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

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

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(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)

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BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

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 Retirement Plan and Postemployment Health Care Plan Statement of Plan Net Position of the Los Angeles City Employees' Retirement System (the System), a department of the Municipality of the City of Los Angeles, California, as of June 30, 2013, and the related Retirement Plan and Postemployment Health Care Plan Statement of Changes in Plan Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 plan net position of the Retirement Plan and Postemployment Health Care Plan of the Los Angeles City Employees' Retirement System as of June 30, 2013, and the changes in plan net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System that collectively comprise the System's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate 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.

Report on Summarized Comparative Information

We have previously audited the System's June 30, 2012 financial statements, and our report dated December 10, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Pasadena, California
November 19, 2013

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, 2013. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal in the Introductory Section of LACERS Comprehensive Annual Financial Report.

Financial Highlights

- The amount of the plan net position of LACERS as of June 30, 2013 was $11,922,538,000. Compared with the value of the plan net position of LACERS as of June 30, 2012, the value of the plan net position increased by $1,326,837,000, or 12.5% during the reporting period.
- The plan net position under the Retirement Plan and Postemployment Health Care Plan are pooled for investment purposes. Investment income for the year was $1,529,244,000, as compared with an investment income of $83,019,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the Retirement Plan and the Postemployment Health Care Plan were $419,266,000. This amount included an annual contribution of $419,097,000, which was 24.14% of the City's estimated covered payroll of $1,736,113,000, and the City's matching contribution for the Family Death Benefit Plan in the amount of $169,000.
- The employer contributions to the Retirement Plan represented 100% of the Annual Required Contribution (ARC) as defined by the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27. The employer contributions to the Postemployment Health Care Plan represented 100% of the ARC as defined by GASB Statements No. 43 and No. 45.
- Deductions from the plan net position of LACERS included benefits payments, refunds of Member contributions, and administrative expenses. The total deductions from the plan net position were $819,554,000, a 4.7% increase from the prior fiscal year.
- Based on the most recent actuarial valuation as of June 30, 2013, the funded ratio for the Retirement Plan was 68.7% and the funded ratio for the Postemployment Health Care Plan was 71.9%. The total funded ratio for LACERS was 69.1%. 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 Position on page 12 gives a snapshot of the account balances at year-end and shows the amount of the plan 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 plan net position may serve as a useful indicator of whether the plan net position of LACERS is improving or deteriorating. The Statement of Changes in Plan Net Position on page 13 provides a view of current year additions to, and deductions from, the plan net position.

Notes to the Basic 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 basic financial statements can be found on pages 14 – 29 of this report.

Required Supplementary Information

In addition to the Management's Discussion and Analysis, 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 Health Care Plan. These schedules and notes primarily present the actuarially-determined information in a multi-year format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 30 – 33 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 34 and 35 of this report.

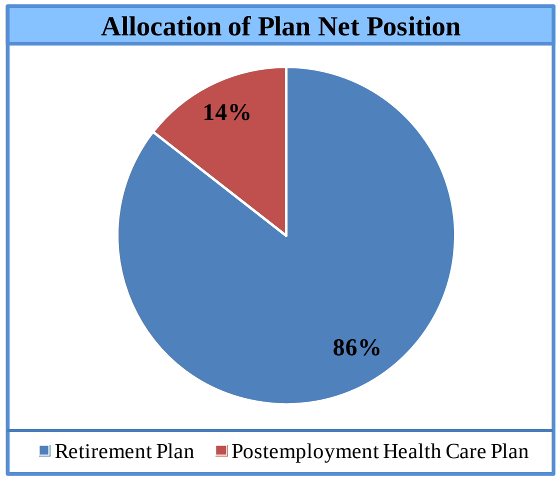
Management's Discussion and Analysis

Financial Analysis

Allocation of Plan Net Position

Plan net position may serve as a useful indicator of a plan's financial position. The total plan net position is allocated between the Retirement Plan and Postemployment Health Care Plan, as required by the existing reporting standards. The following information provides a brief description of the asset allocation between the Retirement Plan and the Postemployment Health Care Plan as of June 30, 2013 (dollars in thousands):

	Plan Net Position	Percent
Retirement Plan	$10,199,593	85.6%
Postemployment Health Care Plan	1,722,945	14.4
Plan Net Position	$11,922,538	100.0%



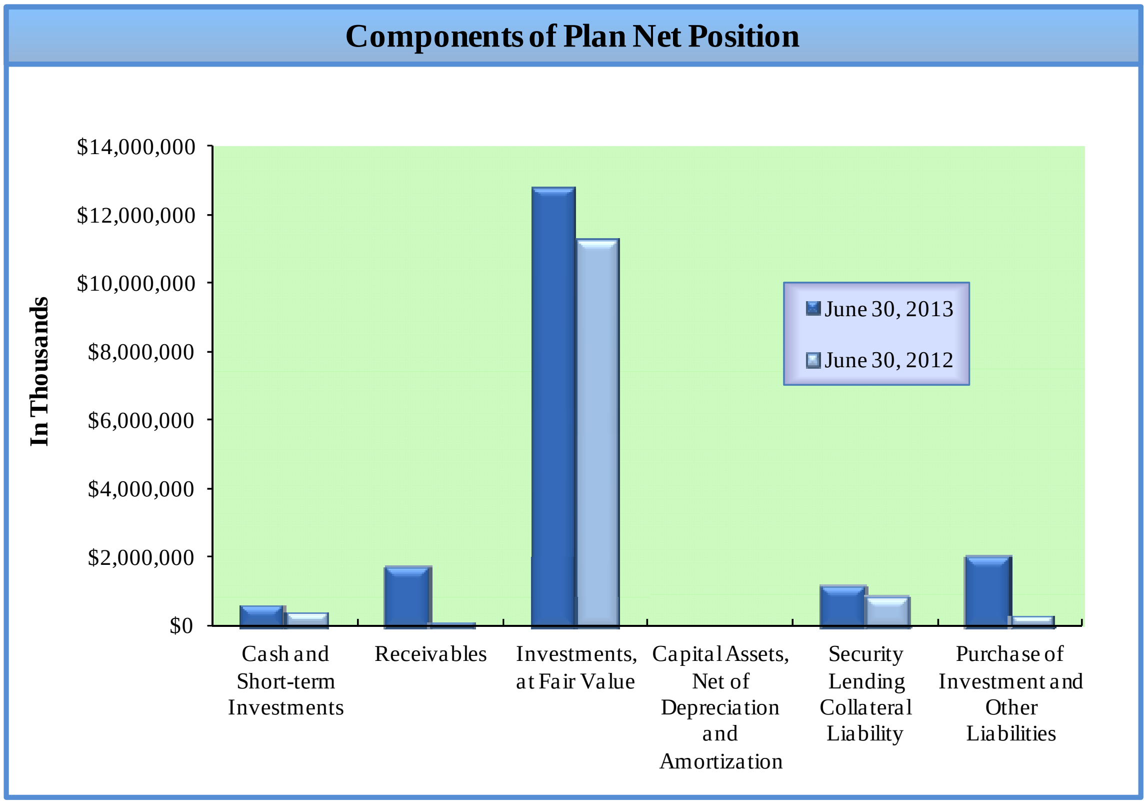
Plan Net Position

The following table and graph represent the detailed information regarding the components of the plan net position of LACERS as of June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change		
Cash and Short-Term Investments	$ 606,604	$ 392,892	$ 213,712	54.4	%
Receivables	1,734,747	99,746	1,635,001	1,639.2	
Investments, at Fair Value	12,781,115	11,231,662	1,549,453	13.8	
Capital Assets, Net of Depreciation and Amortization	1,318	214	1,104	515.9	
Total Assets	15,123,784	11,724,514	3,399,270	29.0	
Security Lending Collateral Liability	1,155,982	850,183	305,799	36.0	
Purchase of Investments and Other Liabilities	2,045,264	278,630	1,766,634	634.0	
Total Liabilities	3,201,246	1,128,813	2,072,433	183.6	
Plan Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	$ 11,922,538	$ 10,595,701	$ 1,326,837	12.5	%

Financial Analysis (Continued)

Plan Net Position (Continued)



The majority of LACERS' plan net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Plan net position increased by $1,326,837,000, or 12.5%, during this fiscal year. The increase is primarily attributable to the $1,258,819,000 net appreciation in fair value of investments, as compared to $146,888,000 of the prior year's net depreciation, as a result of improved global economic conditions.

Changes in Plan Net Position

The increase in plan net position during the reporting period was the net effect of a combination of factors that either added to or deducted from the plan net position. The following table summarizes the changes in plan net position during the report year, as compared with the prior year (dollars in thousands):

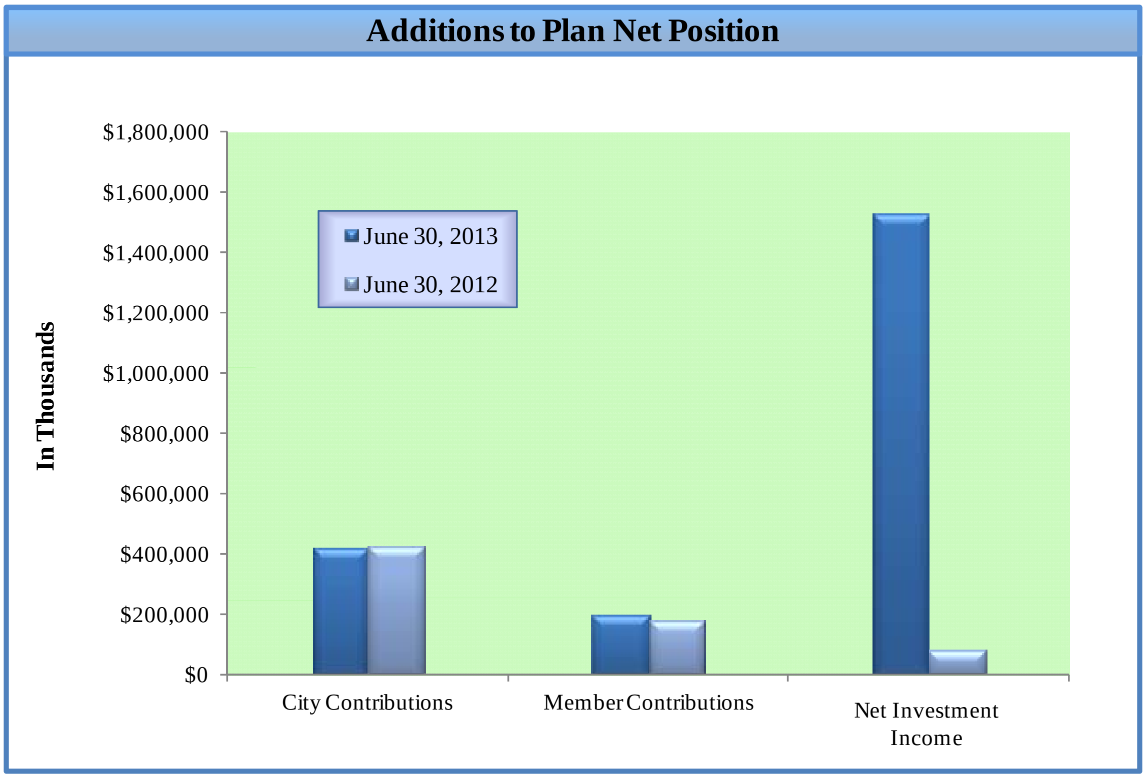
	June 30, 2013	June 30, 2012	Change	
Additions	$ 2,146,391	$ 685,186	$ 1,461,205	213.3 %
Deductions	819,554	783,089	36,465	4.7
Changes in Plan Net Position	1,326,837	(97,903)	1,424,740	1,455.3
Plan Net Position, Beginning of Year	10,595,701	10,693,604	(97,903)	(0.9)
Plan Net Position, End of Year	$ 11,922,538	$ 10,595,701	$ 1,326,837	12.5 %

Financial Analysis (Continued)

Changes in Plan Net Position – Additions to Plan Net Position

The following table and graph represent the components that make up the additions to plan net position for LACERS for the years ended June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change
City Contributions	$ 419,266	$ 423,921	(1.1) %
Member Contributions	197,881	178,246	11.0
Net Investment Income	1,529,244	83,019	1,742.0
Additions to Plan Net Position	$ 2,146,391	$ 685,186	213.3 %



Financial Analysis (Continued)

Changes in Plan Net Position – Additions to Plan Net Position (Continued)

The additions to LACERS plan net position include three main items that constitute the funding sources of LACERS benefits: City Contributions, Member Contributions, and Net Investment Income.

City Contributions to the Retirement Plan, the Postemployment Health Care Plan, and the Family Death Benefit Plan were $419,266,000 during the year or $4,655,000 (-1.1%) less than the prior fiscal year due to the lower contribution rate recommended by the actuary. The City payroll and the recommended contribution rate are the two main factors that determine the City contributions. The total City payroll for fiscal year 2012-13 was $1,736,113,000, which is $20,916,000 greater than the prior fiscal year payroll of $1,715,197,000. Similar to the last fiscal year, the City payroll was broken down into two Member groups in applying the contribution rate; a lower City contribution rate was applied to the payroll for Members who make additional 4% employee contributions in order to obtain a vested right to future increase in the maximum medical subsidy in accordance with the existing and anticipated Memoranda Of Understanding (MOUs) between the City and various Employee Labor Organizations (refer to Note 3 on page 19 – Postemployment Health Care Plan Description). The composite employer contribution rate for this fiscal year was 24.14% (19.94% for the Retirement Plan and 4.20% for the Postemployment Health Care Plan) which is slightly lower than the prior fiscal year's rate of 24.71%. The contribution rate of 24.14% was based on June 30, 2011 actuarial valuation, in which 1) the substitution effect of the 4% employee contribution, 2) the very favorable 2012 health care renewal rates coupled with the slightly lower initial medical trend rate, as well as 3) the retiree health subsidy freeze for employees not making the 4% contribution, more than offset the negative impact of investment return assumption change from 8% to 7.75%, resulting in a slight decrease in the City contribution. This decreased City contribution rate lowered the total amount of City's contribution notwithstanding the payroll base actually increased by $20,916,000 for this fiscal year. The actual contribution to the Retirement Plan was equal to 100% of the ARC of $346,181,000 as defined by GASB Statements No. 25 and 27. The actual contribution to the Postemployment Health Care Plan was equal to 100% of the ARC of $72,916,000 as defined by GASB Statements No. 43 and 45.

Factors that may affect the amount of Member Contributions include the change in number and composition of Members, the change in Member salaries, and the change in Member contribution rates. In fiscal year 2012-13, Member contributions were $197,881,000, which was $19,635,000 or 11.0% greater than the prior year. This increase was primarily attributable to the increases in contribution rates for the majority of Members who previously contributed 7% or 9% of their pay, started to contribute 11% effective either July 1, 2012 or January 1, 2013. The remaining Members, which consist of approximately 3% of the total Members are still contributing 7% as of June 30, 2013 (refer to Note 2 – Retirement Plan Description on page 16, Note 3 – Postemployment Health Care Plan Description on page 19, and Note 10 – Subsequent Events on page 28). In addition, the overall increase in Members' average salaries, by approximately 1.2%, also caused the employee contribution to increase in the reporting fiscal year.

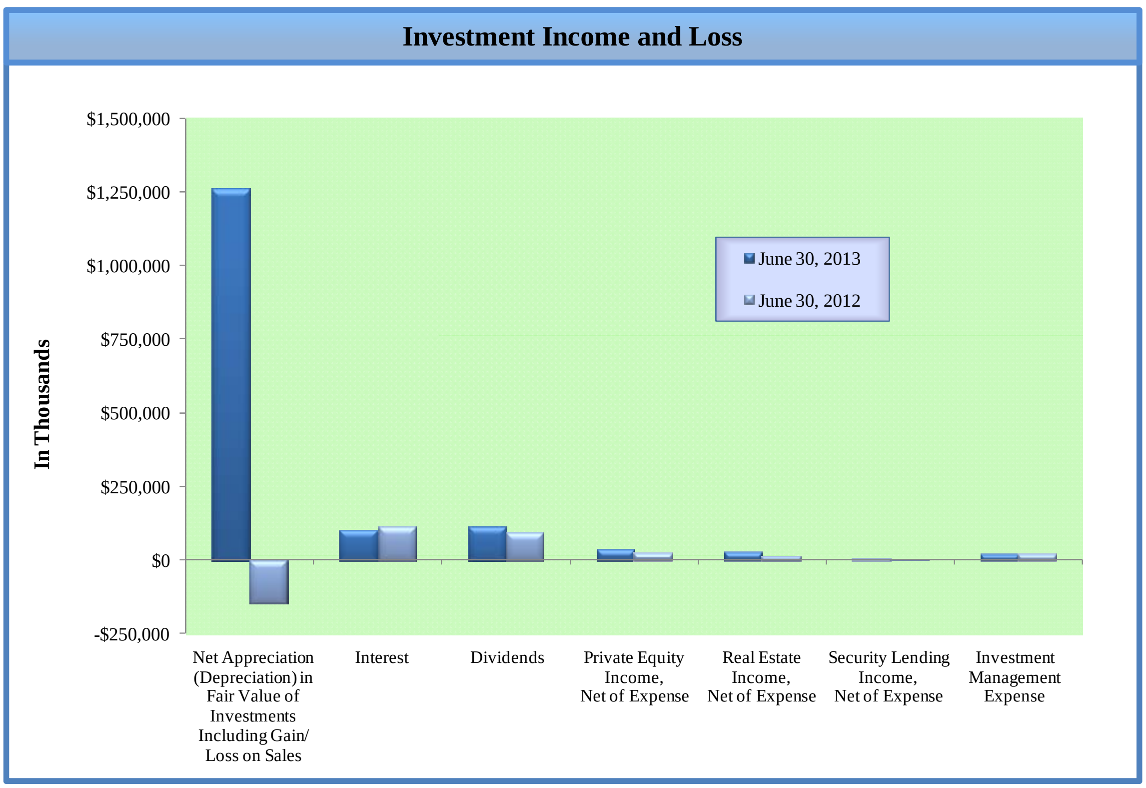
The net investment income of $1,529,244,000, which included $1,258,819,000 of net appreciation in fair value of investments, reflected the continued recovery of the financial and stock market during the fiscal year. This is discussed in more detail in the next section.

Financial Analysis (Continued)

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, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change
Net Appreciation (Depreciation) in Fair Value of Investments Including Gain/Loss on Sales	$ 1,258,819	$ (146,888)	957.0 %
Interest	102,989	111,809	(7.9)
Dividends	114,950	94,552	21.6
Private Equity Income, Net of Expense	39,420	24,385	61.7
Real Estate Income, Net of Expense	28,307	15,234	85.8
Security Lending Income, Net of Expense	5,795	4,600	26.0
Sub-Total	1,550,280	103,692	1,395.1
Less: Investment Management Expense	(21,036)	(20,673)	1.8
Net Investment Income	$ 1,529,244	$ 83,019	1,742.0 %



Financial Analysis (Continued)

Investment Income and Loss (Continued)

The net investment income for the current fiscal year was $1,529,244,000, as compared with the income of $83,019,000 for the previous fiscal year (1,742.0% increase). This large increased investment income which included $1,258,819,000 of net unrealized and realized gains was primarily due to the increases in the value of LACERS portfolio holdings.

Major stock indices increased significantly during the fiscal year. The Dow Jones Industrial Average was up 15.8% while the S&P 500 Index was up 17.9%. The Morgan Stanley All Country World Index excluding U.S. (MS ACWI ex U.S.) that tracks the non-U.S. equities was also up 13.6%. Several factors that contributed to the favorable equity market are: 1) the Federal Reserve launched a third round of quantitative easing in September 2012 of $40 billion per month. This further increased to $85 billion per month in December 2012; 2) the Federal funds rate continued to be kept at historic low; 3) corporate earnings steadily improved; 4) the Eurozone crisis appeared to have reached peak levels and started slowly improving; and 5) the global economy maintained a slow but steady recovery throughout the reporting period.

Interest income derived from bonds decreased by $8,820,000 (-7.9%), attributable to the lower interest rates compared with the prior reporting year.

Dividend income derived from stocks increased by $20,398,000 (21.6%) due to improvement in corporate earnings as well as increase in the number of stock holdings.

Private equity and real estate income both significantly increased during the fiscal year by $15,035,000 (61.7%) and $13,073,000 (85.8%), respectively. The increase in cash supply and low interest rates made a favorable investment environment in these sectors. As a result, private equity and real estate partnerships were generally experiencing considerable profits and income distributions during the year.

LACERS earns additional investment income by lending securities to borrowers through its custodian bank. The borrowers provide cash or non-cash collateral to System's custodian bank. The custodian bank, in turn, invests the cash collateral on behalf of the borrowers in short and intermediate term fixed income securities. In the reporting year, LACERS security lending income (net of expense) increased by $1,195,000 (26.0%) as more lending activities due to the favorable market conditions.

Investment management expense for the current fiscal year increased modestly by $363,000 (1.8%) from the prior year. This slight increase reflects LACERS effort to implement the low cost strategies in pursuing the optimal risk-adjusted investment returns, which include termination of managers with high fees, moving away from performance-based fees, and shifting some active style investment to passive investment. Without such effort, the investment management fees would have been significantly higher considering the $1.3 billion increase in LACERS plan net position at the end of the reporting year.

Changes in Plan Net Position – Deductions from Plan Net Position

The following table and graphs provide information related to the deductions from plan net position for the years ended June 30, 2013 and 2012 (dollars in thousands):

	June 30, 2013	June 30, 2012	Change
Benefits Payments	$ 785,308	$ 756,063	3.9 %
Refunds of Contributions	17,697	11,100	59.4
Administrative Expenses	16,549	15,926	3.9
Deductions from Plan Net Position	$ 819,554	$ 783,089	4.7 %

Financial Analysis (Continued)

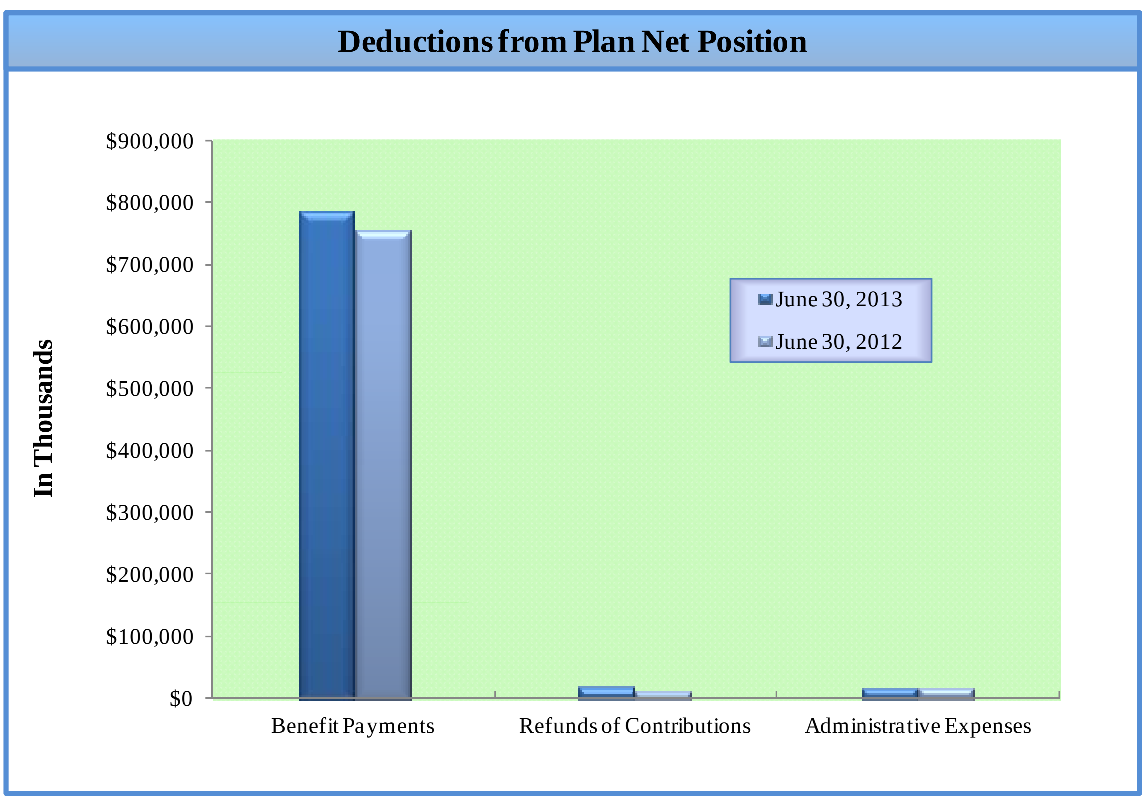
Changes in Plan Net Position – Deductions from Plan Net Position (Continued)

LACERS deductions from plan net position in the reporting period can be summarized as Benefits Payments, Refunds of Contributions, and Administrative Expenses. These deductions represent the types of benefit delivery operations undertaken by LACERS and the costs associated with them. Total deductions increased by $36,465,000 or 4.7%.

Compared to the prior year, benefits payments increased by $29,245,000, or 3.9%. The benefits payments for the Retirement Plan increased by $22,736,000 (3.4%) mainly due to the annual cost of living adjustments (COLA) (approximately 2.7% increase on average up to a maximum 3.0%); and the average retirement allowance of newly retired Members was higher than those of the deceased Members who were removed from the retirement payroll. Payments for Postemployment Health Care Plan benefits increased by $6,509,000 (7.1%) due to the increased health subsidy from $1,190 to $1,367 per month as the renewed medical premium rates for 2013 increased. The health care benefit expense was reduced by the reimbursement from the Federal Early Retiree Reinsurance Program (ERRP), which LACERS obtained to help offset the System's subsidy cost, as well as the subsidy cost of many eligible Members.

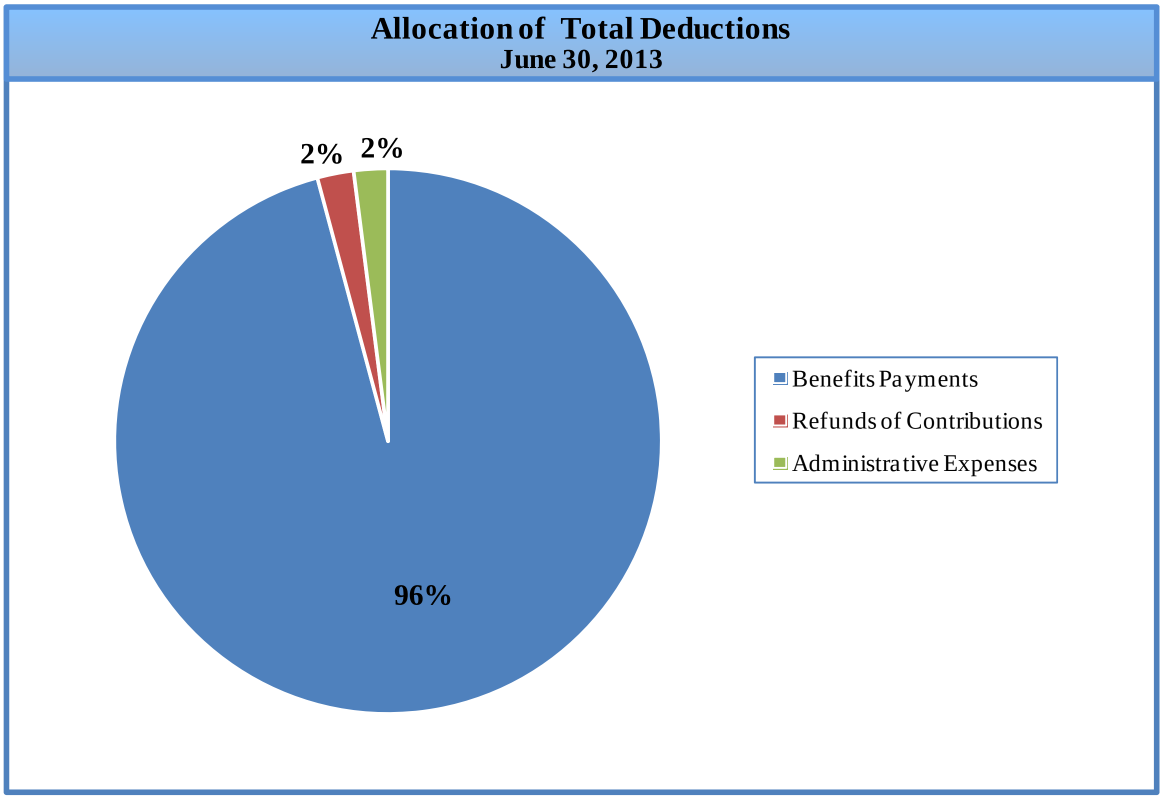
Refunds of contributions increased by $6,597,000 (59.4%) mainly due to an increased number of City employees transferring to the Department of Water and Power (DWP) and transferring of their retirement contributions from LACERS to the Water and Power Employees' Retirement Plan under the reciprocity program.

LACERS administrative expenses during the reporting period increased by $623,000 (3.9%) from the prior year. The increase was primarily attributable to the increased salaries and wages caused by the mandated cost of living adjustment, and the increased employees' health benefit costs. The increase also reflects the lower base of the prior fiscal year which experienced lower salaries and wages because of personnel turnover as compared to the current fiscal year wherein the System returned to the normal level of personnel. There were also some non-recurring expenses during this reporting period such as the costs related to LACERS' office relocation in July 2012, and fees for an actuarial audit, which under LACERS policy should be conducted if the same actuarial firm performs as the System's actuary for five or more years. However, these increases were mitigated by the lower lease costs of the new office space, and the lower legal service costs due to mandatory furlough of City Attorneys.



Financial Analysis (Continued)

Changes in Plan Net Position – Deductions from Plan Net Position (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
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

AUDITED FINANCIAL STATEMENTS

Statement of Plan Net Position
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2013, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2013 Total	2012 Total
Assets				
Cash and Short-Term Investments	$ 518,943	$ 87,661	$ 606,604	$ 392,892
Receivables				
Accrued Investment Income	32,530	5,495	38,025	34,986
Proceeds from Sales of Investments	1,444,407	243,993	1,688,400	57,169
Other	7,119	1,203	8,322	7,591
Total Receivables	1,484,056	250,691	1,734,747	99,746
Investments, at Fair Value				
U.S. Government Obligations	501,084	84,645	585,729	688,122
Municipal Bonds	6,357	1,073	7,430	6,355
Domestic Corporate Bonds	910,581	153,818	1,064,399	1,003,816
International Bonds	289,313	48,872	338,185	300,812
Bank Loans	-	-	-	4,213
Opportunistic Debt	1,041	176	1,217	78,925
Domestic Stocks	3,907,978	660,147	4,568,125	4,069,069
International Stocks	2,147,785	362,810	2,510,595	1,790,832
Mortgages	528,384	89,256	617,640	554,573
Government Agencies	36,421	6,153	42,574	49,331
Derivative Instruments	-	-	-	424
Real Estate	583,737	98,607	682,344	642,442
Private Equity	1,032,484	174,411	1,206,895	1,192,565
Security Lending Collateral	988,930	167,052	1,155,982	850,183
Total Investments	10,934,095	1,847,020	12,781,115	11,231,662
Capital Assets				
Furniture, Computer Hardware and Software (Net of Depreciation and Amortization)	1,128	190	1,318	214
Total Assets	12,938,222	2,185,562	15,123,784	11,724,514
Liabilities				
Accounts Payable and Accrued Expenses	48,083	8,122	56,205	39,899
Derivative Instruments	16	3	19	-
Purchases of Investments	1,701,600	287,440	1,989,040	238,731
Security Lending Collateral	988,930	167,052	1,155,982	850,183
Total Liabilities	2,738,629	462,617	3,201,246	1,128,813
Plan Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	**$ 10,199,593**	**$ 1,722,945**	**$ 11,922,538**	**$ 10,595,701**

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

Statement of Changes in Plan Net Position
Retirement Plan and Postemployment Health Care Plan
For the Year Ended June 30, 2013, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2013 Total	2012 Total
Additions				
Contributions				
City Contributions	$ 346,350	$ 72,916	$ 419,266	$ 423,921
Member Contributions	197,881	-	197,881	178,246
Total Contributions	544,231	72,916	617,147	602,167
Investment Income (Loss)				
Net Appreciation (Depreciation) in Fair Value of Investments Including Gain and Loss on Sales	1,048,344	210,475	1,258,819	(146,888)
Interest	86,432	16,557	102,989	111,809
Dividends	96,471	18,479	114,950	94,552
Private Equity Income, Net of Expense	33,199	6,221	39,420	24,385
Real Estate Income, Net of Expense	23,815	4,492	28,307	15,234
Security Lending Income	5,720	1,096	6,816	5,411
Less: Security Lending Expense	(850)	(171)	(1,021)	(811)
Sub-Total	1,293,131	257,149	1,550,280	103,692
Less: Investment Management Expense	(17,519)	(3,517)	(21,036)	(20,673)
Net Investment Income	1,275,612	253,632	1,529,244	83,019
Total Additions	1,819,843	326,548	2,146,391	685,186
Deductions				
Benefits Payments	687,362	97,946	785,308	756,063
Refunds of Contributions	17,697	-	17,697	11,100
Administrative Expenses	13,352	3,197	16,549	15,926
Total Deductions	718,411	101,143	819,554	783,089
Changes in Plan Net Position	1,101,432	225,405	1,326,837	(97,903)
Plan Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits				
Beginning of Year	9,098,161	1,497,540	10,595,701	10,693,604
End of Year	**$ 10,199,593**	**$ 1,722,945**	**$ 11,922,538**	**$ 10,595,701**

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 statute in Article XVI, Section 17 of the California State Constitution , and Article XI of the Los Angeles City Charter. 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 Postemployment Health Care Plan. A description of each plan is located in Note 2 and Note 3 (pages 16 – 21). All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

Basis of Accounting

The financial statements are maintained on the accrual basis of accounting. Contributions from the employer and Members were recognized when due pursuant to formal commitments and contractual requirements. Benefits, refunds, and other expenses are recognized when due and payable.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 accordance with accounting principles generally accepted in the United States.

Fair Value of Investments

Funds of the System are invested pursuant to the Los Angeles City Charter and the System's investment policy established by the Board as required by Article XI Section 1106(d) of the City Charter. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real estate, private equity, and short-term investments.

Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, bank loans, stocks, and private equities 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 industry practice. The fair value determined as such is also reviewed and evaluated by the Board's real estate consultant. The fair values of private equity funds are provided by the individual General Partners at liquidating events or other significant events during the reporting period. The fair values of derivative instruments 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 Position 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.

For the equity index futures, an initial margin is required to open a position and maintain the collateral requirement until the position is closed. The System reports the collateral for the equity index futures in the short-term investments.

Capital Assets

Prior to July 1, 2001, purchases of capital assets, consisting primarily of office furniture and computer equipment were recorded and expensed in the year acquired. Effective July 1, 2001, these purchases are capitalized upon acquisition if the cost of purchase is $5,000 or more, and depreciated over five years using straight-line method. During this fiscal year, the System started to incur the costs for developing a new Pension Administration System (PAS), a strategic initiative critical to LACERS future operations. In order to comply with the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, certain costs were capitalized, and amortized over 15 years, which is estimated useful life, using the straight-line method.

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

Administrative Expenses

All administrative expenses are funded from the System's plan net position, 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 recognized actuarial methods. The Los Angeles City Charter establishes reserves for the following:

Reserves for Retirement Plan

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.

Basic Pensions – City contributions and investment earnings (losses) including net appreciation (depreciation) in fair value of investments, 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 – Members' 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 Benefit Plan (FDBP) – Member contributions, matching City contributions, and investment earnings (losses) including net appreciation (depreciation) in fair value of investments, reserved to pay benefits under the Family Death Benefit Plan established by the System, less payments to beneficiaries.

Reserve for Postemployment Health Care Plan

City contributions and investment earnings (losses) including net appreciation (depreciation) in fair value of investments, accumulated to provide health care benefits for retirees, less payment to insurance providers and/or reimbursements to retired Members.

Reserve balances as of June 30, 2013, were as follows (in thousands):

Reserve for Retirement Plan		
Member Contributions	$ 1,779,122	
Basic Pensions	7,886,562	
Annuity	488,801	
Larger Annuity	30,749	
FDBP	14,359	$10,199,593
Reserve for Postemployment Health Care Plan		1,722,945
Total Reserves		$ 11,922,538

Use of Estimates in Preparation of the Financial Statements

The preparation of the financial statements in conformity with GAAP 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.

Implementation of New Accounting Pronouncement

In the current fiscal year, the System implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources in regard to hedging derivative instruments, and by renaming the residual measure as net position, rather than net assets. The System has not had any hedging derivative instruments. Yet, the System changed the names of the System's Basic Financial Statements as the *Statement of Plan Net Position* and the *Statement of Changes in Plan Net Position* in compliance with the new accounting pronouncement. The term "plan net position" is used throughout this financial report replacing the "plan net assets".

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying *Statement of Plan Net Position* and *Statement of Changes in Plan Net Position*. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

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 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 the System.

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, 2013, the components of the System's membership were as follows:

Active:	
Vested	21,901
Non-vested	2,540
	24,441
Inactive:	
Non-vested	4,131
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,668
Retired	17,362
Total	47,602

Funding Policies and Funded Status and Progress

The Retirement 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, 2013, the annual required contribution (ARC) to the Retirement Plan by the City was 19.94% of covered payroll, determined by the June 30, 2011 actuarial valuation. The actual contribution made by the City for fiscal year 2012-13 was equal to the 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 ARC as determined under GASB Statements No. 25 and No. 27.

Prior to the Early Retirement Incentive Program (ERIP) in 2009, there were two different types of contributions from Members. Members who entered the System prior to February 1983 (Defrayal Group) contributed from 8.22% to 13.33% of their salaries based upon their ages when they entered the System; however, these contributions were subsidized by the City under various collective bargaining agreements.

Starting November 8, 2009, as the ERIP Ordinance became effective, all Members of the System contributed a flat rate of 6% of pay regardless of their entry date, and City's Defrayal of employee contribution had been completely phased out after June 30, 2011. The ERIP Ordinance also stipulates a 1% increase in the Member contribution rate for all employees effective July 1, 2011, for a period of 15 years, or until the ERIP Cost Obligation is fully paid, whichever comes first. Further, new Ordinances adopted by the City Council in 2011 provide that Members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, Member contribution rates were increased to 7%, 9%, or 11% of pay. The majority of those Members who were contributing 7% or 9% were required to contribute 11% effective July 1, 2012, and January 1, 2013, pursuant to the terms and conditions of the specific Memorandum of Understanding (MOU) to which they are subject. The remaining Members, who belong to three bargaining groups, still contribute 7% of pay (also refer to Note 3 – Postemployment Health Care Plan Description on page 19, and Note 10 – Subsequent Events on page 28).

Members of the System have a vested right to their own contributions 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 who is at least age 70, or has five or more years of service, terminates employment, the Member has the option of receiving retirement benefits when eligible or withdrawing from the System, or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

The eligibility requirements and benefit provisions for employees whose membership began after June 30, 2013 (Tier 2 Members) shall differ (refer to Note 10 – Subsequent Events on page 28).

As of June 30, 2013, the most recent actuarial valuation date, the Retirement Plan was 68.7% funded. The actuarial accrued liability for benefits was $14,881,663,000 and the actuarial value of assets was $10,223,961,000, resulting in an unfunded actuarial accrued liability (UAAL) of $4,657,702,000. The covered payroll as of the June 30, 2013 valuation was $1,846,970,000. The ratio of UAAL to the covered payroll was 252.2%.

Note 2 – Retirement Plan Description (Continued)

Funding Policies and Funded Status and Progress (Continued)

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. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, 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 30 following the notes to the basic financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. In October 2012, the Board modified the System's funding policy to: 1) change the actuarial cost method for the existing retirement benefits and health benefits from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method beginning with the June 30, 2012 valuation. (The EAN cost method is known to produce more stability in the plan sponsor's year-to-year contribution obligation by spreading contributions in a more level pattern throughout a Member's career); and 2) amortize all UAAL layers as of June 30, 2012, over 30 years, except the layers created in 2004 and 2005 for GASB compliance and the layers created in 2009 as a result of the ERIP, which will maintain their original amortization schedules. The actuarial methods and significant assumptions used in the valuation year of June 30, 2013, are summarized in this note to conform to the disclosure requirements of GASB Statement No. 50.

Notes to the Basic Financial Statements

Note 2 – Retirement Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal 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. Assumption or method changes are amortized over 30 years. The existing layers on June 30, 2005, except those arising from the 2009 ERIP and the two GASB25/27 layers, were combined and amortized over 30 years. Plan changes, including the liability change due to the 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over five years. Actuarial surplus is amortized over 30 years.
Asset Valuation Method	Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the fair value, and is recognized over a seven-year period. The result of such smoothing process shall fall between 60% - 140% of fair value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Includes Inflation at	3.50%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increases	Ranges from 11.25% to 6.50% for Members with less than five years of service. Ranges from 6.50% to 4.65% for Members with five 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 two years for males and set back one year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward five years for males and set forward six years for females.
Percent Married / Domestic Partner	76% of male participants; 50% of female participants are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Female spouses are three years younger than their spouses.

Note 3 – Postemployment Health Care Plan Description

Plan Description

The System provides postemployment health care benefits to eligible retirees of the Retirement Plan and their spouses/domestic partners. Prior to the retirement effective date of July 1, 2011, the benefits of this single employer Postemployment Health Care Plan were 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, 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 subsidies based on service years. The dental subsidies are provided to the retirees only, based on years of service. The maximum subsidies are set annually by the Board.

During the 2011 fiscal year, the City adopted an Ordinance ("Freeze Ordinance") to freeze 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 contribute the additional 2% or 4% of pay pursuant to the Ordinances mentioned in Note 2 on page 16 are exempted from the freeze 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, 2013, approximately 97% of non-retired Members were making the additional contributions, and therefore not subject to the medical subsidy freeze (also refer to Note 10 – Subsequent Events on page 28).

Postemployment health care benefits and conditions of entitlement for employees whose membership began after June 30, 2013 (Tier 2 Members) shall differ (refer to Note 10 – Subsequent Events).

Funding Policies and Funded Status and Progress

The Postemployment Health Care Plan's funding employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are policy under Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2013, was 4.2% of covered payroll, determined by the June 30, 2011 actuarial valuation. As of June 30, 2013, the most recent actuarial valuation date, the Postemployment Health Care Plan was 71.9% funded. The actuarial accrued liability for benefits was $2,412,484,000 and the actuarial value of assets was $1,734,733,000, resulting in an UAAL of $677,751,000. The covered payroll as of the June 30, 2013 valuation was $1,846,970,000. The ratio of UAAL to the covered payroll was 36.7%.

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 health care cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, 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 32 following the notes to the basic financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, such as seven-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 Health Care Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal 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. Assumption or method changes resulting from triennial experience study are amortized over 30 years. Health cost trend and premium assumption changes are amortized over 15 years. The initial unfunded liabilities on June 30, 2012 were combined and amortized over 30 years. The costs associated with the 2009 ERIP have been amortized over 15 years beginning with the June 30, 2009 valuation date. Plan changes, including the liability change due to the 2009 ERIP, are amortized over 15 years. Future ERIP liability will be amortized over five years. Actuarial surplus is amortized over 30 years.
Asset Valuation Method	Fair value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the fair value, and is recognized over a seven-year period. The result of such smoothing process shall fall between 60% - 140% of fair value.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, set forward five years for males and set forward six years for females.
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 four years older than their female spouses. Female retirees are assumed to be two 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 are assumed to be covered by both Parts A and B.

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

Health Care Cost Trend Rates

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

Medical Premium Trend Rates to be applied to Fiscal Year 2013-2014 and later years are:

First Fiscal Year (July 1, 2013 through June 30, 2014)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	7.54%	6.69%
Blue Cross HMO	9.75%	N/A
Blue Cross PPO	7.50%	8.48%
UnitedHealth Care (formerly Secure Horizons)	N/A	4.23%

Fiscal Year 2014 - 2015 and later	
Fiscal Year	Trend (Approx)
2014 - 2015	7.75%
2015 - 2016	7.25%
2016 - 2017	6.75%
2017 - 2018	6.25%
2018 - 2019	5.75%
2019 - 2020	5.25%
2020 and later	5.00%

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

Medicare Part B Premium Trend to be applied is 5.00% for all years.

Note 4 – Contributions Required and Contributions Made

The System used the Projected Unit Credit cost method in the June 30, 2011 actuarial valuation to determine the fiscal year 2012-13 required annual contribution amount for the Retirement Plan and the Postemployment Health Care Plan. The required annual contribution amount is composed of two components: normal cost which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the UAAL which is the difference between the System's actuarial liabilities and actuarial assets.

The components of the UAAL are amortized as a level percent of pay. Based on the System's funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 30 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and 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, 2013, in the amount of $617,147,000 ($544,231,000 for the Retirement Plan and $72,916,000 for the Postemployment Health Care Plan), were made in accordance with actuarially-determined requirements computed by the actuarial valuation dated June 30, 2011.

Contributions to the System consisted of the following for the year ended June 30, 2013 (in thousands):

	Retirement Plan	Postemployment Health Care Plan
City Contributions:		
Required Contributions	$ 346,181	$ 72,916
FDBP	169	-
Total City Contributions	346,350	72,916
Member Contributions	197,881	-
Total Contributions	$ 544,231	$ 72,916

The City contributions made for the Retirement Plan under the Required Contribution category in the amount of $346,181,000 were equal to 100% of the ARC of the employer as defined by GASB Statements No. 25 and No. 27. The City contributions made for the Postemployment Health Care Plan, in the amount of $72,916,000, represents 100% of the ARC as defined by GASB Statements No. 43 and No. 45. Member contributions in the amount of $197,881,000 were made toward the Retirement Plan and the voluntary Family Death Benefit Plan.

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 30 – 31 for the Retirement Plan and pages 32 – 33 for the Postemployment Health Care Plan.

Note 6 – Cash and Short-Term Investments and Investments

The Board has the responsibility for the investment of the System's funds, and should discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert 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 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, 2013 on the Retirement Plan and Postemployment Health Care Plan included approximately $2,106,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of $604,498,000 for a total of $606,604,000. 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, 2013, short-term investments included collective STIF of $131,124,000, international STIF of $368,292,000, and future contracts initial margin and collaterals of $105,083,000.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

The fair value of derivative instruments, including equity index and interest rate future contracts, currency forward contracts, and rights and warrants, are recorded in the Statement of Plan Net Position with a net value of $19,000 and reported as a (current) Liability. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Plan Net Position as Investment Income (Loss). The System enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of the System's derivatives for the current and previous fiscal years are classified as investment derivatives.

The notional amount and the fair value of derivative instruments as of June 30, 2013, are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Equity Index	$ 15,852	$ 79	$ (131)
Interest Rate	(83,080)	(160)	(349)
Currency Forward			
Contracts	93,527	(22)	(2)
Right / Warrants	N/A	84	39
Total Value		$ (19)	$ (443)

Credit Risk – Investments

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, 2013, are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA	$ 45,607	2.20 %
AA	644,554	31.15
A	413,146	19.96
BBB	617,842	29.85
BB	146,928	7.10
B	116,188	5.61
CCC	16,465	0.80
CC	3,735	0.18
D	4,488	0.22
Not Rated	60,546	2.93
	2,069,499	100.00 %
U.S. Government Guaranteed Securities *	587,675	
Total Fixed Income Securities	$ 2,657,174	

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

Credit Risk – Derivatives

Derivatives are subject to credit risk that the counterparty to a contract will default. The System is exposed to credit risk on reported assets of the investment derivatives that are traded over the counter. The credit risk of exchange traded derivatives for future contracts is considered minimal because the exchange clearing house is the counterparty and guarantees the performance.

The System permits investment managers, under the terms of individual guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. It is the responsibility of these investment managers to actively monitor counterparties on their financial safety and ensure compliance with the investment restrictions. The System has no general investment policy with respect to netting arrangements or collateral requirements. However, these individual investment managers have set up the arrangements with the counterparties to net off the positive and negative contracts with the same counterparty in case of the counterparty's default.

Note 6 – Cash and Short-Term Investments and Investments (Continued)

Credit Risk – Derivatives (Continued)

As of June 30, 2013, without respect to netting arrangements, the System's maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is as follows (in thousands):

S & P Ratings	Fair Value
AA-	$ 141
A+	145
A-	196
Total Credit Risk	$ 482

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, 2013, the System has exposure to such risk in the amount of $42,011,000, or 1.36% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 11 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 System 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, 2013, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

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 BC U.S. Universal Bond Index, the BC Intermediate Government Credit Index, or the BC 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	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 14,406	3.48
Commercial Mortgage-Backed Securities	97,441	3.48
Corporate Bonds	1,334,609	5.86
Government Agencies	45,545	4.97
Government Bonds	538,193	3.70
Government Mortgage-Backed Securities	520,199	4.99
Index Linked Government Bonds	75,107	6.01
Municipal/Provincial Bonds	7,430	6.18
Non-Government Backed C.M.O.s	23,027	2.56
Opportunistic Debt	1,217	N/A
Total Fixed Income Securities	$ 2,657,174	

Note 6 – Cash and Short-Term Investments and Investments (Continued)

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 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	Fair Value
Asset-Backed Securities	$ 14,406
Commercial Mortgage-Backed Securities	97,441
Government Agencies	45,545
Government Mortgage-Backed Securities	520,199
Non-Government Backed C.M.O.s	23,027
Total Asset-Backed Investments	$ 700,618

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 29% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and private equity managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts are permitted primarily to reduce the foreign currency risk.

Note 6 – 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, 2013, which represent 20.3% of the fair value of total investments, are as follows (in thousands):

Foreign Currency Type	Cash and Adjustments to Cash	Equity	Fixed Income	Derivative Instruments	Other Investments	Total Fair Value in USD
Argentine peso	$ 49	$ -	$ -	$ -	$ -	$ 49
Australian dollar	6,357	136,722	-	105	-	143,184
Brazilian real	299	15,912	354	34	-	16,599
British pound sterling	8,376	375,095	-	80	12,076	395,627
Canadian dollar	4,581	115,356	9,167	97	-	129,201
Chilean peso	-	315	-	-	-	315
Czech koruna	17	1,003	-	-	-	1,020
Danish krone	(350)	22,800	-	-	-	22,450
Euro	9,830	552,131	-	(49)	109,570	671,482
Hong Kong dollar	3,616	160,148	-	19	-	163,783
Hungarian forint	30	1,831	-	-	-	1,861
Indian rupee	296	32,435	-	-	-	32,731
Indonesian rupiah	72	13,279	-	-	-	13,351
Japanese yen	(17,539)	477,560	-	184	28,218	488,423
Malaysian ringgit	322	3,734	-	-	-	4,056
Mexican peso	25	3,309	18,450	-	-	21,784
New Israeli shekel	1,029	5,783	-	-	-	6,812
New Taiwan dollar	670	36,203	-	-	-	36,873
New Zealand dollar	2	2,162	-	-	-	2,164
Norwegian krone	1,196	16,814	-	-	-	18,010
Philippine peso	230	17,222	-	-	-	17,452
Polish zloty	29	3,095	-	1	-	3,125
Singapore dollar	1,732	52,689	-	-	-	54,421
South African rand	18	14,738	-	(3)	-	14,753
South Korean won	338	72,333	-	-	-	72,671
Swedish krona	4,093	45,334	-	-	-	49,427
Swiss franc	(7,870)	187,370	-	11	-	179,511
Thai baht	97	33,512	-	-	-	33,609
Turkish lira	34	3,955	-	-	-	3,989
United Arab Emirates dirham	110	1,955	-	-	-	2,065
Total Investments Held in Foreign Currency	$ 17,689	$ 2,404,795	$ 27,971	$ 479	$ 149,864	$ 2,600,798

Note 7 – 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.

Minimum collateralization is 102% of the fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government and corporate securities, and commercial bank obligations. Cash collateral may be invested separately or pooled in a separate fund for investing in money market or high quality short and intermediate term investments. It is the responsibility of the custodian to monitor the collateralization on a daily basis. If the collateral is below the minimum collateralization level, additional collateral will be requested from the borrower to meet the requirement. Collateral requested each morning is required to be received on the same day. If the borrower fails to deliver additional collateral, the custodian would notify the borrower that they are in default under the securities lending agreement. If the borrower does not provide the necessary collateral after receiving notification, the legal agreement allows the custodian to close the contract with the borrower and buy-in the securities on behalf of the System.

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 values on the Statement of Plan Net Position.

As of June 30, 2013, 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 the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to the System as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program.

All securities loans can be terminated on demand by either the System or the borrower. Because of this nature, their duration did not generally match the duration of the investment made with the cash collateral. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following tables represent the balances of collateral received and loaned securities as of June 30, 2013 (in thousands):

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

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	$ 409,423	$ 50,961	$ 460,384
Domestic Corporate Fixed Income Securities	148,902	-	148,902
International Fixed Income Securities	4,798	38,325	43,123
Domestic Stocks	456,910	3,565	460,475
International Stocks	135,949	258,318	394,267
	$1,155,982	$ 351,169	$1,507,151

Note 7 – Securities Lending Agreement (Continued)

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

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	$ 401,585	$ 49,999	$ 451,584
Domestic Corporate Fixed Income Securities	145,441	-	145,441
International Fixed Income Securities	4,545	36,555	41,100
Domestic Stocks	445,722	3,472	449,194
International Stocks	128,227	242,859	371,086
	$ 1,125,520	$ 332,885	$ 1,458,405

As of June 30, 2013, the fair value of the lent securities was $1,458,405,000. The fair value of associated collateral was $1,507,151,000. Of this amount, $1,155,982,000 represents the fair value of cash collateral and $351,169,000 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 Position. The System's income and expenses related to securities lending were $6,816,000 and $1,021,000, respectively, for the year ended June 30, 2013.

Note 8 – Futures and Forward Contracts

The System uses derivative financial instruments, primarily to manage portfolio risk. Futures and forward contracts are marked to market and are recorded in the Statement of Plan Net Position 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 (refer to Note 6 – Credit Risk - Derivatives on pages 23 and 24).

As of June 30, 2013, the System had outstanding equity index future contracts with an aggregate notional amount of $15,852,000, and interest rate future contracts with a negative notional amount of $83,080,000 due to its short position. In addition, at June 30, 2013, the System had outstanding forward purchase commitments with a notional amount of $93,527,000 and offsetting forward sales commitments with notional amounts of $93,527,000, which expire through September 2013. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $105,083,000 as of June 30, 2013.

Note 9 – Commitments and Contingencies

At June 30, 2013, the System was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately $713,716,000.

The Patient Protection and Affordable Care Act (PPACA) of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018. If there is no change in the law or the System's plan provisions between now and 2018, and if the current medical cost trend stays substantially the same during the same period, some of the System's postemployment health care benefits will be subject to the excise tax in 2018. GASB has not yet issued any guidance on accounting or financial reporting of this potential future liability.

Note 10 – Subsequent Events

Date of Management's Review

Subsequent events were evaluated through November 19, 2013, which is the date the financial statements were available to be issued.

California State Superior Court Ruling on Health Subsidy Freeze

Two bargaining units took legal action against the City regarding the City's Ordinance to freeze the maximum medical subsidy at $1,190 for those Members who retire on or after July 1, 2011 without making additional contributions at 2% or 4% of pay at any time prior to retirement (as mentioned in Note 2 on page 16 and Note 3 on page 19). On October 8, 2013, a California Superior Court judge ruled in favor of the labor organizations, and directed the City to provide a retiree health care insurance premium subsidy without regard to the freeze. Therefore, Tier 1 retired Members of two bargaining units represented by the labor organizations will not be subject to the freeze.

Establishment of New Tier (Tier 2) of Members

On October 26, 2012, the Los Angeles City Council approved amending Chapter 10 and 11 of Division 4 of the Los Angeles Administrative Code to establish

Note 10 – Subsequent Events (Continued)

Establishment of New Tier (Tier 2) of Members (Continued)

a second tier (Tier 2) with different retirement and postemployment health care benefits, and conditions of entitlement for new hires who become Members of the LACERS on or after July 1, 2013. The Ordinance for Tier 2 Members became effective on November 12, 2012.

Tier 2 Members' initial contribution rate for the first four years will be 10% of their pensionable salary. The Board of LACERS shall establish the Tier 2 Member contribution rate every three years thereafter, with the first such determination to be effective July 1, 2017, for the following three years. The contribution rate shall be an actuarially determined rate sufficient to fund 75% of normal cost and 50% of any unfunded liability for Tier 2. The Tier 2 Member contribution is paid solely for the purpose of providing benefits for the Member only and does not include a survivor contribution, unlike Tier 1.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Retirement Plan
(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded 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, 2008	$ 9,438,318	$11,186,404	$ 1,748,086	84.4 %	$ 1,977,645	88.4 %
June 30, 2009*	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
June 30, 2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
June 30, 2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
June 30, 2012	9,934,959	14,393,959	4,459,000	69.0	1,819,270	245.1
June 30, 2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 288,119	100 %
2009	274,555	100
2010	258,643	100
2011	303,561	100
2012	308,540	100
2013	346,181	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 Retirement 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

On October 25, 2011, the Board lowered the investment return assumption used in the June 30, 2012 actuarial valuation, and ongoing, from 8% to 7.75% and approved phasing in over five years the cost impact of the assumption change and other assumption changes adopted by the Board as a result of the triennial Experience Study. The lower investment return assumption causes the actuarial liability and the employer contributions to increase. However, the increase of employer contributions in the near future is mitigated by the five-year phase-in approach.

Most of the Members are required to make additional contributions up to 4% of pay pursuant to various MOUs and City Ordinances adopted by the City Council in 2011, as mentioned in Note 2 – Retirement Plan Description on page 16. Actuarially, Member contributions substitute for City contributions with a slight discount to compensate for the refundability of Member contributions.

On October 23, 2012, the Board modified the funding policy to change the actuarial cost method from the projected unit credit (PUC) method to entry age normal (EAN) method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers, with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions.

Due to seven-year asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2013, there is a combined unrecognized investment loss in the amount of $81,571,000, which is substantially reduced from the deferred loss of $1,024,757,000 as of June 30, 2012. As it stands, the market value of assets represents more than 99% of the actuarial/smoothed value of assets – marking the first time that the market value has grown back so closely toward the actuarial value of assets since the June 2007 valuation. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next six years, however, in a very uneven pattern: there will be losses recognized in the next two years, followed by two years of gains, then one year of losses, and finally one year of gains. Therefore, absent any new gains or losses in the future, the contribution requirements would increase in the next two years, followed by two years of decreases, then one year of increase, and finally one year of decrease, before the $81,571,000 in net deferred losses are fully recognized, even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

Required Supplementary Information
Postemployment Health Care Plan
(Dollars in Thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded 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, 2008	$ 1,342,920	$ 1,928,043	$ 585,123	69.7 %	$ 1,977,645	29.6 %
June 30, 2009*	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
June 30, 2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
June 30, 2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
June 30, 2012	1,642,374	2,292,400	650,026	71.6	1,819,270	35.7
June 30, 2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7

* Based on revised June 30, 2009 actuarial valuation.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 108,848	100 %
2009	95,122	100
2010	96,511	100
2011	107,396	100
2012	115,209	100
2013	72,916	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 Postemployment Health Care Plan on a going concern basis and to assess progress made in accumulating assets by paying benefits when due. The Board decided to comply with the requirements in GASB Statements No. 43 and No. 45 for the actuarial valuation of the Postemployment Health Care Plan as of June 30, 2005. As the annual required contribution (ARC) for fiscal year ended June 30, 2006, was determined prior to the June 30, 2005 valuation, it was not calculated using all the parameters required by GASB Statements No. 43 and No. 45.

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

On October 11, 2011, the Board adopted annual health benefits-related assumptions for the June 30, 2012 actuarial valuation, which include a retiree health subsidy freeze for non-retired members not making the 2% or 4% additional contributions as mentioned in Note 2 – Retirement Plan Description on page 16 and Note 3 – Postemployment Health Care Plan Description on page 19. The subsidy freeze reduces the actuarial liability of the postemployment health care benefits as well as the employer contributions. As of June 30, 2013, approximately 97% of non-retired members were making the additional contributions, and therefore not subject to the subsidy freeze, while about 736 non-retired members from three bargaining units were subject to freeze. However, a recent court ruling overturned the freeze for the members of two bargaining units who were not making additional contribution (refer to Note 10 – Subsequent Events on page 28). The effect of ending of subsidy freeze for the members of the two bargaining units will be included in the June 30, 2014 actuarial valuation and cause a slight increase in future City contribution rates, if all other things be equal.

On October 25, 2011, the Board lowered the investment return assumption used in the June 30, 2011 actuarial valuation, and ongoing, from 8% to 7.75% and approved phasing in over five years the cost impact of the assumption change and other assumption changes adopted by the Board as a result of the triennial Experience Study. The lower investment return assumption causes the actuarial liability and the employer contributions to increase. However, the increase of employer contributions in the near future is mitigated by the five-year phase-in approach.

On October 23, 2012, the Board modified the funding policy to change the actuarial cost method from the projected unit credit (PUC) method to entry age normal (EAN) method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers, with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions.

Due to seven-year asset smoothing, the large investment losses from the fiscal year 2008-09 have not been fully recognized in the actuarial valuation. As of June 30, 2013, there is a combined unrecognized investment loss in the amount of $81,571,000, which is substantially reduced from the deferred loss of $1,024,757,000 as of June 30, 2012. As it stands, the market value of assets represents more than 99% of the actuarial/smoothed value of assets – marking the first time that the market value has grown back so closely toward the actuarial value of assets since the June 2007 valuation. The deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next six years, however, in a very uneven pattern: there will be losses recognized in the next two years, followed by two years of gains, then one year of losses, and finally one year of gains. Therefore, absent any new gains or losses in the future, the contribution requirements would increase in the next two years, followed by two years of decreases, then one year of increase, and finally one year of decrease, before the $81,571,000 in net deferred losses are fully recognized, even if the actual market return is equal to the assumed 7.75% rate and all other actuarial assumptions are met.

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2013
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	Total
Personnel Services:			
Salaries	$ 8,617	$ 1,730	$ 10,347
Employee Development and Benefits	1,352	271	1,623
Total Personnel Services	9,969	2,001	11,970
Professional Services:			
Actuarial	259	52	311
Audit	67	13	80
Legal Counsel	697	140	837
Disability Evaluation Services	104	21	125
Retirees' Health Admin Consulting	-	517	517
Benefit Payroll Processing	178	36	214
Other Consulting	194	39	233
Total Professional Services	1,499	818	2,317
Information Technology:			
Computer Hardware and Software	434	87	521
Computer Maintenance and Support	95	19	114
Total Information Technology	529	106	635
Leases:			
Office Space	581	117	698
Office Equipment	21	4	25
Total Leases	602	121	723
Other Expenses:			
Fiduciary Insurance	149	30	179
Educational and Due Diligence Travel	63	12	75
Office Expenses	437	88	525
Depreciation and Amortization	104	21	125
Total Other Expenses	753	151	904
Total Administrative Expenses	$ 13,352	$ 3,197	$ 16,549

Schedule of Investment Expenses
For the Year Ended June 30, 2013
(In Thousands)

	Assets Under Management	Fees
<u>Retirement Plan</u>		
Investment Management Expense:		
Fixed Income Managers	$ 2,273,181	$ 3,723
Equity Managers	6,055,763	12,506
Subtotal Investment Management Expense	8,328,944	16,229
Other Investment Expense:		
Private Equity Consulting Fee	-	770
Real Estate and Other Consulting Fee	-	520
Subtotal Other Investment Expense	-	1,290
<u>Postemployment Health Care Plan</u>		
Investment Management Expense:		
Fixed Income Managers	383,993	747
Equity Managers	1,022,957	2,511
Subtotal Investment Management Expense	1,406,950	3,258
Other Investment Expense:		
Private Equity Consulting Fee	-	155
Real Estate and Other Consulting Fee	-	104
Subtotal Other Investment Expense	-	259
Total Investment Management Expense and Other Investment Expense, Excluding Private Equity, Real Estate, and Securities Lending	$ 9,735,894	$ 21,036
Private Equity Managers’ Fees:		
Retirement Plan	$ 1,032,484	$ 15,032
Postemployment Health Care Plan	174,411	3,018
Total Private Equity Managers’ Fees	$ 1,206,895	$ 18,050
Real Estate Managers’ Fees:		
Retirement Plan	$ 583,737	$ 7,570
Postemployment Health Care Plan	98,607	1,520
Total Real Estate Managers’ Fees	$ 682,344	$ 9,090
Security Lending Fees:		
Retirement Plan	$ 988,930	$ 850
Postemployment Health Care Plan	167,052	171
Total Security Lending Fees	$ 1,155,982	$ 1,021