

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

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2006**

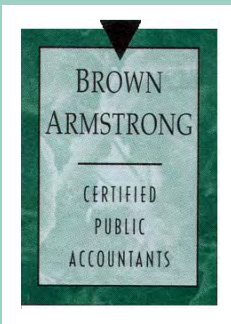
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(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

Contents

	<u>Page</u>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
<u>Audited Financial Statements</u>	
Statement of Plan Net Assets .....	11
Statement of Changes in Plan Net Assets.....	12
Notes to Financial Statements .....	13
<u>Required Supplementary Information</u>	
Schedule of Funding Progress.....	24
Schedule of Employer Contributions.....	25
Notes to Required Supplementary Information.....	26
<u>Supplemental Schedules</u>	
Schedule of Administrative Expenses.....	28
Schedule of Investment Expenses.....	29



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**INDEPENDENT AUDITOR'S REPORT**

Honorable Members of the City Council of  
The City of Los Angeles, California,  
and  
Board of Administration  
Los Angeles City Employees' Retirement System  
Los Angeles, California

We have audited the accompanying Retirement Plan and Postemployment Healthcare Plan Statement of Plan Net Assets of the Los Angeles City Employees' Retirement System (the System), a department of the City of Los Angeles, California, as of June 30, 2006, and the related Retirement Plan and Postemployment Healthcare Plan Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2005 financial statements and, in our report dated October 7, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Net Assets of the Retirement Plan and Postemployment Healthcare Plan of the Los Angeles City Employees' Retirement System as of June 30, 2006, and the Changes in its Net Assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the financial statements, in 2006, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section.

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

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

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 28, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

As management of the Los Angeles City Employees' Retirement System (LACERS), we are pleased to provide this overview and analysis of the financial activities of LACERS for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal in the Introduction Section of LACERS' Comprehensive Annual Financial Report.

**FINANCIAL HIGHLIGHTS**

- The plan net assets of LACERS as of June 30, 2006 are \$9,285,478,000.
- Compared with the plan net assets of LACERS as of June 30, 2005, the value of the net assets increased \$953,721,000 or 11.4% during the reporting period.
- The plan assets under the retirement plan and postemployment healthcare plan are pooled for investment purposes. Investment gain for the year was \$1,053,872,000, as compared with an investment gain of \$764,801,000 for the previous reporting period.
- Employer contributions made by the City of Los Angeles (the City) to both the retirement plan and the postemployment healthcare plan were \$320,399,000. This amount included \$303,857,000, which was 18.96% of estimated City's covered payroll of \$1,602,620,000, defrayal portion of \$ 16,328,000 and City's matching contribution for Family Death Benefit Insurance Plan in the amount of \$ 214,000.
- The employer contributions to the retirement plan represented 100.0% of the Annual Required Contribution as defined by GASB Statements No. 25 and No. 27.
- Deductions from net assets of LACERS include benefit payments, refunds of member contributions and administrative expenses. The total deductions from net assets were \$518,812,000, a 5.7% increase from the prior fiscal year.
- As of June 30, 2006, the date of our last actuarial valuation, the funded ratio for the retirement plan was 77.8% and the funded ratio for the postemployment healthcare plan was 57.2%. The total funded ratio for LACERS was 74.7%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes, or a variety of other actuarial gains and losses.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

*Financial Statements.* There are two financial statements presented for LACERS. The Statement of Plan Net Assets indicates the net assets, being the difference between the assets and liabilities, available to pay future benefits and gives a snapshot of the account balances at year-end. Over time, increases or decreases in net assets may serve as a useful indicator of whether the net assets of LACERS is improving or deteriorating. The Statement of Changes in Plan Net Assets provides a view of current year additions to and deductions from the plan net assets during the most recent fiscal year. The two statements can be found on pages 11 and 12 of this report.

*Notes to Financial Statements.* The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 – 23 of this report.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

*Required Supplementary Information.* In addition to this Management's Discussion and Analysis, the other required supplementary information pertains solely to the retirement plan and consists of a Schedule of Funding Progress, a Schedule of Employer Contributions, and the Notes to Required Supplementary Information. They primarily present actuarially determined information in a multi-year format as required by the applicable financial reporting standards. This required supplementary information can be found on pages 24 – 27 of this report.

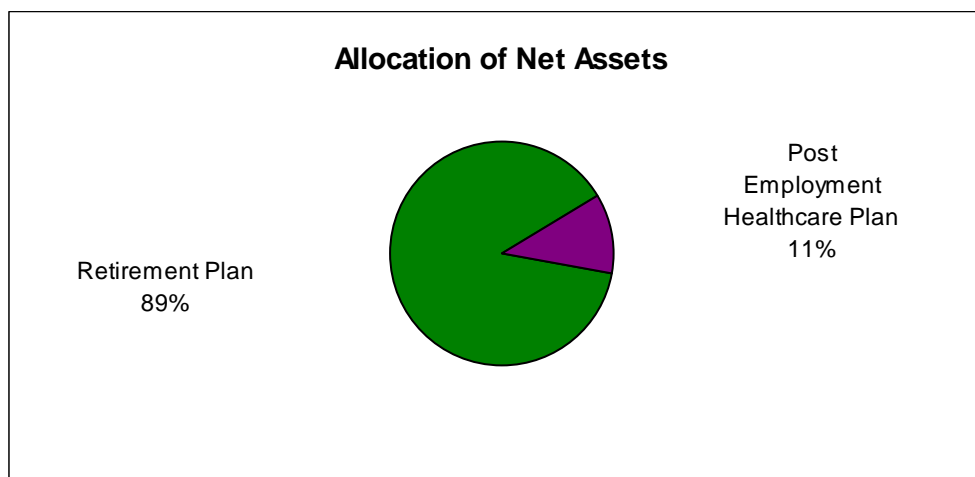
*Supplemental Schedules.* The supplemental schedules, including a Schedule of Administrative Expenses and a Schedule of Investment Expenses, are presented to provide additional financial information on LACERS' operations for the current year. They can be found on pages 28 and 29 of this report.

## FINANCIAL ANALYSIS

### Allocation of Net Assets

The following information provides a brief description of the asset allocation between the retirement plan and the postemployment healthcare plan as of June 30, 2006 (in thousands):

Retirement Plan	\$ 8,226,876
Postemployment Healthcare Plan	<u>1,058,602</u>
Net Assets	<u><u>\$ 9,285,478</u></u>

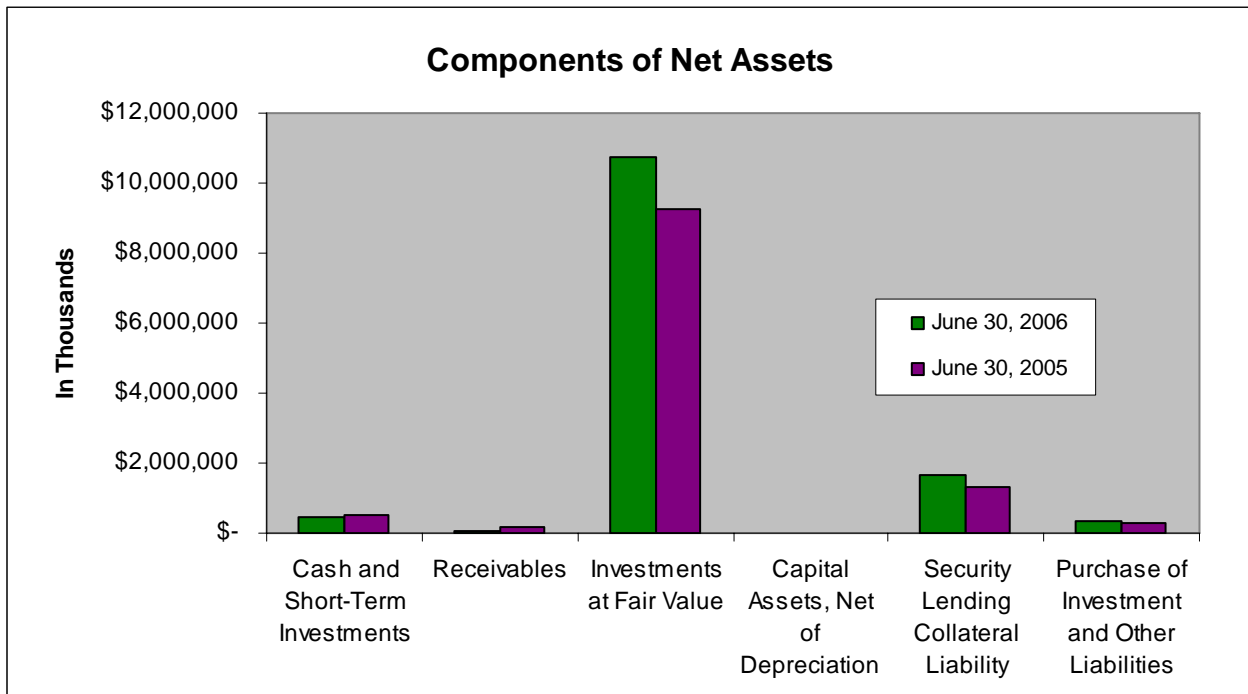


Net assets may serve over time as a useful indicator of a plan's financial position. In the case of LACERS, net assets were \$9,285,478,000 at the close of the most recent fiscal year. The total plan net assets are allocated between the retirement plan and postemployment healthcare plan, as required by the existing reporting standards. Net assets for the retirement plan and postemployment healthcare plan are \$8,226,876,000 and \$1,058,602,000, respectively.

## Net Assets

The following table and graph represent the detailed information regarding the components of the net assets of LACERS as of June 30, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change	
Cash and Short-Term Investments	\$ 460,159	\$ 486,208	\$ (26,049)	(5.4) %
Receivables	82,467	183,248	(100,781)	(55.0)
Investments, at Fair Value	10,720,674	9,256,596	1,464,078	15.8
Capital Assets, Net of Depreciation	283	80	203	253.8
<b>Total Assets</b>	<b>11,263,583</b>	<b>9,926,132</b>	<b>1,337,451</b>	<b>13.5</b>
Security Lending Collateral Liability	(1,646,747)	(1,319,517)	327,230	24.8
Purchase of Investments and Other Liabilities	(331,358)	(274,858)	56,500	20.6
<b>Total Liabilities</b>	<b>(1,978,105)</b>	<b>(1,594,375)</b>	<b>383,730</b>	<b>24.1</b>
<b>Net Assets</b>	<b>\$ 9,285,478</b>	<b>\$ 8,331,757</b>	<b>\$ 953,721</b>	<b>11.4 %</b>



The largest portion of LACERS' net assets is its investment portfolio, which includes cash and short-term investments, receivables, plus fixed income, equities, and other asset classes. Net assets increased by \$953,721,000, or 11.4%, during the report year.

## Change in Net Assets

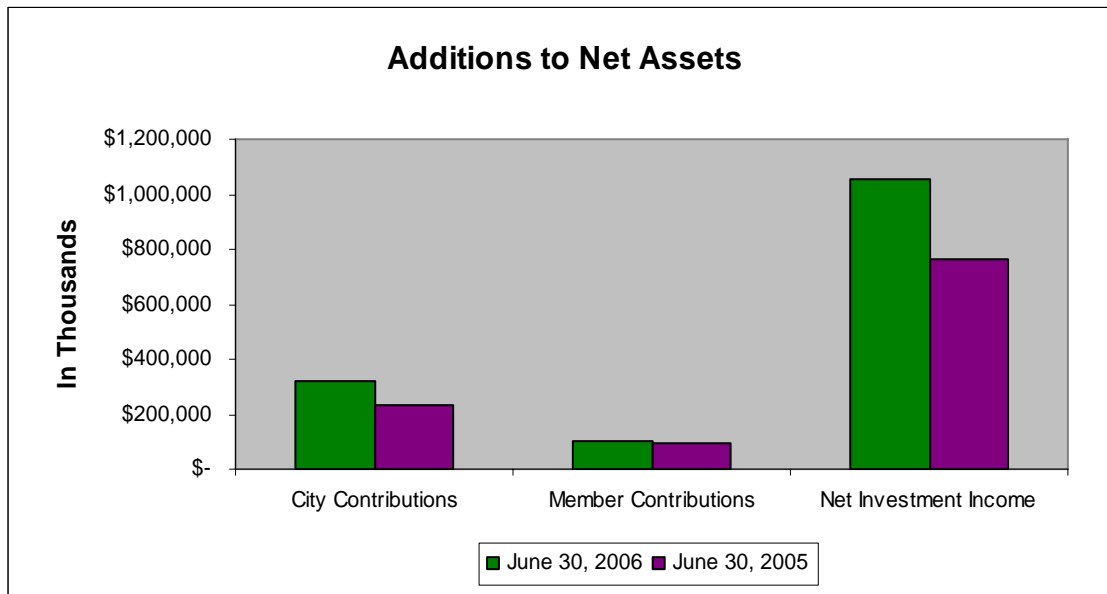
The increase in net assets was a result of a combination of factors that either add to or deduct from the plan assets. The following table summarizes the change in net assets during the report year, as compared with the prior year (in thousands):

	June 30, 2006	June 30, 2005
Additions	\$ 1,472,533	\$ 1,088,206
Deductions	(518,812)	(490,887)
Net Increase	953,721	597,319
Net Assets, Beginning of Year	8,331,757	7,734,438
Net Assets, End of Year	<u>\$ 9,285,478</u>	<u>\$ 8,331,757</u>

## Change in Net Assets – Additions to Net Assets

The following table and graph represent the components that make up the additions to net assets for LACERS for the years ended June 30, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change
City Contributions	\$ 320,399	\$ 229,137	39.8 %
Member Contributions	98,262	94,268	4.2
Net Investment Income	1,053,872	764,801	37.8
Additions to Net Assets	<u>\$ 1,472,533</u>	<u>\$ 1,088,206</u>	<u>35.3 %</u>



The additions to LACERS' net assets consist of Member Contributions, City Contributions, and Net Investment Income. These additions are the main funding source to support LACERS' benefits.

### Change in Net Assets – Additions to Net Assets (continued)

City Contributions to both the retirement plan and the postemployment healthcare plan were \$320,399,000 during the year, or \$91,262,000 more than the prior fiscal year due to a larger contribution rate recommended by the actuary and increased payroll base. City contribution rate was 14.21% for retirement plan and 4.75% for the postemployment healthcare plan, 18.96% in total, of City payroll which was \$1,602,620,000. The actual contributions to the retirement plan was equal to 100% of the Annual Required Contribution (ARC) of \$227,741,000 as defined by GASB Statements No. 25 and No. 27.

Factors that affect the amount of Member Contributions are the number and composition of members and their salaries. During the year, members contributed \$98,262,000, an increase of \$3,994,000 (4.2%). This is due to salary increases and a net increase in the number of members.

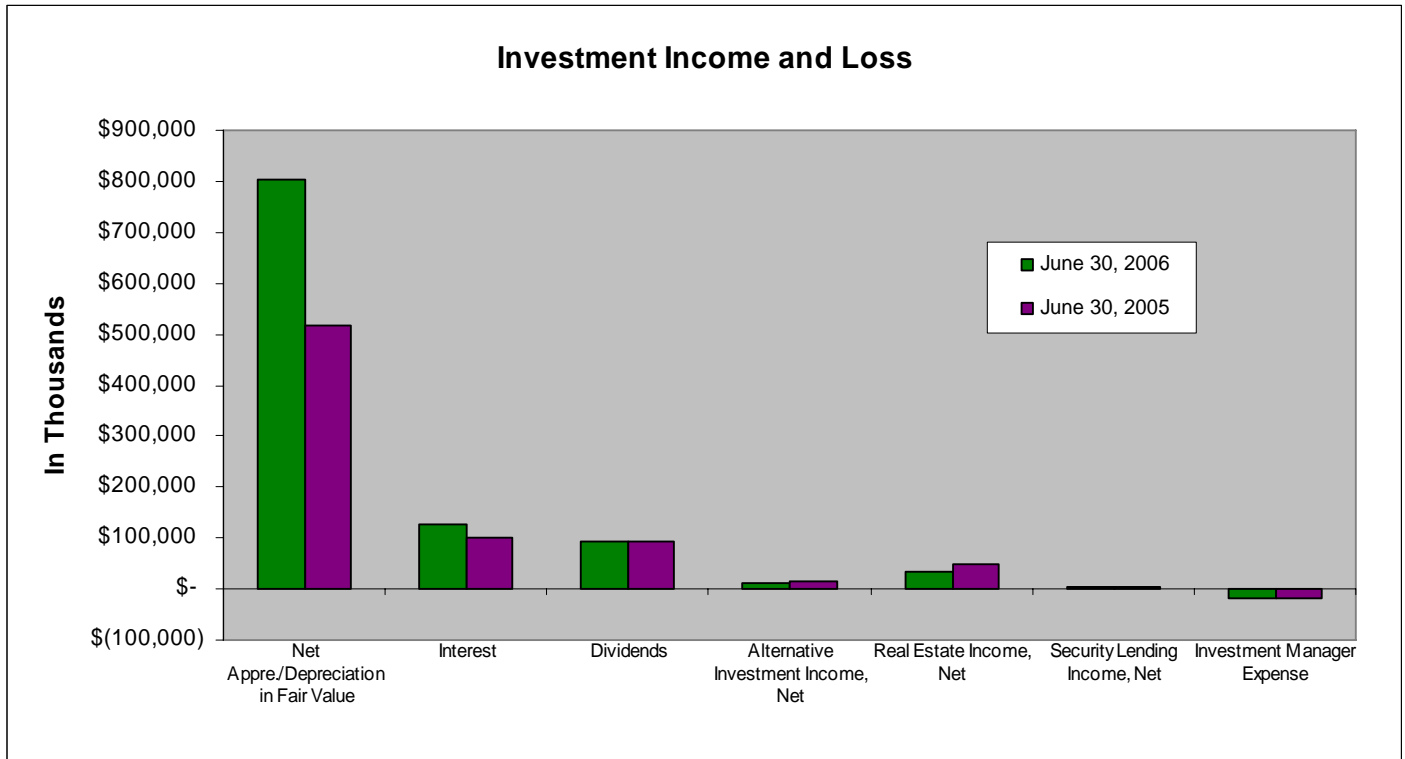
The net investment income increased from \$764,801,000 reported in the prior fiscal year to the \$1,053,872,000 in the current fiscal year. The current year net investment income reflected the continued strong total portfolio return based on the asset allocation and selections of investments and investment managers approved by the Board.

### Investment Income and Loss

The following table and graph present the detail of investment income and loss, net of investment management expenses for the years ended June 30, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change
Net Appreciation in Fair Value of Investments	\$ 803,398	\$ 518,742	54.9 %
Interest	125,689	102,306	22.9
Dividends	93,961	91,575	2.6
Alternative Investment Income, Net	10,769	16,126	(33.2)
Real Estate Income, Net	32,406	49,824	(35.0)
Security Lending Income, Net	5,637	3,916	43.9
Investment Management Expense	(17,988)	(17,688)	1.7
Total Investment Gain, Net	<u>\$ 1,053,872</u>	<u>\$ 764,801</u>	<u>37.8 %</u>

**Investment Income and Loss (continued)**



The largest portion of the net investment gain was the net appreciation in fair value of LACERS' investments in the amount of \$803,398,000, which includes realized and unrealized capital gain/loss.

Adding to the investment income was the increase in interest earned during the fiscal year that was 22.9% higher than the previous year. This was due to the increased bond yields during the year. The stock dividends income also showed an increase in dollar amount from the previous year. The real estate and alternative investments portfolio, the two other components of LACERS' asset allocation, contributed 3.1% and 1.0%, respectively, of the total investment income. Both types of income showed decreases in dollar amounts from the previous year. The net security lending income posted an increase of 43.9% compared from a year ago due to the appreciated value of securities available for lending and the increased yields. Investment management expense for the current year was slightly increased by \$300,000 (1.7%) from the previous year.

**Change in Net Assets – Deductions from Net Assets**

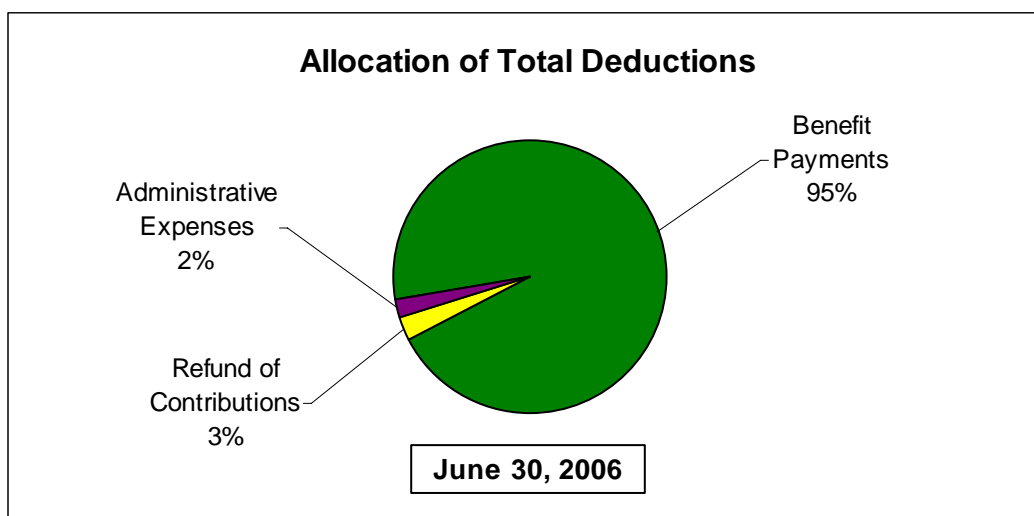
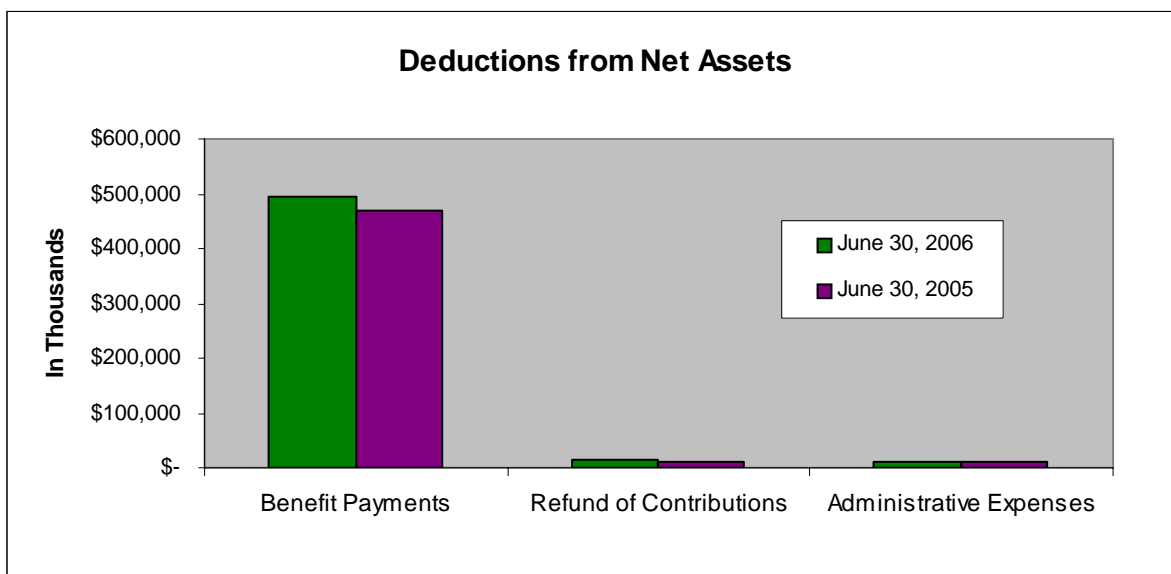
The following table and graphs provide information related to the deductions from net assets for the years ended June 30, 2006 and 2005 (in thousands):

	June 30, 2006	June 30, 2005	Change
Benefit Payments	\$ 493,583	\$ 469,212	5.2 %
Refund of Contributions	13,021	10,679	21.9
Administrative Expenses	12,208	10,996	11.0
<b>Deductions from Net Assets</b>	<b>\$ 518,812</b>	<b>\$ 490,887</b>	<b>5.7 %</b>

**Change in Net Assets – Deductions from Net Assets (continued)**

LACERS' deductions from net assets can be summarized as Benefit Payments, Refunds of Contributions, and Administrative Expenses. They represent the types of benefit delivery operations undertaken by LACERS and the cost associated with it. Total deductions increased by 5.7%. The benefit payments increased by \$24,371,000 or 5.2%. This increase is due to the increase in number of retirees by 1.7% and increase in the average monthly benefit amount by 4.7% compared to the prior year, which includes the annual cost of living adjustment of approximately 3.0%. The refund of contributions increased by \$2,342,000 or 21.9%. The increase is primarily due to the increased transfer of \$2,099,000 to the Department of Water and Power (DWP) Employees' Retirement Plan, which has a reciprocity program with LACERS.

The administrative expenses increased by \$1,212,000, or 11.0%, when compared to the prior reporting period, to meet operational needs and to implement strategic planning goals. Refund of contributions and administrative expenses accounted for approximately 2.5% and 2.4% of total deductions from net assets, respectively.



## **REQUEST FOR INFORMATION**

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

LACERS  
Fiscal Management Section  
360 East Second Street, Eighth Floor  
Los Angeles, California 90012

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**  
**RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN**  
**STATEMENT OF PLAN NET ASSETS**  
**AS OF JUNE 30, 2006, WITH COMPARATIVE TOTALS**  
**(IN THOUSANDS)**

	<i>Retirement Plan</i>	<i>Postemployment Healthcare Plan</i>	<i>2006 Total</i>	<i>2005 Total</i>
<b>Assets</b>				
Cash and Short-Term Investments	\$ 407,698	\$ 52,461	\$ 460,159	\$ 486,208
<b>RECEIVABLES</b>				
Accrued Investment Income	29,798	3,834	33,632	39,636
Proceeds from Sales of Investments	36,287	4,669	40,956	136,081
Other	6,980	899	7,879	7,531
Total Receivables	<u>73,065</u>	<u>9,402</u>	<u>82,467</u>	<u>183,248</u>
<b>Investments, at Fair Value</b>				
U.S. Government Obligations	371,255	47,772	419,027	519,956
Municipal Bonds	4,035	519	4,554	4,768
Domestic Corporate Bonds	654,136	84,172	738,308	778,494
International Bonds	135,314	17,412	152,726	199,401
Domestic Stocks	3,455,027	444,579	3,899,606	3,606,080
International Stocks	1,779,833	229,022	2,008,855	1,688,650
Mortgages	620,065	79,788	699,853	321,919
Government Agencies	199,388	25,656	225,044	158,932
Real Estate	359,431	46,250	405,681	289,333
Venture Capital and Alternative Investments	460,959	59,314	520,273	369,546
Security Lending Collateral	1,459,008	187,739	1,646,747	1,319,517
Total Investments	<u>9,498,451</u>	<u>1,222,223</u>	<u>10,720,674</u>	<u>9,256,596</u>
<b>Capital Assets</b>				
Furniture, Fixtures and Equipment (Net of Depreciation)	251	32	283	80
Total Assets	<u>9,979,465</u>	<u>1,284,118</u>	<u>11,263,583</u>	<u>9,926,132</u>
<b>Liabilities</b>				
Accounts Payable and Accrued Expenses	(22,045)	(2,837)	(24,882)	(29,845)
Purchases of Investments	(271,536)	(34,940)	(306,476)	(245,013)
Security Lending Collateral	(1,459,008)	(187,739)	(1,646,747)	(1,319,517)
Total Liabilities	<u>(1,752,589)</u>	<u>(225,516)</u>	<u>(1,978,105)</u>	<u>(1,594,375)</u>
<b>Net Assets Held In Trust For Pension Benefits And Post- Employment Healthcare Benefits (A Schedule of Funding Progress is Presented in the Required Supplementary Information Section)</b>				
	<u>\$ 8,226,876</u>	<u>\$ 1,058,602</u>	<u>\$ 9,285,478</u>	<u>\$ 8,331,757</u>

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

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)  
RETIREMENT PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006, WITH COMPARATIVE TOTALS  
(IN THOUSANDS)**

	<i>Retirement Plan</i>	<i>Postemployment Healthcare Plan</i>	<i>2006 Total</i>	<i>2005 Total</i>
<b>Additions</b>				
Contributions				
City Contributions	\$ 244,283	\$ 76,116	\$ 320,399	\$ 229,137
Member Contributions	98,262	-	98,262	94,268
Total Contributions	<u>342,545</u>	<u>76,116</u>	<u>418,661</u>	<u>323,405</u>
Investment Income				
Net Appreciation in Fair Value of				
Investments Including Gain and Loss on Sales	700,724	102,674	803,398	518,742
Interest	112,452	13,237	125,689	102,306
Dividends	84,066	9,895	93,961	91,575
Alternative Investment Income, Net of Expense	9,635	1,134	10,769	16,126
Real Estate Operating Income, Net of Expense	29,136	3,270	32,406	49,824
Security Lending Income	6,303	742	7,045	5,079
Less: Security Lending Expense	(1,228)	(180)	(1,408)	(1,163)
Sub-Total	941,088	130,772	1,071,860	782,489
Less: Investment Management Expense	(15,689)	(2,299)	(17,988)	(17,688)
Net Investment Income	<u>925,399</u>	<u>128,473</u>	<u>1,053,872</u>	<u>764,801</u>
Total Additions	<u>1,267,944</u>	<u>204,589</u>	<u>1,472,533</u>	<u>1,088,206</u>
<b>Deductions</b>				
Payment of Benefits	(431,232)	(62,351)	(493,583)	(469,212)
Refunds of Contributions	(13,021)	-	(13,021)	(10,679)
Administrative Expenses	(10,284)	(1,924)	(12,208)	(10,996)
Total Deductions	<u>(454,537)</u>	<u>(64,275)</u>	<u>(518,812)</u>	<u>(490,887)</u>
<b>Net Increase</b>	813,407	140,314	953,721	597,319
<b>Net Assets Held in Trust for Pension Benefits and Post-Employment Healthcare Benefits</b>				
<i>Beginning of Year</i>	<u>7,413,469</u>	<u>918,288</u>	<u>8,331,757</u>	<u>7,734,438</u>
<i>End of Year</i>	<u>\$ 8,226,876</u>	<u>\$ 1,058,602</u>	<u>\$ 9,285,478</u>	<u>\$ 8,331,757</u>

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

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES**

**General**

The Los Angeles City Employees' Retirement System (the System) is under the exclusive management and control of the City of Los Angeles Board of Administration (the Board), whose authority is granted by the Los Angeles City Charter (Article XI). The System is a department of the City of Los Angeles (the City). The System's financial statements are included in the City of Los Angeles Annual Financial Report as a pension trust fund. The System covers all personnel of City departments included in the City's regular operating budget, except for sworn employees of the Fire and Police departments, Department of Water and Power employees, elected officials, and certain Port Police officers of the Harbor Department. The System also covers the employees of the departments of Airports and Harbor.

The System operates a single-employer defined benefit plan (the retirement plan) and postemployment healthcare plan. The City and eligible employees contribute to the System based upon rates recommended by an independent actuary and adopted by the Board. Contributions are invested and applied to benefit payments with accumulated investment earnings. The retirement plan provides for death, normal and disability retirement benefits. Changes to the types of benefits provided require approval by the City Council.

Postemployment healthcare subsidy is provided to eligible retirees and spouse. The required contribution rate for the postemployment healthcare benefits for the fiscal year ended June 30, 2006, was 4.75% of covered payroll.

The System's funding policy under Article XI Sections 1158 and 1160 provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For the year ended June 30, 2006, the annual required contribution to the retirement plan by the City was determined at 14.21%. The actual contribution made by the City for fiscal year 2005-06 was equal to the recommended rate as instructed by the Board of Administration, which is the recommended contribution is set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined under GASB Statements 25 and 27. Members who entered the System prior to February 1983 contribute from 8.22% to 13.33% of their salaries based upon their age when they entered the System; however, these contributions are subsidized by the City under a collective bargaining agreement (see Note 4). Members entering subsequent to January 1983 contribute a flat rate of 6%. Members of the System have a vested right to their own contributions and accumulated investment earnings. After five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member with five or more years of service terminates employment, the member has the option of receiving retirement benefits when eligible or withdrawing from the System, and having his or her contributions and accumulated investment earnings refunded. Benefits are based upon age, length of service and compensation.

**NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES** (continued)

The components of the System’s membership were as follows at June 30, 2006:

Active:	
Vested	19,510
Nonvested	9,329
	<hr/>
	28,839
Inactive:	
Nonvested	1,806
Terminated Entitled to Benefits, Not Yet Receiving Benefits	1,097
Retired	14,570
	<hr/>
Total	<u>46,312</u>

**Basis of Accounting**

The financial statements are maintained on the accrual basis of accounting. Member contributions are recognized as revenues in the period in which compensation is paid to the member by the employer. 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.

**Basis of Presentation**

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

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

**Fair Value of Investments**

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

Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. Short-term investments, bonds, stocks, and alternative investments are reported at fair value. Debt rewrites are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Management’s investment strategy, as it relates to the debt portfolio, is to achieve market appreciation and not hold bonds to their maturities. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the Board’s real estate consultant. The fair value of futures and forward contracts has been determined using available market information.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the statement of plan net assets as receivables and labeled proceeds from sales of investments, and amounts payable for purchases are reported as current liabilities and labeled purchases of investments. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

## **NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **Concentrations of Market and Credit Risk**

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

### **Capital Assets**

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

### **Administrative Expenses**

All administrative expenses are funded from the System's plan net assets which include both the investment earnings and the contributions from employers and members.

### **Reserves**

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

Member Contributions – Active member contributions to the retirement plan and interest credited to members' accounts, less refunds of members' contributions and transfers to the annuity reserve.

Employer Contributions – Consists of the following components:

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

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

Larger Annuity – Member contributions at retirement or IRS Section 457 deferred compensation rollovers, investment earnings (losses) including net appreciation (depreciation) in fair value of investments, less payments to beneficiaries.

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

Retiree Health Insurance Benefits – City contributions and investment earnings (losses) accumulated to provide health subsidies for retirees, less payments to retired members.

**NOTE 1 – DESCRIPTION OF THE PLAN AND SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Reserves** (continued)

Reserve balances as of June 30, 2006, are as follows (in thousands):

Member Contributions	\$	1,225,887
Basic Pensions		6,520,231
Retired Member Annuity		458,486
Larger Annuity		7,911
Family Death Benefit		14,361
Postemployment Health Benefit		<u>1,058,602</u>
Total Reserves	\$	<u>9,285,478</u>

**Use of Estimates in Preparation of the Financial Statements**

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

**Implementation of New Accounting Pronouncements**

In the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006, the System implemented the provisions of Governmental Accounting Standards (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section. The statement is effective for periods beginning after June 15, 2005. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the reporting requirements. Applying the provisions of this statement resulted in expanding the Statistical Section to include ten years of trend information and adding financial trend information on changes in plan net assets.

**Recently Issued Accounting Standard**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB 43). Other postemployment benefits include healthcare and other nonpension benefits provided to employees as part of their compensation for services. This statement requires all public pension funds to report the full cost of these benefits. LACERS' postemployment healthcare plan is required to implement the rules of GASB 43 in the financial statements for fiscal year 2006-07.

LACERS pre-funds the healthcare plan based on an annual actuarial valuation, as opposed to being on the pay-as-you-go basis. However, in prior years, active members with less than 10 years of service had been excluded from the actuarial valuation. Starting with the actuarial valuation as of June 30, 2005 the rules of GASB 43 were fully applied by including all active employees.

**NOTE 2 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE**

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

**NOTE 2 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE** (continued)

For the valuation as of June 30, 2006, the components of the UAAL are amortized as a level percent of pay. Increases in the UAAL due to assumption changes are amortized over 30 years and gains and losses are amortized over 15 years. Plan amendments are amortized over 30 years, unless the characteristics of the amendment dictate a shorter amortization period. The amortization periods are considered closed as the amounts calculated annually are amortized over either a 15- or 30-year period.

To comply with the amortization requirements of Government Accounting Standard Board (GASB) statement No. 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", the actuarial gains for the health subsidy benefits in the amount of \$140,265,000 were combined with the balance of the prior-year Unfunded Actuarial Accrued Liability (UAAL) and amortized over a period of 29 years, instead of being amortized as a separate layer over 15 years based on the existing UAAL amortization policy. This was done to avoid the net current amortization amount being lower than what was required by GASB.

The contributions to the System for the year ended June 30, 2006, of approximately \$418,661,000 (\$342,545,000 for the retirement plan and \$76,116,000 for the postemployment healthcare plan), were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2004.

Contributions to the System consisted of the following for the year ended June 30, 2006 (in thousands):

	Retirement Plan	Postemployment Healthcare Plan
City Contributions:		
Required Contribution	\$ 227,741	\$ 76,116
Defrayal Portion of Member Contributions	16,328	-
Family Death Benefits Insurance Plan	214	-
Total City Contributions	244,283	76,116
Member Contributions	98,262	-
Total Contributions	<u>\$ 342,545</u>	<u>\$ 76,116</u>

The amount of the contributions made for the Retirement Plan under the Required Contribution category (\$227,741,000) were equal to 100% of the Annual Required Contributions (ARC) of the employer as defined by GASB Statements No. 25 and No. 27.

**NOTE 3 – HISTORICAL TREND INFORMATION**

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24 through 27.

#### **NOTE 4 – DEFRAYAL PORTION OF MEMBER CONTRIBUTIONS**

For members who entered the System prior to February 1983, the City subsidizes a portion of member contributions. Payments made by the City in this manner are not refundable to members upon their withdrawal from the System prior to retirement.

The subsidized amount paid by the City was approximately 6.7% of total City contributions paid for the Retirement Plan for the year ended June 30, 2006. The City contributed \$16,328,000 in this manner for the year ended June 30, 2006.

#### **NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS**

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

The System considers investments purchased with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2006, on the retirement plan and postemployment healthcare plan statement of plan net assets includes approximately \$452,000 held in the System's general operating accounts with the City Treasurer and short-term investments funds (STIF) of \$459,707,000 for a total of \$460,159,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. At June 30, 2006, short-term investments included collective STIF of \$107,708,000, international STIF of \$82,104,000, financial paper of \$244,156,000 and future initial margin of \$25,739,000.

#### **Credit Risk**

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2006 are as follows:

#### **Credit Quality Ratings of Investments in Fixed Income Securities (Dollars in thousands)**

<u>Quality Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 1,021,605	56.92 %
AA	42,233	2.35
A	194,962	10.86
BBB	267,536	14.90
BB	71,033	3.96
B	88,152	4.91
CCC	7,721	0.43
Not Rated	101,728	5.67
	<u>1,794,970</u>	<u>100.00 %</u>
U.S. Government Guaranteed Securities	<u>444,542</u>	
Total Fixed Income Securities	<u>\$ 2,239,512</u>	

## NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS (continued)

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure of depository financial institution, the System would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2006, the System has exposure to such risk in the amount of \$18,655,000, or 0.95% of the fair value of total international investments. The amount represents uninvested cash denominated in foreign currencies, managed by 13 different investment managers, and held outside of the System's custodial bank. The System's policy requires the international investment managers to hold no more than 10% of their portfolios in the form of cash.

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

### Concentration of Credit Risk

The investment portfolio as of June 30, 2006 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

### Interest Rate Risk

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Duration (in Years)</u>
Asset Backed Securities	\$ 63,367	15.73
Commercial Mortgages	88,298	15.57
Corporate Bonds	685,540	7.21
Government Agencies	233,665	2.68
Government Bonds	464,466	7.43
Government Mortgage Backed Securities	611,030	13.51
Govt-issued Commercial Mortgage-Backed	525	9.35
Municipal/Provincial Bonds	6,100	5.40
Non-Government Backed C.M.O.s	86,521	16.27
Total	<u>\$ 2,239,512</u>	

**NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS** (continued)Highly Sensitive Investments

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

<u>Investment Type</u>	<u>Amount</u>
Asset Backed Securities	\$ 63,367
Commercial Mortgages	88,298
Government Agencies	233,665
Government Mortgage Backed Securities	611,030
Gov't-issued Commercial Mortgage-Backed	525
Non-Government Backed C.M.O.s	86,521
	<hr/>
Total	\$ 1,083,406

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System's Asset Allocation policy sets a target of 21% of the total portfolio for non-U.S. investments in equities. In addition, fixed income, real estate, and alternative investment managers may hold non-U.S. investments depending on their individual mandates. Forward currency contracts and currency futures are permitted primarily to reduce the foreign currency risk (refer to Note 7- Futures and Forwards Contracts).

**NOTE 5 – CASH AND SHORT-TERM INVESTMENTS AND INVESTMENTS** (continued)Foreign Currency Risk (continued)

The System's non-U.S. investment holdings as of June 30, 2006, which represents 18.3% of fair value of total investments, is as follows:

Foreign Currency Type	Fair Value in USD (In Thousands)
Argentine Peso	\$ 3,652
Australian dollar	81,685
Brazilian real	10,076
British pound sterling	342,022
Canadian dollar	1,380
Chilean peso	1,934
Czech koruna	1,695
Danish krone	5,264
Euro	578,227
Hong Kong dollar	68,331
Hungarian forint	1,410
Indian rupee	10,406
Indonesian rupiah	3,900
Japanese yen	437,394
Malaysian ringgit	12,598
Mexican peso	6,603
New Israeli shekel	1,258
New Taiwan dollar	53,483
New Zealand dollar	1,165
Norwegian krone	28,001
Philippine peso	14,603
Polish zloty	2,210
Singapore dollar	33,022
South African rand	13,271
South Korean won	62,787
Swedish krona	43,622
Swiss franc	124,299
Thai baht	12,245
Turkish lira	2,170
Total International Investments	\$ 1,958,713

**NOTE 6 – SECURITIES LENDING AGREEMENT**

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

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

**NOTE 6 – SECURITIES LENDING AGREEMENT** (continued)

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

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

As of June 30, 2006, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The System had no losses on securities lending transactions resulting from default of a borrower or lending agent.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in a custom collateral account designed specifically for the System and consists of a combination of short-term investments. Cash collateral may be invested separately in term loans, in which case the investments match the loan term. These loans may be terminated on demand by either the lender or the borrower. The System cannot pledge or sell noncash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30, 2006 (in thousands):

Fair value of collateral received for loaned securities as of June 30, 2006:

Securities Lent	Cash	Non-Cash	Total Collateral Value
U.S. Government and Agency Securities	\$ 500,092	\$ 73,030	\$ 573,122
Domestic Corporate Fixed Income Securities	172,252	19,415	191,667
International Fixed Income Securities	23,566	7,975	31,541
Domestic Stocks	660,646	11,399	672,045
International Stocks	290,191	270,070	560,261
	\$ 1,646,747	\$ 381,889	\$ 2,028,636

Fair value of loaned securities as of June 30, 2006:

Securities Lent	Cash	Non-Cash	Total Fair Value of Underlying Securities
U.S. Government and Agency Securities	\$ 492,185	\$ 71,823	\$ 564,008
Domestic Corporate Fixed Income Securities	169,386	19,103	188,489
International Fixed Income Securities	22,629	7,651	30,280
Domestic Stocks	649,352	11,196	660,548
International Stocks	282,244	258,180	540,424
	\$ 1,615,796	\$ 367,953	\$ 1,983,749

**NOTE 6 – SECURITIES LENDING AGREEMENT** (continued)

As of June 30, 2006, the fair value of the lent securities was \$1,983,749,000. The fair value of associated collateral was \$2,028,636,000. Of this amount, \$1,646,747,000 represents the fair value of cash collateral and \$381,889,000 represents the fair value of the noncash collateral. Noncash collateral, which the System does not have the ability to sell unless the borrower defaults, is not reported in the statement of plan net assets. The System's income and expenses related to securities lending were \$7,045,000 and \$1,408,000, respectively, for the year ended June 30, 2006.

**NOTE 7 – FUTURES AND FORWARD CONTRACTS**

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

At June 30, 2006, the System had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of \$5,700,000. In addition, at June 30, 2006, the System had outstanding forward purchase commitments with a notional amount of \$27,968,000 and offsetting forward sales commitments with notional amounts of \$27,968,000, which expire through September 2006. The System maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury bills. The total collateral margin was \$25,739,000 as of June 30, 2006.

The realized gain on foreign currency translation was \$8,796,000 for the year ended June 30, 2006.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

At June 30, 2006, the System was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately \$659,282,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)  
REQUIRED SUPPLEMENTARY INFORMATION  
RETIREMENT PLAN  
SCHEDULE OF FUNDING PROGRESS  
(DOLLARS IN THOUSANDS)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded or (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2001	\$6,988,782	\$6,468,066	\$ (520,716)	108.1%	\$1,293,350	(40.3)%
June 30, 2002	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4
June 30, 2003	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0
June 30, 2004	7,042,108	8,533,864	1,491,756	82.5	1,575,285	94.7
June 30, 2005	7,193,142	9,321,525	2,128,383	77.2	1,589,306	133.9
June 30, 2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**RETIREMENT PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**(DOLLARS IN THOUSANDS)**

Year Ended June 30:	Employer Contributions Total	
	Annual Required Contribution	Percentage Contributed
2001	\$ 59,153	100%
2002	32,296	100
2003	51,604	100
2004	159,083	63
2005	183,241	86
2006	227,741	100

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)  
REQUIRED SUPPLEMENTARY INFORMATION  
RETIREMENT PLAN  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2006**

**NOTE 1 – DESCRIPTION**

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

**NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS FOR RETIREMENT PLAN**

Valuation Date	June 30, 2006
Actuarial-Cost Method	Projected Unit Credit Cost Method – assuming a closed group
Amortization Method	Level Percent of Payroll – assuming a 4% increase in total covered payroll.
Remaining Amortization Period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. The existing layers on June 30, 2006, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period.
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Includes Inflation at	3.75%
Real Across-the-Board Salary Increase	0.25%
Projected Salary Increases	Ranges from 10.0% to 6.75% for members with less than 5 years of service. Ranges from 6.75% to 4.75% for members with 5 or more years of service.
Cost of Living Adjustments	3.00%
Mortality Table for Retirees and Beneficiaries	1994 Group Annuity Mortality Table
Mortality Table for Disabled Retirees	1994 Group Annuity Mortality Table, set forward 8 years.

**NOTE 3 – SIGNIFICANT FACTORS AFFECTING TREND IN ACTUARIAL INFORMATION**

Due to favorable investment performance, actuarial investment rate of return exceeded the 8% assumption for the first time in five years. The total unrecognized investment gain, created by the 5-year “asset smoothing”, is \$599,374,000. This large deferred gain will help to control contribution rates in the next few years.

**NOTE 4 – SIGNIFICANT FACTORS AFFECTING EMPLOYER CONTRIBUTIONS**

The Annual Required Contribution (ARC) for the employer is the sum of the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost is the portion of the actuarial present value of plan benefits, which is allocated to a valuation year assuming all actuarial assumptions are met. The amortization of the UAAL is the payment stream required to fund the difference between LACERS actuarial liabilities and LACERS actuarial assets.

The amount of the contributions made for the Retirement Plan under the Required Contribution category (\$227,741,000) were equal to 100% of ARC as defined by GASB Statements No. 25 and No. 27.

**SUPPLEMENTAL SCHEDULES**

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)**  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**YEAR ENDED JUNE 30, 2006**  
**(IN THOUSANDS)**

	Retirement Plan	Postemployment Healthcare Plan	Total
<b>Personnel Services:</b>			
Staff Salaries	\$ 6,240	\$ 914	\$ 7,154
Staff Benefits	843	125	968
<b>Total Personnel Services</b>	<b>7,083</b>	<b>1,039</b>	<b>8,122</b>
<b>Professional Services:</b>			
Actuarial	189	28	217
Data Processing	602	88	690
Audit	82	12	94
Retirees' Health Consulting	-	417	417
Legal Counsel	610	89	699
Medical for Temporary Disability	172	25	197
<b>Total Professional Services</b>	<b>1,655</b>	<b>659</b>	<b>2,314</b>
<b>Communication:</b>			
Printing	116	17	133
Telephone	4	1	5
Postage	194	28	222
Travel	84	12	96
<b>Total Communication</b>	<b>398</b>	<b>58</b>	<b>456</b>
<b>Rentals:</b>			
Office Space	888	130	1,018
Equipment Leasing	18	3	21
<b>Total Rentals</b>	<b>906</b>	<b>133</b>	<b>1,039</b>
<b>Miscellaneous:</b>			
Office	199	29	228
Depreciation	43	6	49
<b>Total Miscellaneous</b>	<b>242</b>	<b>35</b>	<b>277</b>
	<b>\$ 10,284</b>	<b>\$ 1,924</b>	<b>\$ 12,208</b>

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)  
SCHEDULE OF INVESTMENT EXPENSES  
YEAR ENDED JUNE 30, 2006**

Investment expenses of the System for the year ended June 30, 2006, were as follows (in thousands):

	Assets Under Management	Fees
<u>Retirement Plan</u>		
Investment Management Expense:		
Fixed Income Managers	\$ 1,984,193	\$ 2,338
Equity Managers	5,234,861	11,946
Subtotal Investment Management Expense	7,219,054	14,284
Other Investment Expense:		
Alternative Investments Consulting Fee	-	1,034
Real Estate and Other Consulting Fee	-	371
Subtotal Other Investment Expense	-	1,405
<u>Postemployment Healthcare Plan</u>		
Investment Management Expense:		
Fixed Income Managers	255,318	343
Equity Managers	673,601	1,751
Subtotal Investment Management Expense	928,919	2,094
Other Investment Expense:		
Alternative Investments Consulting Fee	-	151
Real Estate and Other Consulting Fee	-	54
Subtotal Other Investment Expense	-	205
Total Investment Management Expense and Other Investment Expense, Excluding Alternative Investments, Real Estate and Securities Lending	\$ 8,147,973	\$ 17,988
Alternative Investments Managers' Fees:		
Retirement Plan	\$ 460,959	\$ 2,458
Postemployment Healthcare Plan	59,314	360
Total Alternative Investments Managers' Fees	\$ 520,273	\$ 2,818
Real Estate Managers' Fees:		
Retirement Plan	\$ 359,431	\$ 5,552
Postemployment Healthcare Plan	46,250	814
Total Real Estate Managers' Fees	\$ 405,681	\$ 6,366
Security Lending Fees:		
Retirement Plan	\$ 1,459,008	\$ 1,228
Postemployment Healthcare Plan	187,739	180
Total Security Lending Fees	\$ 1,646,747	\$ 1,408