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

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Retirement Plan and Postemployment Healthcare Plan Statement of Plan Net Assets of the Los Angeles City Employees' Retirement System (the System), a department of the City of Los Angeles, California, as of June 30, 2009, and the related Retirement Plan and Postemployment Healthcare Plan Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2008 financial statements and, in our report dated November 25, 2008 we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Net Assets of the Retirement Plan and Postemployment Healthcare Plan of the Los Angeles City Employees' Retirement System as of June 30, 2009, and the Changes in its Net Assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) as listed in the Table of Contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it. The RSI has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
November 19, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal in the Introductory Section of LACERS Comprehensive Annual Financial Report.

Financial Highlights

- The plan net assets of LACERS as of June 30, 2009 were $8,142,988,000.
- Due to the unprecedented global financial and economic crisis, the plan net assets of LACERS as of June 30, 2009 decreased significantly by $2,229,206,000, or 21.5%, during the reporting period.
- The plan assets under the Retirement Plan and Postemployment Healthcare Plan are pooled for investment purposes. Investment loss for the year was $2,110,240,000, as compared with an investment loss of $646,393,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the Retirement Plan and the Postemployment Healthcare Plan were $383,638,000. This amount included annual contribution of $369,677,000, which was 20.17% of the City's estimated covered payroll of $1,832,796,000, Member contribution defrayal of $13,760,000, and City's matching contribution for Family Death Benefit Insurance Plan in the amount of $201,000.
- The employer contributions to the Retirement Plan represented 100% of the Annual Required Contribution as defined by GASB Statements No. 25 and No. 27. The employer contributions to the Postemployment Healthcare Plan represented 100% of the Annual Required Contribution as defined by GASB Statements No. 43 and No. 45.
- Deductions from net assets of LACERS included benefit payments, refunds of Member contributions, and administrative expenses. The total deductions from net assets were $621,196,000, a 5.2% increase from the prior fiscal year.
- As of June 30, 2009, the date of our last actuarial valuation, the funded ratio for the Retirement Plan was 81.6% and the funded ratio for the Postemployment Healthcare Plan was 67.0%. The total funded ratio for LACERS was 79.4%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting investment performance, demographic changes, actuarial assumption/ method changes, benefit structure changes, or a variety of other actuarial gains and losses.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to LACERS financial statements and the accompanying notes thereto. The required supplementary information and supplemental schedules provide additional financial data of LACERS operations.

Financial Statements

There are two financial statements presented by LACERS. The Statement of Plan Net Assets indicates the net assets, being the difference between the assets and liabilities, available to pay future benefits and gives a snapshot of the account balances at year-end. Over time, increases or decreases in net assets may serve as a useful indicator of whether the net assets of LACERS are improving or deteriorating. The Statement of Changes in Plan Net Assets provides a view of current year additions to and deductions from the plan net assets during the most recent fiscal year. The two statements can be found on pages 10 and 11 of this report.

Notes to Financial Statements

The 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 12 – 24 of this report.

Required Supplementary Information

In addition to this Management's Discussion and Analysis, the other required supplementary information consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information for both the Retirement Plan and the Postemployment Healthcare Plan. They primarily present the actuarially-determined information in a multiyear format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 25 – 28 of this report.

Supplemental Schedules

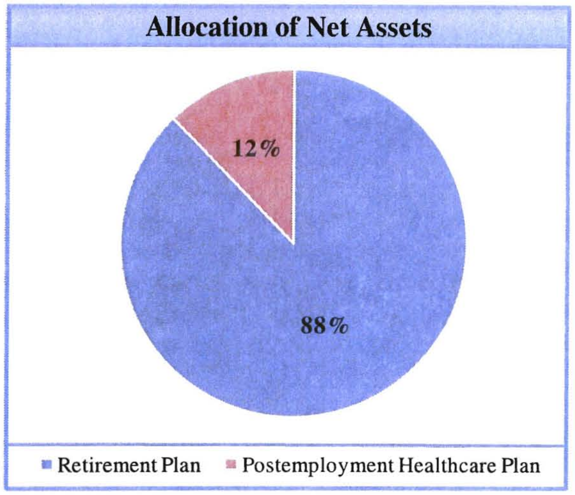
The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS operations for the current year. They can be found on pages 29 and 30 of this report.

Financial Analysis

Allocation of Net Assets

The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Healthcare Plan as of June 30, 2009 (dollars in thousands):

	Net Assets	Percent
Retirement Plan	$ 7,144,582	87.7%
Postemployment Healthcare Plan	998,406	12.3
Net Assets	$ 8,142,988	100.0%



Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were $8,142,988,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the Retirement Plan and Postemployment Healthcare Plan, as required by the existing reporting standards. Net assets for the Retirement Plan and Postemployment Healthcare Plan are $7,144,582,000 and $998,406,000, respectively.

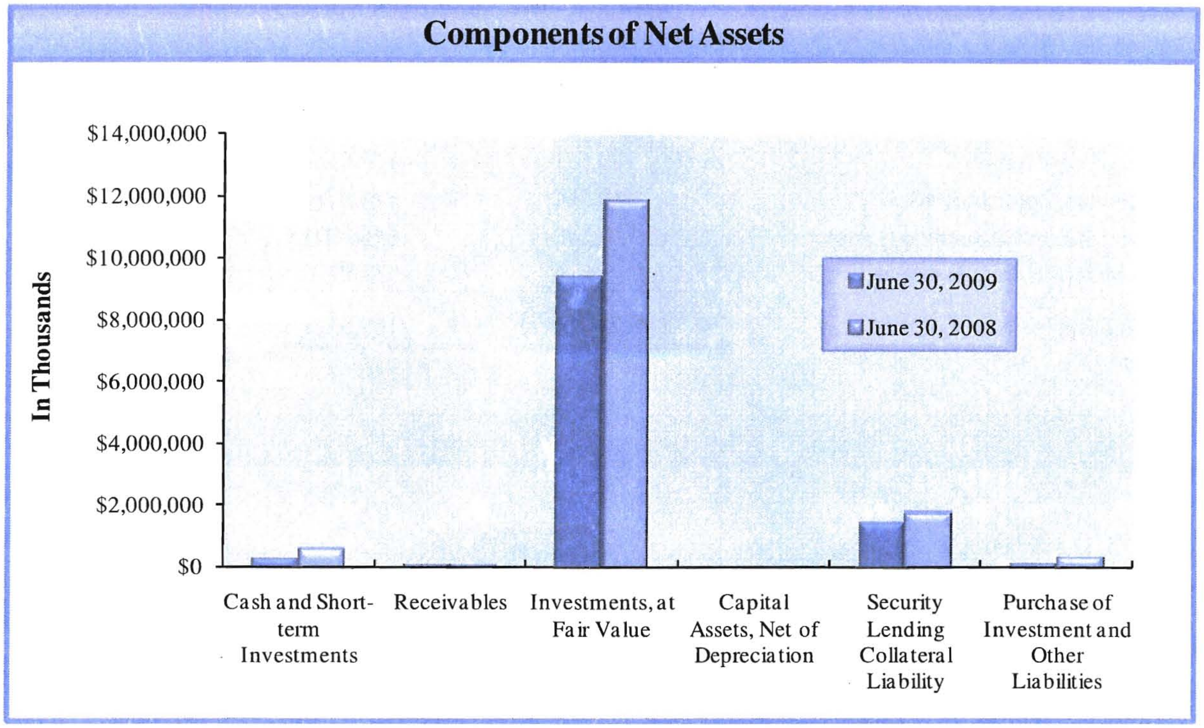
Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2009 and 2008 (dollars in thousands):

	June 30, 2009	June 30, 2008	Change	
Cash and Short-term Investments	$ 317,385	$ 647,797	$ (330,412)	(51.0) %
Receivables	105,864	99,851	6,013	6.0
Investments, at Fair Value	9,354,516	11,826,510	(2,471,994)	(20.9)
Capital Assets, Net of Depreciation	349	386	(37)	(9.6)
Total Assets	9,778,114	12,574,544	(2,796,430)	(22.2)
Security Lending Collateral Liability	(1,447,412)	(1,814,923)	(367,511)	(20.2)
Purchase of Investment and Other Liabilities	(187,714)	(387,427)	(199,713)	(51.5)
Total Liabilities	(1,635,126)	(2,202,350)	(567,224)	(25.8)
Net Assets	$ 8,142,988	$ 10,372,194	$ (2,229,206)	(21.5) %

Financial Analysis (Continued)

Net Assets (Continued)



The majority of LACERS net assets lies in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Net assets decreased by $2,229,206,000, or 21.5%, during the report year. The decrease is primarily caused by the investment loss, including $2,362,887,000 of net depreciation in fair value of investments.

Change in Net Assets

The decrease in net assets during the reporting period was a result of a combination of factors that either add to or deduct from the plan assets. The following table summarizes the change in net assets during the report year, as compared with the prior year (dollars in thousands):

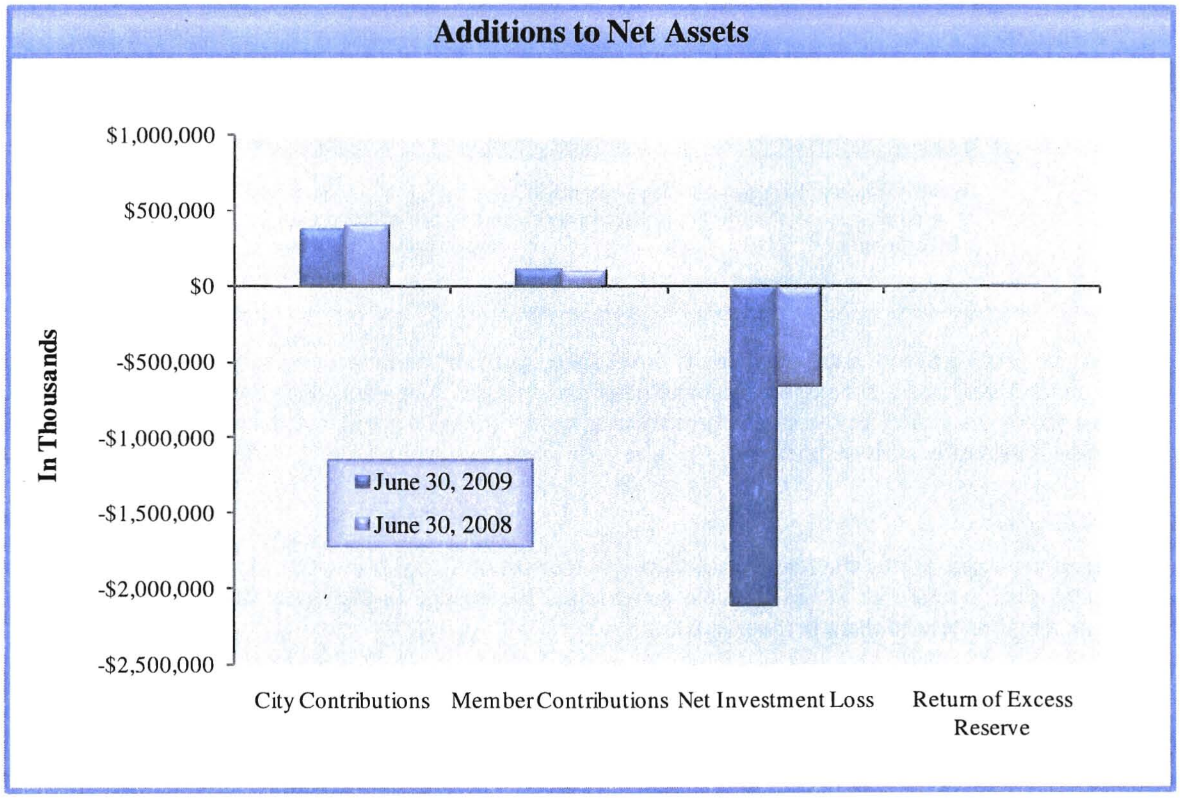
	June 30, 2009	June 30, 2008	Change	
Additions	$ (1,608,010)	$ (109,057)	$ (1,498,953)	1,374.5 %
Deductions	(621,196)	(590,368)	(30,828)	5.2
Net Decrease	(2,229,206)	(699,425)	(1,529,781)	218.7
Net Assets, Beginning of Year	10,372,194	11,071,619	(699,425)	(6.3)
Net Assets, End of Year	$ 8,142,988	$ 10,372,194	$ (2,229,206)	(21.5) %

Financial Analysis (Continued)

Change in Net Assets – Additions to Net Assets

The following table and graph represent the components that make up the additions to net assets for LACERS for the years ended June 30, 2009 and 2008 (dollars in thousands):

	June 30, 2009	June 30, 2008	Change
City Contributions	$ 383,638	$ 411,658	(6.8) %
Member Contributions	118,592	114,678	3.4
Net Investment Income (Loss)	(2,110,240)	(646,393)	226.5
Return of Excess Reserve	-	11,000	N/A
Additions to Net Assets	$ (1,608,010)	$ (109,057)	1,374.5 %



Financial Analysis (Continued)

Change in Net Assets – Additions to Net Assets (Continued)

The "additions" to LACERS net assets include three main items that constitute the funding sources of LACERS benefits: City Contributions, Member Contributions, and Net Investment Income (Loss).

City Contributions to the Retirement Plan, the Postemployment Healthcare Plan and the Family Death Benefit Insurance Plan were $383,638,000 during the year, or $28,020,000 less than the prior fiscal year, due to the decreased contribution rate recommended by the actuary. The City contribution rate was 14.98% for Retirement Plan and 5.19% for the Postemployment Healthcare Plan, or 20.17% in total, of the City payroll for the fiscal year 2008-09, which was $1,832,796,000. The actual contribution to the Retirement Plan was equal to 100% of the Annual Required Contribution (ARC) of $274,555,000 as defined by GASB Statements No. 25 and No. 27. The actual contribution to the Postemployment Healthcare Plan was equal to 100% of the Annual Required Contribution (ARC) of $95,122,000 as defined by GASB Statements No. 43 and No. 45.

Factors that may affect the amount of Member Contributions include the change in number and composition of Members and the change in Member salaries. During the year, Members contributed $118,592,000, which was $3,914,000 (3.4%) more than the prior year. The change was mainly due to the increased average salaries (by 1.7%) and the fact that more Members are contributing at 6% as the age-rated members who contribute at lower rate as a result of City defrayal are phasing out of the workforce.

The net investment loss of $2,110,240,000 caused the Total Additions of the Net Plan Assets in this fiscal year to be a negative $1,608,010,000. It is discussed in the next section with detailed information.

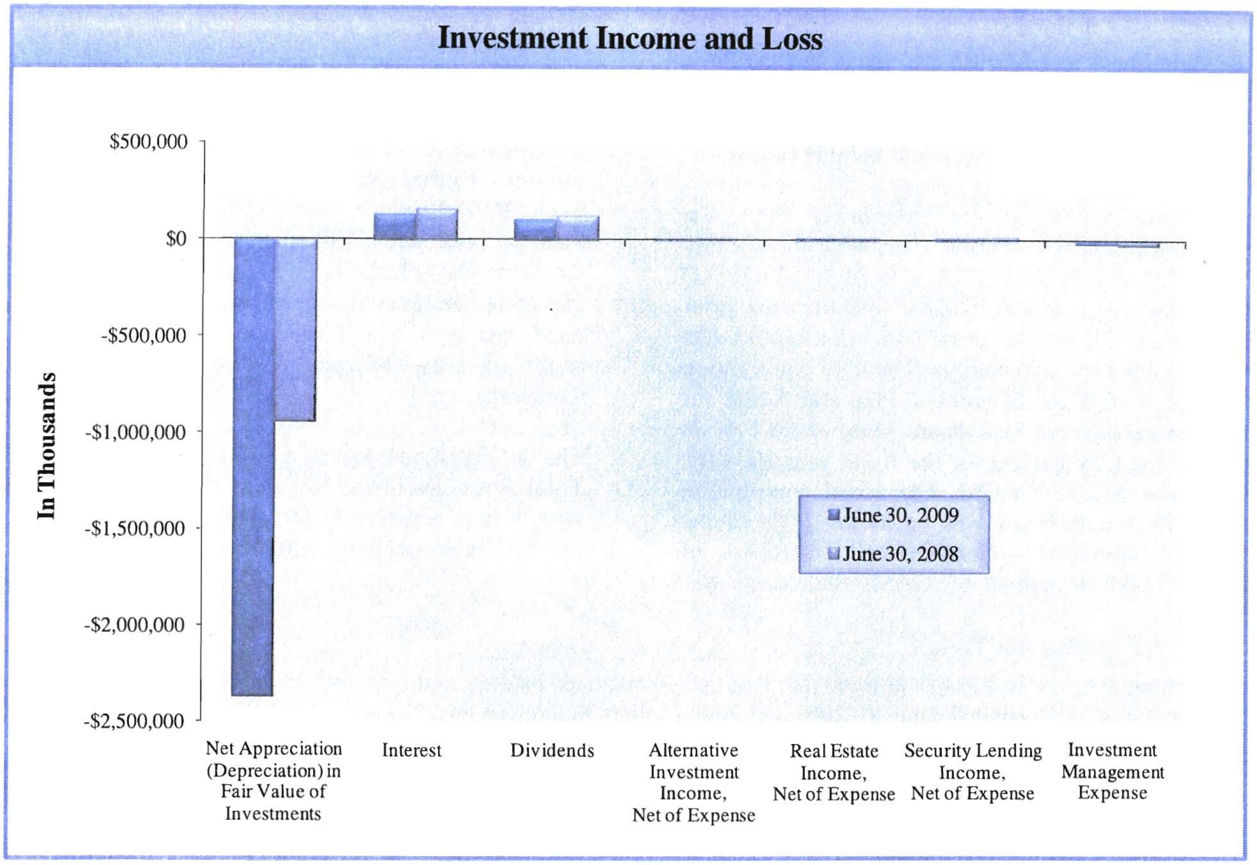
Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2009 and 2008 (dollars in thousands):

	June 30, 2009	June 30, 2008	Change
Net Appreciation (Depreciation) in Fair Value of Investments	$ (2,362,887)	$ (939,839)	151.4 %
Interest	131,394	153,068	(14.2)
Dividends	100,512	120,917	(16.9)
Alternative Investment Income, Net of Expense	8,421	11,642	(27.7)
Real Estate Income, Net of Expense	13,663	14,894	(8.3)
Security Lending Income, Net of Expense	15,660	16,057	(2.5)
Investment Management Expense	(17,003)	(23,132)	(26.5)
Total Investment Income (Loss)	$ (2,110,240)	$ (646,393)	226.5 %

Financial Analysis (Continued)

Investment Income and Loss (Continued)



The net investment loss for the current fiscal year was $2,110,240,000, as compared with the loss of $646,393,000 for the previous fiscal year. This large loss, including both realized and unrealized capital gain and loss, reflects the tremendous impact of the unprecedented global financial and economic crisis, which began with the collapse of the sub-prime mortgage market and then rapidly expanded to the entire financial sector, the entire U.S. economy, and the global economy, during the current fiscal year.

The negative financial market conditions also adversely affected the investment income in the Alternative Investment and Real Estate portfolios; income from these two categories decreased by $3,221,000 (-27.7%) and $1,231,000 (-8.3%), respectively, from the prior fiscal year.

Two major components of LACERS asset allocation are bonds and stocks. Interest and dividend income derived from these two investment classes decreased by $21,674,000 (-14.2%), attributable to the Federal Reserve's adoption of the zero interest rate policy in December by continuously lowering the federal funds rate to "near zero", which effectively suppress the level of general interest rates. Dividend income derived from stocks also decreased by $20,405,000 (-16.9%) due to the lower distributions from the companies as a result of the economic environment.

LACERS earns additional investment income by its custodian bank lending LACERS securities to borrowers. The borrowers provide cash or non-cash collateral to the System's custodial bank, which then invests the cash collateral in short and intermediate term fixed income securities. LACERS security lending income, net of expense, dropped 2.5%, or $397,000 less than it received a year ago, due to depressed level of interest rates and the depreciated value of securities available for lending.

Investment management expense for the current reporting year decreased by $6,129,000 (-26.5%) from the previous year, because of the depreciated market value of assets on which the fees payable to the investment managers were based.

Financial Analysis (Continued)

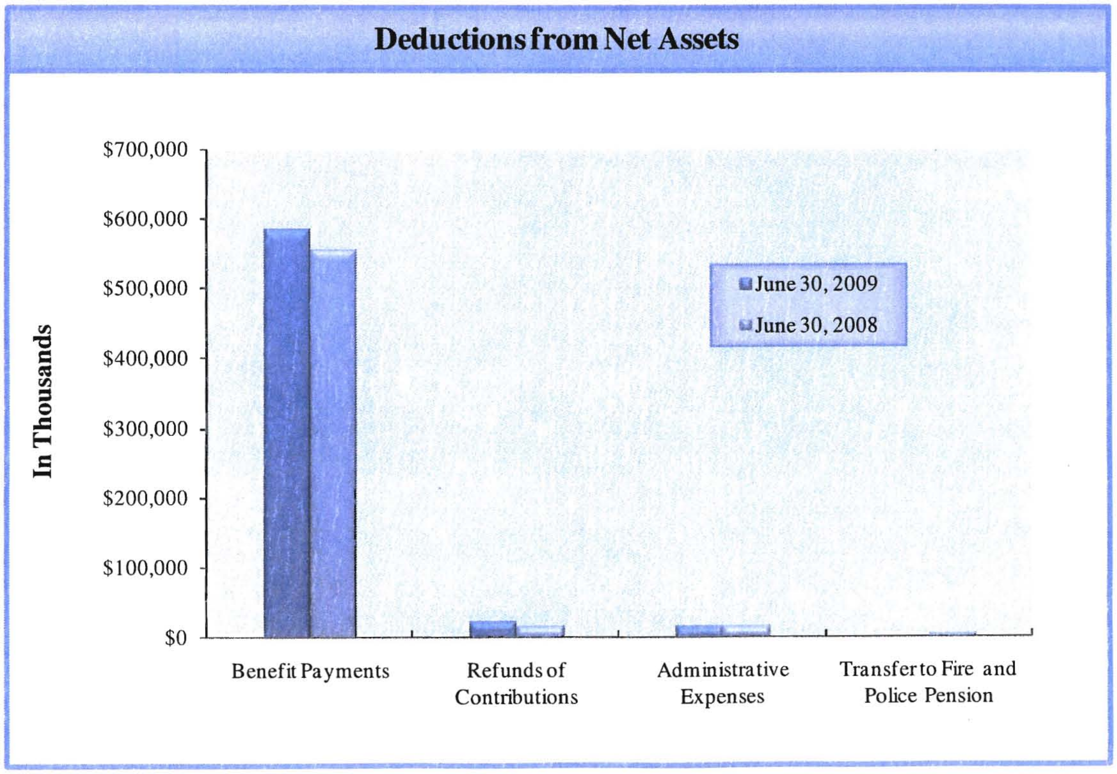
Change in Net Assets – Deductions from Net Assets

The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2009 and 2008 (dollars in thousands):

	June 30, 2009	June 30, 2008	Change
Benefit Payments	$ 584,473	$ 554,645	5.4 %
Refunds of Contributions	21,325	15,149	40.8
Administrative Expenses	15,398	14,354	7.3
Transfer to Fire and Police Pension	-	6,220	N/A
Deductions from Net Assets	$ 621,196	$ 590,368	5.2 %

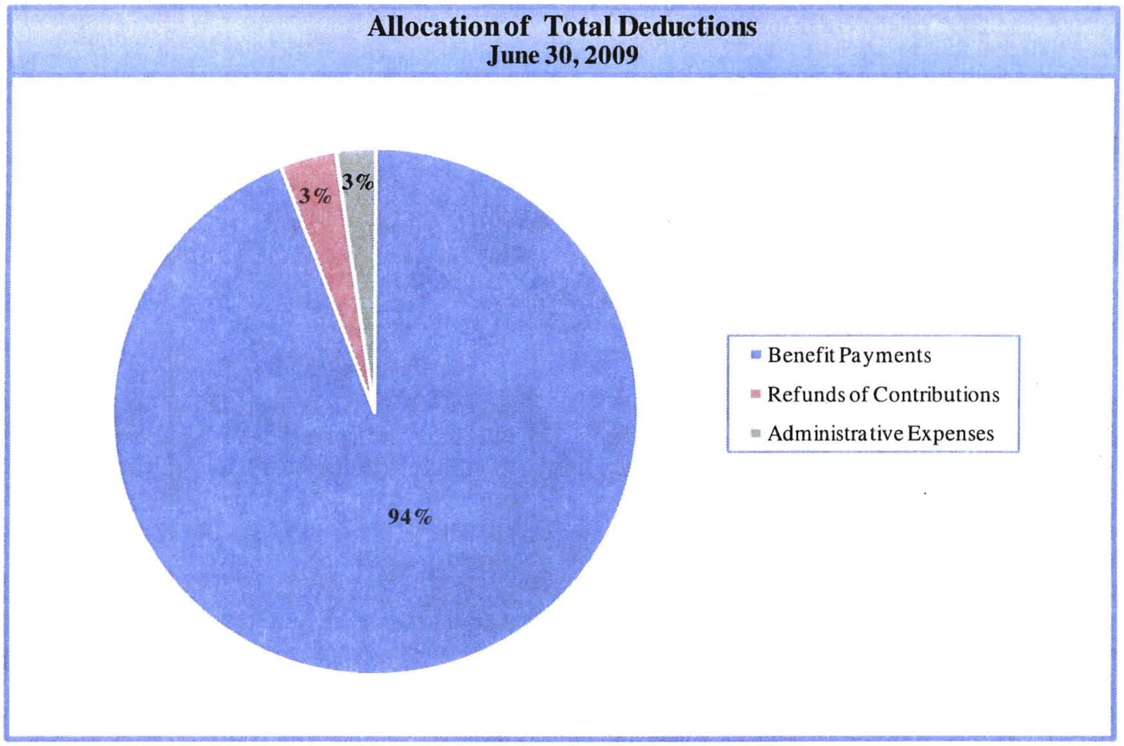
LACERS "deductions" from net assets in the reporting period can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. They represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions increased by $30,828,000 or 5.2%. The benefit payments increased by $29,828,000 or 5.4% compared to the prior year. This increase is due to the increase in number of retirees by 0.1% and increase in the average monthly benefit amount by 3.8%, which includes the annual cost of living adjustment of approximately 3%. The refunds of contributions increased by $6,176,000 or 40.8%. The sharp increase was mainly the result of increased transfer of funds to the Department of Water and Power (DWP) Employees' Retirement Plan, which has a reciprocity program with LACERS. Such transfers, in the amount of $13,050,000, represent 61.1% of total refunds paid during the current reporting year.

Administrative expense increased by $1,044,000 or 7.3% over the prior year. This increase was primarily attributable to the mandated 3% cost of living adjustment granted to most employees, increased spending on legal fees on tax compliance issues, and additional investment in the network infrastructure and computer hardware.



Financial Analysis (Continued)

Change in Net Assets – Deductions from Net Assets (Continued)



Requests for Information

This financial report is designed to provide a general overview of LACERS finances for all those with an interest in 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 Section
360 E. Second Street, 2nd Floor
Los Angeles, CA 90012-4207

AUDITED FINANCIAL STATEMENTS

Statement of Plan Net Assets
Retirement Plan and Postemployment Healthcare Plan
As of June 30, 2009, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	2009 Total	2008 Total
Assets				
Cash and Short-Term Investments	$ 278,471	$ 38,914	$ 317,385	$ 647,797
Receivables				
Accrued Investment Income	32,658	4,563	37,221	37,666
Proceeds from Sales of Investments	52,214	7,297	59,511	52,698
Other	8,012	1,120	9,132	9,487
Total Receivables	92,884	12,980	105,864	99,851
Investments, at Fair Value				
U.S. Government Obligations	197,658	27,621	225,279	239,507
Municipal Bonds	3,449	482	3,931	1,192
Domestic Corporate Bonds	850,982	118,919	969,901	956,621
International Bonds	162,851	22,757	185,608	186,842
Opportunistic Debt	90,575	12,657	103,232	103,207
Domestic Stocks	2,672,041	373,400	3,045,441	3,894,200
International Stocks	1,292,456	180,612	1,473,068	2,189,167
Mortgages	488,595	68,278	556,873	837,061
Government Agencies	56,339	7,873	64,212	97,083
Real Estate	457,196	63,890	521,086	634,985
Venture Capital and Alternative Investments	665,477	92,996	758,473	871,722
Security Lending Collateral	1,269,946	177,466	1,447,412	1,814,923
Total Investments	8,207,565	1,146,951	9,354,516	11,826,510
Capital Assets				
Furniture, Fixtures and Equipment (Net of Depreciation)	306	43	349	386
Total Assets	8,579,226	1,198,888	9,778,114	12,574,544
Liabilities				
Accounts Payable and Accrued Expenses	(23,658)	(3,306)	(26,964)	(25,367)
Purchases of Investments	(141,040)	(19,710)	(160,750)	(362,060)
Security Lending Collateral	(1,269,946)	(177,466)	1,447,412)	(1,814,923)
Total Liabilities	(1,434,644)	(200,482)	(1,635,126)	(2,202,350)
Net Assets Held in Trust for Pension Benefits and Post-employment Healthcare Benefits	**$ 7,144,582**	**$ 998,406**	**$ 8,142,988**	**$ 10,372,194**

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

Statement of Changes in Plan Net Assets
Retirement Plan and Postemployment Healthcare Plan
For the Year Ended June 30, 2009, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	2009 Total	2008 Total
Additions				
Contributions				
City Contributions	$ 288,516	$ 95,122	$ 383,638	$ 411,658
Member Contributions	118,592	-	118,592	114,678
Total Contributions	407,108	95,122	502,230	526,336
Investment Income (Loss)				
Net Depreciation in Fair Value of Investments Including Gain and Loss on Sales	(2,022,395)	(340,492)	(2,362,887)	(939,839)
Interest	114,745	16,649	131,394	153,068
Dividends	87,776	12,736	100,512	120,917
Alternative Investment Income, Net of Expense	7,679	742	8,421	11,642
Real Estate Operating Income, Net of Expense	12,127	1,536	13,663	14,894
Security Lending Income	15,662	2,273	17,935	19,301
Less: Security Lending Expense	(1,947)	(328)	(2,275)	(3,244)
Sub-Total	(1,786,353)	(306,884)	(2,093,237)	(623,261)
Less: Investment Management Expense	(14,553)	(2,450)	(17,003)	(23,132)
Net Investment Income (Loss)	(1,800,906)	(309,334)	(2,110,240)	(646,393)
Return of Excess Reserve	-	-	-	11,000
Total Additions	(1,393,798)	(214,212)	(1,608,010)	(109,057)
Deductions				
Benefits Payments	(510,634)	(73,839)	(584,473)	(554,645)
Refunds of Contributions	(21,325)	-	(21,325)	(15,149)
Administrative Expenses	(12,829)	(2,569)	(15,398)	(14,354)
Transfer to Fire and Police Pension	-	-	-	(6,220)
Total Deductions	(544,788)	(76,408)	(621,196)	(590,368)
Net Decrease	(1,938,586)	(290,620)	(2,229,206)	(699,425)
Net Assets Held in Trust for Pension Benefits and Postemployment Healthcare Benefits Beginning of Year	9,083,168	1,289,026	10,372,194	11,071,619
End of Year	**$ 7,144,582**	**$ 998,406**	**$ 8,142,988**	**$ 10,372,194**

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

Note 1 – Description of the System and Significant Accounting Policies

General Description

The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of its Board of Administration (the Board), whose authority is granted by the Los Angeles City Charter (Article XI). The System is a department 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 Postemployment Healthcare Plan. A description of each plan is located in Note 2 and Note 3. All Notes to the Financial Statements apply to both plans unless indicated otherwise.

Basis of Accounting

The financial statements are maintained on the accrual basis of accounting. Member contributions are recognized as revenues in the period in which compensation is paid to the Member by the employer. Because the employer has made a formal commitment to provide the contributions, employer contributions are recognized when due. Benefits and refunds are recognized when due and payable.

Basis of Presentation

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

The accompanying financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States.

Fair Value of Investments

Funds are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board under Article XI Section 1106(d) of the City Charter. The System's investment portfolios are primarily composed of domestic and international equities, domestic and international bonds, real estate and alternative investment, and short-term investments that include obligations of the U.S. Treasury, agencies, commercial paper rated A-1, bankers' acceptances, repurchase agreements and the short-term investment fund managed in-house by staff.

Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, stocks, and alternative investments are reported at fair value. The fair values of real estate investment funds are provided by the individual real estate fund managers based on periodic appraisals, in the form of either annual in-house appraisals or longer-term appraisals by outside professionals, in accordance with the industry practice. The fair value determined as such is also evaluated by the Board's real estate consultant. The fair value of alternative investment funds is provided by the individual General Partners at a liquidating event or other significant events during the reporting period. The fair value of futures and forward contracts are determined using available market information. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management's investment strategy, as it relates to the debt portfolio, is mainly to achieve market appreciation and not to hold bonds to their maturities.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the Statement of Plan Net Assets under Receivables and labeled as Proceeds from Sales of Investments, and amounts payable for purchases are reported under (current) Liabilities and labeled as Purchases of Investments. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

Concentrations of Market and Credit Risk

The System's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such instruments. The System's concentrations of credit risk and market risk are dictated by the System's investment guidelines. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets.

Note 1 – Description of the System and Significant Accounting Policies (Continued)

Capital Assets

Effective July 1, 2001, purchases of capital assets, consisting primarily of office furniture and computer equipment are capitalized upon acquisition and depreciated over five years. Prior to July 1, 2001, these purchases were recorded and expensed in the year acquired. Depreciation is calculated using the straight-line method.

Administrative Expenses

All administrative expenses are funded from the System's plan net assets, which include the investment earnings and the contributions from the City and the Members.

Reserves

As provided in the Los Angeles City Charter, the System is maintained on a reserve basis, determined in accordance with accepted actuarial methods. The Los Angeles City Charter establishes reserves for the following:

Member Contributions – Active Member contributions to the Retirement Plan and interest credited to Members' accounts, less refunds of Member contributions and transfers to the annuity reserve.

Employer Contributions – Consists of the following components:

Basic Pensions – City contributions and investment earnings (losses), accumulated to provide for the City's guaranteed portion of retirement benefits, less payments to retired Members.

Annuity – Member contributions transferred to the City and used to provide for the Members' share of retirement benefits and investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments, less payments to retired Members.

Larger Annuity – Member's larger annuity account balances at retirement including IRS Section 457 deferred compensation and other rollovers, investment earnings (losses) including net appreciation (depreciation) in fair value of investments, less payments to retired participating Members.

Family Death Benefits – Member contributions, matching City contributions, and investment earnings (losses) excluding net appreciation (depreciation) in fair value of investments reserved to pay benefits under the family death benefits insurance plan established by the System, less payments to beneficiaries.

Postemployment Health Benefits – City contributions and investment earnings (losses) accumulated to provide healthcare benefits for retirees, less payments to insurance providers and/or reimbursements to retired Members.

Reserve balances as of June 30, 2009, are as follows (in thousands):

Member Contributions	$	1,522,438
Basic Pensions		5,171,860
Annuity		428,613
Larger Annuity		9,853
Family Death Benefits		11,818
Postemployment Health Benefits		998,406
Total Reserves	$	8,142,988

Use of Estimates in Preparation of the Financial Statements

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

Recently Issued Accounting Standard

The GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, requires that Intangible Assets that lack physical substance and have an initial useful life extending beyond a single reporting period, be classified as Capital Assets. The System has no assets that fall into this category.

Note 2 – Retirement Plan Description

Plan Description

The Retirement Plan covers all full-time personnel and department-certified part-time employees of the City of Los Angeles, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, elected officials who

Note 2 – Retirement Plan Description (Continued)

Plan Description (Continued)

elected to participate in an alternative Defined Contribution Plan, and certain Port Police officers of the Harbor Department including those who elected to opt out of LACERS Plan.

Eligible employees contribute based on rates delineated in the City's Administrative Code. The City contributes to the Retirement Plan based on rates recommended by an independent actuary and adopted by the Board annually. Contributions are invested and applied to benefit payments along with accumulated investment earnings. The Retirement Plan provides for service and disability retirement benefits, as well as death benefits. Changes to the benefits require approval by the City Council.

At June 30, 2009, the components of the System's membership were as follows:

Active:	20,975
Vested	9,090
Nonvested	30,065
Inactive:	
Nonvested	3,263
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,291
Retired	14,991
Total	49,610

Funding Policies and Funded Status and Progress

The Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2009, the annual required contribution to the Retirement Plan by the City was determined at 14.98% of covered payroll, determined by the June 30, 2007 actuarial valuation. The actual contribution made by the City for fiscal year 2008-09 was equal to the recommended rate as adopted by the Board of Administration, which is the recommended contribution rate set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 6). Members entering subsequent to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contribution and accumulated interest posted to their accounts. Generally after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. If a Member is at least age 70 or with five or more years of service terminates employment, the Member has the option of receiving retirement benefits when eligible or withdrawing from the System, and having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service and compensation.

As of June 30, 2009, the most recent actuarial valuation date, the Plan was 81.6% funded. The actuarial accrued liability for benefits was $11,741,759,000 and the actuarial value of assets was $9,577,747,000, resulting in an unfunded actuarial accrued liability (UAAL) of $2,164,012,000. The covered payroll as of June 30, 2009 valuation was $1,999,862,000. The ratio of UAAL to the covered payroll was 108.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation, and investment returns. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 25 following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 2 – Retirement Plan Description (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and significant assumptions used in the valuation year of June 30, 2009 are summarized in this note to conform to the disclosure requirements for GASB No. 50.

Valuation Date	June 30, 2009
Actuarial-Cost Method	Projected Unit Credit Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years. The amortization period may be adjusted to comply with GASB requirements on maximum amortization period for all layers combined.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 5 years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. The result of such smoothing process shall fall between 50% - 150% of Market Value.
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Includes Inflation at	3.75%
Real Across-the-Board Salary Increase	0.50%
Projected Salary Increases	Ranges from 12.25% to 6.75% for Members with less than 5 years of service. Ranges from 6.50% to 4.75% for Members with 5 or more years of service.
Cost of Living Adjustments	3.00%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back 1 year
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward 7 years
Percent Married / Domestic Partner	76% of male participants; 50% of female participants are assumed to be married.
Spouse Age Difference	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.

Note 3 – Postemployment Healthcare Plan Description

Plan Description

The System provides Postemployment Healthcare benefits to eligible retirees of the Retirement Plan and their spouses/domestic partners. Generally the benefits of this single employer Postemployment Healthcare Plan are available to all employees who 1) participate in the Retirement Plan; 2) have at least 10 years of service with the System; and 3) enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). The retiree or surviving spouse/domestic partner can choose from the health plans that are available, which include medical, vision, caregiver, and dental benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. The retiree or surviving spouse/domestic partner receives medical or dental subsidies based on years of service and the maximum subsidies are set annually by the Board.

Funding Policies and Funded Status and Progress

The Plan's funding policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Healthcare Plan for the fiscal year ended June 30, 2009, was 5.19% of covered payroll, determined by the June 30, 2007 actuarial valuation. As of June 30, 2009, the most recent actuarial valuation date, the Plan was 67.0% funded. The actuarial accrued liability for benefits was $2,003,441,000 and the actuarial value of assets was $1,342,497,000, resulting in an unfunded actuarial accrued liability (UAAL) of $660,944,000. The covered payroll as of June 30, 2009 valuation was $1,999,862,000. The ratio of UAAL to the covered payroll was 33.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 27 following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, funded ratios for years prior to June 30, 2005 were not calculated using the parameters required for GASB No. 43 because the Plan's funding policy excluded active employees with less than 10 years of service.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan Members) and include the types of benefits provided at the time each valuation and historical pattern of sharing of benefit costs between the employer and plan Members to that point. The actuarial methods and assumptions used include techniques such as 5-year smoothing of assets and amortization of UAAL over 15 or 30 years, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations.

Note 3 – Postemployment Healthcare Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2009
Actuarial-Cost Method	Projected Unit Credit Cost Method – assuming a closed group.
Amortization Method	Level Percent of Payroll – assuming a 4.25% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The unfunded layers on June 30, 2005 were combined and amortized over 30 years. The amortization period may be adjusted to comply with GASB requirements on maximum amortization period for all layers combined.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last 5 years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period. The result of such smoothing process shall fall between 50% - 150% of Market Value.
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back 1 year
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward 7 years
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.
Surviving Spouse Coverage	With regard to Members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the Member's death.
Participation	50% of inactive Members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare is assumed to be covered by both Parts A and B.

Note 3 – Postemployment Healthcare Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Health Care Cost Trend Rates

Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium.

Medical Premium Trend Rates to be applied to Fiscal Year 2009-2010 and later years are:

First Fiscal Year (July 1, 2009 through June 30, 2010)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	4.65%	8.82%
Blue Cross HMO	10.23%	N/A
Blue Cross PPO	7.18%	5.18%
Secure Horizons	N/A	10.06%

Fiscal Year 2010 - 2011 and later	
Fiscal Year	Trend (Approx)
2010 - 2011	8.75%
2011 - 2012	8.25%
2012 - 2013	7.75%
2013 - 2014	7.25%
2014 - 2015	6.75%
2015 - 2016	6.25%
2016 - 2017	5.75%
2017 - 2018	5.25%
2018 & later	5.00%

Dental Premium Trend to be applied is 5.00% for all years.

Medicare Part B Premium Trend for the 2009-2010 fiscal year is 0% based on actual increase from 2009 to 2010 calendar year. 5.00% assumed for the calendar years following 2010 calendar year.

Note 4 – Contributions Required and Contributions Made

The System currently uses the projected unit credit cost method to determine the required annual contribution amount for the Retirement Plan and the Postemployment Healthcare Plan. The required annual contribution amount is composed of two components, (1) normal cost, which is the cost of the portion of the benefit that is allocated to a given year, and (2) the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS actuarial liabilities and actuarial assets.

For the valuation as of June 30, 2009, the components of the UAAL are amortized as a level percent of pay. Based on the System's amortization policy, increases or decreases in the UAAL due to plan or assumption changes are amortized over 30 years. Experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period for all layers combined. The amortization periods are "closed" as the amounts calculated annually are amortized over either a 15- or 30-year period.

The contributions to the System for the year ended June 30, 2009, of approximately $502,230,000 ($407,108,000 for the Retirement Plan and $95,122,000 for the Postemployment Healthcare Plan), were made in accordance with actuarially-determined requirements computed through the actuarial valuation dated June 30, 2007.

Contributions to the System consisted of the following for the year ended June 30, 2009 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
City Contributions:		
Required Contribution	$ 274,555	$ 95,122
Defrayal Portion of Member Contributions	13,760	-
Family Death Benefits Insurance Plan	201	-
Total City Contributions	288,516	95,122
Member Contributions	118,592	-
Total Contributions	$ 407,108	$ 95,122

The amount of the contributions made for the Retirement Plan under the Required Contribution category ($274,555,000) were equal to 100% of the Annual Required Contributions (ARC) of the employer as defined by GASB Statements No. 25 and No. 27. The contributions made for the Postemployment Healthcare Plan, in the amount of $95,122,000, represents 100% of the ARC as defined by GASB No. 43 and No. 45.

Note 5 – Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 25 through 26 for the Retirement Plan and pages 27 through 28 for the Postemployment Healthcare Plan.

Note 6 – Defrayal Portion of Member Contributions-Retirement Plan

For Members who entered the System prior to February 1983, the City subsidizes a portion of Member contributions. Payments made by the City based on the subsidy are not refundable to Members upon their withdrawal from the System prior to retirement.

The subsidized amount paid by the City for the current fiscal year was $13,760,000, which is approximately 4.8% of total City contributions paid for the Retirement Plan for the year ended June 30, 2009.

Note 7 – Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of the System's funds 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.

The System considers investments purchased with maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2009, on the Retirement Plan and Postemployment Healthcare Plan Statement of Plan Net Assets includes approximately

Note 7 – Cash and Short-Term Investments and Investments (Continued)

$1,033,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $316,352,000 for a total of $317,385,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. At June 30, 2009, short-term investments included collective STIF of $106,642,000, international STIF of $165,426,000 and future initial margin of $44,284,000.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2009 are as follows (dollars in thousands):

Quality Ratings	Fair Value	Percentage
AAA	$ 626,612	33.75 %
AA	57,555	3.10
A	282,904	15.24
BBB	459,176	24.74
BB	121,736	6.56
B	94,186	5.07
CCC	29,278	1.58
CC	1,384	0.07
C	988	0.05
Not Rated	182,584	9.84
	1,856,403	100.00 %
U.S. Government Guaranteed Securities *	252,633	
Total Fixed Income Securities	$ 2,109,036	

* Consists of U.S. Government Bonds and GNMA Mortgage-Backed Securities which had the AAA rating.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, the System would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2009, the System has exposure to such risk in the amount of $8,228,000, or 0.46% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 13 different investment managers, and held outside of the System's custodial bank. The System's policy requires each individual publicly traded equities investment managers to hold no more than 10% of their portfolios in the form of cash. The plan is in compliance with the policy.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not insured, or are not registered in the System's name, and held by the counterparty. The System's investments are not exposed to custodial credit risk if they are insured or registered in the System's name. The System's investments were not exposed to custodial credit risk because all securities were held by the System's custodial bank in the System's name.

Concentration of Credit Risk

The investment portfolio as of June 30, 2009 contained no concentration of investments in any one entity that represented 5 percent or more of the total investment portfolio.

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways the System manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the Lehman U.S. Universal Bond Index, the Lehman Intermediate Government Credit Index, or the Lehman Aggregate Bond Index, depending on the Board's mandates. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is provided by the following table that shows the weighted average effective duration of the System's fixed income securities by investment type (dollars in thousands):

Investment Type	Amount	Weighted Average Duration (in Years)
Asset Backed Securities	$ 42,021	1.29
Commercial Mortgage-Backed Securities	86,767	4.66
Corporate Bonds	1,025,664	6.41
Government Agencies	69,525	4.53
Government Bonds	161,631	6.08
Government Mortgage-Backed Securities	470,106	3.29
Guaranteed Fixed Income	4,071	2.78
Index Linked Government Bonds	89,090	4.86
Municipal/Provincial Bonds	8,040	6.31
Non-Government Backed C.M.O.s	48,889	2.06
Opportunistic Debt*	103,232	2.15
Total Fixed Income Securities	$ 2,109,036	

* Data for several securities in this category was not available to report the effective duration. The modified duration and average duration were used instead.

Highly Sensitive Investments

Highly Sensitive Investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. Terms include such information as embedded options, coupon multipliers, benchmark indexes, and reset dates. The System's asset-backed investments have embedded prepayment options that will typically cause prepayments by the obligees of the underlying investments when interest rates fall. Prepayments eliminate the stream of future interest payments and, therefore, diminish the fair value of the asset-backed investment. The following table shows the fair value of the System's asset-backed investments by investment type (in thousands):

Investment Type	Amount
Asset Backed Securities	$ 42,021
Commercial Mortgage-Backed Securities	86,767
Government Agencies	69,525
Government Mortgage-Backed Securities	470,106
Non-Government Backed C.M.O.s	48,889
Total Asset-Backed Investments	$ 717,308

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 20% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and alternative investment managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts and currency futures are permitted primarily to reduce the foreign currency risk (refer to Note 9 - Futures and Forwards Contracts).

Note 7 – Cash and Short-Term Investments and Investments (Continued)

Foreign Currency Risk (Continued)

The System's non-U.S. currency investment holdings as of June 30, 2009, which represents 16.4% of fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Other Investments	Total Fair Value (in US $)
Argentine peso	$ 70	$ -	$ -	$ -	$ 70
Australian dollar	3,020	73,021	4,109	-	80,150
Brazilian real	(205)	14,363	1	-	14,159
British pound sterling	(5,288)	179,647	-	31,233	205,592
Canadian dollar	324	31,154	6,932	-	38,410
Czech koruna	10	-	-	-	10
Danish krone	80	9,324	-	-	9,404
Egyptian pound	10	715	-	-	725
Euro	34,771	320,830	-	67,093	422,694
Hong Kong dollar	1,367	109,823	-	-	111,190
Hungarian forint	15	1,382	-	-	1,397
Indian rupee	(41)	16,792	-	-	16,751
Indonesian rupiah	235	6,978	-	-	7,213
Japanese yen	2,448	252,815	-	35,839	291,102
Malaysian ringgit	154	10,325	-	-	10,479
Mexican peso	425	4,154	10,237	-	14,816
New Israeli shekel	13	1,778	-	-	1,791
New Taiwan dollar	2,090	39,945	-	-	42,035
New Zealand dollar	108	497	-	-	605
Norwegian krone	(63)	10,713	-	-	10,650
Philippine peso	211	10,399	-	-	10,610
Polish zloty	14	1,044	-	-	1,058
Singapore dollar	(14,907)	31,050	17,388	-	33,531
South African rand	166	20,385	-	-	20,551
South Korean won	222	53,239	-	-	53,461
Swedish krona	1,808	11,165	-	-	12,973
Swiss franc	(3,087)	90,966	-	-	87,879
Thai baht	255	25,944	-	-	26,199
Turkish lira	15	5,564	-	-	5,579
Total Investments Held in Foreign Currency	$ 24,240	$ 1,334,012	$ 38,667	$ 134,165	$ 1,531,084

Note 8 – Securities Lending Agreement

The System has entered into various short-term arrangements with its custodian under Article XXXIV Section 504 of the City Charter, whereby securities are lent to various brokers. The custodian determines which lenders' accounts to lend securities from by using an impartial sequential system that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro rata among all lenders.

Note 8 – Securities Lending Agreement (Continued)

Minimum collateralization is 102% of fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government securities, and irrevocable bank letters of credit. Cash collateral may be invested separately or pooled in a separate fund for investing in money market or cash equivalent investments.

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

These agreements provide for the return of the securities and revenue determined by the type of collateral received. The cash collateral values of securities on loan to brokers are shown at their fair value on the statement of plan net assets.

As of June 30, 2009, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceed the amounts the borrowers owed the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent. Due to the nature of the securities lending program and Northern Trust's collateralization of loans at 102% and 105% plus accrued interest for fixed income securities, it was previously believed that there were no material credit risks to the System as defined in GASB Statement No. 28 and GASB Statement No. 40 by our participation in the securities lending program. However, with the short-term illiquid and volatile environment for fixed income markets, we believe that there is more risk in the credit quality of the collateral pool than previously anticipated. Reduced demand in securities lending given recent brokerage firm failures is an indication of the overall increasing risks associated with securities lending.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in a collateral account consisting of short and intermediate term investments. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30, 2009 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2009:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 381,380	$ -	$ 381,380
Domestic Corporate Fixed Income Securities	56,808	-	56,808
International Fixed Income Securities	4,298	2,683	6,981
Domestic Stocks	899,054	-	899,054
International Stocks	105,872	101,859	207,731
	$1,447,412	$ 104,542	$1,551,954

Fair value of loaned securities as of June 30, 2009:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 372,555	$ -	$ 372,555
Domestic Corporate Fixed Income Securities	55,343	-	55,343
International Fixed Income Securities	4,102	2,629	6,731
Domestic Stocks	871,141	-	871,141
International Stocks	99,907	94,432	194,339
	$1,403,048	$ 97,061	$1,500,109

As of June 30, 2009, the fair value of the lent securities was $1,500,109,000. The fair value of associated collateral was $1,551,954,000. Of this amount, $1,447,412,000 represents the fair value of cash collateral and $104,542,000 represents the fair value of the non-cash collateral. Non-cash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were $17,935,000 and $2,275,000, respectively, for the year ended June 30, 2009.

Note 9 – Futures and Forward Contracts

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures contracts are used to provide equity exposure for un-invested cash, and forward contracts are used to hedge against fluctuation in foreign currency-denominated assets primarily in trade settlements. Futures and forward contracts are marked to market and are recorded in the Statement of Plan Net Assets at fair value. Futures contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

At June 30, 2009, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $7,766,000. In addition, at June 30, 2009, the System had outstanding forward purchase commitments with a notional amount of $45,081,000 and offsetting forward sales commitments with notional amounts of $45,081,000, which expire through September 2009. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $44,284,000 as of June 30, 2009.

The realized loss on foreign currency translation was $25,073,000 for the year ended June 30, 2009.

Note 10 – Commitments and Contingencies

At June 30, 2009, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $895,677,000.

Note 11 – Subsequent Events

Events or transactions that occur subsequent to the balance sheet date, but prior to the issuance of the financial statements that have a potential material effect on the financial statements require adjustments or disclosure in the statements. The following is a disclosure of a condition, which influenced the System that did not exist as of June 30, 2009, but arose subsequent to that date.

Early Retirement Incentive Program

To reduce ongoing payroll costs, on November 2, 2009, a City Ordinance became effective which offers an Early Retirement Incentive Program (ERIP) that enhances retirement benefits to active members who meet certain eligibility requirements. A revised actuarial valuation will be performed by LACERS consulting actuary in early 2010 to include the additional Unfunded Actuarial Accrued Liabilities (UAAL) associated with the ERIP, after all participants of the ERIP are identified. The contents of this report do not reflect the impact of the ERIP.

REQUIRED SUPPLEMENTARY INFORMATION

(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded or (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2004	$ 7,042,108	$ 8,533,864	$ 1,491,756	82.5 %	$ 1,575,285	94.7 %
June 30, 2005	7,193,142	9,321,525	2,128,383	77.2	1,589,305	133.9
June 30, 2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7
June 30, 2007	8,599,700	10,526,874	1,927,174	81.7	1,896,609	101.6
June 30, 2008	9,438,318	11,186,404	1,748,086	84.4	1,977,645	88.4
June 30, 2009	9,577,747	11,741,759	2,164,012	81.6	1,999,862	108.2

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	$ 159,083	63 %
2005	183,241	86
2006	227,741	100
2007	277,517	100
2008	288,119	100
2009	274,555	100

Note 1 – Description

The historical trend information about the System is presented as required supplementary information. The information is intended to help users assess the funding status of the Plan on a going-concern basis and to assess progress made in accumulating assets by paying benefits when due.

Note 2 – Significant Factors Affecting Trend in Actuarial Information and Employer Contributions

To proactively manage the flow of contributions from the City such that the large impact resulting from the System's significant investment loss during the reporting period can be mitigated, the Board adopted a revised asset smoothing policy, which maintained spreading the investment gain or loss over 5 years but expanded the market corridor from 80% - 120% to 50% - 150% of the market value of assets, in determining the actuarial value of assets. According to the actuary's projection, the City contribution rates will be lower in the next two years than they would have been under the prior policy.

Due to asset smoothing, which dampens the effect of market volatility and results in less fluctuation in the funding requirements, there is a combined unrecognized investment loss in the amount of $2,806,395,000 as of June 30, 2009 for the retirement and health benefits. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. This implies that earning the assumed rate of investment return of 8% per year (net of expenses) on a market value basis will result in investment losses on the actuarial value of assets in the next few years. Therefore, the contribution requirements would increase in the next few years even if the actual market return is equal to the assumed 8% rate and all other actuarial assumptions are met.

(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded or (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2004	$ 858,997	$ 1,419,813	$ 560,816	60.5 %	$ 1,575,285	35.6 %
June 30, 2005	893,378	1,718,899	825,521	52.0	1,589,305	51.9
June 30, 2006	990,270	1,730,799	740,529	57.2	1,733,340	42.7
June 30, 2007	1,185,544	1,730,400	544,856	68.5	1,896,609	28.7
June 30, 2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
June 30, 2009	1,342,497	2,003,441	660,944	67.0	1,999,862	33.1

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	$ 20,144	100 %
2005	53,190	100
2006	76,116	100
2007	115,233	100
2008	108,848	100
2009	95,122	100

Note 1 – Description

The historical trend information about the System is presented as required supplementary information. The information is intended to help users assess the funding status of the Plan on a going-concern basis and to assess progress made in accumulating assets by paying benefits when due. As the Board decided to comply with the requirements in GASB No. 43 and No. 45 for the actuarial valuation of the Postemployment Healthcare Plan as of June 30, 2005, the funded ratios for years prior to June 30, 2005 were not calculated using the parameters required by GASB No. 43 and No. 45 because the plan's funding policy excluded active employees with less than 10 years of service. Similarly, the annual required contribution (ARC) for fiscal year ended June 30, 2006 was determined in the June 30, 2004 valuation and it was not calculated using the parameters required by GASB No. 43 and No. 45.

Note 2 – Significant Factors Affecting Trend in Actuarial Information and Employer Contributions

To proactively manage the flow of contributions from the City such that the large impact resulting from the System's significant investment loss during the reporting period can be mitigated, the Board adopted a revised asset smoothing policy, which maintained spreading the investment gain or loss over 5 years but expanded the market corridor from 80% - 120% to 50% - 150% of the market value of assets, in determining the actuarial value of assets. According to the actuary's projection, the City contribution rates will be lower in the next two years than they would have been under the prior policy.

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SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2009
(In Thousands)

	Retirement Plan	Postemployment Healthcare Plan	Total
Personnel Services:			
Staff Salaries	$ 8,260	$ 1,390	$ 9,650
Staff Benefits	1,188	200	1,388
Total Personnel Services	9,448	1,590	11,038
Professional Services:			
Actuarial	204	34	238
Data Processing	803	135	938
Audit	91	15	106
Retirees' Health Consulting	-	409	409
Legal Counsel	616	104	720
Medical for Temporary Disability	61	11	72
Total Professional Services	1,775	708	2,483
Communication:			
Printing	72	12	84
Telephone	11	2	13
Postage	237	40	277
Member Outreach Program	4	1	5
Travel	68	12	80
Total Communication	392	67	459
Rentals:			
Office Space	1,042	176	1,218
Equipment Leasing	38	6	44
Total Rentals	1,080	182	1,262
Miscellaneous:			
Office	34	5	39
Depreciation	100	17	117
Total Miscellaneous	134	22	156
	$ 12,829	$ 2,569	$ 15,398

Schedule of Investment Expenses
For the Year Ended June 30, 2009
(In Thousands)

		Assets Under Management		Fees
Retirement Plan				
Investment Management Expense:				
Fixed Income Managers	$	1,850,449	$	3,312
Equity Managers		3,964,497		9,696
Subtotal Investment Management Expense		5,814,946		13,008
Other Investment Expense:				
Alternative Investments Consulting Fee		-		1,014
Real Estate and Other Consulting Fee		-		531
Subtotal Other Investment Expense		-		1,545
Postemployment Healthcare Plan				
Investment Management Expense:				
Fixed Income Managers		258,587		558
Equity Managers		554,012		1,632
Subtotal Investment Managerment Expense		812,599		2,190
Other Investment Expense:				
Alternative Investments Consulting Fee		-		171
Real Estate and Other Consulting Fee		-		89
Subtotal Other Investment Expense		-		260
Total Investment Management Expense and Other Investment Expense, Excluding Alternative Investments, Real Estate and Securities Lending	$	6,627,545	$	17,003
Alternative Investments Managers' Fees:				
Retirement Plan	$	665,477	$	15,972
Postemployment Healthcare Plan		92,996		2,689
Total Alternative Investments Managers' Fees	$	758,473	$	18,661
Real Estate Managers' Fees:				
Retirement Plan	$	457,196	$	9,615
Postemployment Healthcare Plan		63,890		1,619
Total Real Estate Managers' Fees	$	521,086	$	11,234
Security Lending Fees:				
Retirement Plan	$	1,269,946	$	1,948
Postemployment Healthcare Plan		177,466		327
Total Security Lending Fees	$	1,447,412	$	2,275

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Los Angeles City Employees Retirement System
Board of Administration presentation of the June 30, 2009 audit results
By: Andrew J. Paulden, CPA, Brown Armstrong Accountancy Corporation
November 24, 2009

1. Purpose of the Audit

2. The Audit Process
   a. Timeline coordination with LACERS's staff
   b. Understanding and evaluation of LACERS internal controls through inquiry and observation
   c. Confirmation of account balances with independent third parties (legal, active and retired participants, portfolio managers and actuary)
   d. Interim testing
   e. Final fieldwork
   f. Report presentation

3. Significant Audit Areas/Scope of Audit Work
   a. Risk based approach
   b. Investments and related earnings
   c. Participant data and actuarial information
   d. Employee and employer contributions
   e. Benefit payments

4. Audit Reports
   a. Independent auditors report on financial statements – unqualified ("clean") opinion (refer to financial statements for this report)
   b. Required communication to the Board of Administration in accordance with professional standards – SAS 114

5. Financial Statement Review

6. Final Procedures
   a. Review Comprehensive Annual Financial Report when completed and determine that it is completed pursuant to the GFOA award program requirements

7. Questions and/or Comments?

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REQUIRED COMMUNICATION TO THE BOARD OF ADMINISTRATION IN ACCORDANCE WITH PROFESSIONAL STANDARDS

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

We have audited the financial statements of Los Angeles City Employees Retirement System (the System) for the year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by the System's management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in an email about planning matters on June 26, 2009.

Significant Audit Findings

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 2009.

We noted no transactions entered into by LACERS during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates
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 estimate affecting the financial statements was the fair market value of investments.

Management's estimate of the fair market value of investments is derived by various methods as detailed in Note 1 to the financial statements. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was: the disclosure of the fair value of investments in Note 1.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
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 19, 2009.

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's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This information is intended solely for the information and use of the Board of Administration and management of the System and is not intended to be and should not be used by anyone other than these specified parties. However this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Andrew J. Paulden

Bakersfield, California
November 19, 2009

Pfx Engagement\48962 2009 Audit\FS SAS 114

LACERS
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
6/30/2009

	Increase (Decrease) in Net Assets (In 000's)
Know Audit Differences:	
Differences from timing of real estate and alternative investments fair market value reporting	$ (42,000)
Total Unadjusted Audit Differences	$ (42,000)