LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO THE AUDIT COMMITTEE AND BOARD OF ADMINISTRATION

FOR THE YEAR ENDED JUNE 30, 2016

LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Los Angeles City Employees' Retirement System (LACERS), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise LACERS' basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 21, 2016

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

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

We have audited the financial statements of the Los Angeles City Employees' Retirement System (LACERS) for the year ended June 30, 2016, and have issued our report thereon dated November 21, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 21, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LACERS are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, LACERS followed the requirements of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application;* GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68;* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* We noted no transactions entered into by LACERS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

- The contribution amounts and net pension liability which are based on the actuarially-presumed interest rate and assumptions. We evaluated the key factors and assumptions used to develop the contribution amounts and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

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

- The disclosures for deposits and investments in Note 1 – Description of LACERS and Significant Accounting Policies and Note 6 – Cash and Short-Term Investments and Investments were derived from LACERS' investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes to the basic financial statements.

- Additionally, the disclosures related to the funding policies, net pension liability, and actuarial methods and assumptions in Note 2 – Retirement Plan Description and Note 3 – Postemployment Health Care Plan Description were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

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

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

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

Management Representations
We have requested certain representations from management that are included in the Management Representation Letter dated November 21, 2016.

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

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

Other Matters
We applied certain limited procedures to the Management Discussion and Analysis (MD&A); the Retirement Plan Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns; and the Postemployment Health Care Plan Schedule of Employer Contributions and Schedule of Funding Progress, which are required supplementary information (RSI) that supplement the basic financial

statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

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

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 21, 2016

LACERS
SUMMARY OF UNADJUSTED AUDIT DIFFERENCE
6/30/2016

	Increase in Fiduciary Net Position (in 000's)
Known Audit Difference:	
Difference from timing of private equity fair value reporting	$ 28,900
Total Unadjusted Audit Difference	$ 28,900

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AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

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

In planning and performing our audit of the financial statements of the Los Angeles City Employees' Retirement System (LACERS) for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered LACERS' internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACERS' internal control. Accordingly, we do not express an opinion on the effectiveness of LACERS' internal control.

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

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

The results of our audit disclosed no findings; we are providing the disposition of the prior year comment.

I. CURRENT YEAR CONDITION AND RECOMMENDATION

None.

II. DISPOSITION OF PRIOR YEAR CONDITION

Condition Number 1 – Pension Administration System – User Access

The administrative user group within PensionGold, LACERS' Pension Administration System, includes two management staff, who also have access to the financial system and are responsible for processing financial transactions and overseeing staff that process financial transactions. These individuals have the ability to add or remove or edit user accounts as well as make changes to both the program and its associated data.

Recommendations

To mitigate the risk of possible unauthorized changes to user accounts and system configuration, we recommend LACERS establish adequate segregation of duties and remove administrative access in PensionGold from staff that is responsible for processing financial transactions or oversees staff responsible for processing financial transactions.

Views of Responsible Officials and Planned Corrective Action

The limitations of PensionGold version 2.8 do not allow a more restrictive access level than ADMIN to perform functions done by two staff members granted this access. This is a client-server based system which only allows a user to be in one group. As of October 2, 2015, the ADMIN rights for one staff member have been disabled. In 2017, with the launch of the PensionGold version 3, we will have the capability to grant/restrict access at a granular level. This will allow us to remove ADMIN access for the other staff member -- who utilizes the 1099 reporting wizard and annually maintains the city department listing -- and grant them a more restricted access. However, internal controls are in place, which include a monthly review of database logs by the System's Network & Database Unit. The unit looks for changes in user access, and also activities of users comprised of additions, inserts, updates, and stored procedures to the database tables. If anomalies fall outside of the PensionGold processes, then that is brought forth to the IS Manager for discussion with the PGold Unit. As of current, we have not uncovered questionable processes. The review is documented in the System's SharePoint Tracking system. Currently, the System's PGold Unit reviews the audit log on an occasional monthly basis. Going forward, we will formalize the monthly review of the audit log by the Systems Network Unit with IS Manager sign-off of the review. The review shall be documented in the SharePoint Tracking System. The team would validate any changes made from ADMIN users relating to 1) control tables, 2) Member services, and 3) Member funds.

Current Year Status

LACERS version 3 PensionGold upgrade is currently in process. Once the upgrade is complete, staff with user access rights will no longer require administrative access to the system or its SQL database. In the meantime, LACERS implemented mitigating controls, including a monthly review of audit logs from the PensionGold application and its SQL database to validate activities performed by users with administrative access.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 21, 2016

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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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 Fiduciary Net Position of the Los Angeles City Employees' Retirement System (LACERS), a department of the Municipality of the City of Los Angeles, California, as of June 30, 2016, and the related Retirement Plan and Postemployment Health Care Plan Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise LACERS basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Retirement Plan and Postemployment Health Care Plan of LACERS as of June 30, 2016, and the changes in fiduciary 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, the financial statements include investments that are not listed on national exchanges or for which quoted market prices are not available. These investments include private equities and investments in real estate. Such investments totaled $2.2 billion (15.0% of total assets) at June 30, 2016. Where a publicly listed price is not available, the management of LACERS uses alternative sources of information including audited financial statements, unaudited interim reports, independent appraisals, and similar evidence to determine the fair value of the investments. Additionally, as discussed in Note 6 to the basic financial statements, in the fiscal year of 2016, LACERS adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurements and Application*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of LACERS that collectively comprise LACERS basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic 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 LACERS June 30, 2015 financial statements, and our report dated November 30, 2015, 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, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Financial Highlights

- LACERS fiduciary net position as of June 30, 2016 was $14,005,059,000 a decrease of $119,701,000 or -0.8% over the prior fiscal year.
- The total additions to the fiduciary net position of LACERS, from employer contributions made by the City of Los Angeles (the City), Member contributions, and net investment income, were $784,949,000, a 25.8% decrease from the prior fiscal year.
- The employer contributions to the Retirement Plan represented 100% of the Actuarially Determined Contribution of employer as defined by the Governmental Accounting Standards Board (GASB) Statements No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.*
- The employer contributions to the Postemployment Health Care Plan represented 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.
- Net investment income for this fiscal year was $26,917,000, representing a 92.7% decrease compared with an investment income of $367,992,000 for the previous reporting period.
- The total deduction from the fiduciary net position was $904,650,000, a 4.2% increase from the prior fiscal year, for the payment of retirement and postemployment health care benefits, refunds of Member contributions, and administrative expenses.
- The System's Net Pension Liability (NPL) for the retirement benefits was $5,615,667,000 as of June 30, 2016. NPL, an important measure required by GASB Statement No. 67 to disclose in the financial notes of a pension plan, is the difference between the Total Pension Liability (TPL) and the Plan fiduciary net position. As the Plan fiduciary net position is equal to the market value of the System's assets, NPL is determined on market value basis, and it fully reflects Plan's investment performance (0.5% rate of return, gross of fees) of this fiscal year. Compared with the previous fiscal year, the NPL increased by $626,241,000.
- The Plan Fiduciary Net Position as a Percentage of TPL, another required disclosure by GASB Statement No. 67, is 67.8%, which is exactly the same as the funded ratio on market value basis reported in the actuarial valuation for the retirement benefits.
- Based on the most recent actuarial valuation as of June 30, 2016, the funded ratio for the Postemployment Health Care Plan was 80.5%, a slight increase from 79.7% of the same period a year ago. This funded ratio was determined on actuarial value basis: the ratio of actuarial value of assets to the actuarial accrued liabilities of Postemployment Health Care Plan. On market value basis, the funded ratio decreased from 81.0% to 76.4%.

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 on LACERS operations.

Financial Statements

There are two financial statements presented by LACERS. The Statement of Fiduciary Net Position on page 13 gives a snapshot of the account balances at year-end and shows the amount of the fiduciary net position (the difference between the assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) available to pay future benefits. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the fiduciary net position of LACERS is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on page 14 provides a view of current year additions to, and deductions from, the fiduciary 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 15 - 34 of this report.

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of Schedule of Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contribution History, and Schedule of Investment Returns for the Retirement Plan; and Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information for the Postemployment Health Care Plan. These schedules and notes primarily present multi-year information as required by the applicable financial reporting standards. This required supplementary information can be found on pages 35 - 40 of this report.

Supplemental Schedules

The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Fees and Expenses, are presented to provide additional financial information on LACERS operations for the current year. They can be found on pages 41 and 42 of this report.

Management's Discussion and Analysis

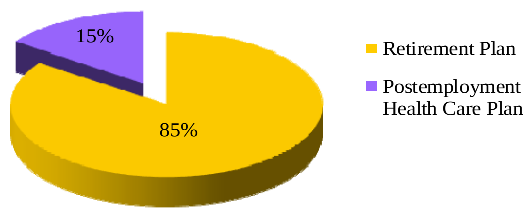
Financial Analysis

Allocation of Fiduciary Net Position

Fiduciary net position may serve as a useful indicator of a plan's financial position. The total fiduciary 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, 2016 (dollars in thousands):

	Fiduciary Net Position	Percent
Retirement Plan	$ 11,870,182	84.8%
Postemployment Health Care Plan	2,134,877	15.2
Fiduciary Net Position	$ 14,005,059	100.0%

Allocation of Fiduciary Net Position



Fiduciary Net Position

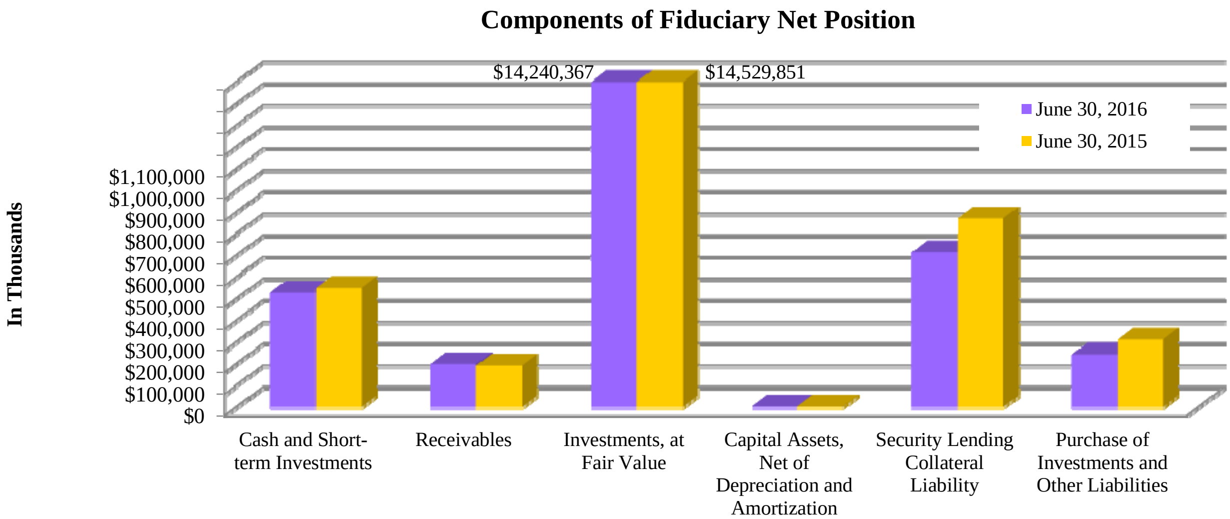
The following table and graph detail the components of the fiduciary net position of LACERS as of June 30, 2016 and 2015 (dollars in thousands):

	June 30, 2016	June 30, 2015	Change	
Cash and Short-Term Investments	$ 499,731	$ 520,834	$ (21,103)	(4.1) %
Receivables	180,505	173,545	6,960	4.0
Investments, at Fair Value	14,240,367	14,529,851	(289,484)	(2.0)
Capital Assets, Net of Depreciation and Amortization	4,952	4,050	902	22.3
Total Assets	14,925,555	15,228,280	(302,725)	(2.0)
Securities Lending Collateral Liability	695,789	830,924	(135,135)	(16.3)
Purchase of Investments and Other Liabilities	224,707	272,596	(47,889)	(17.6)
Total Liabilities	920,496	1,103,520	(183,024)	(16.6)
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	$ 14,005,059	$ 14,124,760	$ (119,701)	(0.8) %

Management's Discussion and Analysis

Financial Analysis (Continued)

Fiduciary Net Position (Continued)



The majority of LACERS fiduciary net position is contained in its investment portfolio, which consists of cash and short-term investments, receivables, fixed income, equities, and other asset classes. Fiduciary net position decreased by $119,701,000, or -0.8%, during this fiscal year.

Net Decrease in Fiduciary Net Position

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

	June 30, 2016	June 30, 2015	Change	
Additions	$ 784,949	$ 1,057,322	$ (272,373)	(25.8) %
Deductions	904,650	868,334	36,316	4.2
Net Increase/(Decrease) in Fiduciary Net Position	(119,701)	188,988	(308,689)	(163.3)
Fiduciary Net Position, Beginning of Year	14,124,760	13,935,772	188,988	1.4
Fiduciary Net Position, End of Year	$ 14,005,059	$ 14,124,760	$ (119,701)	(0.8) %

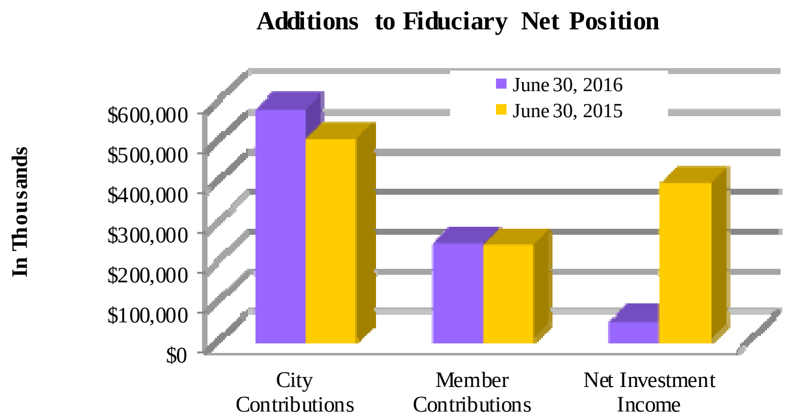
Management's Discussion and Analysis

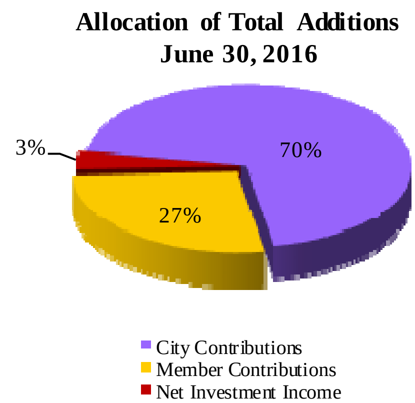
Financial Analysis (Continued)

Net Decrease in Fiduciary Net Position – Additions to Fiduciary Net Position

The following table and graph represent the components that make up the additions to fiduciary net position for LACERS for the years ended June 30, 2016 and 2015 (dollars in thousands):

	June 30, 2016	June 30, 2015	Change
City Contributions	$ 546,687	$ 481,766	13.5 %
Member Contributions	211,345	207,564	1.8
Net Investment Income	26,917	367,992	(92.7)
Additions to Fiduciary Net Position	$ 784,949	$ 1,057,322	(25.8) %





The additions to LACERS fiduciary 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 $546,687,000 during the year. The total increase of $64,921,000 (or 13.5%) over the prior fiscal year was due to a higher payroll base, higher contribution rates recommended by the actuary, and the City's payment of the costs of transferring Tier 2 members to Tier 1. The total City contribution includes $8,177,000 of net true-up credit adjustment as a result of: 1) reconciling the City's contribution based on projected payroll against actual payroll, and 2) the City's additional contributions required to fund the benefit cost incurred by the City's Ordinance 184134 that created Tier 3 Members and transferred all Tier 2 Members to Tier 1 on February 21, 2016 (refer to Note 2 – Retirement Plan Description on pages 18 - 20). This true-up amount, which included accrued interest at 7.5%, was recognized as liability as of the end of the reporting period. After reflecting the true-up adjustment, the aggregate employer contribution rate for this fiscal year was 29.12% (23.47% for the Retirement Plan and 5.65% for the Postemployment Health Care Plan) which is 2.88% higher than the prior fiscal year at 26.24%. The actual contribution to the Retirement Plan in the amount of $440,546,000 was equal to 100% of the Actuarially Determined Contribution (ADC) of employer, as defined by GASB Statement No. 67. The actual contribution to the Postemployment Health Care Plan in the amount of $105,983,000 was equal to 100% of the Annual Required Contribution (ARC), as defined by GASB Statements No. 43 and No. 45.

Factors that may affect the total Member contributions include the change in number of Members in each tier, the change in Member salaries, and the change in Member contribution rates. In fiscal year 2015-16, Member

Management's Discussion and Analysis

Financial Analysis (Continued)

Net Decrease in Fiduciary Net Position – Additions to Fiduciary Net Position (Continued)

contributions were $211,345,000, which was $3,781,000 or 1.8% greater than the prior year. The primary cause of the increased contributions was the increase in number of Members and their salaries during the fiscal year.

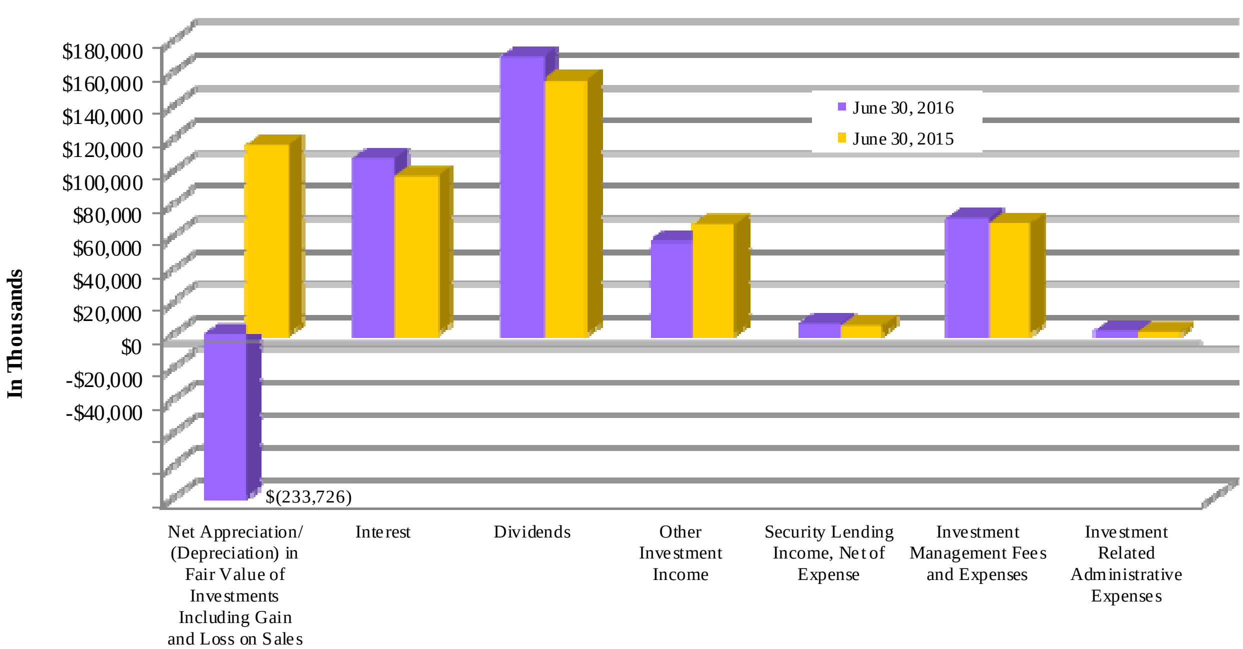
The net investment income was $26,917,000, which included $233,726,000 of net depreciation in the fair value of investments. This is discussed in more detail in the next section.

Investment Income

The following table and graph present the detail of investment income, net of investment management fees and expenses for the years ended June 30, 2016 and 2015 (dollars in thousands):

	June 30, 2016	June 30, 2015	Change
Net Appreciation/(Depreciation) in Fair Value of Investments Including Gain and Loss on Sales	$ (233,726)	$ 116,171	(301.2) %
Interest	103,618	94,272	9.9
Dividends	165,432	154,179	7.3
Other Investment Income	51,479	60,529	(15.0)
Security Lending Income, Net of Expense	6,654	5,437	22.4
Sub-Total	93,457	430,588	(78.3)
Less: Investment Management Fees and Expenses	(64,439)	(61,322)	5.1
Investment Related Administrative Expenses	(2,101)	(1,274)	64.9
Net Investment Income	$ 26,917	$ 367,992	(92.7) %

Investment Income and Expenses



Management's Discussion and Analysis

Financial Analysis (Continued)

Investment Income (Continued)

The net investment income for the current fiscal year was $26,917,000, as compared with the income of $367,992,000 for the previous fiscal year (92.7% decrease). The primary cause of large decrease of investment income was a $233,726,000 decline in fair value of LACERS investment assets as compared with the previous year's net realized and unrealized gain of $116,171,000, and reflected the economic and financial uncertainty in non-U.S. equity markets over the reporting period. Major non-U.S. equity indices experienced losses for the fiscal year. The MSCI World Ex-U.S. Index, which tracks non-U.S. equities in developed markets, returned -9.0%; the MSCI Emerging Markets Index returned -12.1%. In contrast, the Russell 3000 Index, which tracks U.S. broad market equities, returned 2.1%, while Standard & Poor's 500 Index, a gauge of U.S. large capitalization equities, returned 4.0%.

Interest income derived from bonds and other fixed income securities increased by $9,346,000 (9.9%), which was attributed primarily to increased holdings and to higher yielding securities.

Dividend income derived from equities increased by $11,253,000 (7.3%) due to increased dividend payouts from companies held in LACERS portfolio, and a transfer of assets from a commingled fund which does not distribute dividend income, to a separate account which distributes dividend income.

Other investment income, primarily derived from private equity and private real estate partnership investments, decreased by $9,050,000 (-15.0%) to $51,479,000 in the current fiscal year. This decrease was attributed to lower partnership distributions compared to the prior fiscal year, and a "J-Curve" loss effect of newly acquired portfolio investments. The "J-Curve" refers to the typical pattern of returns over the life of a partnership investment and is characterized by negative returns in early years as portfolio investments are made and positive returns in later years as portfolio investments mature.

LACERS earns additional investment income by lending the securities to borrowers through its custodian bank. The borrowers provide cash or non-cash collateral to LACERS custodian bank. To earn income for LACERS, the custodian bank invests the cash collateral pledged by borrowers on behalf of LACERS in short-term fixed-income securities. LACERS also receives income from fees paid by borrowers that pledge non-cash collateral. In the reporting year, LACERS security lending income (net of expense) increased by $1,217,000 (22.4%) from a year ago due to higher borrower demand for securities held in the LACERS portfolio.

Investment management fees, expenses, and investment related administrative expenses increased by $3,944,000 (6.3%) from the prior year. This increase is attributed to the greater exposure to private equity, credit opportunities, and real assets, which have higher fees but are poised to be strong contributors to total fund performance and provide increased diversification benefits. In addition, employee benefit expenses paid for LACERS Investment Division staff and investment related legal expenses are now reclassified from administrative expenses to investment expenses to fully comply with the requirements of GASB Statement No. 67.

Net Decrease in Fiduciary Net Position – Deductions from Fiduciary Net Position

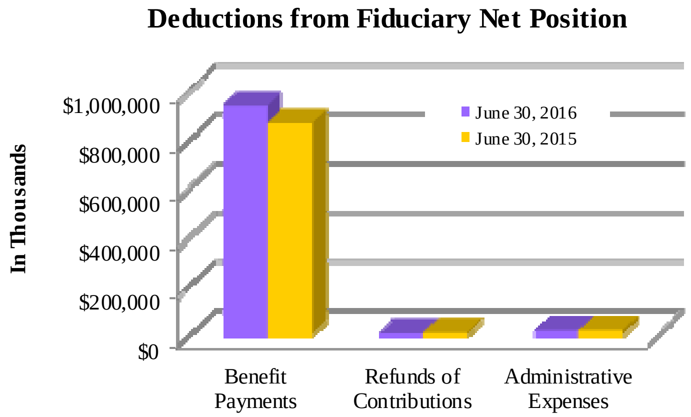
The following table and graphs provide information related to the deductions from fiduciary net position for the years ended June 30, 2016 and 2015 (dollars in thousands):

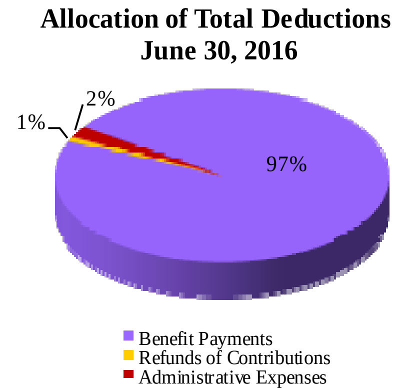
	June 30, 2016	June 30, 2015	Change
Benefit Payments	$ 877,204	$ 838,335	4.6 %
Refunds of Contributions	7,719	10,121	(23.7)
Administrative Expenses	19,727	19,878	(0.8)
Deductions from Fiduciary Net Position	$ 904,650	$ 868,334	4.2 %

Management's Discussion and Analysis

Financial Analysis (Continued)

Net Decrease in Fiduciary Net Position – Deductions from Fiduciary Net Position (Continued)





LACERS deductions from fiduciary net position in the reporting period can be summarized as Benefit 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 $36,316,000 or 4.2%.

Compared to the prior year, benefit payments increased by $38,869,000 or 4.6%. The benefit payments for the Retirement Plan increased by $32,528,000 (4.4%) mainly due to the annual cost of living adjustments (COLA) (approximately 1.3% increase on average with a maximum of 3.0%); increased number of retirees and beneficiaries; and the average retirement allowance of newly retired Members being higher than those of the deceased Members who were removed from the retirement payroll. Payments for Postemployment Health Care Plan benefits also increased by $6,341,000 (6.1%). During this year, there was no change in the maximum health subsidy amount at $1,580, and the renewed medical premium rates for calendar year 2016 decreased by 1.9% on average. However, the number of retired Members and their dependents eligible for medical subsidy increased as well as the 2016 Medicare Part B Reimbursement rate resulting in an increase in the health care benefit payment. In addition, there was a retroactive adjustment made in the health care benefit expense in 2015 related to a one-time defrayal of $3,322,000 by the return of excess premium stabilization reserve in the a postemployment health care provider which lowered the prior year expense, resulting in a larger increase in expense for the reporting year.

As the reciprocity program between the Water and Power Employees' Retirement Plan (WPERP) and LACERS was suspended by City Ordinance effective January 1, 2014, refunds of contributions decreased by $2,402,000 (-23.7%) as fewer City employees transferred to the Department of Water and Power (DWP) with their associated retirement contributions from LACERS to the WPERP. In addition, the decrease is related to a transfer of $2,139,000 to the Los Angeles Fire and Police Pension (LAFPP) Plan due to a change in membership for certain employees in the Office of Public Safety in the prior fiscal year, which made last year's refund amount higher on a one-time basis.

LACERS administrative expenses decreased by $151,000 or 0.8% from the prior year. The decrease attributed to an offset caused by the reclassification of numerous administrative expenses to the investment expenses as mentioned above. Without such reclassification, administrative expenses would have been increased by $676,000 (3.2%) from the prior year. The actual increase in expenses are due to salary factors such as negotiated COLA increase, LACERS share of employer contributions to employee benefits, and increased Health Benefit consulting fees.

Management's Discussion and Analysis

Requests for Information

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

LACERS
Fiscal Management Section
202 W. First Street, Suite 500
Los Angeles, CA 90012-4401

BASIC FINANCIAL STATEMENTS

Statement of Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
As of June 30, 2016, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2016 Total	2015 Total
Assets				
Cash and Short-Term Investments	$ 423,554	$ 76,177	$ 499,731	$ 520,834
Receivables				
Accrued Investment Income	42,516	7,647	50,163	44,948
Proceeds from Sales of Investments	86,735	15,599	102,334	118,813
Other	23,739	4,269	28,008	9,784
Total Receivables	152,990	27,515	180,505	173,545
Investments, at Fair Value				
U.S. Government Obligations	794,606	142,912	937,518	753,507
Municipal Bonds	1,213	218	1,431	6,300
Domestic Corporate Bonds	765,988	137,765	903,753	929,932
International Bonds	459,721	82,682	542,403	509,435
Other Fixed Income	726,148	130,599	856,747	915,523
Bank Loans	1,789	322	2,111	2,251
Opportunistic Debts	71,438	12,848	84,286	13,058
Domestic Stocks	3,054,520	549,362	3,603,882	3,824,090
International Stocks	3,337,877	600,324	3,938,201	4,276,629
Mortgages	344,923	62,035	406,958	449,658
Government Agencies	21,619	3,888	25,507	24,906
Derivative Instruments	-	-	-	1,714
Real Estate	697,657	125,475	823,132	655,936
Private Equity	1,202,396	216,253	1,418,649	1,335,988
Securities Lending Collateral	589,726	106,063	695,789	830,924
Total Investments	12,069,621	2,170,746	14,240,367	14,529,851
Capital Assets				
Furniture, Computer Hardware and Software (Net of Depreciation and Amortization)	4,197	755	4,952	4,050
Total Assets	12,650,362	2,275,193	14,925,555	15,228,280
Liabilities				
Accounts Payable and Accrued Expenses	32,618	5,866	38,484	34,950
Accrued Investment Expenses	9,598	1,726	11,324	9,333
Derivative Instruments	738	133	871	-
Purchases of Investments	147,500	26,528	174,028	228,313
Securities Lending Collateral	589,726	106,063	695,789	830,924
Total Liabilities	780,180	140,316	920,496	1,103,520
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits	**$ 11,870,182**	**$ 2,134,877**	**$ 14,005,059**	**$ 14,124,760**

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

Statement of Changes in Fiduciary Net Position
Retirement Plan and Postemployment Health Care Plan
For the Fiscal Year Ended June 30, 2016, with Comparative Totals
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	2016 Total	2015 Total
Additions				
Contributions				
City Contributions	$ 440,704	$ 105,983	$ 546,687	$ 481,766
Member Contributions	211,345	-	211,345	207,564
Total Contributions	652,049	105,983	758,032	689,330
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments, Including Gain and Loss on Sales	(191,801)	(41,925)	(233,726)	116,171
Interest	86,782	16,836	103,618	94,272
Dividends	138,552	26,880	165,432	154,179
Other Investment Income	43,115	8,364	51,479	60,529
Securities Lending Income	6,557	1,271	7,828	6,395
Less: Securities Lending Expense	(963)	(211)	(1,174)	(958)
Sub-Total	82,242	11,215	93,457	430,588
Less: Investment Management Fees and Expenses	(52,880)	(11,559)	(64,439)	(61,322)
Investment Related Administrative Expenses	(1,724)	(377)	(2,101)	(1,274)
Net Investment Income (Loss)	27,638	(721)	26,917	367,992
Total Additions	679,687	105,262	784,949	1,057,322
Deductions				
Benefit Payments	767,264	109,940	877,204	838,335
Refunds of Contributions	7,719	-	7,719	10,121
Administrative Expenses	15,576	4,151	19,727	19,878
Total Deductions	790,559	114,091	904,650	868,334
Net Increase (Decrease) in Fiduciary Net Position	(110,872)	(8,829)	(119,701)	188,988
Fiduciary Net Position Restricted for Pension Benefits and Postemployment Health Care Benefits				
Beginning of Year	11,981,054	2,143,706	14,124,760	13,935,772
End of Year	**$ 11,870,182**	**$ 2,134,877**	**$ 14,005,059**	**$ 14,124,760**

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

Notes to the Basic Financial Statements

Note 1 – Description of LACERS and Significant Accounting Policies

General Description

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

The System operates a single-employer defined benefit plan (the Retirement Plan) and a Postemployment Health Care Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. A description of each plan is located in Note 2 and Note 3 on pages 18 - 24 of this report. All Notes to the Basic Financial Statements apply to both plans unless indicated otherwise.

On or after July 1, 2013, new Members became Members of LACERS Tier 2. However, on July 9, 2015, the City and the Coalition of Los Angeles City Unions representing more than half City's civilian workforce reached an agreement which rescinded Tier 2 and created a new tier of benefits. As a result, Ordinance 184134 was adopted on January 12, 2016, and all active Tier 2 Members were transferred to Tier 1 as of February 21, 2016. On or after February 21, 2016, new Members became Tier 3 Members of LACERS (refer to Note 2 – Retirement Plan Description on pages 18 - 20, Note 3 – Postemployment Health Care Plan Description on pages 21 - 22 for each tier's required contributions and benefits received).

Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). The financial statements are maintained on the accrual basis of accounting. 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. The accompanying financial statements include information from the prior year summarized for comparative purpose only. Such information does not include sufficient detail to constitute a presentation in accordance with US GAAP.

Investments

Investment Policies

Funds of the System are invested pursuant to the System's investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, private real estate, private equity, and short-term investments. During the reporting period, there were no significant investment policy changes.

As of June 30, 2016, the Board's adopted asset allocation policy was as follows:

Asset Class	Target Allocation
Domestic and International Equities	53.0%
Domestic and International Bonds	19.0
Private Equity	12.0
Real Assets	10.0
Short-Term Investments	1.0
Credit Opportunities	5.0
Total	100.0%

Fair Value of 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.

Notes to the Basic Financial Statements

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

Investments (Continued)

Fair Value of Investments (Continued)

The private equity funds ("partnership investment"), which are managed by third party investment managers, are valued on a quarterly and/or annual basis at their net asset value as reported by the investment managers under US GAAP. US GAAP requires that assets be reported at fair value in accordance with Accounting Standards Codification Topic 820 – *Fair Value Measurement and Disclosures.* 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.

The provisions of the GASB Statement No. 72, *Fair Value Measurement and Application*, require investments to be measured at fair value as well as to classify the inputs used to determine fair value based on a three-level fair value hierarchy. This information is presented in the Note 6 on pages 30 - 32.

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 Fiduciary 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 the ex-dividend date. Interest income is reported at the stated interest rate as earned, and any premiums or discounts on debt securities are not amortized. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of LACERS pension plan investment. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

For the future contracts, an initial margin is required to open a position and maintain the collateral requirement until the position is closed. LACERS reports the collateral for the future contracts in the short-term investments.

Concentrations

The investment portfolio as of June 30, 2016, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

Rate of Return on Investments

For the year ended June 30, 2016, the annual money-weighted rate of return on LACERS investments, net of investment expenses, was 0.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables

The additional employer contributions of $16,061,000 related to Tier 2 transfer and Tier 3 for this fiscal year was received on July 15, 2016, and recorded as contributions receivable as of June 30, 2016 (refer to Employer Contribution of Note 2 – Retirement Plan Description on page 19). LACERS held no long-term contracts for contributions receivable from the City.

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 the straight-line method.

In order to comply with the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, certain costs for developing LACERS new Pension Administration System (PAS), a customized software solution critical to LACERS core operations, have been capitalized. This project is still in process, and the capitalized costs to date as of June 30, 2016 was $4,538,000.

Administrative Expenses

All administrative expenses are funded from LACERS fiduciary net position, which represents accumulated investment earnings and contributions from the City and the Members net of payments.

Reserves

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

Notes to the Basic Financial Statements

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

Reserves (Continued)

Reserves for the Retirement Plan

Member Contributions (Mandatory) – Active Member mandatory contributions to the Retirement Plan and interest credited to Members' accounts, less refunds of Members contributions and transfers to the Annuity reserve.

Member Contributions (Voluntary) – Active Member voluntary contributions under the larger annuity program and interest/investment return credited to Members' accounts, less refunds of Members contributions (voluntary) and transfers to the Larger 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 – Members' mandatory contribution balances transferred at retirement 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' voluntary contribution balances transferred at retirement for Larger Annuity benefit including Internal Revenue Service (IRS) Section 457 deferred compensation and other rollovers, investment earnings (losses) including net appreciation (depreciation) in fair value of investments, less payments to participating retired Members.

Family Death Benefit Plan (FDBP) – Active Member voluntary 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 administered by LACERS, less payments to beneficiaries.

Reserve for the 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 payments to insurance providers and/or reimbursements to retired Members.

Reserve balances as of June 30, 2016, were as follows (in thousands):

Reserves for the Retirement Plan		
Member Contributions:		
- Mandatory	$ 2,168,814	
- Voluntary	5,355	
Basic Pensions	9,169,071	
Annuity	471,444	
Larger Annuity	40,828	
FDBP	14,670	$11,870,182
Reserve for the Postemployment Health Care Plan		2,134,877
Total Reserves		$ 14,005,059

Estimates

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

Implementation of New GASB Pronouncements

In the current fiscal year, the System implemented the provisions of the GASB Statement No. 72, *Fair Value Measurement and Application.* This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the approach: market approach, cost approach, or income approach. The Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires additional disclosures relating to investments in certain entities that calculate net asset value per share (refer to Note 6 – Fair Value Measurement on pages 30 - 32).

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* and Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local*

Notes to the Basic Financial Statements

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

Implementation of New GASB Pronouncements (Continued)

Governments. Statement No. 73 amends certain provisions, and clarifies the application of certain provisions of Statements No. 67 and No. 68 in order to improve the usefulness of information about pensions included in the financial reports of state and local governments for making decisions and assessing accountability. Statement No. 76 establishes the hierarchy of GAAP for state and local governments, in the context of the current governmental financial reporting environment. The System's fiduciary net position was not materially affected by the implementation of the Statements No. 73 and No. 76.

Note 2 – Retirement Plan Description

Plan Administration and Membership

LACERS administers a defined benefit pension plan that provides for service and disability retirement benefits, as well as death benefits.

The Retirement Plan covers all full-time personnel and department-certified part-time employees of the City, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, elected officials who elected to participate in an alternative Defined Contribution Plan, and certain Port Police officers of the Harbor including those who elected to opt out of LACERS. Upon transferring all active Tier 2 Members to Tier 1 as of February 21, 2016, Membership to Tier 1 is now closed to new entrants unless a Member meets one of the exceptions allowed in the Ordinance. Eligible employees hired on or after February 21, 2016 become Members of Tier 3.

As of June 30, 2016, the components of LACERS membership in both tiers (Tier 1 and Tier 3) were as follows:

Active:	
Vested	20,078
Non-vested	4,368
	24,446
Inactive:	
Non-vested	4,677
Terminated Entitled to Benefits, Not Yet Receiving Benefits	2,218
Retired	18,357
Total	49,698

Members of LACERS 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 has five or more years of continuous City service terminates employment, the Member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

Eligibility Requirement and Benefits Provisions

Tier 1

Plan Members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Plan Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the Member's average monthly pensionable salary during the Member's last 12 months of service, or during any other 12 consecutive months of service designated by the Member, multiplied by the Member's years of service credit. Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a $2,500 funeral allowance is paid, and modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

Tier 3

Plan Members are eligible to retire with unreduced benefits if they have at least 10 or more years of City service at age 60 or at least 30 years of City service at age 55, provide that five years of service must be continuous. Full unreduced retirement benefits at age 60 with 10 years of City service are determined with a 1.5% retirement factor. Plan Members also are eligible to retire with an age-based reduced benefits before reaching age 60 with 30 or more years of City

Notes to the Basic Financial Statements

Note 2 – Retirement Plan Description (Continued)

Eligibility Requirement and Benefits Provisions (Continued)

service with a retirement factor of 2.0%. If the Member is age 55 or older with 30 years of service at the time of retirement, his or her retirement allowance will not be subject to reduction on account of age. However, if the Member is younger than age 55 with 30 years of Service at the time of retirement, his or her retirement allowance will be reduced by the applicable early retirement reduction factor. In addition, the System also provides Tier 3 Members an enhanced retirement benefits with a 2.0% retirement factor if the Member retires at age 63 with at least 10 years of service, or a retirement factor of 2.1% if the Member retires at age 63 with 30 years of service. Tier 3 retirement benefits are determined by multiplying the Member's retirement factor (1.5% - 2.1%), with the Member's last 36 months of Final Average Compensation (FAC) or any other 36 consecutive months designated by the Member, and by the Member's years of service credit (SC) as follows:

Age at Retirement	Required Years of Service	Retirement Benefit(1)
Under 55	30 Years	2.0% x FAC x Yrs. of SC(2)
55 and Over	30 Years	2.0% x FAC x Yrs. of SC
60 and Over	10 Years	1.5% x FAC x Yrs. of SC
63 and Over	10 Years	2.0% x FAC x Yrs. of SC
63 and Over	30 Years	2.1% x FAC x Yrs. of SC

(1) Retirement allowance may not exceed 80% of final compensation except when benefit is based solely on the annuity component funded by the Member's contributions.

(2) A reduction factor will be applied based on age at retirement.

Plan Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the Member's final average monthly salary for each year of service or 1/3 of the Member's final average monthly salary, if greater. Upon an active Member's death, a refund of the Member's contributions and, depending on the Member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such Member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired Member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner. There were no Tier 3 Members who retired during this reporting period.

Cost of Living Adjustment

Retirement allowances are indexed annually for inflation. The Board has authority to determine, no later than May 1st of each year, the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a Cost of Living Adjustment (COLA) to the benefits of eligible Members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 Members or 2.0% for Tier 3 Members. The excess over the maximum will be banked for Tier 1 Members only.

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 provide for periodic actuarially-determined employer contribution rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2016, the actuarially-determined contribution of the employer to the Retirement Plan by the City was 23.02% of covered payroll, based on the June 30, 2014 actuarial valuation. Upon closing the fiscal year 2015-16, LACERS re-calculated employer contributions using actual payroll incurred during the fiscal year which was smaller than projected covered payroll used by the City to make the advance payment at the beginning of the fiscal year. As a result, employer contributions received for Retirement Plan were $19,226,000 more before considering $13,572,000 of the City's additional contributions required for transferring Tier 2 Members to Tier 1. $5,654,000 of net Retirement Plan true-up was returned to the employer as a credit toward employer contribution for fiscal year 2016-17. Based on actual payroll, the effective rate of employer contribution for Retirement Plan was 23.47%.

Member Contributions

Tier 1

The current contribution rate for Tier 1 Members is 11% of their pensionable salary including a 1% increase in the Member contribution rate pursuant to 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP Cost obligation is fully recovered, whichever comes first); and 4% additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy pursuant to a 2011 City Council ordinance. As of June 30, 2016, all active Tier 1 Members are now paying additional contributions, and are not subject to the retiree medical subsidy cap.

Notes to the Basic Financial Statements

Note 2 – Retirement Plan Description (Continued)

Member Contributions (Continued)

Tier 3

The contribution rate for Tier 3 Members is 11% of their pensionable salary including 4% additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy. Unlike Tier 1, Tier 3 Members do not pay ERIP contribution, therefore, Tier 3 Members' contribution rate will not drop down when Tier 1 Members cease to pay the 1% ERIP contribution.

Net Pension Liability

In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with Family Death and Larger Annuity Benefits. As of June 30, 2016, the components of the net pension liability were as follows (in thousands):

Total Pension Liability	$ 17,424,996
Plan Fiduciary Net Position (1)	(11,809,329)
Plan's Net Pension Liability	$ 5,615,667
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.8%

(1) Plan fiduciary net position was $11,870,182,000 as of June 30, 2016 without excluding amounts associated with Family Death, and Larger Annuity Benefits.

Significant Assumptions

Projections of benefits for financial reporting purposes are based on the types of benefits provided to active, inactive, and retired Members at the time of each valuation, including expected future COLAs. The attribution method and significant assumptions used in the valuation year of June 30, 2016, are summarized below:

Valuation Date	June 30, 2016
Attribution Method	Entry Age Method – assuming a closed group.
Actuarial Assumptions:	
Date of Experience Study	June 30, 2014
Long-Term Expected Rate of Return	7.50%, net of pension plan investment expenses, including inflation assumption at 3.25%.
Inflation	3.25%
Real Across-the-Board Salary Increase	0.75%
Projected Salary Increases	Ranges from 4.40% to 10.50% based on years of service, including inflation assumption at 3.25% and the real across-the-board salary increase assumption of 0.75%.
Annual COLAs	3.0% maximum for Tier 1 and 2.0% maximum for Tier 3
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table, projected with Scale BB to 2020, set back one year for males and no set back for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table, projected with Scale BB to 2020, set back seven years for males and set forward eight 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	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.

Notes to the Basic Financial Statements

Note 2 – Retirement Plan Description (Continued)

Discount Rate
The discount rate used to measure the total pension liability was 7.50% as of June 30, 2016 and June 30, 2015. This rate is a long-term expected rate of return on the System's investments.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Larger Cap Equity	20.4%	5.9%
U.S. Small Cap Equity	3.6	6.6
Developed Int'l Equity	21.7	7.0
Emerging Market Equity	7.3	8.5
Core Bonds	16.5	0.7
High Yield Bonds	2.5	2.9
Private Real Estate	5.0	4.7
Public Real Assets	5.0	3.4
Private Equity	12.0	10.5
Credit Opportunities	5.0	3.1
Cash	1.0	(0.5)
Total	100.0%	

The projection of cash flows used to determine the discount rate assumed plan Member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan Members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan Members and beneficiaries, as well as projected contributions from future plan Members, are not included.

Based on those assumptions, LACERS fiduciary net position was projected to be available to make "all" projected future benefit payments for current plan Members. Therefore, in accordance with the GASB Statement No. 67, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2016 and June 30, 2015.

Sensitivity of Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability of LACERS as of June 30, 2016, calculated using the discount rate of 7.50%, as well as what LACERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollar in thousands):

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
$7,914,675	$5,615,667	$3,700,956

Note 3 – Postemployment Health Care Plan Description

Plan Description

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

The maximum subsidies are set annually by the Board. Both Tier 1 and Tier 3 Members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and

Notes to the Basic Financial Statements

Note 3 – Postemployment Health Care Plan Description (Continued)

Plan Description (Continued)

the eligible Members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Plan Members are entitled to the System's postemployment health care benefits after the retired Member's death. During the 2011 fiscal year, the City adopted an ordinance ("Subsidy Cap Ordinance") to limit the maximum medical subsidy at $1,190 for those Members who retire on or after July 1, 2011; however, Members who at any time prior to retirement made additional contributions are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2016, all non-retired Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap (refer to Member Contributions of Note 2 – Retirement Plan Description on pages 19 - 20.

Funding Policies and Funded Status and Progress

The Los Angeles City Charter Sections 1158 and 1160 require periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2016, was 5.58% of covered payroll, determined by the June 30, 2014 actuarial valuation.

Upon closing the fiscal year 2015-16, LACERS re-calculated employer contributions using actual payroll incurred during the fiscal year which was smaller than projected covered payroll used by the City to make the advance payment at the beginning of the fiscal year. As a result, employer contributions received for Postemployment Plan were $4,805,000 more before considering $2,282,000 of City's additional contribution required for transferring Tier 2 Members to Tier 1. The difference, $2,523,000 of net Postemployment Health Care Plan true-up, was returned to the employer as a credit toward employer contribution for fiscal year 2016-17. Based on the actual payroll, the effective rate of employer contribution for Postemployment Health Care Plan was 5.65%. As of June 30, 2016, the most recent actuarial valuation date, the Postemployment Health Care Plan was 80.5% funded. The actuarial accrued liability for benefits was $2,793,689,000, and the actuarial value of assets was $2,248,753,000, resulting in an Underfunded Actuarial Accrued Liability (UAAL) of $544,935,000. The covered payroll as of the June 30, 2016 valuation was $1,968,703,000. The ratio of UAAL to the covered payroll was 27.7%.

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 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 39 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.

Notes to the Basic Financial Statements

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on LACERS plan provisions 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 various periods of time depending on the nature of the UAAL, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations.

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Cost Method – level percent of salary.
Amortization Method	Level Percent of Payroll – assuming a 4.00% increase in total covered payroll.
Amortization Period	Multiple layers – closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years, except that assumptions specifically related with the Postemployment Health Care benefits and reviewed annually by the Board are amortized over 15 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB Statements No. 25/27 layers for the Retirement Plan, were combined and amortized over 30 years. Health trend and premium assumption changes are amortized over 15 years. Years remaining range from 8 to 26 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 actuarial value of assets cannot be less than 60% or greater than 140% of fair value of assets. An Ad Hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.
Actuarial Assumptions:	
Investment Rate of Return	7.50%, net of pension plan investment expenses, including inflation rate at 3.25%.
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and no set back for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward seven years for males and set forward eight 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.

Notes to the Basic Financial Statements

Note 3 – Postemployment Health Care Plan Description (Continued)

Actuarial Methods and Assumptions (Continued)

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.

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 2016-2017 and later years are:

First Fiscal Year (July 1, 2016 through June 30, 2017)		
Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	8.39%	6.59%
Anthem Blue Cross HMO	2.22%	N/A
Anthem Blue Cross PPO	8.27%	5.14%
UHC Medicare HMO	N/A	4.07%

Fiscal Year 2017 - 2018 and later	
Fiscal Year	Trend (Approx.)
2017 - 2018	6.38%
2018 - 2019	6.13%
2019 - 2020	5.88%
2020 - 2021	5.63%
2021 - 2022	5.38%
2022 - 2023	5.13%
2023 and later	5.00%

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

Medicare Part B Premium Trend for the 2016-17 fiscal year will be calculated based on the actual increase in premium from 2016 to 2017. 5.00% for years following the 2017 calendar year.

Notes to the Basic Financial Statements

Note 4 – Contributions Required and Contributions Made

LACERS switched to the Entry Age cost method beginning from the June 30, 2012 actuarial valuation to determine the 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 LACERS actuarial liabilities and actuarial assets.

The components of the UAAL are amortized as a level percent of pay. Based on LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 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 of 30 years for all layers combined. The amortization periods are "closed" as each layer of the UAAL is systematically amortized over a "fixed" period.

The total contributions to LACERS for the year ended June 30, 2016, in the amount of $758,032,000 ($652,049,000 for the Retirement Plan and $105,983,000 for the Postemployment Health Care Plan), consisted of the following (in thousands):

	Retirement Plan	Postemployment Health Care Plan
City Contributions:		
Required Contributions	$ 440,546	$ 105,983
FDBP	158	-
Total City Contributions	440,704	105,983
Member Contributions	211,345	-
Total Contributions	$ 652,049	$ 105,983

The City contributions made for the Retirement Plan under the Required Contributions category in the amount of $440,546,000 were equal to 100% of the actuarially determined contribution of the employer. The City contributions made for the Postemployment Health Care Plan, in the amount of $105,983,000, represents 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43 and No. 45. Member contributions in the amount of $211,345,000 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 LACERS progress made in accumulating sufficient assets to pay benefits when due, is presented on pages 35 - 38 for the Retirement Plan and pages 39 and 40 for the Postemployment Health Care Plan.

Note 6 – Cash and Short-Term Investments and Investments

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

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2016, on the Retirement Plan and Postemployment Health Care Plan included approximately $2,674,000 held in LACERS general operating accounts with the City Treasurer and short-term investments funds (STIF) of $497,057,000 for a total of $499,731,000. 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, 2016, short-term investments included collective STIF of $165,820,000, international STIF of $158,242,000, and future contracts initial margin and collaterals of $172,995,000.

Notes to the Basic Financial Statements

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

The fair value of derivative instruments, including equity index, commodity, currency, and interest rate future contracts, currency forward contracts, and rights and warrants, are recorded in the Statement of Fiduciary Net Position with a net negative value of $871,000. The changes in fair value of the derivative instruments during the fiscal year are recorded in the Statement of Changes in Fiduciary Net Position as Investment Income (Loss). LACERS enters into derivative contracts for investment purposes and to manage risks associated with its investment portfolio. For financial reporting purposes, all of LACERS 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, 2016, are as follows (in thousands):

Derivative Type	Notional Amount	Fair Value	Change in Fair Value
Future Contracts -			
Commodities	$ 156,684	$ (799)	$ (1,683)
Equity Index	13,050	158	188
Foreign Exchange	(6,526)	18	(69)
Interest Rate	(73,738)	(32)	(44)
Currency Forward Contracts	117,350	(425)	(766)
Right / Warrants	N/A	209	(211)
Total Value		$ (871)	$ (2,585)

Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERS 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 Standard and Poor's (S&P), a nationally-recognized statistical rating organization as of June 30, 2016, are as follows (dollars in thousands):

S & P Ratings	Fair Value	Percentage
AAA	$ 47,632	1.72 %
AA	1,253,142	45.31
A	215,949	7.81
BBB	561,623	20.31
BB	286,787	10.37
B	267,478	9.67
CCC	36,608	1.32
CC	1,677	0.06
D	1,914	0.07
Not Rated	92,728	3.36
	2,765,538	100.00 %
U.S. Government Guaranteed Securities(1)	995,176	
Total Fixed Income Securities	$ 3,760,714	

(1) 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. LACERS 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.

LACERS 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. LACERS 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.

Notes to the Basic Financial Statements

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

Credit Risk – Derivatives (Continued)

As of June 30, 2016, without respect to netting arrangements, LACERS maximum loss on derivative instruments subject to credit risk, namely currency forward contracts, is as follows (in thousands):

S & P Ratings	Fair Value
AA	$ 1
A	74
BBB	865
Total Value	$ 940

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, LACERS 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, 2016, LACERS has exposure to such risk in the amount of $17,988,000, or 0.38% of the fair value of total international investments. The amount represents non-invested cash denominated in foreign currencies, managed by 20 different investment managers, and held outside of LACERS custodial bank. LACERS policy requires each individual publicly traded equities investment manager to hold no more than 10% of their portfolios in the form of cash. LACERS 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, LACERS 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, are not registered in LACERS name, and are held by the counterparty, or the counterparty's trust department or agent but not in LACERS name. As of June 30, 2016, LACERS investments were not exposed to custodial credit risk because all securities were registered in the name of the System.

Concentration of Credit Risk

The investment portfolio as of June 30, 2016, 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 LACERS 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. High Yield 2% Capped Index, the BC Intermediate Government Credit Index, the BC Aggregate Bond Index, or the J.P. Morgan EMBI Global Diversified 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 LACERS investments to market interest rate fluctuations as of June 30, 2016 is provided by the following table that shows the weighted average effective duration of LACERS fixed income securities by investment type (dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 27,143	1.44
Bank Loans	2,111	1.64
Commercial Mortgage-Backed Securities	67,314	2.82
Corporate Bonds	1,191,174	5.53
Government Agencies	41,267	5.03
Government Bonds	625,604	6.02
Government Mortgage-Backed Securities	339,645	2.48
Index Linked Government Bonds	517,640	8.05
Municipal/Provincial Bonds	5,390	4.69
Non-Government Backed Collateralized Mortgage Obligations (C.M.O.s)	2,393	1.34
Opportunistic Debts	84,286	0.32
Other Fixed Income (Funds)	856,747	5.48
Total Fixed Income Securities	$ 3,760,714	

Notes to the Basic Financial Statements

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. LACERS 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 LACERS asset-backed investments by investment type (in thousands):

Investment Type	Fair Value
Asset-Backed Securities	$ 27,143
Commercial Mortgage-Backed Securities	67,314
Government Agencies	41,267
Government Mortgage-Backed Securities	339,645
Non-Government Backed C.M.O.s	2,393
Total Asset-Backed Investments	$ 477,762

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. LACERS 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.

Notes to the Basic Financial Statements

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

Foreign Currency Risk (Continued)

LACERS non-U.S. currency investment holdings as of June 30, 2016, which represent 27.0% 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	$ 18	$ -	$ -	$ -	$ -	$ 18
Australian dollar	808	151,842	-	45	-	152,695
Brazilian real	248	65,792	257	-	-	66,297
British pound sterling	2,649	573,787	-	70	3,043	579,549
Canadian dollar	845	140,722	-	4	-	141,571
Chilean peso	22	5,502	-	5	-	5,529
Chinese yuan renminbi	(1,744)	-	-	2	-	(1,742)
Colombian peso	(1,935)	3,796	-	(91)	-	1,770
Czech koruna	558	845	-	-	-	1,403
Danish krone	110	69,817	-	-	-	69,927
Egyptian pound	18	2,966	-	-	-	2,984
Euro	(7,472)	830,451	10,279	111	75,128	908,497
Hong Kong dollar	859	246,144	-	21	-	247,024
Hungarian forint	(1,035)	5,749	-	45	-	4,759
Indian rupee	1,319	88,882	-	(4)	-	90,197
Indonesian rupiah	(421)	25,944	820	(31)	-	26,312
Israeli new shekel	187	11,057	-	-	-	11,244
Japanese yen	2,657	621,131	-	(2)	-	623,786
Malaysian ringgit	3,211	20,948	-	4	-	24,163
Mexican peso	3,053	41,106	4,804	27	-	48,990
New Taiwan dollar	1,225	99,488	-	(238)	-	100,475
New Zealand dollar	44	9,376	3,686	-	-	13,106
Norwegian krone	231	32,764	-	11	-	33,006
Peruvian nuevo sol	(9)	-	-	(80)	-	(89)
Philippine peso	-	21,499	-	10	-	21,509
Polish zloty	2,845	5,541	-	24	-	8,410
Qatari rial	-	1,029	-	-	-	1,029
Russian ruble	1,682	10,439	-	(111)	-	12,010
Singapore dollar	(1,928)	44,908	-	(64)	-	42,916
South African rand	(2,327)	67,596	-	(182)	-	65,087
South Korean won	(1,160)	137,500	-	3	-	136,343
Swedish krona	174	82,225	-	-	-	82,399
Swiss franc	322	242,092	-	-	-	242,414
Thai baht	33	40,276	-	27	-	40,336
Turkish lira	6,009	22,691	-	-	-	28,700
United Arab Emirates dirham	-	8,625	-	-	-	8,625
Total Investments Held in Foreign Currency	$ 11,096	$ 3,732,530	$ 19,846	$ (394)	$ 78,171	$ 3,841,249

Notes to the Basic Financial Statements

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

Fair Value Measurement

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

As GASB 72 requires, the System categorized its fair value measurements within the fair values. Assets and liabilities are classified based on valuation inputs used to determine fair value into three levels:

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

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

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

Schedule of Investments by Fair Value Hierarchy

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 or 3 of the fair value hierarchy are valued using a matrix pricing technique based on the availability of the market price, the pricing source and type, and the country of incorporation of the securities. The hierarchy levels are determined based on the level of corroborative information obtained from other market sources to assert that the prices provided represent observable data.

Private equity funds classified in Level 3 of the fair value hierarchy are valued based on the availability of market price of the underlying assets, and using either a discounted cash flow or Comparable Company Analysis with internal assumptions. Real estate funds classified in Level 2 or 3 of the fair value hierarchy are valued based on periodic appraisals in accordance with industry practice.

The exchange traded Future Contracts classified in Level 1 of the fair value hierarchy are valued using a daily settlement when available or as a daily mark to market. The Foreign Exchange Contracts classified in Level 2 of the fair value hierarchy are valued using independent pricing services including London Close mid-evaluation, WM/Reuters Company, Bloomberg, and Thomson Reuters.

Certain investments which do not have a readily determinable fair value have been valued at Net Asset Value (NAV) per share (or its equivalent) provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with GAAP requirements. These investments are not categorized within the fair value hierarchy but disclosed in the schedule of Investments Measured at the NAV.

Notes to the Basic Financial Statements

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

Fair Value Measurement (Continued)

Schedule of Investments by Fair Value Hierarchy (Continued)

The System has the following recurring fair value measurements as of June 30, 2016 (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities:				
Government Bonds	$ 1,143,244	$ -	$ 1,143,244	$ -
Government Agencies	41,267	-	41,267	-
Municipal/Provincial Bonds	5,390	-	2,768	2,622
Corporate Bonds	1,220,710	-	1,215,713	4,997
Bank Loans	2,111	-	2,111	-
Government Mortgage Bonds	339,644	-	339,450	194
Commercial Mortgage Bonds	67,314	-	67,314	-
Opportunistic Debts	12,426	-	-	12,426
Total Debt Securities	2,832,106	-	2,811,867	20,239
Equity Securities:				
Common Stock:				
Basic Industries	906,929	903,749	2,639	541
Capital Goods Industries	406,983	406,089	280	614
Consumer & Services	1,960,485	1,946,506	12,225	1,754
Energy	661,843	656,515	5,287	41
Financial Services	1,562,793	1,561,187	1,480	126
Health Care	887,398	887,398	-	-
Information Technology	1,072,659	1,072,551	108	-
Miscellaneous	34,792	18,698	-	16,094
Total Common Stock	7,493,882	7,452,693	22,019	19,170
Preferred Stock	35,848	35,848	-	-
Stapled Securities	12,353	12,353	-	-
Total Equity Securities	7,542,083	7,500,894	22,019	19,170
Private Equity Funds	243,958	-	-	243,958
Real Estate Funds	128,760	-	124,618	4,142
Total Investments by Fair Value Level	10,746,907	$ 7,500,894	$ 2,958,504	$ 287,509
Investments measured at the Net Asset Value (NAV):				
Common Fund Assets	856,747			
Private Equity Funds	1,174,691			
Real Estate Funds	694,372			
Opportunistic Debts	71,861			
Total Investments measured at the NAV	2,797,671			
Total Investments measured at Fair Value(1)	$ 13,544,578			
Investment Derivative Instruments:				
Future Contracts (liabilities)	$ (655)	$ (655)	$ -	$ -
Foreign Exchange Contracts (liabilities)	(425)	-	(425)	-
Rights/Warrants	209	148	-	61
Total Investment Derivative Instruments	$ (871)	$ (507)	$ (425)	$ 61

(1) Excluded securities lending collateral which was invested in short-term investments.

Notes to the Basic Financial Statements

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

Fair Value Measurement (Continued)

Investments measured at the NAV: (in thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Fund Assets [1]	$ 856,747	$ -	Daily	2 days
Private Equity Funds [2]	1,174,691	684,532	N/A	N/A
Real Estate Funds [3]	694,372	69,347	Daily, Quarterly	1-90 days
Opportunistic Debts [4]	71,861	-	Monthly	30 days
Total Investments measured at the NAV	$ 2,797,671	$ 753,879		

(1) Common fund assets - This investment type includes one fund that primarily invest in U.S. bonds. The fair value of the investment have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). This investment can be redeemed daily, with a two-day advance redemption notice period.

(2) Private equity funds - This investment type includes 163 closed-end commingled private equity funds that invest primarily in securities of privately held U.S. and non-U.S. companies. The fair value of these investments has been determined using a practical expedient based on the investments' NAV per share (or its equivalent). These investments are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as the underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 13 years, depending on the vintage year of each fund.

(3) Real estate funds - This investment type includes 31 commingled real estate funds that invest primarily in U.S. commercial real estate. The fair value of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). Seven investments, representing approximately 54% of the value of this investment type, are in open-end funds, which may be redeemed according to terms specific to each fund. Redemptions generally are subject to the funds' available cash and redemption queues. There is no intention to redeem any of these seven investments in the near future. Twenty-four investments, representing approximately 46% of the value this investment type, are in closed-end funds and are not redeemable. It is expected that these investments will be held for the entire lives of the funds and will not be sold in the secondary market. Distributions from each fund will be received as underlying assets are liquidated by the fund managers. It is expected that the underlying assets of these funds will be liquidated over the next one to 12 years, depending on the vintage year of each fund.

(4) Opportunistic debts - This investment type includes two commingled funds: one that invests primarily in senior loans of non-investment grade companies (senior loan fund) and another one invests primarily in the securities and obligations of companies experiencing operational or financial distress (distressed investment fund). The fair values of these investments have been determined using a practical expedient based on the investments' NAV per share (or its equivalent). The senior loan fund, representing approximately 99% of the value of this investment type, can be redeemed monthly. The distressed investment fund, representing approximately 1% of the value of this investment type, is being dissolved and is no longer making new underlying investments. Distributions from this fund will be received as underlying investments are liquidated by the fund manager. It is expected that this fund will be liquidated fully over the next three years.

Notes to the Basic Financial Statements

Note 7 – Securities Lending Agreement

Under authority granted by the City Charter, LACERS has entered into various short-term arrangements with its custodian to lend securities to various brokers. There are no restrictions on the amount of securities that may be lent, and 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 is invested in a separate account comprised of money market or high quality short-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 LACERS.

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. LACERS 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 LACERS 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 Fiduciary Net Position.

As of June 30, 2016, LACERS 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 LACERS as defined in GASB Statement No. 28 and GASB Statement No. 40 by its participation in the securities lending program. However, similar to any other investment portfolio, there is risk associated with investing cash collateral in securities. The value of the invested collateral may fall below the value of the cash collateral pledged by the borrowers, and may impair LACERS ability to return cash collateral to the borrowers upon the redemption of loans. In this event, LACERS would be required to make up the deficiency in collateral and would incur a loss.

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

The following table represents the fair value of securities on loan and cash/non-cash collateral received as of June 30, 2016 (in thousands):

Securities on Loan	Fair Value of Securities on Loan	Cash/Non-Cash Collateral Received
U.S. Government and Agency Securities	$ 212,990	$ 216,174
Domestic Corporate Fixed Income Securities	101,865	103,294
International Fixed Income Securities	37,010	38,948
Domestic Stocks	438,177	444,489
International Stocks	524,561	558,902
Total	$ 1,314,603	$ 1,361,807

Notes to the Basic Financial Statements

Note 7 – Securities Lending Agreement (Continued)

As of June 30, 2016, the fair value of the securities on loan was $1,314,603,000. The fair value of associated collateral was $1,361,807,000 ($695,789,000 of cash collateral and $666,018,000 of non-cash collateral). Non-cash collateral, which LACERS does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position. LACERS income and expenses related to securities lending were $7,828,000 and $1,174,000, respectively, for the year ended June 30, 2016.

Note 8 – Future and Forward Contracts

LACERS uses derivative financial instruments, primarily to manage portfolio risk. Future and forward contracts are marked to market and are recorded in the Statement of Fiduciary Net Position at fair value. Future 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 26 and 27).

As of June 30, 2016, LACERS had outstanding commodities and equity index future contracts with an aggregate notional amount of $169,734,000, and foreign exchange and interest rate future contracts with an aggregate negative notional amount of $80,264,000 due to their short position. In addition, at June 30, 2016, LACERS had outstanding forward purchase commitments with a notional amount of $117,350,000 and offsetting forward sales commitments with notional amounts of $117,350,000, which expire through December 2016. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $172,995,000 as of June 30, 2016.

Note 9 – Commitments and Contingencies

As of June 30, 2016, LACERS was committed to future purchases of real estate and private equity investments at an aggregate cost of approximately $1,134,699,000.

The Patient Protection and Affordable Care Act (PPACA) of 2010 contains a provision that would impose a 40% excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2020. If there is no change in the law or LACERS plan provisions between now and 2020, and if the current medical cost trend stays substantially the same during the same period, some of LACERS postemployment health care benefits will be subject to the excise tax in 2020 and thereafter. Recently released GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* require the inclusion of the excise tax in the liability. The Statement No. 74 is effective for fiscal years beginning after June 15, 2016 for plan reporting, and the Statement No. 75 is effective for fiscal years beginning after June 15, 2017 for employer reporting. The impact of potential excise tax imposed by the Affordable Care Act and related statutes on certain health plans in calculating the contribution rates for the employer have not yet been reflected in the valuation for fiscal year June 30, 2016.

Note 10 – Subsequent Events

Date of Management's Review

The potential for subsequent events was evaluated through November 21, 2016, which was the date of management's review.

Establishment of Enhanced Benefits for Airport Peace Officers

As a result of November 2016 election, approximately 500 Members of sworn Airport peace officers were approved to opt-out of the LACERS Plan, and transfer to the Los Angeles Fire and Police Pension Plan as its Tier 6 Members. However, it is anticipated that a large number of these Members will stay with the LACERS Plan. The provisions to enhance the disability benefits, death benefits, and the retirement factor for sworn Airport peace officers who remain active Members of LACERS are expected to be established in an ordinance to be considered by the City Council.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Retirement Plan

The schedules included in the Required Supplementary Information for the Retirement Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, Los Angeles City Employees' Retirement System (LACERS, or the System) presented information only for those years for which information is available:

1) Schedule of Net Pension Liability
2) Schedule of Changes in Net Pension Liability and Related Ratios
3) Schedule of Investment Returns

Additional years will be displayed in the future as they become available.

Schedule of Net Pension Liability [(1)]
(Dollars in Thousands)

	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Total Pension Liability	$ 17,424,996	$ 16,909,996	$ 16,248,853	$ 14,881,663
Plan Fiduciary Net Position	(11,809,329)	(11,920,570)	(11,791,079)	(10,154,486)
Plan's Net Pension Liability	$ 5,615,667	$ 4,989,426	$ 4,457,774	$ 4,727,177
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.8%	70.5%	72.6%	68.2%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with Family Death, and Larger Annuity Benefits.

Note to Schedule:

Refer to the note to the Schedule of Changes in Net Pension Liability and Related Ratios.

Required Supplementary Information
Retirement Plan

Schedule of Changes in Net Pension Liability and Related Ratios [1]
(Dollars in Thousands)

	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Total Pension Liability				
Service cost	$ 322,574	$ 322,380	$ 317,185	$ 312,372
Interest	1,263,556	1,215,151	1,149,966	1,112,561
Changes of benefit terms	-	-	-	-
Differences of expected and actual experience	(300,813)	(135,821)	(164,247)	(235,829)
Changes of assumptions	-	-	785,439	-
Benefit payments, including refunds of Member contributions	(770,317)	(740,567)	(721,153)	(701,400)
Net change in total pension liability	515,000	661,143	1,367,190	487,704
Total pension liability-beginning	16,909,996	16,248,853	14,881,663	14,393,959
Total pension liability-ending (a)	$ 17,424,996	$ 16,909,996	$ 16,248,853	$ 14,881,663
Plan fiduciary net position				
Contributions-Employer	$ 440,546	$ 381,141	$ 357,649	$ 346,181
Contributions-Member	206,377	202,463	203,975	197,722
Net investment income	29,358	306,980	1,810,782	1,268,939
Benefit Payments, including refunds of Member contributions	(770,318)	(740,567)	(721,153)	(701,400)
Administrative expense	(17,204)	(15,860)	(12,372)	(13,281)
Other (Transfer to Larger Annuity Reserve) [2]	-	(4,666)	(2,288)	(2,514)
Net change in Plan fiduciary net position	(111,241)	129,491	1,636,593	1,095,647
Plan fiduciary net position-beginning	11,920,570	11,791,079	10,154,486	9,058,839
Plan fiduciary net position-ending (b)	$ 11,809,329	$ 11,920,570	$ 11,791,079	$ 10,154,486
Plan's net pension liability-ending (a)-(b)	$ 5,615,667	$ 4,989,426	$ 4,457,774	$ 4,727,177
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	67.8%	70.5%	72.6%	68.2%
Covered-employee payroll	$ 1,876,946	$ 1,835,637	$ 1,802,931	$ 1,736,113
Plan's net pension liability as a percentage of covered-employee payroll	299.2%	271.8%	247.3%	272.3%

(1) In calculating the Plan's net pension liability, the total pension liability and the Plan fiduciary net position exclude amounts associated with Family Death, and Larger Annuity Benefits.

(2) On July 1, 2015, the System segregated Members' voluntary larger annuity contributions into the (non-pension related) Reserve for Larger Annuity Contributions pursuant to a suggestion made by actuarial consultant. The Reserve balance for Larger Annuity Contributions as of June 30, 2015 was $5,200,000.

Note to Schedule:

Changes of Assumptions: The June 30, 2014 calculations reflected various assumption changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of total pension liability for fiscal year ended on June 30, 2014 primarily is due to the lowered assumed investment rate of return, from 7.75% to 7.50%, and longer assumed life expectancies for Members and beneficiaries.

Required Supplementary Information
Retirement Plan
(Dollars in Thousands)

Schedule of Contribution History

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in Relation to ADC	Contribution Deficiency	Covered-Employee Payroll(1)	Contributions as a Percentage of Covered-Employee Payroll
2007	$277,516	$277,516	$ -	$1,646,056	16.9%
2008	288,119	288,119	-	1,741,850	16.5
2009	274,555	274,555	-	1,832,796	15.0
2010	258,643	258,643	-	1,827,864	14.2
2011	303,561	303,561	-	1,678,059	18.1
2012	308,540	308,540	-	1,715,197	18.0
2013	346,181	346,181	-	1,736,113	19.9
2014	357,649	357,649	-	1,802,931	19.8
2015	381,141	381,141	-	1,835,637	20.8
2016	440,546	440,546	-	1,876,946	23.5

(1) Covered-employee payroll presented in this schedule represents the pensionable payroll of all participating employees.

Notes to Schedule:

Valuation Date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method: Entry Age Actuarial Cost Method (individual basis).

Amortization Method: Level Percent of Payroll.

Amortization Period: Multiple layers – closed amortization period.
Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 Early Retirement Incentive Program (ERIP), are amortized over 15 years. Future ERIPs will be amortized over five years. Any actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two Governmental Accounting Standards Board (GASB) Statements No. 25/27 layers, were combined and 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 market value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets. An Ad Hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.

Actuarial Assumptions:

Investment Rate of Return	7.50%, net of pension plan investment expenses, including inflation assumption at 3.25%.
Inflation	3.25%
Real Across-the-Board Salary Increase	0.75%

Required Supplementary Information
Retirement Plan

Schedule of Contribution History (Continued)

Notes to Schedule (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued)

Projected Salary Increases[1]	Ranges from 4.40% to 10.50% based on years of service.
Cost of Living Adjustment[2]	Tier 1: 3.0% Tier 3: 2.0%
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no set back for females.

(1) Includes inflation at 3.25% as of June 30, 2016, plus across-the-board salary increase of 0.75% plus merit and promotional increases.

(2) Actual increases are contingent upon Consumer Price Index (CPI) increases with a 3.0% maximum for Tier 1 and a 2.0% maximum for Tier 3.

Schedule of Investment Returns

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Annual money-weighted rate of return, net of investment expenses	0.2%	2.6%	18.2%

Note to Schedule:

The last two fiscal years' rates of investment return were much lower compared to the fiscal year 2014, reflecting the impact of divergent (and volatile) global markets on LACERS investment portfolio over the reporting periods.

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[1] (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
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
June 30, 2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0
June 30, 2015	2,108,925	2,646,989	538,064	79.7	1,907,665	28.2
June 30, 2016	2,248,753	2,793,689	544,936	80.5	1,968,703	27.7

(1) Covered payroll presented in this schedule represents the actuarially-projected pensionable payroll of all participating employees.

Schedule of Employer Contributions

	Employer Contributions Total	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	$ 107,396	100%
2012	115,209	100
2013	72,916	100
2014	97,841	100
2015	100,467	100
2016	105,983	100

Required Supplementary Information
Postemployment Health Care Plan
Notes to Required Supplementary Information

Note 1 – Description

The historical trend information about LACERS 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 of Administration (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 28, 2014, the Board adopted assumption changes as a result of the June 30, 2014 Experience Study, including a lowered investment return assumption of 7.50%, from 7.75%, and longer life expectancies of LACERS Members and beneficiaries. The cost impact of these assumption changes amounts to $135 million, which will cause the City contribution rate to increase by approximately 0.48% of pay for 20 years, pursuant to the amortization policy modified by the Board on September 9, 2014.

Under the current seven-year Asset Smoothing method used in the actuarial valuation process, the full impact of market fluctuations is spread over seven years. As a result, the actuarial value of assets and the City contributions are more stable from year to year. The total unrecognized investment loss as of June 30, 2016 is $747,043,000 for the assets for Retirement, Postemployment Health Care, Family Death, and Larger Annuity benefits. This deferred loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next several years. Because of the deferred loss, the City contribution rates will increase in the next few years even if the investment returns match the 7.50% assumption and all other assumptions are met.

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses
For the Year Ended June 30, 2016
(In Thousands)

	Retirement Plan	Postemployment Health Care Plan	Total
Personnel Services:			
Salaries	$ 8,849	$ 1,935	$ 10,784
Employee Development and Benefits	3,633	794	4,427
Total Personnel Services	12,482	2,729	15,211
Professional Services:			
Actuarial	218	48	266
Audit	72	16	88
Legal Counsel	605	132	737
Disability Evaluation Services	158	34	192
Retirees Health Administrative Consulting	-	747	747
Benefit Payroll Processing	171	37	208
Total Professional Services	1,224	1,014	2,238
Information Technology:			
Computer Hardware and Software	371	81	452
Computer Maintenance and Support	151	33	184
Total Information Technology	522	114	636
Leases:			
Office Space	757	164	921
Office Equipment	50	11	61
Total Leases	807	175	982
Other Expenses:			
Fiduciary Insurance	30	7	37
Educational and Due Diligence Travel	31	7	38
Office Expenses	324	71	395
Depreciation and Amortization	156	34	190
Total Other Expenses	541	119	660
Total Administrative Expenses	$ 15,576	$ 4,151	$ 19,727

Schedule of Investment Fees and Expenses
For the Year Ended June 30, 2016
(In Thousands)

	Assets Under Management	Fees and Expenses
Retirement Plan		
Investment Management Fees:		
Fixed Income Managers	$ 3,187,445	$ 4,639
Equity Managers	6,392,397	16,281
Subtotal Investment Management Fees	9,579,842	20,920
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	622
Real Estate Consulting Fees	N/A	176
Other Consulting Fees	N/A	347
Investment Related Administrative Expenses	N/A	1,724
Subtotal Other Investment Fees and Expenses	N/A	2,869
Postemployment Health Care Plan		
Investment Management Fees:		
Fixed Income Managers	573,269	1,014
Equity Managers	1,149,686	3,559
Subtotal Investment Management Fees	1,722,955	4,573
Other Investment Fees and Expenses:		
Private Equity Consulting Fees	N/A	136
Real Estate Consulting Fees	N/A	39
Other Consulting Fees	N/A	76
Investment Related Administrative Expenses	N/A	377
Subtotal Other Investment Fees and Expenses	N/A	628
Total Investment Fees and Expenses excluding Private Equity and Real Estate	$ 11,302,797	$ 28,990
Private Equity Managers' Fees and Expenses:		
Retirement Plan	$ 1,202,396	$ 21,840
Postemployment Health Care Plan	216,253	4,774
Total Private Equity Managers' Fees and Expenses	$ 1,418,649	$ 26,614
Real Estate Managers' Fees and Expenses:		
Retirement Plan	$ 697,657	$ 8,975
Postemployment Health Care Plan	125,475	1,961
Total Real Estate Managers' Fees and Expenses	$ 823,132	$ 10,936