,129,505	\$ 143,360,261	\$ -	\$ 148,489,766	\$ 74,101,173	\$ 535,436	\$ 74,636,609
Airports	78,324,326	1,823,129	13,637,020	-	15,460,149	836,407	23,376,036	1,699,864	25,912,307	12,082,789	(338,498)	11,744,291
Harbor	21,785,465	507,092	3,793,060	-	4,300,152	232,642	6,501,912	991,309	7,725,863	3,360,761	(196,938)	3,163,823
<b>Total for All Employers</b>	<b>\$ 580,456,232</b>	<b>\$ 13,511,081</b>	<b>\$ 101,063,027</b>	<b>\$ 2,691,173</b>	<b>\$ 117,265,281</b>	<b>\$ 6,198,554</b>	<b>\$ 173,238,209</b>	<b>\$ 2,691,173</b>	<b>\$ 182,127,936</b>	<b>\$ 89,544,723</b>	<b>\$ -</b>	<b>\$ 89,544,723</b>

The accompanying notes are an integral part of this schedule.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
POSTEMPLOYMENT HEALTH CARE (OPEB) PLAN**

**NOTES TO SCHEDULE OF OPEB AMOUNTS BY EMPLOYER  
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

Basis of Presentation and Basis of Accounting

For the presentation of the detailed allocation, the City of Los Angeles (the City) has requested to break out three individual entities separately, which are the City, Airports, and Harbor (Employers). Employers participating in Los Angeles City Employees' Retirement System (LACERS) Postemployment Health Care (OPEB) Plan are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an Amendment of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The Schedule of OPEB Amounts by Employer, along with LACERS audited financial statements, the GASB Statement No. 74 Actuarial Valuation as of June 30, 2018, and the GASB Statement No. 75 Actuarial Valuation Based on June 30, 2018 Measurement Date for Employer Reporting as of June 30, 2019 prepared by LACERS independent actuary, provide the required information for financial reporting related to LACERS that Employers may use in their financial statements.

The accompanying schedule was prepared by LACERS independent actuary and was derived from information provided by LACERS in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations.

Use of Estimates in the Preparation of the Schedule

The preparation of this schedule 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 and disclosures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – ACTUARIAL ASSUMPTIONS**

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014, through June 30, 2017. However, the investment return and inflation assumptions were changed based on the results of an economic actuarial assumptions study as of June 30, 2018. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018, and the Total OPEB Liability as of the valuation date June 30, 2018.

The components of the Plan's Net OPEB Liability at June 30, 2018 and 2017, were as follows:

	<u>Fiscal Year Ended June 30, 2018</u>	<u>Fiscal Year Ended June 30, 2017</u>
Total OPEB Liability	\$ 3,256,827,847	\$ 3,005,806,234
Plan Fiduciary Net Position	<u>(2,676,371,615)</u>	<u>(2,438,861,850)</u>
Plan's Net OPEB Liability	<u>\$ 580,456,232</u>	<u>\$ 566,944,384</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>82.18%</u>	<u>81.14%</u>

**NOTE 2 – ACTUARIAL ASSUMPTIONS** (Continued)Actuarial Methods and Assumptions Used to Determine Total OPEB Liability (Continued)

The Total OPEB Liability for June 30, 2018, was determined based on the June 30, 2018 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement:

**ACTUARIAL VALUATION ASSUMPTIONS**

Valuation Date	June 30, 2018
Investment Rate of Return	7.25%
Projected Salary Increases	Ranges from 3.90 to 10.00% based on years of service, including inflation
Inflation	3.00%
Cost-of-Living Adjustments	Tier 1: 3.00%, Tier 3: 2.00%, actual increases are contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum for Tier 1 and a 2.00% maximum for Tier 3.
Medical Cost Trend Rates	
Non-Medicare Medical Plan	Graded from 6.87% to ultimate 4.50% over 10 years
Medicare Medical Plan	Graded from 6.37% to ultimate 4.50% over 8 years
Dental and Medicare Part B	4.00%

Postemployment mortality rates for healthy retirees and beneficiaries were based on the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females) projected generationally with two-dimensional mortality improvement scale MP-2017. Postemployment mortality rates for disabled retirees were based on the Headcount-Weighted RP-2014 Disabled Retiree Mortality Table (separate tables for males and females) projected generationally with the two-dimensional mortality improvement scale MP-2017.

For pre-retirement mortality, withdrawal rates, disability rates, and service retirement rates, the rates vary by age, gender, and/or service.

Discount Rate

The discount rate used to measure the Total OPEB Liability as of June 30, 2018 and 2017, was 7.25%. As contributions that are required to be made by the City to amortize the unfunded actuarial accrued liability in the funding valuation are determined on an actuarial basis, the future actuarially determined contributions and current OPEB Plan assets, when projected in accordance with the method prescribed by GASB Statement No. 74, are expected to be sufficient to make all benefit payments to current members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability as of June 30, 2018.

Long-Term Expected Rate of Return by Asset Class

The long-term expected rate of return on OPEB 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 subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the table on the following page:

**NOTE 2 – ACTUARIAL ASSUMPTIONS** (Continued)Long-Term Expected Rate of Return by Asset Class (Continued)

<u>Investment Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term (Arithmetic) Expected Real Rate of Return</u>
U.S. Large Cap Equity	14.00%	5.32%
U.S. Small Cap Equity	5.00%	6.07%
Developed International Large Cap Equity	17.00%	6.67%
Developed International Small Cap Equity	3.00%	7.14%
Emerging Market Equity	7.00%	8.87%
Core Bonds	13.75%	1.04%
High Yield Bonds	2.00%	3.09%
Bank Loan	2.00%	3.00%
TIPS	3.50%	0.97%
Emerging Market Debt (External)	4.50%	3.44%
Real Estate	7.00%	4.68%
Cash	1.00%	0.01%
Commodities	1.00%	3.36%
Additional Public Real Assets	1.00%	4.76%
Real Estate Investment Trust (REIT)	0.50%	5.91%
Private Debt	3.75%	5.50%
Private Equity	14.00%	8.97%
<b>Total</b>	<b>100.00%</b>	

Amortization of Deferred Outflows and Deferred Inflows of Resources

The difference between projected and actual investment earnings on OPEB Plan investments is amortized over 5 years on a straight-line basis beginning with the year in which they occur. One-fifth was recognized in OPEB expense during the measurement period, and the remaining difference between projected and actual investment earnings on OPEB Plan investments at June 30, 2018, is to be amortized over the remaining periods.

The changes in assumptions and differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided with OPEB through LACERS determined as of June 30, 2017, the beginning of the measurement period. For the measurement period ending June 30, 2018, the average is 6.52 years. Prior period changes in assumptions and differences between expected and actual experience are continued to be recognized based on the expected remaining service lives of all employees calculated as of those prior measurement dates.

In addition, the difference between the actual Employer contributions and the proportionate share of the Employer contributions are the same as noted above. The Schedule of OPEB Amounts by Employer does not reflect contributions made to LACERS OPEB Plan subsequent to the measurement date as defined in GASB Statement No. 75. Appropriate treatment of such amounts is the responsibility of the Employers.

**NOTE 3 – RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS**

The components of the schedule associated with OPEB expense and deferred outflows and inflows of resources have been determined based on the net increase in fiduciary net position for LACERS as shown in the LACERS Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2018, and in accordance with requirements promulgated by GASB Statements No. 74 and No. 75. The Net OPEB Liability at June 30, 2018, is reported in the Notes to Los Angeles City Employees' Retirement System Basic Financial Statements and Required Supplementary Information following the Notes.



**LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM  
(A DEPARTMENT OF THE MUNICIPALITY OF  
THE CITY OF LOS ANGELES, CALIFORNIA)**

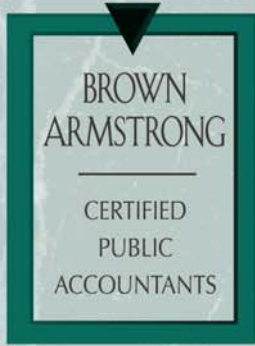
**REPORT TO THE AUDIT COMMITTEE  
AND BOARD OF ADMINISTRATION**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2019**

**LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM  
(A DEPARTMENT OF THE MUNICIPALITY OF  
THE CITY OF LOS ANGELES, CALIFORNIA)**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## **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 Audit Committee and Board of Administration of  
Los Angeles City Employees' Retirement System  
Los Angeles, California

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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, the financial statements of the Los Angeles City Employees' Retirement System (LACERS), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise LACERS' basic financial statements, and have issued our report thereon dated November 25, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered LACERS' 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 LACERS' internal control. Accordingly, we do not express an opinion on the effectiveness of LACERS' 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 LACERS' 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.

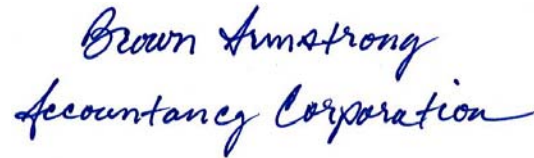
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

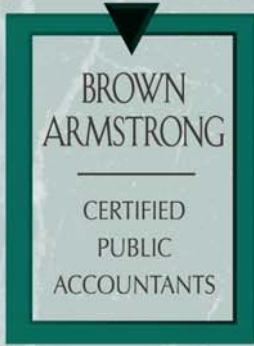
## Purpose of this Report

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 LACERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERS' internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
November 25, 2019



# BROWN ARMSTRONG

*Certified Public Accountants*

## **REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE AND BOARD OF ADMINISTRATION IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)**

To the Audit Committee and Board of Administration of  
Los Angeles City Employees' Retirement System  
Los Angeles, California

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We have audited the financial statements of the Los Angeles City Employees' Retirement System (LACERS) for the fiscal year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our scope of services outline to you dated September 24, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LACERS are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by LACERS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting LACERS' basic financial statements were:

- Management's estimate of the fair value of investments which is derived by various methods as explained in the notes to the basic financial statements. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The recommended rates for employer contributions and net pension and net postemployment healthcare (OPEB) liabilities are based on the actuarial valuations including actuarially-presumed interest rate and assumptions which involve estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future. We evaluated the key factors and assumptions used to develop the employer contribution amounts and net pension and net OPEB liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures for deposits and investments in Note 1 – *Description of LACERS and Significant Accounting Policies* and Note 6 – *Cash and Short-Term Investments and Investments* were derived from LACERS’ investment policy. The estimated fair value of investments was derived by various methods as detailed in the notes to the basic financial statements.
- Additionally, the disclosures related to the net pension and net OPEB liabilities and actuarial methods and assumptions in Note 2 – *Retirement Plan Description* and Note 3 – *Postemployment Health Care Plan Description* were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

The financial statement disclosures are neutral, consistent, and clear.

#### *Audit Management Issues*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Professional standards require us to accumulate all misstatements identified during the audit, if any, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted during our audit.

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the Management Representation Letter dated November 25, 2019.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the LACERS’ financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as LACERS’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### *Other Matters*

We applied certain limited procedures to the Management Discussion and Analysis (MD&A); the Retirement Plan’s Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns; and the Postemployment Health Care Plan’s Schedule of Net OPEB Liability, Schedule of Changes in Net OPEB Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenses and Schedule of Investment Fees and Expenses, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We were not engaged to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

\*\*\*\*\*

This report is intended solely for the information and use of the Audit Committee, Board of Administration, and management of LACERS, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
November 25, 2019