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# SPECIAL AGENDA

## BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

January 16, 2020

**8:35 a.m. or as soon thereafter as the  
Board recesses its regular meeting**

Sam Diannitto Boardroom  
Los Angeles Fire and Police Pensions Building  
701 East 3rd Street, Suite 400  
Los Angeles, CA 90013

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An opportunity for the public to address the Board or Committee about any item on today's agenda for which there has been no previous opportunity for public comment will be provided before or during consideration of the item. Members of the public who wish to speak on any item on today's agenda are requested to complete a speaker card for each item they wish to address, and present the completed card(s) to the commission executive assistant. Speaker cards are available at the commission executive assistant's desk.

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Board or applicable Committee of the Board in advance of their meetings may be viewed at the office of the Los Angeles Fire and Police Pension System (LAFPP), located at 701 East 3<sup>rd</sup> Street, 2<sup>nd</sup> Floor, Los Angeles, California 90013, or by clicking on LAFPP's website at [www.lafpp.com](http://www.lafpp.com), or at the scheduled meeting. Non-exempt writings that are distributed to the Board or Committee at a scheduled meeting may be viewed at that meeting. In addition, if you would like a copy of any record related to an item on the agenda, please contact the commission executive assistant, at (213) 279-3038 or by e-mail at [rhonda.ketay@lafpp.com](mailto:rhonda.ketay@lafpp.com).

Sign language interpreters, communication access real-time transcription, assistive listening devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing sign language interpreters, five or more business days notice is strongly recommended. For additional information, please contact the Department of Fire and Police Pensions, (213) 279-3000 voice or (213) 628-7713 TDD.

1. [AUDITED FINANCIAL STATEMENTS AS OF JUNE 30, 2019 AND POSSIBLE BOARD ACTION](#)
2. GENERAL PUBLIC COMMENT ON MATTERS WITHIN THE BOARD'S JURISDICTION



# DEPARTMENT OF FIRE AND POLICE PENSIONS

701 E. 3rd Street, Suite 200  
Los Angeles, CA 90013  
(213) 279-3000

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## REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

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**DATE:** JANUARY 16, 2020 **ITEM:** 1

**FROM:** RAYMOND P. CIRANNA, GENERAL MANAGER

**SUBJECT:** AUDITED FINANCIAL STATEMENTS AS OF JUNE 30, 2019 AND POSSIBLE BOARD ACTION

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### RECOMMENDATIONS

That the Board:

1. Adopt the System's Audited Financial Statements as of June 30, 2019; and,
2. Direct staff to provide copies of the adopted Audited Financial Statements to the State Controller and City Controller.

### BACKGROUND

Under the provisions of the State of California Government Code Sections 7501-7504, all California Public Retirement Systems are required to furnish audited financial statements to the State Controller annually, within six months of the close of each fiscal year. The City Controller requires the System's audited financial statements for inclusion in the City's Comprehensive Annual Financial (CAFR) before December 31, 2019.

### DISCUSSION

Simpson & Simpson Certified Public Accountants (Simpson & Simpson) performed the audit of the System's financial statements for the fiscal year ending June 30, 2019. Simpson & Simpson issued an unqualified opinion, also referred to as a "clean opinion" thereon, stating:

*"In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2019 and 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America."*

The attachment to this Board report includes the following reports, statements, and conclusions:

- Financial Statements including Management's Discussion and Analysis which indicates:
  - As of June 30, 2019, the net positions of the Pension Plan and Health Subsidy Plan were \$21.3 billion and \$2.0 billion, respectively.

- As of June 30, 2018, the funding ratios of the Pension Plan and Health Subsidy Plan were 93.6% and 56.2%, respectively.
- Financial Statements including the 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* which indicates:
  - No internal control deficiencies were identified that were considered to be material weaknesses.
  - No instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* were identified.
- Communication to the Board of Fire and Police Pension Commissioners dated January 9, 2020 which indicates:
  - All significant transactions have been recognized in the financial statements in the proper period.
  - Key factors and assumptions used to develop the fair value of investments are reasonable.
  - Key factors and assumptions used to develop the Health Subsidy Plan's funded status and funding progress are reasonable.
  - Key factors and assumptions used to develop the employer's net pension liabilities for the Pension Plan are reasonable.
  - The financial statement disclosures are neutral, consistent, and clear.
  - No disagreements and no difficulties in dealing with management arose during the course of the audit.

## **BUDGET**

There is no budget impact at this time.

## **POLICY**

No policy changes are recommended.

## **CONTRACTOR DISCLOSURE INFORMATION**

There is no contractor disclosure information required with this report.

This report was prepared by:

Cynthia Varela, Departmental Audit Manager  
Internal Audit Section

RPC:CV

Attachment: Financial Statements with Independent Auditor's Report dated January 9, 2020

**LOS ANGELES FIRE AND  
POLICE PENSION SYSTEM**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019 AND 2018**



# LOS ANGELES FIRE AND POLICE PENSION SYSTEM

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
FINANCIAL STATEMENTS:	
Statements of Fiduciary Net Position.....	12
Statements of Changes in Fiduciary Net Position.....	13
Notes to Financial Statements.....	14
REQUIRED SUPPLEMENTARY INFORMATION	
Pension Plan	
Schedule of Changes in Net Pension Liability and Related Ratio .....	51
Schedule of Employer Contributions – Pension Plan.....	53
Notes to Schedule of Employer Contributions – Pension Plan .....	54
Schedule of Investment Returns – Pension Plan .....	55
Schedule of Employer’s Net Pension Liability .....	56
Health Subsidy Plan	
Schedule of Changes in Net Other Post-Employment Benefits (OPEB) Liability and Related Ratio.....	57
Schedule of Employer Contributions .....	59
Notes to Schedule of Employer Contributions.....	60
Schedule of Investment Returns.....	61
Schedule of Employer’s Net Other Post-Employment Benefits (OPEB) Liability .....	62
COMPLIANCE SECTION	
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 .....	63



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CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2019 and 2018, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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



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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2019 and 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2020, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
January 9, 2020.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2019. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

**FINANCIAL HIGHLIGHTS**

- Net position at the close of the fiscal year ended June 30, 2019, was \$21.3 billion and \$2.0 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.
- Net position increase by \$779.6 million or 3.8% and increased by \$159.9 million or 8.5% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2019, the date of the most recent funding actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 93.6% and 56.2%, respectively.
- Additions to the Pension Plan's net position decreased by \$628.6 million or 25.2% from \$2.5 billion to \$1.9 billion, due primarily to lesser appreciation in the fair value of investments in fiscal year 2019 relative to fiscal year 2018.
- Deductions from the Pension Plan's net position increased by \$76.0 million or 7.5% over fiscal year 2018 from \$1.0 billion to \$1.1 billion.
- Additions to the Health Subsidy Plan's net position decreased by \$44.8 million or 13.0% from \$344.4 million to \$299.7 million, due to lesser appreciation in the fair value of investments in fiscal year 2019 relative to fiscal year 2018.
- Deductions from the Health Subsidy Plan's net position increased by \$7.3 million or 5.5% over fiscal year 2018 from \$132.5 million to \$139.7 million in the fiscal year 2019.
- The total pension liability for the Pension Plan at June 30, 2019, was \$23.0 billion, and the fiduciary net position was \$21.3 billion. Thus, the net pension liability for the Pension Plan was \$1.7 billion, and the fiduciary net position as a percentage of the total pension liability was 92.4%
- The total Other Post-Employment Benefits (OPEB) liability for the Health Subsidy Plan at June 30, 2019, was \$3.6 billion, and the fiduciary net position was \$2.0 billion. Thus, the net OPEB liability for the Health Subsidy Plan was \$1.6 billion, and the fiduciary net position as a percentage of the total OPEB liability was 56.3%.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

*Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 14 to 50 of this report.

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

**Pension Plan:**

- Schedule of Changes in Net Pension Liability and Related Ratio
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Pension Liability

**Health Subsidy Plan:**

- Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Other Postemployment Benefits Liability

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**FINANCIAL ANALYSIS**

*Pension Plan*

**Fiduciary Net Position**

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

Condensed Statement of Fiduciary Net Position (\$ in Thousands)				
	2019	2018	Change	% Change
Cash	\$ 2,766	\$ 1,748	\$ 1,018	58.2%
Receivables/Prepayments	467,108	177,363	289,745	163.4%
Investments	21,990,502	21,175,122	815,380	3.9%
Capital Assets	24,195	23,757	438	1.8%
<b>Total Assets</b>	<b>22,484,571</b>	<b>21,377,990</b>	<b>1,106,581</b>	<b>5.2%</b>
Liabilities	1,222,371	895,411	326,960	36.5%
<b>Net Position</b>	<b>\$ 21,262,200</b>	<b>\$ 20,482,579</b>	<b>\$ 779,621</b>	<b>3.8%</b>

Net position increased by \$779.6 million (3.8%) to \$21.3 billion from fiscal year 2018. Total Assets increased in value by \$1.1 billion (5.2%) when compared with the prior fiscal year 2018, attributable to appreciation of investments due to favorable market conditions.

Condensed Statement of Fiduciary Net Position (\$ in Thousands)				
	2018	2017	Change	% Change
Cash	\$ 1,748	\$ 1,468	\$ 280	19.1%
Receivables/Prepayments	177,363	186,266	(8,903)	-4.8%
Investments	21,175,122	20,616,058	559,064	2.7%
Capital Assets	23,757	24,540	(783)	-3.2%
<b>Total Assets</b>	<b>21,377,990</b>	<b>20,828,332</b>	<b>549,658</b>	<b>2.6%</b>
Liabilities	895,411	1,829,929	(934,518)	-51.1%
<b>Net Position</b>	<b>\$ 20,482,579</b>	<b>\$ 18,998,403</b>	<b>\$ 1,484,176</b>	<b>7.8%</b>

Net position increased by \$1.5 billion (7.8%) to \$20.5 billion from fiscal year 2017. Total Assets increased in value by \$549.7 million (2.6%) when compared with the prior fiscal year 2017, attributable to appreciation of investments due to favorable market conditions.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position**

Condensed Statement of Fiduciary Net Position (\$ in Thousands)				
	2019	2018	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 504,877	\$ 460,967	\$ 43,910	9.5%
Member Contributions	147,753	145,425	2,328	1.6%
Net Investment Income	1,217,329	1,886,956	(669,627)	-35.5%
Other Income	363	5,536	(5,173)	-93.4%
Total Additions	1,870,322	2,498,884	(628,562)	-25.2%
<b>Deductions</b>				
Pension Benefits	1,065,979	991,013	74,966	7.6%
Refund of Contributions	4,478	3,786	692	18.3%
Administrative Expenses	20,244	19,909	335	1.7%
Total Deductions	1,090,701	1,014,708	75,993	7.5%
Net Increase (Decrease)	779,621	1,484,176	(704,555)	-47.5%
Net Position, Beginning of Year	20,482,579	18,998,403	1,484,176	7.8%
Net Position, End of Year	\$ 21,262,200	\$ 20,482,579	\$ 779,621	3.8%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2019 totaled \$652.6 million, up by \$46.2 million or 7.6% over fiscal year 2018. The employer's contribution for fiscal year 2019 was \$504.9 million compared to \$461.0 million for fiscal year 2018. The increase in employer's contributions was due to the increase in required contribution. The increase in members' contribution was due to an increase in membership in Tier 6 and general wage growth.

Net investment income amounted to \$1.2 billion, a decrease in net investment income of \$669.6 million or 35.5% when compared with \$1.9 billion from fiscal year 2018. Investment income decreased in fiscal year 2019 due to less appreciation in the fair value of investments in fiscal year 2019 relative to fiscal year 2018.

Deductions from Fiduciary Net Position

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions for the fiscal year ended June 30, 2019, totaled \$1.1 billion, up by \$76.0 million or 7.5% over fiscal year 2018. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2018.

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2018	2017	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 460,967	\$ 454,309	\$ 6,658	1.5%
Member Contributions	145,425	128,900	16,525	12.8%
Net Investment Income	1,886,956	2,256,694	(369,738)	-16.4%
Other Income	5,536	3,436	2,100	61.1%
Total Additions	<u>2,498,884</u>	<u>2,843,339</u>	<u>(344,455)</u>	-12.1%
<b>Deductions</b>				
Pension Benefits	991,013	925,903	65,110	7.0%
Refund of Contributions	3,786	4,175	(389)	-9.3%
Administrative Expenses	19,909	19,134	775	4.1%
Total Deductions	<u>1,014,708</u>	<u>949,212</u>	<u>65,496</u>	6.9%
Net Increase (Decrease)	1,484,176	1,894,127	(409,951)	-21.6%
Net Position, Beginning of Year	<u>18,998,403</u>	<u>17,104,276</u>	<u>1,894,127</u>	11.1%
Net Position, End of Year	<u>\$ 20,482,579</u>	<u>\$ 18,998,403</u>	<u>\$ 1,484,176</u>	7.8%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2018 totaled \$606.4 million, up by \$23.2 million or 4.0% over fiscal year 2017. The employer's contribution for fiscal year 2018 was \$461.0 million compared to \$454.3 million for fiscal year 2017. The increase in employer's contributions was due to the increase in required contribution and contributions received as a result of the Airport Police officers transfer from LACERS to the System in fiscal year 2018. The increase in members' contribution was due to an increase in membership in Tier 6 and general wage growth.

Net investment income amounted to \$1.9 billion, a decrease in net investment income of \$369.7 million or 16.4% when compared with \$2.3 billion from fiscal year 2017. Investment income decreased in fiscal year 2018 due to less appreciation in the fair value of investments in fiscal year 2018 relative to fiscal year 2017.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2018, totaled \$1.0 billion, up by \$65.5 million or 6.9% over fiscal year 2017. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2017.

*Health Subsidy Plan*

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

**Fiduciary Net Position**

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2019	2018	Change	% Change
Cash	\$ 264	\$ 159	\$ 105	66.0%
Receivables/Prepayments	54,680	25,939	28,741	110.8%
Investments	2,095,842	1,930,589	165,253	8.6%
Capital Assets	2,306	2,166	140	6.5%
Total Assets	2,153,092	1,958,853	194,239	9.9%
Liabilities	115,376	81,062	34,314	42.3%
Net Position	\$ 2,037,716	\$ 1,877,791	\$ 159,925	8.5%

Net position increased by \$160.0 million (8.5%) to \$2.0 billion when compared to fiscal year 2018 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy and the result of favorable market conditions.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Health Subsidy Plan (Continued)*

**Fiduciary Net Position**

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2018	2017	Change	% Change
Cash	\$ 159	\$ 128	\$ 31	24.2%
Receivables/Prepayments	25,939	25,604	335	1.3%
Investments	1,930,589	1,797,379	133,210	7.4%
Capital Assets	2,166	2,134	32	1.5%
Total Assets	1,958,853	1,825,245	133,608	7.3%
Liabilities	81,062	159,419	(78,357)	-49.2%
Net Position	\$ 1,877,791	\$ 1,665,826	\$ 211,965	12.7%

Net position increased by \$212.0 million (12.7%) to \$1.9 billion when compared to fiscal year 2017 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy and the result of favorable market conditions.

**Changes in Fiduciary Net Position**

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2019	2018	Change	% Change
<b>Additions</b>				
Contributions	\$ 188,020	\$ 178,979	\$ 9,041	5.1%
Net Investment Income	111,635	165,453	(53,818)	-32.5%
Total Additions	299,655	344,432	(44,777)	-13.0%
<b>Deductions</b>				
Benefits Payment	137,874	130,722	7,152	5.5%
Administrative Expenses	1,856	1,745	111	6.4%
Total Deductions	139,730	132,467	7,263	5.5%
Net Increase	159,925	211,965	(52,040)	-24.6%
Net Position, Beginning of Year	1,877,791	1,665,826	211,965	12.7%
Net Position	\$ 2,037,716	\$ 1,877,791	\$ 159,925	8.5%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Health Subsidy Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Additions to Fiduciary Net Position

Total additions to net position decreased by \$44.8 million compared to fiscal year 2018. This is due primarily to lesser appreciation in the fair value of investments which decreased by \$770.4 million or 47.0% over fiscal year 2018. For fiscal year 2019, net investment income was \$111.6 million compared to \$165.5 million in fiscal year 2018.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$139.7 million, \$7.3 million or 5.5% more than the total deductions of fiscal year 2018. This is due primarily to an increase in the medical insurance subsidies and an increase in the number of eligible pensioners and beneficiaries.

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2018	2017	Change	% Change
<b>Additions</b>				
Contributions	\$ 178,979	\$ 165,170	\$ 13,809	8.4%
Net Investment Income	165,453	189,381	(23,928)	-12.6%
Other Income	-	39	(39)	-100.0%
<b>Total Additions</b>	<b>344,432</b>	<b>354,590</b>	<b>(10,158)</b>	<b>-2.9%</b>
<b>Deductions</b>				
Benefits Payment	130,722	122,562	8,160	6.7%
Administrative Expenses	1,745	1,606	139	8.7%
<b>Total Deductions</b>	<b>132,467</b>	<b>124,168</b>	<b>8,299</b>	<b>6.7%</b>
<b>Net Increase</b>	<b>211,965</b>	<b>230,422</b>	<b>(18,457)</b>	<b>-8.0%</b>
<b>Net Position, Beginning of Year</b>	<b>1,665,826</b>	<b>1,435,404</b>	<b>230,422</b>	<b>16.1%</b>
<b>Net Position</b>	<b>\$ 1,877,791</b>	<b>\$ 1,665,826</b>	<b>\$ 211,965</b>	<b>12.7%</b>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

*Health Subsidy Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Additions to Fiduciary Net Position

Total additions to net position decreased by \$10.2 million compared to fiscal year 2017. This is due primarily to less appreciation in the fair value of investments which decreased by \$25.7 million or 16.3% over fiscal year 2017. For fiscal year 2018, net investment income was \$165.5 million compared to \$189.4 million in fiscal year 2017.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$132.5 million, \$8.3 million or 6.7% more than the total deductions of fiscal year 2017. This is due primarily to an increase in the medical insurance subsidies and an increase in the number of eligible pensioners and beneficiaries.

**REQUEST FOR INFORMATION**

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

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



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
STATEMENTS OF FIDUCIARY NET POSITION  
JUNE 30, 2019 AND 2018**

	2019			2018		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ASSETS</b>						
Cash	\$ 2,766,426	\$ 263,659	\$ 3,030,085	\$ 1,748,472	\$ 159,412	\$ 1,907,884
Receivables						
Accrued Interest and Dividends	67,188,013	6,403,469	73,591,482	58,620,825	5,344,609	63,965,434
Contributions	8,340,007		8,340,007	8,560,537		8,560,537
Due from Brokers	391,578,652	37,320,077	428,898,729	110,179,156	10,045,312	120,224,468
Total Receivables	467,106,672	43,723,546	510,830,218	177,360,518	15,389,921	192,750,439
Prepaid benefits	1,532	10,956,695	10,958,227	2,071	10,548,759	10,550,830
Investments at Fair Value						
Temporary	1,636,173,961	155,938,374	1,792,112,335	1,429,879,100	130,365,694	1,560,244,794
U.S. Government Obligations	2,608,878,521	248,643,657	2,857,522,178	2,400,176,886	218,830,197	2,619,007,083
Domestic Corporate Bonds	1,625,869,847	154,956,323	1,780,826,170	1,494,592,267	136,265,757	1,630,858,024
Foreign Bonds	12,134,059	1,156,458	13,290,517	21,572,192	1,966,791	23,538,983
Domestic Stocks	7,818,764,981	745,180,849	8,563,945,830	7,760,974,506	707,587,673	8,468,562,179
Foreign Stocks	4,142,595,819	394,817,223	4,537,413,042	4,085,666,128	372,500,513	4,458,166,641
Real Estate	1,324,193,571	126,204,547	1,450,398,118	1,274,863,019	116,232,486	1,391,095,505
Alternative Investments	2,423,764,224	231,001,020	2,654,765,244	2,227,754,091	203,109,974	2,430,864,065
Total Investments	21,592,374,983	2,057,898,451	23,650,273,434	20,695,478,189	1,886,859,085	22,582,337,274
Capital Assets, Net	24,194,753	2,305,922	26,500,675	23,756,816	2,165,969	25,922,785
Securities Lending Collateral	398,126,784	37,944,158	436,070,942	479,644,445	43,730,397	523,374,842
<b>TOTAL ASSETS</b>	<b>22,484,571,150</b>	<b>2,153,092,431</b>	<b>24,637,663,581</b>	<b>21,377,990,511</b>	<b>1,958,853,543</b>	<b>23,336,844,054</b>
<b>LIABILITIES</b>						
Accounts Payable and Accrued Expenses	16,085,959	1,533,100	17,619,059	19,032,948	1,697,321	20,730,269
Benefits in Process of Payment	21,120,786	888,936	22,009,722	15,052,256	835,776	15,888,032
Due to Brokers	623,944,799	59,466,133	683,410,932	223,979,350	20,420,764	244,400,114
Mortgage Payable	163,058,583	15,540,579	178,599,162	157,678,900	14,375,984	172,054,884
Security Deposit	33,876	3,228	37,104	23,562	2,148	25,710
Securities Lending Collateral	398,126,784	37,944,158	436,070,942	479,644,445	43,730,397	523,374,842
<b>TOTAL LIABILITIES</b>	<b>1,222,370,787</b>	<b>115,376,134</b>	<b>1,337,746,921</b>	<b>895,411,461</b>	<b>81,062,390</b>	<b>976,473,851</b>
<b>NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS</b>	<b>\$ 21,262,200,363</b>	<b>\$ 2,037,716,297</b>	<b>\$ 23,299,916,660</b>	<b>\$ 20,482,579,050</b>	<b>\$ 1,877,791,153</b>	<b>\$ 22,360,370,203</b>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**JUNE 30, 2019 AND 2018**

	2019			2018		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ADDITIONS</b>						
Contributions						
Employer Contributions	\$ 504,877,399	\$ 188,019,917	\$ 692,897,316	\$ 460,966,593	\$ 178,979,312	\$ 639,945,905
Member Contributions	147,752,497		147,752,497	145,424,650		145,424,650
Total Contributions	<u>652,629,896</u>	<u>188,019,917</u>	<u>840,649,813</u>	<u>606,391,243</u>	<u>178,979,312</u>	<u>785,370,555</u>
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	797,310,753	73,095,438	870,406,191	1,508,491,973	132,268,262	1,640,760,235
Interest	156,480,173	14,345,707	170,825,880	131,240,652	11,507,501	142,748,153
Dividends	287,148,353	26,325,036	313,473,389	251,005,757	22,008,798	273,014,555
Net Real Estate Income	56,964,334	5,222,347	62,186,681	50,086,601	4,391,716	54,478,317
Income from Alternative Investments	14,820,490	1,358,705	16,179,195	26,560,377	2,328,879	28,889,256
Securities Lending Income	5,447,393	499,403	5,946,796	7,242,965	635,081	7,878,046
Less: Securities Lending Expense	(762,066)	(69,864)	(831,930)	(1,012,708)	(88,795)	(1,101,503)
Other Income	3,788,307	347,303	4,135,610	882,174	77,351	959,525
Subtotal	<u>1,321,197,737</u>	<u>121,124,075</u>	<u>1,442,321,812</u>	<u>1,974,497,791</u>	<u>173,128,793</u>	<u>2,147,626,584</u>
Less: Investment Manager Expense	<u>(103,868,573)</u>	<u>(9,522,409)</u>	<u>(113,390,982)</u>	<u>(87,541,591)</u>	<u>(7,675,861)</u>	<u>(95,217,452)</u>
Net Investment Income	<u>1,217,329,164</u>	<u>111,601,666</u>	<u>1,328,930,830</u>	<u>1,886,956,200</u>	<u>165,452,932</u>	<u>2,052,409,132</u>
Other Income						
Miscellaneous	362,496	33,232	395,728	5,536,029	-	5,536,029
Total Other Income	<u>362,496</u>	<u>33,232</u>	<u>395,728</u>	<u>5,536,029</u>	<u>-</u>	<u>5,536,029</u>
TOTAL ADDITIONS	<u>1,870,321,556</u>	<u>299,654,815</u>	<u>2,169,976,371</u>	<u>2,498,883,472</u>	<u>344,432,244</u>	<u>2,843,315,716</u>
DEDUCTIONS						
Pension Benefits	1,065,978,500		1,065,978,500	991,013,490		991,013,490
Payment of Health Subsidy		126,579,292	126,579,292		119,850,212	119,850,212
Payment of Medicare Reimbursement		11,294,464	11,294,464		10,871,700	10,871,700
Refund of Contributions	4,477,787		4,477,787	3,786,094		3,786,094
Administrative Expenses	20,243,956	1,855,915	22,099,871	19,908,418	1,745,619	21,654,037
TOTAL DEDUCTIONS	<u>1,090,700,243</u>	<u>139,729,671</u>	<u>1,230,429,914</u>	<u>1,014,708,002</u>	<u>132,467,531</u>	<u>1,147,175,533</u>
NET INCREASE	779,621,313	159,925,144	939,546,457	1,484,175,470	211,964,713	1,696,140,183
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year	20,482,579,050	1,877,791,153	22,360,370,203	18,998,403,579	1,665,826,440	20,664,230,019
End of Year	<u>\$ 21,262,200,363</u>	<u>\$ 2,037,716,297</u>	<u>\$ 23,299,916,660</u>	<u>\$ 20,482,579,050</u>	<u>\$ 1,877,791,153</u>	<u>\$ 22,360,370,203</u>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 1 – DESCRIPTION OF THE PLANS**

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

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

**Pension Plan**

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

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997, and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of August 6, 1999. Tier 4 includes members hired from July 1, 1997 through December 31, 2001, and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2011, and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2011. Harbor Port Police officers hired before January 8, 2006, who were members of LACERS, were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

Tier 6 was established for all firefighters, police and Harbor Port Police officers hired on or after July 1, 2011. Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and elected to opt out of LACERS by the December 12, 2014 deadline. Effective January 7, 2018, Tier 6 also includes all new Airport police officers, as well as any Airport police officers hired prior to January 7, 2018 who elected to transfer to Tier 6 from LACERS at their own expense.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Pension Plan (Continued)

Tier 1 members hired prior to January 17, 1927, with 20 years of service are entitled to annual pension benefits equal to 50%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 members hired on or after January 17, 1927, with 20 or more years of service are entitled to annual pension benefits equal to 40%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 has no minimum age requirement and provides for unlimited post-employment cost-of-living adjustments (COLA) based on the Consumer Price Index (CPI). Tier 1 members who were active as of July 1, 1982, and who terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board-approved interest if they did not qualify for a pension or if they waived their pension entitlements.

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

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Pension Plan (Continued)

interest if they do not qualify for a pension or if they waive pension entitlements.

Tier 6 members must be at least age 50 with 20 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive pension entitlements.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter; Section 4.2018 of the Administrative Code; and related ordinances. Health subsidy benefits are available to members and their covered dependents (e.g. spouses/domestic partners and/or children) on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for health subsidy benefits. Members who retire from the System with at least 10 years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55. Tier 6 members who retire on a service-connected disability pension are eligible for a minimum health subsidy at age 55 if they have fewer than 10 years of service.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. The maximum monthly subsidy for fiscal years 2019 and 2018 was \$1,725.39 and \$1,627.73, respectively. The System also reimburses the basic Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

The System began pre-funding the health subsidy benefits effective with the 1989-1990 plan year. Full funding was phased in over four years.

Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted for in order to comply with Internal Revenue Code Section 401 (h).

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Health Insurance Premium Reimbursement Program

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

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The pensioner (whether living or deceased) must meet minimum age and service requirements for a health subsidy. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the State of California but not within a Board-approved health plan zip code service area. They may not be enrolled in a Board-approved plan. Effective April 6, 2017, pensioners or qualified surviving spouses/domestic partners may reside anywhere and be eligible to participate in this program.

The reimbursement paid is a percentage of the maximum subsidy for health care. The System also reimburses basic Medicare Part B premiums for any pensioner or qualified surviving spouse/domestic partner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

Dental Subsidy Plan

Members who retire from the System with at least 10 years of service, are age 55 years or older, and are enrolled in a Board-approved dental plan, are eligible for dental subsidy benefits. Surviving spouses, domestic partners, and dependents are not covered by this subsidy.

The benefit paid is a percentage of a maximum subsidy for dental care based on the lower of the dental subsidy in effect for LACERS (civilian retirees) or active Safety Members. The maximum monthly subsidy was \$44.60 for calendar years 2019 and 2018. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the maximum.

Deferred Retirement Option Plan

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

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

Effective February 1, 2019, for members who enroll on or after this date, participation in DROP will be suspended for any calendar month in which a participant does not spend at least 112 hours on “active duty” status. However, if a participant sustains a serious injury on duty and is admitted to the hospital for at least three consecutive days as a result of that injury, their participation will not be suspended during the first 12 calendar months following the date of injury. If a member’s DROP participation is suspended, he/she is eligible to participate in DROP for a maximum of 30 additional months beyond his/her original five-year

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Deferred Retirement Option Plan (Continued)

participation period. The participation period can only be extended for as many months as the member's participation was suspended and no interest is credited to the member's DROP account following the initial five-year participation period.

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive the proceeds from their DROP account and a monthly benefit based on their service and salary at the beginning date of their DROP participation, plus applicable COLAs.

At June 30, 2019 and 2018, 1665 and 1,442 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$332,592,779 and \$299,626,972, respectively.

Two Percent Opt-In

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree health subsidies and reimbursements for members of the System who retired or entered DROP on or after July 15, 2011. This ordinance added language to the Los Angeles Administrative Code to freeze the maximum monthly non-Medicare subsidy at the July 1, 2011, rate of \$1,097.41 per month, and freeze the maximum monthly Medicare subsidy as of the January 1, 2011, rate of \$480.41 per month. However, the ordinance also provided that members may make an irrevocable election to contribute towards vesting increases in the maximum health subsidy, as allowed by an applicable Memorandum of Understanding.

Members who opted-in to make the additional two-percent pension contributions are entitled to the current maximum health subsidy benefit and all future subsidy increases once they retire and become eligible to receive a subsidy. The opt-in period for the majority of the members began August 15, 2011, and closed September 29, 2011.

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Pension Plan Membership

The components of the System’s Pension Plan membership at June 30, 2019 and 2018, are as follows:

	2019	2018
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	-
Tier 4	112	150
Tier 5	5,246	5,645
Tier 6	3,485	2,929
	8,843	8,724
Active Vested:		
Tier 1	-	-
Tier 2	7	8
Tier 3	664	712
Tier 4	138	115
Tier 5	3,880	3,881
Tier 6	3	2
	4,692	4,718
Pensioners and Beneficiaries:		
Tier 1	264	306
Tier 2	7,085	7,262
Tier 3	731	676
Tier 4	321	308
Tier 5	4,695	4,337
Tier 6	1	1
	13,097	12,890
Vested Terminated		
Tier 3	49	56
Tier 5	277	300
Tier 6	197	178
	523	534
	27,155	26,866



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

Basis of Presentation

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

Financial Reporting

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

Investments and Method Used to Value Investments

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

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

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments and Method Used to Value Investments (Continued)

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

Cash

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

Capital Assets

Capital assets include land, building, improvements, computer/software, furniture and fixtures that are used in operation. Assets with an individual cost of at least \$5,000 and an estimated useful life of more than one year are capitalized. Capital assets are valued at acquisition cost plus the cost of improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the building and improvements (20-year), computer/software (10-year) and furniture and fixtures (5-year). The System acquired the Neptune Building in fiscal year 2013 and occupied as the headquarters in fiscal year 2016. Recorded values of land and building were assigned based on a ratio obtained from the November 2016 independent appraisal report.

Mortgage Payable

Effective July 1, 2017, mortgage payable is stated at fair value. The fair value of mortgage loans payable is presented at the amount at which the liability could be transferred to a market participant, exclusive of direct transaction costs such as prepayment penalties. The fair value of mortgage loans payable have been determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates and/or interest rate spreads for loans of comparable quality and maturity, (ii) the value of the underlying collateral, (iii) the credit risk of the borrower based on key elements of the real estate investment's valuation, (iv) market based loan-to-value and debt-service-coverage ratios relative to each mortgage loan payable valuation, and (v) key terms such as assumability, recourse provisions and guaranties. These inputs are considered within a discounted cash flow model used to determine the estimated fair value of mortgage loans payable. Prior to July 1, 2017, mortgage payable consists of the outstanding unpaid principal balance on the loans.

Use of Estimates

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 3 – NEW ACCOUNTING STANDARDS**

Implementation of the following GASB statements is effective fiscal year 2019.

Issued in November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes standards of accounting and financial reporting for certain Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. SPF implemented this statement without material impact.

Issued in March 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. SPF implemented this statement without material impact.

**NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION**

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of the Tier 5 required contribution rate contingent on the System remaining at least 100% actuarially funded for pension benefits. Since July 1, 2006, Tier 5 members have been required to contribute 9% of salary because the System has remained less than 100% actuarially funded for pension benefits as determined by the System's actuary. Tier 6 members are required to contribute 9% of salary for regular pension contributions. Tier 6 members are also required to make an additional pension contribution of 2% of salary to support the City's ability to fund retiree health benefits. Airport police officers who transferred to Tier 6 from LACERS are required to contribute to the System at their same LACERS contribution rates until they retire.

The City Charter specifies that the City will make the following contributions each year:

- A. An amount equal to the City's share of defined entry age normal costs.
- B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4, and 5, any "unfunded liability" resulting from plan amendments shall be amortized over a 25-year period, and actuarial experience gains and losses shall be amortized over a 20-year period. For Tier 6, the unfunded liabilities shall be funded in accordance with the actuarial funding method adopted by the Board upon the advice of the consulting actuary. Charter Amendment G, effective April 8, 2011, now provides that with the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses for all Tiers.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)**

C. An amount to provide for the Health Subsidy Plan.

Accordingly, the City’s contributions as determined by the System’s actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2019 and 2018, were as follows (\$ in thousands):

Fiscal Year Ended June 30, 2019

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 364	\$15,415	\$ 6,178	\$223,865	\$30,594	\$ 2,531	\$ 298	\$ 783
Supplemental Present Value Amount	14,731	16,888	25,699	17,328	113,781	18,698	818	122	118
Pension Administrative Expense	-	16	1,020	378	12,911	2,122	142	21	55
Health Subsidy Entry Age Normal Cost	-	48	4,115	1,476	48,878	12,579	730	112	362
Health Subsidy Unfunded Actuarial Accrued Liability Annual Amount	1,654	63,147	5,580	3,378	38,157	6,270	156	24	14
Health Administrative Expenses	-	1	82	30	1,038	171	12	2	5
<b>Total</b>	<b>\$16,385</b>	<b>\$80,464</b>	<b>\$51,911</b>	<b>\$28,768</b>	<b>\$438,630</b>	<b>\$70,434</b>	<b>\$ 4,389</b>	<b>\$ 579</b>	<b>\$ 1,337</b>

During fiscal year 2019, total contributions of \$692.9 million from the employer and \$147.8 million from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2017. For the Pension Plan, fiscal year 2019 employer contributions included \$280.0 million for entry age normal cost, \$208.2 million for the unfunded supplemental present value annual amount, \$16.7 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2019 employer contributions consisted of \$68.3 million for entry age normal cost and \$118.4 million for the unfunded actuarial accrued liability annual amount, and \$1.3 million for health administrative expense.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)**

Fiscal Year Ended June 30, 2018

	Fire and Police						Harbor Port Police	
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 350	\$15,466	\$ 6,189	\$ 220,050	\$21,335	\$ 2,449	\$ 251
Pension Unfunded Supplemental Present Value amount	14,846	5,887	40,494	18,811	88,833	10,368	721	95
Pension Administrative Expenses	-	13	849	327	10,637	1,241	114	15
Health Subsidy Entry Age Normal Cos	-	50	4,340	1,590	51,547	9,576	743	95
Health Subsidy Unfunded Actuarial Accrued Liability	1,701	59,735	5,313	3,159	35,299	4,120	151	20
Health Administrative Expenses	-	1	56	22	701	82	8	1
<b>Total</b>	<b>\$16,547</b>	<b>\$66,036</b>	<b>\$66,518</b>	<b>\$30,098</b>	<b>\$407,067</b>	<b>\$46,722</b>	<b>\$4,186</b>	<b>\$477</b>

During fiscal year 2018, total contributions of \$639.9 million from the employer and \$145.4 million from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2016. For the Pension Plan, fiscal year 2018 employer contributions included \$266.0 million for entry age normal cost, \$180.1 million for the unfunded supplemental present value annual amount, \$13.2 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2018 employer contributions consisted of \$67.9 million for entry age normal cost and \$109.5 million for the unfunded actuarial accrued liability annual amount, and \$0.9 million for health administrative expense. The total employer contributions for 2018 also included \$2.3 million from LACERS for Airport Police officers who opted to transfer from LACERS to the System.

**NOTE 5 – NET PENSION LIABILITY**

The components of the System’s net pension liability (NPL) at June 30, 2019 and 2018, were as follows:

	2019	2018
Total Pension Liability	\$ 23,000,504,726	\$ 21,736,849,050
Less: Fiduciary Net Position	21,262,200,363	20,482,579,050
<b>Net Pension Liability</b>	<b>1,738,304,363</b>	<b>1,254,270,000</b>
 Fiduciary Net Position as a Percentage of the Total Pension Liability	 92.44%	 94.23%

The NPL was measured as of June 30, 2019 and June 30, 2018 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2018 and 2017 respectively.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 5 – NET PENSION LIABILITY (Continued)**

Actuarial Assumptions

The TPL as of June 30, 2019 was determined by actuarial valuation as of June 30, 2018, was re-measured as of June 30, 2019 to reflect the mortality assumption that the Board has approved for use in the pension funding valuation as of June 30, 2019. The TPL as of June 30, 2018 that was determined by an actuarial valuation as of June 30, 2017. Those actuarial assumptions were based on the result of an experience study for the period from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin while an updated mortality assumption for the June 30, 2019 TPL was the Mortality Experience Study covering the period from July 1, 2010 through June 30, 2019. The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2019 and 2018:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30% to 12.00% based on years of service, including inflation.
Investment Return Rate	7.25%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	<p>June 30, 2019:            Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.            Disabled: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>June 30, 2018:            Healthy: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set back one year for members. Headcount-Weighted RP-2014 Health Annuitant Mortality Table projected 20 years with two-dimensional Scale MP 2016, set forward one year for beneficiaries.</p>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 5 – NET PENSION LIABILITY (Continued)**

Actuarial Assumptions (Continued)

Disabled: Headcount-Weighted RP-2014 Healthy  
Annuitant Mortality Table projected 20 years with two-  
dimensional Scale MP-2016, set forward one year.

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2019 and 2018 are summarized in the following table:

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2019	2018	2019	2018
Large Cap U.S. Equity	23.00%	23.00%	5.61%	5.61%
Small Cap U.S. Equity	6.00%	6.00%	6.37%	6.37%
Developed International Equity	16.00%	16.00%	6.96%	6.96%
Emerging Markets Equity	5.00%	5.00%	9.28%	9.28%
U.S. Core Fixed Income	12.00%	12.00%	1.06%	1.06%
High Yield Bonds	3.00%	3.00%	3.65%	3.65%
Real Estate	10.00%	10.00%	4.37%	4.37%
Treasury Inflation Protected Securities (TIPS)	5.00%	5.00%	0.94%	0.94%
Commodities	5.00%	5.00%	3.76%	3.76%
Cash	1.00%	1.00%	-0.17%	-0.17%
Unconstrained Fixed Income	2.00%	2.00%	2.50%	2.50%
Private Equity	12.00%	12.00%	7.50%	7.50%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>	<u>5.11%</u>	<u>5.11%</u>

Discount Rate

The discount rate used to measure the TPL was 7.25% as of June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 5 – NET PENSION LIABILITY (Continued)**

Discount Rate (Continued)

Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2019 and 2018.

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2019 and 2018, calculated using the discount rate of 7.25% for 2019 and 2018, as well as what the System’s NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NPL as of June 30, 2019	\$ 4,952,113,933	\$ 1,738,304,363	\$ (872,832,397)
NPL as of June 30, 2018	\$ 4,210,457,814	\$ 1,254,270,000	\$ (1,163,202,289)

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY**

The components of the System’s net Other Postemployment Benefits (OPEB) liability at June 30, 2019 and 2018, were as follows:

	2019	2018
Total OPEB Liability	\$ 3,621,203,927	\$ 3,588,131,652
Less: Fiduciary Net Position	2,037,716,297	1,877,791,153
Net OPEB Liability	\$ 1,583,487,630	\$ 1,710,340,499
 Fiduciary Net Position as a Percentage of the Total OPEB Liability	56.27%	52.35%

The Net OPEB Liability (NOL) was measured as of June 30, 2019 and June 30, 2018. The Health Subsidy’s Net Position was valued as of the measurement date, while the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuation as of June 30, 2019 and 2018, respectively. The NOLs as of June 30, 2019 and 2018 reflects the impact of the excise tax imposed in 2022 (deferred from 2020) by the Affordable Care Act (ACA).

Actuarial Assumptions

The TOL as of June 30, 2019 and 2018 were determined by actuarial valuations as of June 30, 2019 and 2018, respectively. The actuarial assumptions were based on the results of an experience study for the period



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Actuarial Assumptions (continued)

from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin. They are the same as the assumptions used in the June 30, 2019 and 2018 funding actuarial valuations for the Health Subsidy Plan with the exception of the inclusion of the impact of the excise tax on high-cost health plans.

The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2019 and 2018:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30 to 12.00% based on years of service, including inflation.
Investment Return Rate	7.25%, including inflation but net of investment expenses.
Real Across-the Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	<p>June 30, 2019:            Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.            Disabled: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>June 30, 2018:            Healthy: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set back one year for members. Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year for beneficiaries            Disabled: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional Scale MP-2016, set forward one year</p>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2019 and 2018 are summarized in the following table:

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2019	2018	2019	2018
Large Cap U.S. Equity	23.00%	23.00%	5.61%	5.61%
Small Cap U.S. Equity	6.00%	6.00%	6.37%	6.37%
Developed International Equity	16.00%	16.00%	6.96%	6.96%
Emerging Markets Equity	5.00%	5.00%	9.28%	9.28%
U.S. Core Fixed Income	12.00%	12.00%	1.06%	1.06%
High Yield Bonds	3.00%	3.00%	3.65%	3.65%
Real Estate	10.00%	10.00%	4.37%	4.37%
Treasury Inflation Protected Securities (TIPS)	5.00%	5.00%	0.94%	0.94%
Commodities	5.00%	5.00%	3.76%	3.76%
Cash	1.00%	1.00%	-0.17%	-0.17%
Unconstrained Fixed Income	2.00%	2.00%	2.50%	2.50%
Private Equity	12.00%	12.00%	7.50%	7.50%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>	<u>5.11%</u>	<u>5.11%</u>

Discount Rate

The discount rates used to measure the TOL was 7.25% as of June 30, 2019 and 2018. As contributions that are required to be made by the City to amortize the Unfunded Actuarial Accrued Liability in the funding valuation are determined on an actuarial basis, the future Actuarially Determined Contributions and current Plan assets, when projected in accordance with the method prescribed by GASB 74, are expected to be sufficient to make all benefit payments to current members.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Sensitivity Analysis

The following presents the NOL of the System as of June 30, 2019 and 2018, calculated using the discount rate of 7.25%, as well as what the System’s NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
NOL as of June 30, 2019	\$ 2,126,785,914	\$ 1,583,487,630	\$ 1,143,755,017
NOL as of June 30, 2018	\$ 2,236,706,572	\$ 1,710,340,499	\$ 1,281,286,903

Sensitivity Analysis to Changes in Trend Rate

The following presents the NOL of the Health Subsidy Plan of the System as of June 30, 2019, as well as what the System’s NOL would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
NOL as of June 30, 2019	\$ 1,105,675,287	\$ 1,583,487,630	\$ 2,238,482,815
NOL as of June 30, 2018	\$ 1,242,463,802	\$ 1,710,340,499	\$ 2,350,115,477

Additional information from the actuarial valuations as of June 30, 2019 and 2018 are as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Non-Medicare Medical Plan	8.75%, graded down to an ultimate of 4.50% over 9 years	7.00%, graded down to an ultimate of 4.50% over 10 years
Medicare Medical Plan	8.00%, graded down to an ultimate of 4.50% over 7 years	6.50%, graded down to an ultimate of 4.50% over 8 years
Dental	4.00%	4.00%
Medicare Part B	4.50%	4.00%
Medical Subsidy Trend	<p>For employees not subject to freeze</p> <p>For all non-Medicare retirees, increase at lesser of 7% or medical trend.</p> <p>For Medicare retirees with single party premium, increase with medical trend.</p> <p>For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2019 and 2018 (e.g., Police Kaiser), increase with medical trend.</p> <p>For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2019 and 2018 (e.g., Police Blue Cross PPO), increase with lesser of 7% or medical trend.</p>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

The following assumptions were adopted by the Board based on the July 1, 2013 through June 30, 2016 actuarial experience study and the economic assumptions study for June 30, 2019 and 2018 actuarial valuations:

Actuarial Cost Method	Entry age normal, level percent of pay.																				
Administrative Expenses	Out of the total of 1.25% of payroll in administrative expense, 0.09% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.09% of payroll payable at the beginning of the year.																				
Spouse Age Difference	Husbands are assumed to be 3 years older than wives.																				
Participation	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Service Range (Years)</th> <th style="text-align: center;">Participation for Future Retirees Under 65 (Percentage)</th> <th style="text-align: center;">Participation for Future Retirees Over 65 (Percentage)</th> <th style="text-align: center;">Participation for Current Retirees Age 55-64 Without Subsidy Upon Attaining Age 65 (Percentage)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">10-14</td> <td style="text-align: center;">45</td> <td style="text-align: center;">80</td> <td style="text-align: center;">63.64</td> </tr> <tr> <td style="text-align: center;">15-19</td> <td style="text-align: center;">65</td> <td style="text-align: center;">85</td> <td style="text-align: center;">57.14</td> </tr> <tr> <td style="text-align: center;">20-24</td> <td style="text-align: center;">80</td> <td style="text-align: center;">85</td> <td style="text-align: center;">25.00</td> </tr> <tr> <td style="text-align: center;">25 and over</td> <td style="text-align: center;">95</td> <td style="text-align: center;">95</td> <td style="text-align: center;">0.00</td> </tr> </tbody> </table>	Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation for Current Retirees Age 55-64 Without Subsidy Upon Attaining Age 65 (Percentage)	10-14	45	80	63.64	15-19	65	85	57.14	20-24	80	85	25.00	25 and over	95	95	0.00
Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation for Current Retirees Age 55-64 Without Subsidy Upon Attaining Age 65 (Percentage)																		
10-14	45	80	63.64																		
15-19	65	85	57.14																		
20-24	80	85	25.00																		
25 and over	95	95	0.00																		
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.																				
Dental Coverage	85% of future retirees are assumed to elect dental coverage.																				
Spousal Coverage	Of future retirees receiving a medical subsidy, 80% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data.																				
Implicit Subsidy	Based on information provided in 2019 by the health consultant retained by Los Angeles Firemen’s Relief Association (LAFRA), we understand that retirees under age 65 enrolled in the Fire Kaiser Medical Plan are presently underwritten with the actives enrolled in that plan. LAFPP has made a decision to include the implicit subsidy in the employer’s contribution rate starting with the June 30, 2019 Funding valuation. No implicit subsidy needs to be valued for the other medical plans.																				

Other actuarial assumptions on mortality rates, termination rates, retirement rates, net investment return, and future benefit accruals are the same as for Pension Plan benefits.

The per capita cost assumptions were based on premium, subsidy, and census data provided by the System and are summarized as follows:

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

For fiscal year 2019:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married	Surviving Spouse
Fire Medical	85	\$ 1,820.29	\$ 1,820.29	\$ 853.39	85	\$ 542.51	\$ 821.89	\$ 542.51
Fire Kaiser	10	1,820.29	1,820.29	853.39	15	542.51	551.21	542.51
Fire PPO*	0	1,820.29	1,820.29	853.39	0	542.51	1,662.65	542.51
Fire HMO	5	1,820.29	1,820.29	853.39	0	542.51	1,586.25	542.51
Fire Vivity Value*	0	1,820.29	1,820.29	853.39	0	542.51	1,657.28	542.51
Fire HDHP*	0	1,820.29	1,820.29	853.39	0	542.51	665.83	542.51
Police Blue Cross PPO	60	1,820.29	1,820.29	853.39	75	542.51	1,349.32	542.51
Police Blue Cross HMO	15	1,820.29	1,820.29	853.39	10	542.51	1,135.00	542.51
Police Kaiser	25	1,820.29	1,820.29	853.39	15	542.51	542.51	542.51
Dental	85	44.60	44.60	-	100	44.60	44.60	-
Medicare	N/A	-	-	-	100	135.50	135.50	-

\* Plans will no longer be offered as of January 1, 2020

For fiscal year 2018:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married	Surviving Spouse
Fire Medical	80	\$ 1,725.39	\$ 1,725.39	\$ 853.39	85	\$ 542.51	\$ 803.61	\$ 542.51
Fire Kaiser	10	1,725.39	1,725.39	853.39	15	542.51	524.92	542.51
Fire Blue Cross	5	1,725.39	1,725.39	853.39	0	542.51	1,566.34	542.51
Fire California Care	5	1,725.39	1,725.39	853.39	0	542.51	1,557.80	542.51
Fire Vivity Value	0	1,725.39	1,725.39	853.39	0	542.51	1,583.47	542.51
Fire HDHP PPO	0	1,725.39	1,725.39	853.39	0	542.51	633.89	542.51
Police Blue Cross PPO	60	1,725.39	1,725.39	853.39	75	542.51	1,362.97	542.51
Police Blue Cross HMO	15	1,725.39	1,725.39	853.39	10	542.51	1,200.23	542.51
Police Kaiser	25	1,725.39	1,725.39	853.39	15	542.51	452.25	542.51
Dental	85	44.60	44.60	-	85	44.60	44.60	-
Medicare	N/A	-	-	-	100	134.00	134.00	-

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

Beginning January 1, 2018, the Harbor Port Police and Airport Police officers, upon reaching eligibility to retire, have a choice of retiree medical and dental plans through either the Los Angeles Police Relief Association (LAPRA) or United Firefighters of Los Angeles City. In order to estimate the liability beginning with the June 30, 2017 valuation, the actuary assumed that, effective January 1, 2018 Harbor Port Police retirees previously assumed to enroll in a LACERS plan will enroll in LAPRA retiree health plans in proportion to those assumed for future System Police retirees.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2019 and 2018, are as follows:

	2019	2018
Retired Members	9,387	9,264
Beneficiaries	1,690	1,649
Vested Terminated Members	886	899
Active Members	13,535	13,442
	25,498	25,254

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS**

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2019, cash and temporary investments consisted of \$3,030,085 cash held by the City Treasurer’s office and \$1,792,112,335 in collective short-term investment funds (STIF). At June 30, 2018, cash and temporary investments consisted of \$ 1,907,884 cash held by the City Treasurer’s office and \$1,560,244,794 in collective short-term investment funds (STIF). Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

At June 30, 2019, the System has the following recurring fair value measurements (\$ in thousands):

	<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	\$ 2,119,138	\$ -	\$ 2,119,138	\$ -
U.S. Agencies	717,286	-	717,286	-
Municipal/Provincial Bonds	21,098	-	21,098	-
Collateralized Debt Obligations	188,449	-	186,539	1,910
Commercial Paper	16,907	-	16,907	-
Corporate Bonds	1,568,868	-	1,559,254	9,614
Total Debt Securities	<u>4,631,746</u>	<u>-</u>	<u>4,620,222</u>	<u>11,524</u>
Equity Securities				
Common Stock	13,011,542	12,992,442	13,969	5,131
Preferred Stock	89,463	89,463	-	-
Other	354	351	-	3
Total Equity Securities	<u>13,101,359</u>	<u>13,082,256</u>	<u>13,969</u>	<u>5,134</u>
Real Estate	<u>644,833</u>	<u>84,614</u>	<u>-</u>	<u>560,219</u>
Derivatives	<u>1,959</u>	<u>34</u>	<u>1,925</u>	<u>-</u>
Total Investments by Fair Value Level	<u>\$ 18,379,897</u>	<u>\$ 13,166,904</u>	<u>\$ 4,636,116</u>	<u>\$ 576,877</u>

Investments Measured at the Net Asset value (NAV) (\$ in thousands):

Private Equity Partnerships	\$ 2,550,455
Commingled Real Estate Funds	805,565
Hedge Funds	102,351
Corporate Debt Securities	19,506
U.S. Agencies Debt Securities	387
Total Investments Measured at NAV	<u>\$ 3,478,264</u>

Note: Temporary investments of \$1,792 million are not included in the fair value hierarchy above.

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Fair Value of Investments (continued)

Real estate corporate accounts investments are valued based on an independent appraisal or other methods using various techniques including models. Real estate corporate accounts are scheduled for independent appraisal on a rolling 3-year period.

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

Investments measured at the NAV (\$ in thousands):

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity Funds and Partnerships	\$ 2,550,455	\$ 1,519,991	N/A	-
Real Estate <sup>(1)</sup>	805,565	213,900	Quarterly	90 -179 days
Hedge Funds	102,351	-	Quarterly	90 days
Corporate Debt Securities	19,506	-	Anytime	-
U.S. Agencies Debt Securities	387	-	N/A	-
<b>Total Investments measured at NAV</b>	<b><u>\$ 3,478,264</u></b>			

<sup>(1)</sup>This type investment includes \$421 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Investment Policy

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

The Board’s adopted allocation policy effective during fiscal years 2019 and 2018 were as follow:

<u>Asset Class</u>	<u>2019</u>	<u>2018</u>
Large Cap U.S. Equity	23.00%	23.00%
Small Cap U.S. Equity	6.00%	6.00%
Developed International Equity	16.00%	16.00%
Emerging Markets Equity	5.00%	5.00%
U.S. Core Fixed Income	12.00%	12.00%
High Yield Bonds	3.00%	3.00%
Real Estate	10.00%	10.00%
TIPS	5.00%	5.00%
Commodities	5.00%	5.00%
Cash	1.00%	1.00%
Unconstrained Fixed Income	2.00%	2.00%
Private Equity	<u>12.00%</u>	<u>12.00%</u>
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>

Credit Risk

Credit risk is the risk that an issuer or a counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Credit Risk (continued)

As of June 30, 2019, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,194,000,303	55.97%
AA	97,034,827	2.48%
A	380,177,719	9.70%
BBB	458,351,000	11.69%
BB	319,716,629	8.16%
B	255,044,156	6.51%
CCC	52,549,811	1.34%
CC	7,730,940	0.20%
C	3,426,456	0.09%
Not Rated	152,176,573	3.88%
Subtotal	3,920,208,415	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	731,430,449	
Total Fixed Income Investments	<u>\$ 4,651,638,864</u>	

As of June 30, 2018, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,214,812,124	58.84%
AA	90,967,740	2.42%
A	347,848,642	9.24%
BBB	403,255,653	10.71%
BB	255,989,503	6.80%
B	244,331,695	6.49%
CCC	54,471,982	1.45%
CC	10,098,113	0.27%
C	3,833,298	0.10%
Not Rated	138,416,822	3.68%
Subtotal	3,764,025,572	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	509,378,518	
Total Fixed Income Investments	<u>\$ 4,273,404,090</u>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2019 and 2018, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$12,447,295 and \$28,087,525, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2019 and 2018, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2019 and 2018, the System's sole hedge fund investment of \$102,350,808 and \$102,734,392, private equity of \$2,552,414,436 and \$2,328,362,307, and commingled real estate funds of \$805,565,111 and \$747,051,796, were exposed to custodial credit risk, respectively.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2019 and 2018, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System manages its exposure to interest rate risk by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Bloomberg Barclays US Aggregate Bond Index for core fixed income investments, (2) the Bloomberg Barclays US Government/Credit Long-Term Bond Index for long duration investments, and (3) the B of A ML High Yield Master II Index for high yield investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the System's investments to interest rate fluctuations is provided in the following table that shows the weighted average effective duration of the System's fixed income investments by investment type.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Interest Rate Risk (Continued)

Fiscal Year 2019

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 77,304,821	13.41
Bank Loans	16,907,666	4.83
Commercial Mortgage-Backed	53,783,021	23.75
Corporate Bonds	1,505,970,785	10.04
Corporate Convertible Bonds	1,879,006	7.88
Government Agencies Bonds	69,632,607	10.84
Government Bonds	1,057,805,022	12.42
Government Mortgage Backed Securities	427,794,538	21.42
Government Issued Commercial Mortgage-Backed	15,360,486	5.23
Index Linked Government Bonds	1,093,820,498	8.84
Municipal/Provincial Bonds	22,423,487	54.15
Non-Government Backed Collateralized Mortgage Obligations	58,872,066	21.15
Sukuk	406,036	2.75
Asset/Mortgage Backed Securities/Other Fixed Income Funds	249,678,825	N/A
Total Fixed Income Investments	<u>\$ 4,651,638,864</u>	

Fiscal Year 2018

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 79,534,019	12.69
Bank Loans	12,170,059	5.31
Commercial Mortgage-Backed	37,360,922	26.38
Commercial Paper	11,518,376	0.79
Corporate Bonds	1,351,935,379	10.41
Corporate Convertible Bonds	8,526,945	4.74
Government Agencies Bonds	69,632,607	8.76
Government Bonds	1,194,699,042	11.44
Government Mortgage Backed Securities	345,584,543	21.38
Government Issued Commercial Mortgage-Backed	20,863,457	5.79
Index Linked Government Bonds	962,141,571	9.23
Municipal/Provincial Bonds	20,497,588	53.92
Non-Government Backed Collateralized Mortgage Obligations	59,967,739	22.68
Short Term Bills and Notes	7,949,551	0.17
Sukuk	1,125,563	3.75
Asset/Mortgage Backed Securities/Other Fixed Income Funds	89,896,730	N/A
Total Fixed Income Investments	<u>\$ 4,273,404,090</u>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Interest Rate Risk (Continued)

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

<u>Investment Type</u>	<u>2019 Fair Value</u>	<u>2018 Fair Value</u>
Asset Backed Securities	\$ 77,304,821	\$ 79,534,019
Commercial Mortgage-Backed	53,783,021	37,360,922
Government Agencies Bonds	69,632,607	69,632,607
Government Mortgage Backed Securities	443,155,024	366,448,000
Index Linked Government Bonds	1,093,820,498	962,141,571
Non-Government Backed Collateralized Mortgage Obligations	58,872,066	59,967,739
	<u>\$ 1,796,568,037</u>	<u>\$ 1,575,084,858</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 16% of the total portfolio for non-U.S. investments in equities. The majority of the System's currency exposure comes from its holdings of foreign stocks.

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2019 and 2018 are as follows:

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Foreign Currency Risk (Continued)

Foreign Currency Type	2019	2018
United Arab Emirates Dirham	\$ 1,366,293	\$ 3,472,750
Australian Dollar	179,842,002	160,740,305
Brazilian Real	98,209,474	68,482,495
British Pound Sterling	688,679,146	707,082,640
Canadian Dollar	147,032,400	157,934,004
Chilean Peso	5,683,485	6,094,404
Colombian Peso	2,257,236	2,499,041
Czech Koruna	5,859,091	5,464,240
Danish Krone	53,149,150	62,145,313
Euro	1,205,804,844	1,312,520,572
HK offshore Chinese Yuan Renminbi	15,827,525	21,593,480
Hong Kong Dollar	359,843,510	336,389,195
Hungarian Forint	2,167,202	3,914,969
Indian Rupee	111,478,108	86,721,699
Indonesian Rupiah	43,403,920	34,449,110
Japanese Yen	630,477,373	666,544,540
Kenyan Shilling	6,089,850	5,836,280
Malaysian Ringgit	14,902,506	16,020,309
Mexican Peso	62,218,842	54,056,452
New Israeli Shekel	9,987,037	5,451,753
New Taiwan Dollar	151,629,879	163,834,830
New Zealand Dollar	13,166,119	20,568,931
Norwegian Krone	28,900,178	28,648,913
Philippine Peso	8,097,348	6,184,490
Polish Zloty	8,891,147	7,905,028
Russian ruble	136,706	-
Singapore Dollar	42,473,573	42,929,333
South African Rand	80,987,635	93,108,290
South Korean Won	218,647,478	219,801,696
Swedish Krona	76,323,856	95,220,407
Swiss Franc	238,807,551	218,734,725
Thai Baht	33,036,175	21,275,503
Turkish Lira	5,326,920	11,211,705
	<u>\$ 4,550,703,559</u>	<u>\$ 4,646,837,402</u>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

**Money-Weighted Rate of Return**

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on the investment of the Pension Plan and Health Subsidy Plan, gross of investment expense, for the years ended June 30, 2019 and 2018, was 6.21% and 9.21%, respectively. The source for the rate of return was the June 30, 2019 and 2018 Investment Hierarchy provided by the custodian bank, Northern Trust.

**NOTE 8 – SECURITIES LENDING**

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

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

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 8 – SECURITIES LENDING (Continued)**

As of June 30, 2019 and 2018, the fair value of securities on loan was \$1,255,869,344 and \$1,451,867,843, respectively, and the fair value of collateral received was \$1,279,294,007 and \$1,494,855,698, respectively. Of the \$1,279,294,007 collateral received as of June 30, 2019, \$436,070,942 was cash collateral and \$843,223,065 represented the fair value of non-cash collateral; and of the \$1,494,855,698 collateral received as of June 30, 2018, \$523,374,842 was cash collateral and \$971,480,856 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2019 and 2018:

Fair value of collateral received for loaned securities as of June 30, 2019:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 197,088,050	\$ 95,324,195	\$ 292,412,245
Domestic Corporate Fixed Income Securities	37,617,856	52,563,015	90,180,871
Domestic Equities	163,666,088	599,768,599	763,434,687
International Fixed Income Securities	597,057	-	597,057
International Equities	37,101,891	95,567,256	132,669,147
	<u>\$ 436,070,942</u>	<u>\$ 843,223,065</u>	<u>\$ 1,279,294,007</u>

Fair value of loaned securities as of June 30, 2019:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 193,374,935	\$ 93,576,274	\$ 286,951,209
Domestic Corporate Fixed Income Securities	36,920,674	51,955,959	88,876,633
Domestic Equities	161,142,892	592,079,718	753,222,610
International Fixed Income Securities	538,703	-	538,703
International Equities	35,313,503	90,966,686	126,280,189
	<u>\$ 427,290,707</u>	<u>\$ 828,578,637</u>	<u>\$ 1,255,869,344</u>



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 8 – SECURITIES LENDING (Continued)**

Fair value of collateral received for loaned securities as of June 30, 2018:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 261,474,564	\$ 35,811,210	\$ 297,285,775
Domestic Corporate Fixed Income Securities	30,853,920	110,389,499	141,243,419
Domestic Equities	161,313,599	690,993,739	852,307,338
International Fixed Income Securities	781,572	134,286,408	135,067,980
International Equities	68,951,186	-	68,951,186
	<u>\$ 523,374,842</u>	<u>\$ 971,480,856</u>	<u>\$ 1,494,855,698</u>

Fair value of loaned securities as of June 30, 2018:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	\$ 255,630,200	\$ 35,035,699	\$ 290,665,899
Domestic Corporate Fixed Income Securities	30,098,831	107,344,638	137,443,469
Domestic Equities	157,418,579	674,254,463	831,673,042
International Fixed Income Securities	727,301	-	727,301
International Equities	65,651,903	125,706,229	191,358,133
	<u>\$ 509,526,814</u>	<u>\$ 942,341,029</u>	<u>\$ 1,451,867,843</u>

For the fiscal years ended June 30, 2019 and 2018, securities lending income amounted to \$5,946,796 and \$7,878,046, respectively, while securities lending expenses amounted to \$831,930 and \$1,101,503, respectively.

**NOTE 9 – DERIVATIVE INSTRUMENTS**

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 9 – DERIVATIVE INSTRUMENTS (Continued)**

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period.

For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities.

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2019, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2019 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2019		Notional Amount
	Classification		Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$(87,079,908)
Futures - Longs	Investment Loss	(13,971,500)	Investment	-	159,084,888
Forwards	Investment Revenue	54,468	Investment	(106,081)	-
Options	Investment Loss	(516,789)	Investment	33,914	-
Rights/Warrants	Investment Revenue	1,766,361	Investment	354,057	-
Swaps	Investment Loss	(7,080,797)	Investment	1,925,201	-

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2018 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2018		Notional Amount
	Classification		Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$(71,009,047)
Futures - Longs	Investment Revenue	10,101,889	Investment	-	188,610,523
Forwards	Investment Loss	(121,654)	Investment	(3,660)	-
Options	Investment Revenue	409,425	Investment	45,601	-
Rights/Warrants	Investment Revenue	377,925	Investment	134,901	-
Swaps	Investment Revenue	4,942,264	Investment	201,503	-

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 10 – CAPITAL ASSETS**

The System’s capital assets include land, building, computer/software, and furniture and fixtures.

The following is a summary of the System’s capital assets at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital Assets Not Depreciated/Amortized		
Land	\$ 6,465,660	\$ 6,465,660
Computer/Software	<u>3,851,442</u>	<u>2,075,259</u>
Total Capital Assets Not Depreciated/Amortized	<u>10,317,102</u>	<u>8,540,919</u>
Capital Assets Depreciated/Amortized		
Building	18,777,794	18,777,794
Furniture and fixtures	<u>1,297,014</u>	<u>1,297,014</u>
Total Capital Assets Depreciated/Amortized	<u>20,074,808</u>	<u>20,074,808</u>
Less: Accumulated Depreciation/Amortization		
Building	(3,048,176)	(2,109,286)
Furniture and fixtures	<u>(843,059)</u>	<u>(583,656)</u>
Total Accumulated Depreciation/Amortization	<u>(3,891,235)</u>	<u>(2,692,942)</u>
Total Capital Assets Depreciated/Amortized, Net	<u>16,183,573</u>	<u>17,381,866</u>
Total Capital Assets, Net	<u>\$ 26,500,675</u>	<u>\$ 25,922,785</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 11 – MORTGAGES PAYABLE**

Mortgages are secured by real estate. For fiscal year 2019, interest rates range from 2.90% to 7.50% per annum. The average monthly principal and interest payments range from \$52,890 to \$184,838. For fiscal year 2018, interest rates range from 2.90% to 7.50% per annum. The average monthly principal and interest payments range from \$54,241 to \$223,443.

The mortgages mature from January 2022 to March 2029. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,902,933	\$ 6,845,705	\$ 8,748,638
2021	2,000,813	6,747,330	8,748,143
2022	71,888,471	6,074,145	77,962,616
2023	553,870	3,737,774	4,291,644
2024	66,643,299	2,266,223	68,909,522
2025-2029	36,760,000	6,573,140	43,333,140
	<u>\$ 179,749,386</u>	<u>\$ 32,244,317</u>	<u>\$ 211,993,703</u>

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

The following is a summary of mortgage payable activities for the years ended June 30, 2019 and 2018:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Fair Value</u> <u>June 30, 2019</u>
Mortgage Payable	<u>\$ 177,777,115</u>	<u>\$ 14,760,000</u>	<u>\$ 12,787,729</u>	<u>\$ 179,749,386</u>	<u>\$ 178,599,162</u>
	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Fair Value</u> <u>June 30, 2018</u>
Mortgage Payable	<u>\$ 204,882,420</u>	<u>-</u>	<u>\$ 27,105,305</u>	<u>\$ 177,777,115</u>	<u>\$ 172,054,884</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were \$2,033,349,962 and \$1,943,111,293 as of June 30, 2019 and 2018, respectively.

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

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1,733,891,000 and 1,540,567,000 at June 30, 2019 and 2018, respectively.

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

The PPACA of 2010 contains a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018; subsequent legislation has since postponed this provision until 2020 (subsequently deferred to 2022). If there is no change in the law or the System plan provisions between now and 2022, and if the current medical cost trend stays substantially the same during the same period, some of the System post-employment health care plans will be subject to the excise tax in 2022.

GASB 74 requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments. The June 30, 2019 and 2018 OPEB liabilities under GASB 74 reflect the excise tax from the Affordable Care Act (ACA) and related statutes.

Retiree Health Subsidy Freeze Litigation

As of June 30, 2019, there are two cases before the courts that involved the retiree health insurance premium subsidy program that LAFPP administers (“retiree medical subsidy”). Both pending actions were brought by the Los Angeles Police Protective League against the Board and the City.

The two cases (the “LAPPL I Action” and the “LAPPL II Action”) both seek to determine what retiree medical subsidy benefit the additional 2% salary contribution provides members who make the contribution under the unions’ and City’s 2011 Letter of Agreement (“LOA”). The union plaintiffs argue that the 2% contribution grants members the ceiling amount under LAAC § 4.1167, meaning either 7% or the medical trend rate for that year with no discretion reserved to the Board to grant anything lower. The City argues that the 2% contribution gives member only the right to get out from under the Freeze Ordinance and participate in the process that existed under LAAC § 4.1154(e) prior to the 2011 Freeze Ordinance. Under the pre-Freeze Ordinance process, the LAFPP Board may exercise its discretion in setting the annual subsidy rate and can set it up to the maximum amount of 7% or the medical trend rate, whichever is lower.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)**

Retiree Health Subsidy Freeze Litigation (Continued)

In the LAPPL I Action, on April 15, 2016, the plaintiffs agreed to dismiss LAFPP from the action in exchange for LAFPP's agreement to be bound by the final judgment rendered in the case following the conclusion of all appeals. Under the stipulation, and until final judgement is rendered on the interpretation of the LOA, LAFPP has a fiduciary duty to follow LAAC § 4.1154(e) as written until the court instructs otherwise, and must continue to exercise its discretion in setting the retiree medical subsidy as it did before the 2011 Freeze Ordinance.

The LAPPL Action I proceeded to trial, and on November 1, 2016, the trial court ruled in favor of the plaintiffs, finding that the language of the LOA was unambiguous without weighing the conflicting evidence regarding the interpretation of the LOA and the parties' intent. The City appealed, and on October 30, 2018, the Second District Court of Appeal reversed and remanded the case for further proceedings consistent with the Court of Appeals decision. In its decision, the Court of Appeals found that the provision at issue in the LOA was ambiguous, which required the trial court to consider and weigh the evidence of the parties' intent in its interpretation of the provisions, which the trial court did not do. Upon remand back to the Superior Court, on February 15, 2019, the case was reassigned to Judge Holly Fujie for further trial proceedings.

While the LAPPL Action I was pending on appeal, on August 10, 2017, the unions filed a second action ("LAPPL Action II"). The LAPPL Action II raises the same issues as the LAPPL Action I regarding the 2% contribution, and also asserts a new breach of fiduciary duty claim, which preserves the unions' rights to challenge LAFPP's 2017 discretionary action to set the subsidy should the unions lose in the pending LAPPL Action I. On July 3, 2018, the LAPPL filed a First Amended Complaint, adding a similar challenge to LAFPP's 2018 discretionary action in setting the subsidy.

Given the similarities between the two LAPPL Actions and the dispositive effect of the first action on the second, the trial court initially stayed the LAPPL Action II pending appeal of LAPPL I. However, upon remand of LAPPL I, the City filed a motion to consolidate the two actions to be heard before Judge Fujie, which the Court granted. On September 20, 2019, Judge Fujie held a status conference following consolidation and ordered that the case be heard in phases. In Phase One, the LOA interpretation issues common to LAPPL I and LAPPL II are to be heard in a trial before Judge Fujie, and upon resolution of Phase One, the Court will then address the residual fiduciary duty claims against LAFPP unique to LAPPLII. The Court has set another status conference for February 13, 2020.

Current Status of the Retiree Medical Subsidy

As a result of the outcome in the Fry Action, which concluded in the 2016-2017 fiscal year, LAFPP continues to provide a subsidy frozen at the 2011 levels to current and future retired members who chose not to "opt-in" and contribute an additional 2% of their salaries in order to avoid the consequences of the Freeze Ordinance.

With regard to the LAPPL Action I and LAPPL Action II, and under the stipulation with the unions, LAFPP will continue to set and implement the retiree health insurance premium subsidy increases in the same manner as it did prior to the 2011 Freeze Ordinance for members who opted-in to pay the 2% contribution. This means that LAFPP continues to exercise its discretion provided under the Los Angeles Administrative Code to set the subsidy up to and including the medical trend rate or 7%, whichever is lower, until the courts render final judgment.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 13 – DONATIONS**

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

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

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

The last donation of private equity accepted by the System was in 2002. The System has sold or returned the majority of donated private equity since August 2005. The System has received the following income from these donations: \$2,685,000 in 2002; \$2,918,066 in 2003; \$14,402,308 in 2004; \$7,791,262 in 2005; none in 2006; \$864,281 in 2007; \$67,568 in 2008; \$50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, 2015 or 2016. The System sold the remaining donated stocks in February 2017 for a total of \$21,185,000 and received cash of \$10,299,250 and promissory notes of \$10,885,750. In 2019, the System received cash for the remaining balance.

**NOTE 14 – RISKS AND UNCERTAINTIES**

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 9, 2020, which is the date the financial statements were issued. There were no additional subsequent events to disclose.

**REQUIRED SUPPLEMENTARY INFORMATION**



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIO**  
(\$ in Thousands)  
(Unaudited)

	<u>06/30/19</u>	<u>06/30/18</u>	<u>06/30/17</u>	<u>06/30/16</u>	<u>06/30/15</u>	<u>06/30/14</u>
Total Pension Liability:						
Service Cost	\$ 402,708	\$ 390,743	\$ 367,600	\$ 365,956	\$ 368,700	\$ 368,018
Interest	1,572,220	1,502,656	1,436,068	1,399,576	1,384,527	1,392,552
Benefit Payments	(1,070,456)	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	-	-	-	-	-	-
Experience Losses (Gains)	81,465	21,700	(320,404)	(595,188)	(310,882)	(234,638)
Assumption Changes	357,369	-	695,450	-	-	(69,482)
Benefit Changes	(79,650)	-	-	-	-	-
Other <sup>1</sup>	-	2,505	-	-	-	-
Net Change	1,263,656	922,804	1,248,636	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	<u>21,736,849</u>	<u>20,814,045</u>	<u>19,565,409</u>	<u>19,385,428</u>	<u>18,861,992</u>	<u>18,264,528</u>
Total Pension Liability at End of Year (a)	<u>\$23,000,505</u>	<u>\$21,736,849</u>	<u>\$20,814,045</u>	<u>\$19,565,409</u>	<u>\$19,385,428</u>	<u>\$18,861,992</u>
Fiduciary Net Position:						
Employer Contributions	\$ 504,877	\$ 459,632	\$ 454,309	\$ 478,385	\$ 480,332	\$ 440,698
Member Contributions	147,753	145,112	128,900	129,734	126,771	124,395
Net Investment Income	1,218,138	1,892,870	2,260,130	159,313	686,470	2,617,090
Benefit Payments	(1,070,456)	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	(20,244)	(19,908)	(20,816)	(19,346)	(17,815)	(13,865)
Other <sup>1</sup>	-	2,505	-	-	-	-
Net Change (Gain)	780,068	1,485,411	1,892,445	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	<u>20,482,133</u>	<u>18,996,722</u>	<u>17,104,277</u>	<u>17,346,554</u>	<u>16,989,705</u>	<u>14,680,373</u>
Fiduciary Net Position at End of Year (b) <sup>2</sup>	<u>\$21,262,201</u>	<u>\$20,482,133</u>	<u>\$18,996,722</u>	<u>\$17,104,277</u>	<u>\$17,346,554</u>	<u>\$16,989,705</u>
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 1,738,304</u>	<u>\$ 1,254,716</u>	<u>\$ 1,817,323</u>	<u>\$ 2,461,132</u>	<u>\$ 2,038,874</u>	<u>\$ 1,872,287</u>
Plan fiduciary net position as a percentage of the total pension liability	92.44%	94.23%	91.27%	87.42%	89.48%	90.07%
Covered employee payroll	\$ 1,487,978	\$ 1,451,996	\$ 1,397,245	\$ 1,351,788	\$ 1,316,969	\$ 1,308,149
Plan net position liability as a percentage of covered employee payroll	116.82%	86.41%	130.06%	182.06%	154.82%	143.12%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIO**  
**(\$ in Thousands)**  
**(Unaudited)**

Notes to Schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

- (1) Includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police Officers who elected to join the System in Tier 6.
- (2) Excludes the transfer of employer and employee contributions referenced in footnote (1).

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(\$ in Thousands)  
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contributions	Actual Fiscal Year Contributions	Deficiency (Excess)	Covered Employee Payroll <sup>(3)</sup>	Contributions as % of Payroll <sup>(1)</sup>
6/30/2018	\$ 504,877	\$ 504,877		\$ 1,487,978	34%
6/30/2018	459,632 <sup>(2)</sup>	459,632 <sup>(2)</sup>		1,451,996	32%
6/30/2017	454,309	454,309	-	1,397,245	33%
6/30/2016	478,385	478,385	-	1,351,788	35%
6/30/2015	480,332	480,332	-	1,316,969	36%
6/30/2014	440,698	440,698	-	1,308,149	34%
6/30/2013	375,448	375,448	-	1,277,031	29%
6/30/2012	321,593	321,593	-	1,213,396	27%
6/30/2011	277,092	277,092	-	1,289,857	21%
6/30/2010	250,517	250,517	-	1,266,312	20%

Notes to Schedule:

- <sup>(1)</sup> Contribution rate as a percentage of covered payroll reflects discount applied when the employer prepays its contributions. This rate has been “backed” into by dividing the actual contributions by the budgeted covered payroll.
- <sup>(2)</sup> Figures excluded amounts transferred from the Los Angeles City Employees’ Retirement System (LACERS) for the Airport Police members who elected to join the Pension Plan in Tier 6.
- <sup>(3)</sup> Covered payroll represents payroll in which contributions to the Pension Plan are based.

See accompanying independent auditor’s report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(Unaudited)

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

The assumptions used in establishing the ADC for the year ended June 30, 2019 were based on the June 30, 2017 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Port Police, or Airport).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions:	
June 30, 2017 valuation	
<i>Investment rate of return</i>	7.25%, net of investment expenses
<i>Inflation rate</i>	3.00%
<i>Administrative Expenses:</i>	Out of the total 1.25% of payroll in administrative expense, 1.16% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 1.12% of payroll payable at beginning of the year.
<i>Real across-the-board salary</i>	0.50%
<i>Projected salary increases</i>	Ranges from 4.30% to 12.00% based on years of service
<i>Cost of living adjustments</i>	3.0% of retirement income for all Tiers.

See accompanying independent auditor’s report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF INVESTMENT RETURNS**  
(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, gross of investment expense	6.21%	9.21%	13.27%	1.04%	4.15%	17.84%

Notes to schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2019, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY**  
(\$ in Thousands)  
(Unaudited)

<u>Date</u>	<u>Discount Rate</u>	<u>Total Pension Liability (TPL)</u>	<u>Fiduciary Net Position (FNP)</u>	<u>Net Pension Liability (NPL)</u>	<u>Funded Status (FNP/TPL)</u>	<u>Covered Payroll</u>	<u>NPL % Pay</u>
6/30/2019	7.25%	\$ 23,000,505	\$21,262,200	\$1,738,304	92.4%	\$1,487,978	117%
6/30/2018	7.25%	21,736,849	20,482,133	1,254,716	94.2%	1,451,996	86%
6/30/2017	7.25%	20,814,045	18,996,721	1,817,323	91.3%	1,397,245	130%
6/30/2016	7.50%	19,565,409	17,104,276	2,461,132	87.4%	1,351,788	182%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.5%	1,316,969	155%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.1%	1,308,149	143%
6/30/2013	7.75%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	281%

Notes to schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS**  
**LIABILITY AND RELATED RATIO**  
(\$ in Thousands)  
(Unaudited)

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Total OPEB Liability:				
Service Cost	\$ 74,090	\$ 69,940	\$ 65,407	\$ 61,292
Interest	260,513	243,769	231,285	222,424
Benefit Payments	(137,874)	(130,722)	(122,561)	(116,678)
Administrative Expenses	-	-	-	-
Experience Losses (Gains)	(249,568)	(16,532)	(144,022)	(50,071)
Assumption Changes	85,911	63,332	248,049	-
Benefit Changes	-	-	-	-
Other <sup>1</sup>	-	517	-	-
Net Change	33,072	230,304	278,158	116,967
Total OPEB Liability at Beginning of Year	3,588,132	3,357,828	3,079,670	2,962,703
Total OPEB Liability at End of Year (a)	<u>\$ 3,621,204</u>	<u>\$ 3,588,132</u>	<u>\$ 3,357,828</u>	<u>\$ 3,079,670</u>
Fiduciary Net Position:				
Employer Contributions	\$ 188,020	\$ 178,462	\$ 165,170	\$ 150,315
Member Contributions	-	-	-	-
Net Investment Income	111,188	166,040	189,420	12,771
Benefit Payments	(137,874)	(130,722)	(122,561)	(116,678)
Administrative Expenses	(1,856)	(1,745)	(1,747)	(1,551)
Other <sup>1</sup>	-	517	-	-
Net Change (Gain)	159,478	212,552	230,282	44,857
Fiduciary Net Position at Beginning of Year	1,878,238	1,665,686	1,435,404	1,390,547
Fiduciary Net Position at End of Year (b) <sup>2</sup>	<u>\$ 2,037,716</u>	<u>\$ 1,878,238</u>	<u>\$ 1,665,686</u>	<u>\$ 1,435,404</u>
Net OPEB Liability/(Asset) (a)-(b)	<u>\$ 1,583,488</u>	<u>\$ 1,709,894</u>	<u>\$ 1,692,142</u>	<u>\$ 1,644,266</u>
Plan fiduciary net position as a percentage of the total OPEB liability	56.27%	52.35%	49.61%	46.61%
Covered employee payroll	\$ 1,487,978	\$ 1,451,996	\$ 1,397,245	\$ 1,351,788
Plan net position liability as a percentage of covered employee payroll	106.42%	117.76%	121.11%	121.64%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS**  
**LIABILITY AND RELATED RATIO**  
(\$ in Thousands)  
(Unaudited)

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

- (1) Includes employer contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police members who elected to join the System in Tier 6.
- (2) Excludes the transfer of employer contributions referenced in footnote (1).

See accompanying independent auditor's report



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTION**  
(\$ in Thousands)  
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contributions	Actual Fiscal Year Contributions	Deficiency (Excess)	Covered Employee Payroll <sup>(2)</sup>	Contributions as % of Payroll
6/30/2019	\$ 188,020	\$ 188,020	\$ -	\$ 1,487,978	13%
6/30/2018	178,462 <sup>(1)</sup>	178,462 <sup>(1)</sup>	-	1,451,996	12%
6/30/2017	165,170	165,170	-	1,397,245	12%
6/30/2016	150,315	150,315	-	1,351,788	11%
6/30/2015	148,477	148,477	-	1,316,969	11%
6/30/2014	138,107	138,107	-	1,308,149	11%
6/30/2013	132,939	132,939	-	1,277,031	10%
6/30/2012	122,972	122,972	-	1,213,396	10%
6/30/2011	111,681	111,681	-	1,289,857	9%
6/30/2010	106,648	106,648	-	1,266,312	8%

Notes to schedule:

<sup>(1)</sup> Exclude the transfer of employer contributions for all new Airport Police members from the Los Angeles City Employees' Retirement System (LACERS) who elected to join the Pension Plan in Tier 6.

<sup>(2)</sup> Covered payroll represents payroll in which contributions to the Pension Plan are based.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(Unaudited)

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

The assumptions used in establishing the ADC for the year ended June 30, 2019 were based on the June 30, 2017 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 25 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions: June 30, 2017 valuation	
Investment rate of return	7.25%, net of investment expenses
Inflation rate	3.00%
Administrative Expenses:	Out of the total 1.25% of payroll in administrative expense, 1.16% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 1.12% of payroll payable at beginning of the year.
Real across-the-board salary	0.50%
Projected salary increases	Ranges from 4.30% to 12.00% based on years of service
Other assumptions	Same as those used in the June 30, 2017 funding actuarial valuations.

See accompanying independent auditor’s report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF INVESTMENT RETURNS**  
(Unaudited)

	2019	2018	2017	2016
Annual money-weighted rate of return, gross of investment expense	6.21%	9.21%	13.27%	1.04%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2016 through 2019, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF EMPLOYER'S NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY**  
(\$ in Thousands)  
(Unaudited)

<u>Date</u>	<u>Discount Rate</u>	<u>Total OPEB Liability (TOL)</u>	<u>Fiduciary Net Position (FNP)</u>	<u>Net OPEB Liability (NOL)</u>	<u>Funded Status (FNP/TOL)</u>	<u>Covered Payroll</u>	<u>NOL %Pay</u>
6/30/2019	7.25%	\$ 3,621,204	\$ 2,037,716	\$1,583,488	56.3%	\$1,487,978	106%
6/30/2018	7.25%	3,588,132	1,878,237	1,709,895	52.3%	1,451,996	118%
6/30/2017	7.25%	3,357,828	1,665,686	1,692,142	49.6%	1,397,245	121%
6/30/2016	7.50%	3,079,670	1,435,404	1,644,266	46.6%	1,351,788	122%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2019, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated January 9, 2020.

**Internal Control over Financial Reporting**

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

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

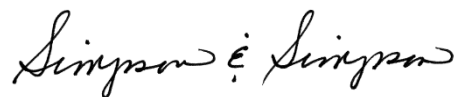
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California  
January 9, 2020.