

The keystones of  
**our mission** can be  
summarized by two elements:  
**investments** and  
**customer service.**

# PRODUCE

## INVESTMENTS

### **It All Begins with the Retirement Fund**

The Fund finances the benefits we produce. To promote the long-term growth and stability of the Fund, our Board of Investments has established an Investment Policy Statement which guides the management of the Fund's assets. In accordance with this Statement, investments of the Fund are strategically diversified and carefully managed to preserve capital, minimize risk of loss, and maximize returns.

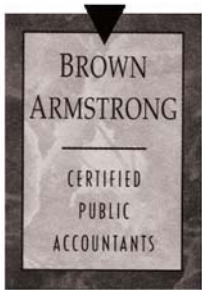
## CUSTOMER SERVICE

### **We Create Educational Materials to Demystify Plan Complexities**

Understanding the provisions of one's Plan is essential to making choices that will ultimately maximize the individual's retirement. However, retirement plans are by their nature complex and often daunting. To ensure our members have the information they need to make wise choices throughout their careers, we produce an array of educational materials and services designed to demystify Plan language and concepts.



**FINANCIAL SECTION**  
**Report of Independent Auditors**



**BROWN ARMSTRONG PAULDEN**  
**MCCOWN STARBUCK THORNBURGH & KEETER**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

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Boards of Retirement and Investments  
Los Angeles County Employees Retirement Association  
Pasadena, California

We have audited the accompanying Statement of Plan Net Assets of the Los Angeles County Employees Retirement Association (LACERA) as of June 30, 2009 and 2008 and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of LACERA management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 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 fiduciary net assets of LACERA as of June 30, 2009 and 2008 and its changes in fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) as listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Required Supplementary Information as listed in the table of contents is presented for purposes of additional analysis, as required by GASB, and is not a required part of the basic financial statements. This information is the responsibility of LACERA's management. Such information has been subjected to the auditing procedures applied by us in the audit of the Fiscal Year 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the Fiscal Year 2009 basic financial statements taken as a whole. The Other Supplementary Information as listed in the table of contents, and the Investment, Actuarial, and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of LACERA. The Other Supplementary Information as listed in the table of contents 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. We did not audit the information contained in the Investment, Actuarial, and Statistical sections and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2009, on our consideration of LACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Andrew J. Paulden", with a long horizontal flourish extending to the right.

Andrew J. Paulden

Bakersfield, California  
October 7, 2009

## FINANCIAL SECTION

### Management's Discussion and Analysis

#### Management's Discussion and Analysis as of June 30, 2009

This Management's Discussion and Analysis (MD&A) of the financial activities of LACERA is an overview of its fiscal operations for the year ended June 30, 2009. Readers are encouraged to consider the information presented in conjunction with the Financial Statements and the Notes to the Financial Statements.

#### Financial Highlights

- Net Assets Held in Trust for Pension Benefits, as reported in the Statement of Plan Net Assets, total \$30.5 billion, a decrease of \$8.23 billion or 21.2 percent from the prior year.
- Total Additions as reflected in the Statement of Changes in Pension Plan Net Assets was a decline of \$6.16 billion, primarily as a result of the Net Depreciation in the Fair Value of Investments. This represents an increased decline from the prior year of \$5.94 billion or a change of 2,687 percent.
- Total Deductions as reflected in the Statement of Changes in Pension Plan Net Assets total \$2.07 billion, an increase of \$104 million or 5.3 percent from prior year. The increase was primarily attributable to the increase in Retiree Payroll.
- The latest actuarial valuation completed by Milliman, Inc., LACERA's independent actuary, was as of June 30, 2008 and determined the funding status (the ratio of pension assets to pension liabilities) to be 94.5 percent.



**Beulah S. Canevari**  
Manager, Financial & Accounting  
Services Division

#### Overview of Financial Statements

This MD&A serves as an introduction to the basic financial statements. LACERA has two basic financial statements, the notes to the financial statements and four required supplementary schedules of historical trend information. The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), utilizing the accrual basis of accounting.

The Statement of Plan Net Assets is the first basic financial report. This is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities owed as of fiscal year-end. The Net Assets Held in Trust for Pension Benefits, which are the assets less the liabilities, reflect the funds available for future use. The Other Post-Employment Benefit (OPEB) Plan is presented as the OPEB Agency Fund. The Total Assets and Total Liabilities are reported for the Agency Fund.

The Statement of Changes in Pension Plan Net Assets is the second financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as Additions or Deductions to the plan. The trend of Additions versus Deductions to the plan will indicate the condition of LACERA's financial position over time. The Statement of Changes in Assets and Liabilities for the OPEB Agency Fund is presented in the Other Supplementary Information section.

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year.

The *Schedule of Funding Progress—Pension Plan and Schedule of Funding Progress—OPEB Plan*, which are required supplementary schedules, include historical trend information about the actuarially funded status of the Pension Plan and OPEB Plan respectively, and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedules, the *Schedule of Employer Contributions—Pension Plan*, and *Schedule of Employer Contributions—OPEB Plan*, present historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the Pension and OPEB Plans over time.

## Financial Analysis

### Assets and Funding Ratio

As of June 30, 2009, LACERA has \$30.5 billion in Plan Net Assets, which means Total Assets of \$33.2 billion exceed Total Liabilities of \$2.70 billion. As of June 30, 2008, LACERA had \$38.7 billion in Plan Net Assets, as a result of Total Assets of \$42.9 billion exceeding Total Liabilities of \$4.18 billion. The Total Plan Net Assets represent funds available for future payments. However, of importance is the fact that unlike private pension funds, public pension funds are not required to report the future liability of obligations owed to retirees. Only current liabilities are reported in the Statement of Plan Net Assets.

### Plan Net Assets

*As of June 30, 2009, 2008, and 2007*

(Dollars in Millions)

|                              | 2009            | 2008            | 2007            | 2009 - 2008<br>% Change | 2008 - 2007<br>% Change |
|------------------------------|-----------------|-----------------|-----------------|-------------------------|-------------------------|
| Investments                  | \$30,918        | \$39,473        | \$41,329        | -21.7%                  | -4.5%                   |
| Other Assets                 | 2,282           | 3,435           | 3,761           | -33.6%                  | -8.7%                   |
| Total Assets                 | 33,200          | 42,908          | 45,090          | -22.6%                  | -4.8%                   |
| Total Liabilities            | (2,701)         | (4,183)         | (4,182)         | -35.4%                  | 0.0%                    |
| <b>Total Plan Net Assets</b> | <b>\$30,499</b> | <b>\$38,725</b> | <b>\$40,908</b> | <b>-21.2%</b>           | <b>-5.3%</b>            |

In order to determine whether Plan Net Assets will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which represent the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the members and the County of Los Angeles are needed to pay all expected future benefits.

LACERA's independent actuary, Milliman, Inc., performed an actuarial valuation as of June 30, 2008 and determined the Funded Ratio of the actuarial assets to the actuarial accrued liability is 94.5 percent. The actuarial valuation as of June 30, 2007 determined the Funded Ratio to be 93.8 percent. LACERA's investment returns were significantly less than the assumed rate of 7.75 percent. These investment losses for 2008 were offset by deferred gains from 2006 and 2007, which resulted in a relatively small net gain on actuarial assets. Additional investment losses that occurred in the second half of 2008, but are not included in the 2008 actuarial valuation, are likely to have a significant effect on future valuations.

## FINANCIAL SECTION

### Management's Discussion and Analysis

#### Additions and Deductions to Plan Net Assets

The primary sources which finance the retirement benefits LACERA provides are investment income and the collection of member (employee) and employer retirement contributions. For fiscal year 2009, Total Additions amounted to a decline of \$6.16 billion, due to negative investment performance with a total fund loss of 18.3 percent, net of fees. For fiscal year 2008, Total Additions amounted to a decline of \$221 million, due primarily to negative investment performance with a total fund loss of 1.5 percent, net of fees.

To finance its contributions due LACERA, the County makes monthly cash payments and/or directs LACERA to transfer funds from its County Contribution Credit Reserve (CCCR). Employer contributions as reported reflect only cash payments received from the County. In 2009, the County funded approximately twelve months of contributions in cash. A small portion of the contributions due were paid from interest earnings. In 2008, the County funded approximately eleven and one-half months of contributions in cash. The County's contributions for the remaining one-half month were made through transfers from funds available in the CCCR for fiscal year 2008. The CCCR was established in 1994 pursuant to an agreement with the County under which the County issued pension obligation bonds and transferred the proceeds to LACERA to fully fund the pension plan.

The net investment loss for fiscal year 2009 was \$7.41 billion, an increased loss of \$5.98 billion or 419.5 percent from the prior year. LACERA's annualized total fund performance was a negative 18.3 percent, net of fees. Net investment loss for fiscal year 2008 was \$1.43 billion, a decrease of \$7.91 billion over prior year, or a change of 122 percent. Total fund performance was -1.5 percent, net of fees for the 2008 fiscal year. For further discussion, see the section titled Economic Factors and Interest Crediting.

The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, the refund of contributions to terminated employees, and the cost of administering the plan. These deductions total \$2.07 billion for fiscal year 2009, an increase of \$104 million, or 5.3 percent from the prior year. For fiscal year 2008, these deductions total \$1.96 billion, an increase of \$125 million, or 6.8 percent from the prior year.

No pension assets were transferred to the Other Post-Employment Benefit (OPEB) Agency Fund in fiscal years 2009 and 2008.

The Boards of Retirement and Investments jointly approve the annual budget, which controls administrative expenses and represents approximately 0.16% of total Plan Net Assets. Traditionally, the County Employees Retirement Law of 1937 (CERL) has limited the annual administrative expense to eighteen-hundredths of one percent (0.18%)<sup>1</sup> of the total assets of the retirement system, plus an additional one-hundredth of one percent (0.01%) for the cost of legal representation. It is the intent of the Boards to remain within the appropriation limit established in the CERL, which the Boards have historically done.

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<sup>1</sup>As of January 1, 2007, Section 31580.3 of the CERL, increased the amount from eighteen-hundredths of one percent (0.18%) to twenty-three hundredths of one percent (0.23%). The additional administrative expenses allowed include expenditures for software, hardware, and computer technology consulting services in support of that software or hardware. This increase shall remain in effect only until January 1, 2013, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2013, deletes or extends that date. LACERA's budget for fiscal year end June 30, 2009, was prepared and approved by the Boards based upon eighteen-hundredths of one percent (0.18%) under Section 31580.2 of the CERL.

### Additions and Deductions to Plan Net Assets

For the Years Ended June 30, 2009, 2008, and 2007

(Dollars in Millions)

|                                   | 2009            | 2008            | 2007            | 2009 - 2008<br>% Change | 2008 - 2007<br>% Change |
|-----------------------------------|-----------------|-----------------|-----------------|-------------------------|-------------------------|
| Contributions and Misc.           | \$ 1,248        | \$ 1,205        | \$ 1,101        | 3.6%                    | 9.4%                    |
| Net Investment Income             | (7,408)         | (1,426)         | 6,487           | 419.5%                  | -122.0%                 |
| <b>Total Additions/(Declines)</b> | <b>(6,160)</b>  | <b>(221)</b>    | <b>7,588</b>    | <b>2,687.3%</b>         | <b>-102.9%</b>          |
| Benefits and Refunds              | (2,016)         | (1,914)         | (1,793)         | 5.3%                    | 6.7%                    |
| Administrative Expense and Misc.  | (50)            | (48)            | (44)            | 4.2%                    | 9.1%                    |
| <b>Total Deductions</b>           | <b>(2,066)</b>  | <b>(1,962)</b>  | <b>(1,837)</b>  | <b>5.3%</b>             | <b>6.8%</b>             |
| Transfer to OPEB Agency Fund      | —               | —               | (29)            | 0.0%                    | -100.0%                 |
| Net Increase/(Decrease)           | (8,226)         | (2,183)         | 5,722           | 276.8%                  | -138.2%                 |
| Net Assets at Beginning of Year   | 38,725          | 40,908          | 35,186          | -5.3%                   | 16.3%                   |
| <b>Ending Plan Net Assets</b>     | <b>\$30,499</b> | <b>\$38,725</b> | <b>\$40,908</b> | <b>-21.2%</b>           | <b>-5.3%</b>            |

#### Economic Factors and Interest Crediting

The most important economic factor impacting LACERA is the investment return earned in the financial markets. On average over the past fifteen years, investment returns made up approximately 70 percent of the annual additions to the fund.

This fiscal year witnessed the culmination of the lack of investor confidence as the credit crisis deepened. Large financial institutions such as investment banks and insurance companies failed due to a “run on the bank.” Unprecedented government intervention was required to prevent the entire financial system from collapsing. The total financial impact so far has been dramatic and widespread. LACERA was not immune. For the fiscal year, LACERA’s total fund returned a negative 18.2 percent gross of fees, and a negative 18.3 percent net of fees, on an annualized basis.

LACERA credits interest semiannually on December 31 and June 30 to all contributions in the retirement plan which have been on deposit six months prior to such date. The Board’s policy is to credit annual interest equal to the actuarial assumed earnings rate of 7.75 percent, equivalent to 3.875 percent semiannually, provided there is sufficient realized investment income to support that interest rate. The total fund’s reported negative return is based on unrealized investment losses. There was sufficient realized investment income to credit the full interest for the period ending December 31, 2008, only.

#### Overall Analysis

As of June 30, 2009, LACERA’s market value is \$30.5 billion. This fiscal year’s investment returns did not meet the actuarial assumed investment earnings rate of 7.75 percent. The loss will be recognized as a reduction to the actuarial funding ratio in the future during the actuarial asset-smoothing process.

## FINANCIAL SECTION

### Management's Discussion and Analysis

#### Requests for Information

This financial report is designed to provide the Boards of Retirement and Investments, our membership, and other third parties with a general overview of LACERA's finances and to show accountability for the money it receives.

Address questions regarding this report, and/or requests for additional financial information, or for a copy of LACERA's Summary of Plan Provisions to:

Beulah S. Canevari, Manager  
Financial & Accounting Services Division  
LACERA  
300 N. Lake Ave., Suite 720  
Pasadena, CA 91101

Respectfully submitted,

*Beulah S. Canevari*

Beulah S. Canevari, CPA, CGFM  
Manager, Financial & Accounting Services Division

**Statement of Plan Net Assets**

As of June 30, 2009 and June 30, 2008

(Dollars in Thousands)

|  | 2009                |                  | 2008                |                  |
|--|---------------------|------------------|---------------------|------------------|
|  | Pension Plan        | OPEB Agency Fund | Pension Plan        | OPEB Agency Fund |
| <b>Assets</b>  |                     |                  |                     |                  |
| Cash   | \$ 33,700           | \$ 387           | \$ 47,965           | \$ 278           |
| Cash Collateral on Loaned Securities                 | 1,219,067           |                  | 2,322,698           |                  |
| Receivables  |                     |                  |                     |                  |
| Contributions Receivable                             | 112,479             |                  | 82,562              |                  |
| Accounts Receivable - Sale of Investments            | 765,240             |                  | 792,047             |                  |
| Accrued Interest and Dividends                       | 103,110             |                  | 132,306             |                  |
| Accounts Receivable - Other                          | 48,562              | 32,781           | 57,566              | 31,504           |
| <b>Total Receivables</b>                             | <b>1,029,391</b>    | <b>32,781</b>    | <b>1,064,481</b>    | <b>31,504</b>    |
| Investments at Fair Value                            |                     |                  |                     |                  |
| Domestic and International Equities                  | 14,854,082          |                  | 19,241,860          |                  |
| Fixed Income   | 9,800,435           | 143,717          | 12,299,188          | 119,596          |
| Private Equity                                       | 2,815,826           |                  | 3,296,714           |                  |
| Real Estate  | 3,057,774           |                  | 3,996,568           |                  |
| Commodities  | 389,940             |                  | 638,575             |                  |
| <b>Total Investments</b>                             | <b>30,918,057</b>   | <b>143,717</b>   | <b>39,472,905</b>   | <b>119,596</b>   |
| <b>Total Assets</b>                                  | <b>\$33,200,215</b> | <b>\$176,885</b> | <b>\$42,908,049</b> | <b>\$151,378</b> |
| <b>Liabilities</b>                                   |                     |                  |                     |                  |
| Accounts Payable - Purchase of Investments           | 1,433,312           |                  | 1,799,138           |                  |
| Retiree Payroll and Other Payables                   | 185                 | 4                | 267                 | 7                |
| Accrued Expenses                                     | 26,113              | 321              | 36,302              | 118              |
| Tax Withholding Payable                              | 20,021              |                  | 20,365              |                  |
| Obligations under Securities Lending Program         | 1,219,067           |                  | 2,322,698           |                  |
| Accounts Payable - Other                             | 2,536               | 32,843           | 4,608               | 33,267           |
| Due to Employers                                     |                     | 143,717          |                     | 117,986          |
| <b>Total Liabilities</b>                             | <b>\$ 2,701,234</b> | <b>\$176,885</b> | <b>\$ 4,183,378</b> | <b>\$151,378</b> |
| <b>Net Assets Held in Trust for Pension Benefits</b> | <b>\$30,498,981</b> |                  | <b>\$38,724,671</b> |                  |

(Schedules of Funding Progress are presented in the Required Supplementary Information in this Financial Section.)

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

## FINANCIAL SECTION

### Financial Statements

#### Statement of Changes in Pension Plan Net Assets

For the Years Ended June 30, 2009 and 2008

(Dollars in Thousands)

|   | 2009                | 2008                |
|---|---------------------|---------------------|
| <b>Additions</b>  |                     |                     |
| Contributions   |                     |                     |
| Employer  | \$ 831,671          | \$ 788,029          |
| Member  | 415,545             | 414,752             |
| Total Contributions   | 1,247,216           | 1,202,781           |
| Investment Income   |                     |                     |
| From Investing Activities:                                      |                     |                     |
| Net Appreciation/(Depreciation) in Fair Value of Investments    | (8,393,120)         | (6,258,819)         |
| Investment Income   | 1,073,730           | 4,929,295           |
| Total Investing Activity Income/(Loss)                          | (7,319,390)         | (1,329,524)         |
| Less Expenses From Investing Activities                         | (104,603)           | (114,183)           |
| Net Investing Activity Income/(Loss)                            | (7,423,993)         | (1,443,707)         |
| From Securities Lending Activities:                             |                     |                     |
| Securities Lending Income                                       | 38,753              | 122,531             |
| Less Expenses From Securities Lending Activities:               |                     |                     |
| Borrower Rebates  | (21,212)            | (103,297)           |
| Management Fees   | (1,338)             | (1,644)             |
| Total Expenses from Securities Lending Activities               | (22,550)            | (104,941)           |
| Net Securities Lending Income                                   | 16,203              | 17,590              |
| Total Net Investment Income/(Loss)                              | (7,407,790)         | (1,426,117)         |
| Miscellaneous   | 1,221               | 1,767               |
| Total Additions/(Declines)                                      | (6,159,353)         | (221,569)           |
| <b>Deductions</b>   |                     |                     |
| Retiree Payroll   | 1,994,620           | 1,885,970           |
| Administrative Expense  | 49,730              | 48,223              |
| Refunds   | 20,356              | 25,588              |
| Lump-Sum Death Benefits   | 1,388               | 1,714               |
| Miscellaneous   | 243                 | 371                 |
| Total Deductions  | 2,066,337           | 1,961,866           |
| <b>Net Increase/(Decrease)</b>                                  | (8,225,690)         | (2,183,435)         |
| Net Assets Held in Trust for Pension Benefits Beginning of Year | 38,724,671          | 40,908,106          |
| <b>End of Year</b>  | <b>\$30,498,981</b> | <b>\$38,724,671</b> |

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

**Note A — Plan Description**

On January 1, 1938, the Los Angeles County Employees Retirement Association (LACERA) was established. It is governed by the California Constitution, the County Employees Retirement Law of 1937 (CERL), and the bylaws, procedures, and policies adopted by LACERA’s Boards of Retirement and Investments. The Los Angeles County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect the benefits of LACERA members. LACERA operates as a cost-sharing multi-employer defined benefit plan for Los Angeles County and its affiliated Superior Court, plus four outside Districts: Little Lake Cemetery District, Local Agency Formation Commission, Los Angeles County Office of Education, and South Coast Air Quality Management District.

**Membership**

LACERA provides retirement, disability, and death benefits to its active safety and general members, and administers the plan sponsor’s retiree health benefit program. (See Note N – Other Post-Employment Benefits.) Safety membership includes law enforcement (Sheriff and District Attorney Investigators), firefighting, forester, and lifeguard classifications. General membership is applicable to all other occupational classifications. The retirement benefits within the plan are tiered based on the service entry date. General members may elect membership in a non-contributory plan tier upon entry into service. Additional information regarding the benefit structure is included in the Summary of Plan Provisions which can be obtained by contacting LACERA’s Financial & Accounting Services Division.

**LACERA Membership**

*As of June 30, 2009 and 2008*

|                              | 2009           | 2008           |
|------------------------------|----------------|----------------|
| Active Members:              |                |                |
| Vested                       | 64,490         | 63,760         |
| Non-Vested                   | 31,298         | 30,732         |
| <b>Total Active Members</b>  | <b>95,788</b>  | <b>94,492</b>  |
| Retired Members              | 53,069         | 52,350         |
| Terminated Vested (Deferred) | 8,051          | 11,834         |
| <b>Total Membership</b>      | <b>156,908</b> | <b>158,676</b> |

**Benefit Provisions**

Vesting occurs when a member accumulates five years creditable service under contributory plans or accumulates ten years of creditable service under the general service non-contributory plan. Benefits are based upon 12 or 36 months average compensation, depending on the plan, age at retirement, and length of service as of the retirement date, according to applicable statutory formula. Service-connected disability benefits may be granted regardless of

length of service consideration. Five years of service is required for nonservice-connected disability eligibility, according to applicable statutory formula. Members of the non-contributory plan who are covered under separate long-term disability provisions not administered by LACERA are not eligible for disability benefits provided by LACERA.

## FINANCIAL SECTION

### Notes to Financial Statements: Note A — continued

#### Cost-of-Living Adjustment (COLA)

Under provisions in the CERL, the Board of Retirement (BOR) shall, before April 1 each year, determine whether there has been an increase or decrease in the cost of living, as shown by the Bureau of Labor Statistics, Consumer Price Index (CPI) for All Urban Consumers for the area in which the county seat is situated, as of the preceding January 1. Effective April 1 of each year, the BOR must increase or decrease retirement and survivor allowances by a percentage of the total allowance to approximate to the nearest one-half of one percent, the percentage of annual increase or decrease in the cost of living as of the preceding January 1 for members and survivors who were retired prior to April 1. Plan A members may receive a 3.0 percent maximum increase; Plan B, C, and D members may receive a 2.0 percent maximum increase. Plan E members receive cost-of-living increases for service credit earned subsequent to June 4, 2002. Any CPI cost-of-living increase or decrease in any year, which is not met by the maximum annual change of 3.0 percent or 2.0 percent in allowances, will be accumulated to be met by increases or decreases in allowances for future years. The accumulated percentage carryover is known as COLA Accumulation.

#### STAR Program

In addition to cost-of-living increases, the CERL also provides the BOR authority to grant supplemental

cost-of-living increases. Under this program, known as the Supplemental Targeted Adjustment for Retirees (STAR), excess earnings have been used to restore retirement allowances to 80 percent of the purchasing power held by retirees at the time of retirement. Except for Program Year 2005, the BOR made permanent the 2001 through 2009 STAR Programs at an 80 percent level as authorized in the CERL. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2005 due to the modest CPI percentage increase and all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

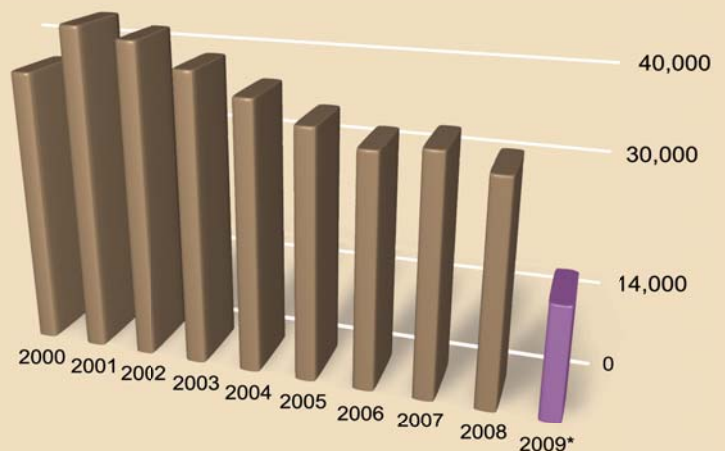
A permanent STAR benefit becomes part of the member's retirement allowance and is payable for life. Future ad hoc supplemental cost-of-living increases based on future increases in the CPI will be subject to approval by the BOR on an annual basis, as long as sufficient excess earnings are available as determined by the Board of Investments (BOI). Ad hoc STAR payments are only payable for the year approved.

Since the inception of the STAR Program in 1990 to present, the Program received \$1.52 billion in funding (except for Program Year 2005). The STAR Program funded approximately \$353 million when the BOR made permanent the 2001-2009 STAR Program benefits. As of June 30, 2009, there is \$614

#### LACERA STAR COLA Program Cost as of June 2009

(Dollars in Thousands)

The STAR Program is administered on a calendar year basis. The following represents the STAR Program cost for the last ten years through June 30, 2009.



\*Represents program year through June 30, 2009.

million available in the STAR Program Reserve to fund future benefits. Total STAR Program costs since inception equaled \$824 million.

## **NOTE B — Summary of Significant Accounting Policies**

### **Reporting Entity**

LACERA, with its own governing boards, is an independent governmental entity separate and distinct from the County of Los Angeles (County). LACERA's Annual Financial Statements are included in the County's Annual Financial Report as a pension trust fund. Maintaining appropriate controls and preparing the financial statements are the responsibility of LACERA management, with oversight by LACERA's Internal Audit staff.

LACERA wholly owns numerous Title Holding Corporations (THCs) and Limited Liability Companies (LLCs). The THCs are nonprofit corporations under Section 501(c)(25) of the Internal Revenue Code (IRC). The LLCs do not have tax-exempt status, but their income is excludable from taxation under IRC, Section 115. The THCs invest in commercial properties located throughout the United States and the LLCs invest in hotels and office buildings. The financial activities of the THCs and LLCs are included in the accompanying financial statements as investments at fair value.

### **Method of Reporting**

LACERA follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of LACERA. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each benefit plan.

### **Capital Assets**

In Fiscal Year 1999-2000, LACERA changed its policy on capital assets whereby new capital asset acquisitions are expensed instead of capitalized. Capital assets acquired prior to Fiscal Year 1999-2000 are carried at cost less accumulated depreciation. These assets are depreciated over their remaining useful lives. Depreciation is calculated using the straight-line method with five-year useful lives for equipment and ten years for furniture, structures, and leasehold improvements. As of June 30, 2005, all capital assets have been fully depreciated.

### **Accrued Vacation and Sick Leave**

Employees who resign or retire from active employment are entitled to full compensation for all unused vacation and a percentage of their unused sick leave. The accrued vacation and sick leave balances for LACERA employees as of June 30, 2009 and 2008 were \$2.52 million and \$1.89 million, respectively.

### **Cash**

Cash includes deposits with various financial institutions, the County trust fund, and international currency holdings, which have original maturities of less than 90 days, translated to U.S. dollars using the exchange rates in effect at June 30, 2009 and 2008.

## FINANCIAL SECTION

### Notes to Financial Statements: Note B — continued

#### Investments

Investments are carried at fair value. Fair values for investments are derived by various methods as indicated in the following table:

| Investments   | Source   |
|---|--|
| Publicly traded securities and issues of the U.S. Government and its agencies | Most recent sales price as of the fiscal year-end. International securities reflect currency exchange rates in effect at June 30, 2009 and 2008.   |
| Mortgages   | Equivalent pricing comparable to GMAC's Wholesale Mortgage Lending Correspondent Rate Sheet.   |
| Real estate equity funds  | Fair value as provided by the real estate fund manager, based on review of cash flow, exit cap rates, and market trends; subject to independent third-party appraisal every two or three years. Investments under development are carried at cumulative cost until developed.  |
| Real estate title holding corporations and limited liability companies        | Fair value of the investment as provided by investment managers, subject to independent appraisals once every three years.   |
| Private equity  | Fair value as provided by the investment manager as follows:<br>Private investments – valued by the General Partner giving consideration to financial condition and operating results of the portfolio companies, nature of investment, marketability, and other factors deemed relevant.<br>Public investments – valued based on quoted market prices, less a discount, if appropriate, for restricted securities.<br>Fair values are reviewed by LACERA's private equity consultant. |
| Private placement bonds   | Face value of the security, subject to designated conditions such as sales restrictions or limited marketability.  |

There are certain market risks, credit risks, foreign currency exchange risks, liquidity risks, or event risks which may subject LACERA to economic changes occurring in certain industries, sectors, or geographies.

Dividend income is recorded on the ex-dividend date. Other investment income is recorded as earned on the accrual basis.

#### Use of Estimates

The preparation of the Plan's 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### Reclassifications

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

**NOTE C — Contributions**

The members and employers contribute to LACERA based on unisex rates recommended by an independent actuary and adopted by the Board of Investments (BOI) and the Los Angeles County Board of Supervisors. Contributory plan members are required to contribute between approximately 5 percent and 15 percent of their annual covered salary. Member and employer contributions received from the outside Districts are considered part of LACERA's Plan as a whole.

Participating employers are required to contribute the remaining amounts necessary to finance the coverage of their employees (members) through monthly or annual prefunded contributions at actuarially determined rates. Member rates for the contributory plan tiers are based upon age at entry to the system and plan enrollment. As a result of collective bargaining, member contribution rates for various plans have been reduced through additional employer contributions, known as a surcharge rate.

For fiscal year ending June 30, 2009, the County paid its employer contributions due to LACERA in the form of cash payments to cover approximately twelve months. A small portion of the contributions due was paid from interest earnings. For fiscal year ending June 30, 2008, the County paid its employer contributions due to LACERA in the form of cash payments to cover approximately eleven and one-half months. The County's contribution for the approximate remaining one-half month of the fiscal year was made from the County Contribution Credit Reserve (CCCR) and from interest earnings.

**NOTE D — Reserves**

The reserves represent the components of LACERA's net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. LACERA's major classes of reserves are as follows:

**Member Reserves** represent the balance of member contributions. Additions include member contributions and related earnings. Deductions include annuity payments to retirees, refunds to members, and related expenses.

**Employer Reserves** represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from employers and related earnings. Deductions include annuity payments to retired members, lump-sum death benefit payments to members' survivors, and supplemental disability payments.

For fiscal year 2008-2009, the County paid its employer contributions using a combination of cash payments and interest earnings. For fiscal year 2007-2008, the County paid its employer contributions using a combination of cash payments and transfers from the CCCR.

**County Contribution Credit Reserve** was created pursuant to the 1994 Retirement System Funding Agreement between LACERA and the County. Seventy-five percent (75%) of excess earnings in fiscal years 1995-1999 was deposited into the reserve. Deductions include payments, as the County authorizes, for current and future employer contributions due to LACERA.

**STAR Reserve** represents the balance of transfers from Contingency Reserve for future supplemental cost-of-living increases. Additions include transfers from the Contingency Reserve. Deductions include COLA payments to retirees and funding for permanent benefits. Except for Program Year 2005, the Board of Retirement (BOR) made permanent the 2001 through 2009 STAR Programs at an 80 percent level as authorized in the County Employees Retirement Law of 1937 (CERL). There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2005 due to the modest CPI percentage increase and all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

## FINANCIAL SECTION

### Notes to Financial Statements: Note D — continued

Future ad hoc increases in the current STAR program will be subject to approval by the BOR on an annual basis, as long as sufficient excess earnings are available as determined by the BOI. Permanent STAR benefits become part of the member's retirement allowance and are payable for life. Ad hoc STAR benefits are payable only for the year approved.

**Contingency Reserve** represents reserves accumulated for future earning deficiencies, investment losses, and other contingencies. Additions include investment income and other revenues; deductions include investment expenses, administrative expenses, interest allocated to other

reserves, and funding of the STAR Reserve when excess earnings are available and authorized by LACERA's Boards. The Contingency Reserve is used to satisfy the CERL requirement for LACERA to reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies. The CERL and the BOI's Actuarial Funding Policy provide the ideal reserve be set at 1.0 percent of assets. The balance of the Contingency Reserve of \$15.3 million and \$395 million represent 0.05 percent and 1.0 percent of the Fair Value of Total Investments for fiscal years ended June 30, 2009 and 2008, respectively.

## Reserves

*As of June 30, 2009 and 2008*

(Dollars in Thousands)

|   | 2009                | 2008                |
|---|---------------------|---------------------|
| Member Reserves   | \$13,168,255        | \$12,827,695        |
| Employer Reserves   | 20,954,314          | 20,732,940          |
| County Contribution Credit Reserve                          | 470,710             | 470,710             |
| STAR Reserve  | 614,011             | 629,127             |
| Contingency Reserve   | 15,333              | 394,721             |
| <b>Total Reserves at Book Value</b>                         | <b>35,222,623</b>   | <b>35,055,193</b>   |
| Unrealized Investment Portfolio Appreciation/(Depreciation) | (4,723,642)         | 3,669,478           |
| <b>Total Reserves at Fair Value</b>                         | <b>\$30,498,981</b> | <b>\$38,724,671</b> |

**NOTE E — Pension Actuarial Valuations**

Pursuant to provisions in the County Employees Retirement Law of 1937 (CERL), LACERA engages an independent actuarial firm to perform an annual pension actuarial valuation. A pension system actuarial valuation is performed every three (3) years (i.e., triennial valuation). The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member contribution rates necessary to properly fund the pension plan. LACERA also hires an independent actuarial firm to audit the results of each triennial valuation. New assumptions were adopted by the

Board of Investments (BOI) for the June 30, 2007 actuarial valuation based on the results of the 2007 triennial Investigation of Experience.

The information displayed below presents the funded status as of the most recent actuarial valuation. The Schedule of Funding Progress – Pension Plan in the Required Supplementary Information section immediately following the Notes to the Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability of benefits.

**Funded Status as of the Most Recent Actuarial Valuation Date**

(Dollars in Thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>([b-a]/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| June 30, 2008                  | \$39,662,361                           | \$41,975,631                                      | \$2,313,270                        | 94.5%                    | \$6,123,888               | 37.8%  |

## FINANCIAL SECTION

### Notes to Financial Statements: Note E — continued

#### Actuarial Methods and Significant Assumptions — Pension Plan

|  |   |
|--|---|
| <b>Actuarial Cost Method</b>                           | Entry Age Normal Cost Funding Method  |
| <b>Actuarial Asset Valuation Method</b>                | Three-year smoothed method based on the difference between expected market value and actual market value of assets as of the valuation date. The expected market value, with three-year smoothing valuation basis for all assets, was adopted for the June 30, 2000 valuation.  |
| <b>Inflation Rate —<br/>Consumer Price Index (CPI)</b> | 3.50 percent<br>This rate was adopted for the June 30, 2004 valuation.  |
| <b>Investment Return</b>                               | 7.75 percent<br>Compounded annually, net of both investment and administrative expenses. This rate was adopted for the June 30, 2004 valuation.   |
| <b>Projected Salary Increases</b>                      | 4.26 percent to 10.24 percent<br>The total expected increase in salary includes both merit and the general wage increase assumption of 4.0 percent per annum. The total result is compounded rather than additive. No increase in the number of members is assumed. These rates were adopted for the June 30, 2007 valuation.   |
| <b>Post-retirement Benefit Increases</b>               | <p>Increase varies by plan. Regular Plan COLA is not greater than the CPI assumption. A supplemental COLA may be provided to certain members to limit the loss of purchasing power to no more than 20 percent.</p> <p>Post-retirement benefit increases of either 3.0 percent or 2.0 percent per year are assumed for the valuation in accordance with the benefits provided. These adjustments, which are based on the CPI, are assumed payable each year in the future as they are less than the expected increase in the CPI of 3.5 percent per year. This rate was adopted for the June 30, 2004 valuation. Plan E members receive a prorated post-retirement benefit increase of 2.0 percent for service credit earned after June 4, 2002. The portion payable is based on the member's years of service earned after June 4, 2002 to the member's total years of service. The portion of the full 2.0 percent increase not provided for may be purchased by the member.</p> |
| <b>Amortization Method and Period</b>                  | Level percentage of projected payroll over a rolling (open) 30-year amortization period.  |

The latest actuarial valuation decreased the County normal cost rate from 10.16 percent to 10.09 percent primarily due to the asset gain, although this was somewhat offset by the higher than assumed salary increases. The County’s required contribution rate to finance the UAAL over 30 years decreased from 2.24 percent to 1.99 percent. The result is a decrease in the required total contribution rate from the prior valuation of 0.32 percent, from 12.40 percent to 12.08 percent of payroll.

The current interim funding policy, in effect through the June 30, 2008 valuation only, provides that funds in the Contingency Reserve in excess of 1.0 percent of the actuarial value of assets shall be considered valuation assets. In any year in which the Funded Ratio is less than 100 percent prior to its inclusion, a portion of the STAR Reserve (to fund supplemental COLAs in the future) shall also be considered valuation assets. The portion of the STAR Reserve that is not available for treatment as valuation assets is the amount determined to be sufficient to guarantee the STAR benefits expected to become payable through July 1, 2009. Note that if the entire STAR reserve of \$629 million were excluded from the Valuation Assets, the UAAL would increase by \$614 million. Under this hypothetical scenario, the required County contribution rate would increase by 0.56 percent to 12.64 percent and the Funded Ratio would decrease by 1.5 percent to 93.0 percent. This interim funding approach is expected to be replaced with a long-term funding policy that will apply in performing the June 30, 2009 actuarial valuation of the pension plan.

**NOTE F — Partial Annuitization of Benefit Payments**

In January 1987, LACERA purchased two annuity contracts from insurance carriers to provide benefit payments to a portion of the retired members. Under the terms of the annuity contracts, LACERA continues to administer benefit payments to affected

members and is reimbursed monthly by the carriers for the gross amount of benefits disbursed. LACERA received \$33.0 million and \$34.7 million in related reimbursements during each of the years ended June 30, 2009 and 2008, respectively. Such amounts are netted in the pension and annuity payments in the financial statements. There is no effect on covered members. Covered members retain all benefits accorded other LACERA members, including rights to continuance of benefits to survivors, insurance subsidies, and cost-of-living increases.

**NOTE G — Deposit and Investment Risk Disclosure**

The County Employees Retirement Law of 1937 (CERL) vests the Board of Investments (BOI) with exclusive control over LACERA’s investment portfolio. The BOI established an Investment Policy Statement in accordance with applicable local, state, and federal laws. BOI members exercise authority and control over the management of LACERA’s assets (the Pension Plan) by setting policy which the Investment Staff executes either internally or through the use of external prudent experts. The BOI oversees and guides the Pension Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of and for the exclusive purpose of providing economic benefits to participants and their beneficiaries.
- 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 with like objectives.
- Diversify the investments of the Pension Plan to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

## FINANCIAL SECTION

### Notes to Financial Statements: Note G — continued

The Investment Policy Statement encompasses the following:

- U.S. Equity Investment Policy
- Non-U.S. Equity Investment Policy
- Private Equity Investment Policy
- Fixed Income Investment Policy
- Cash and Cash Equivalents Investment Policy
- Real Estate Investment Policy
- Commodities Investment Policy
- Corporate Governance Principles
- Derivatives Investment Policy
- Emerging Manager Policy
- Manager Monitoring and Review Policy
- Securities Lending Policy

#### Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LACERA 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. To control Credit Risk, credit quality guidelines have been established.

The **Domestic Fixed Income Core Portfolios** must meet the following credit guidelines:

#### Credit Quality

A minimum of 90 percent of the portfolio must be invested in securities rated investment grade by the major credit rating agencies (Moody's, S&P, and Fitch).<sup>1</sup> In addition:

- Money market instruments must be rated at least A-1/P-1 or equivalent by at least one major credit rating agency.
- All rated securities, including Rule 144A securities, must be rated at least B- by Standard & Poor's or equivalent by at least one major credit rating agency at the time of purchase.

- Unrated issues may be purchased provided in the judgment of Manager, they would not violate LACERA's minimum credit quality criteria.
- In the event a portfolio holding is downgraded and no longer meets the aforementioned credit quality criteria, the manager will be required to immediately notify LACERA of the downgrade in writing. Manager shall make every effort to liquidate the security within six months. An update of the condition of the credit, as well as a hold/sell recommendation, shall be sent to LACERA on a monthly basis. On a case-by-case basis, LACERA may extend the holding period of a non-credit quality compliant security.
- Unrated issues and securities rated BBB+, BBB or BBB- (S&P) or equivalent, in combination, may represent up to 30 percent of the portfolio.

The **Domestic Fixed Income Core Plus Portfolios** must meet the following credit guidelines:

#### Credit Quality

A minimum of 80 percent of the portfolio must be invested in securities rated investment grade by the major credit rating agencies (Moody's, S&P, and Fitch).<sup>1</sup> In addition:

- Money market instruments must be rated at least A-1/P-1 or equivalent by at least one major credit rating agency.
- All rated securities, including Rule 144A securities, must be rated at least B- by Standard & Poor's or equivalent by at least one major credit rating agency at the time of purchase.
- Unrated issues may be purchased provided, in the judgment of Manager, they would not violate LACERA's minimum credit quality criteria.

<sup>1</sup> In cases where the credit ratings of the rating agencies differ, the methodology used to determine whether an issuer is investment grade will be based upon Barclays Capital index rules.

- In the event a portfolio holding is downgraded and no longer meets the aforementioned credit quality criteria, the manager will be required to immediately notify LACERA of the downgrade in writing. Manager shall make every effort to liquidate the security within **six** months. An update of the condition of the credit, as well as a hold/sell recommendation shall be sent to LACERA on a monthly basis. On a case-by-case basis, LACERA may extend the holding period of a non-credit quality compliant security.
- Unrated issues and securities rated BBB+, BBB or BBB- (S&P) or equivalent, in combination, may represent up to 30 percent of the portfolio.

The **Domestic High Yield Bond Portfolio** must meet the following credit guidelines:

#### Credit Quality

The Benchmark index consists exclusively of below investment-grade securities, so the overwhelming majority of investments held must be rated below investment grade by the major credit rating agencies (Moody's, S&P, and Fitch).<sup>1</sup> In addition, the following credit-related guidelines will apply:

- Money market instruments must be rated at least A-1/P-1 or equivalent by at least one

major credit rating agency.

- At least 95 percent of all rated securities, including Rule 144A securities, must be rated at least B- by Standard & Poor's or equivalent by at least one major credit rating agency at the time of purchase.
- Consistent with the preceding requirement, a maximum of 5 percent of the portfolio may be invested in issues rated below B- by Standard & Poor's (or equivalent); however, these issues must be rated at least CCC by Standard & Poor's or Caa by Moody's.
- Unrated issues may be purchased provided in the judgment of the Manager, they would not violate LACERA's minimum credit criteria.
- In the event a portfolio holding is downgraded and no longer meets the aforementioned credit quality criteria, the Manager will be required to immediately notify LACERA of the downgrade in writing. The Manager shall make every effort to liquidate the security within **six** months. An update of the condition of the credit, as well as a hold/sell recommendation shall be sent to LACERA on a monthly basis. On a case-by-case basis, LACERA may extend the holding period of a non-credit quality compliant security.

<sup>1</sup> In cases where the credit ratings of the rating agencies differ, the methodology used to determine whether an issuer is investment grade will be based upon Barclays Capital index rules.

## FINANCIAL SECTION

### Notes to Financial Statements: Note G — continued

The following is a schedule of the credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization.

### Credit Quality Ratings of Investments in Fixed Income Securities

As of June 30, 2009

(Dollars in Thousands)

| Quality Ratings  | Fair Value         |
|--|--------------------|
| U.S. Treasuries, GNMA, SBA (Explicit Guarantee)  | \$ 864,043         |
| AAA  | 701,791            |
| AA   | 368,544            |
| A  | 862,771            |
| BAA  | 1,088,826          |
| BA   | 506,603            |
| B  | 481,009            |
| CAA  | 193,434            |
| CA   | 50,000             |
| C  | 2,626              |
| Not Rated  | 397,206            |
| <b>Total Credit Risk Fixed Income Securities</b>   | <b>\$5,516,853</b> |
| U.S. Government Agencies (Implicit Guarantee)*<br>(FNMA, FHLB, FHLMC, FFCB, SLMA, Other) | 2,352,236          |
| Pooled Funds (Not Rated)   | 907,614            |
| <b>Total Investments in Fixed Income Securities**</b>                                    | <b>\$8,776,703</b> |

\*Credit ratings generally not available by Moody's and S&P's.

\*\*Short-term Investments and Mortgages are excluded from this presentation.

#### Custodial Credit Risk

LACERA's contract with its primary custodian (Bank) provides the Bank may hold securities of LACERA registered in the Bank's or its Agent's nominee name, in bearer form, book entry form, a clearing house corporation, or a depository, so long as the Bank's records clearly indicate the securities are held in custody for LACERA's account. The Bank may also hold securities in custody in LACERA's name when required by LACERA. When held in custody by the Bank, the securities are not at risk of loss in the event of the Bank's financial failure, because the securities are not property (assets) of the Bank. Cash invested overnight in the Bank's depository accounts is subject to the risk that in the event of the Bank's failure, LACERA might not recover all or some of its deposits. This risk is mitigated when the overnight deposits are insured or collateralized. LACERA's policy as

incorporated in its current contract with the Bank requires the Bank to certify it has taken all steps to assure all LACERA monies on deposit with the Bank are eligible for and covered by "pass-through insurance," in accordance with applicable law and FDIC rules and regulations. The steps taken by the Bank include paying deposit insurance premiums when due, maintaining a "prompt corrective action" (PCA) capital category of "well capitalized," and identifying on the Bank's records that it acts as a fiduciary for LACERA with respect to the monies on deposit. In addition, the Bank is required to provide evidence of insurance and to maintain a Financial Institution Bond which will cover the loss of money and securities with respect to any and all property which the Bank or its agents hold in or for LACERA's account, up to the amount of the bond. To implement

certain investment strategies in a cost-effective manner, some of LACERA's assets are invested in investment managers' pooled vehicles. The securities in these vehicles may be held by a different custodian.

**Counterparty Risk**

Counterparty Risk for investments is the risk that in the event of the failure of the counterparty to complete a transaction, LACERA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

**Concentration of Credit Risk**

As of June 30, 2009, LACERA did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

**Interest Rate Risk**

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

To manage Interest Rate Risk, the modified adjusted duration of the Domestic Fixed Income Core, Core Plus, and High Yield Portfolios are restricted to +/- 25% of their respective portfolio's benchmark's duration. Deviations from any of the stated guidelines require prior written authorization from LACERA.

*The following is a schedule of fixed income securities and duration by investment type.*

**Fixed Income Securities — Duration**

*As of June 30, 2009*

(Dollars in Thousands)

| Investment Type  | Fair Value          | Modified Duration |
|--|---------------------|-------------------|
| U.S. Government and Agency Instruments:                |                     |                   |
| U.S. Treasury  | \$ 938,786          | 6.06              |
| U.S. Government Mortgages                              | 2,242,366           | 3.22              |
| Municipal/Revenue Bonds                                | 35,126              | 11.81             |
| <b>Subtotal U.S. Government and Agency Instruments</b> | <b>\$ 3,216,278</b> |                   |
| Corporate Securities:                                  |                     |                   |
| Asset-Backed Securities                                | \$ 199,179          | 2.01              |
| Commercial Mortgage-Backed Securities                  | 650,608             | 2.95              |
| Corporate and Other Credit                             | 3,047,123           | 5.16              |
| Fixed Income Swaps                                     | 60,788              | 6.87              |
| Pooled Investments                                     | 907,614             | N/A               |
| Other Fixed Income                                     | 83,722              | N/A               |
| <b>Subtotal Corporate Securities</b>                   | <b>\$ 4,949,034</b> |                   |
| International Fixed Income                             | \$ 46,288           | 8.08              |
| Private Placement Fixed Income                         | 565,103             | 4.28              |
| <b>Total Fixed Income Securities*</b>                  | <b>\$ 8,776,703</b> |                   |

\*Short-term Investments and Mortgages are excluded from this presentation.

## FINANCIAL SECTION

### Notes to Financial Statements: Note G — continued

#### 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. LACERA's authorized

managers are permitted to invest in approved countries or regions, as stated in their respective investment guidelines.

The following schedule represents LACERA's exposure to Foreign Currency Risk in U.S. dollars.

#### International Investment Securities at Fair Value

As of June 30, 2009

(Dollars in Thousands)

| Currency               | Equity*   | Fixed Income | Foreign Currency | Real Estate Commingled Funds | Total     |
|------------------------|-----------|--------------|------------------|------------------------------|-----------|
| Argentine Peso         | \$ 1,173  |              |                  |                              | \$ 1,173  |
| Australian Dollar      | 293,929   | \$ 11,175    | \$ 10,611        | \$ 2,386                     | 318,101   |
| Brazilian Real         | 144,177   | 11,155       | 129              |                              | 155,461   |
| British Pound Sterling | 890,554   | 3,274        | 673              | 19,441                       | 913,942   |
| Canadian Dollar        | 449,389   | 8,897        | 557              |                              | 458,843   |
| CFA Franc (W. African) | 1,173     |              |                  |                              | 1,173     |
| Chilean Peso           | 15,493    |              |                  |                              | 15,493    |
| Chinese RNB            | 18,717    |              |                  |                              | 18,717    |
| Columbian Peso         | 22,872    |              |                  |                              | 22,872    |
| Czech Republic Koruna  | 4,958     |              |                  |                              | 4,958     |
| Danish Krone           | 40,814    |              | 214              |                              | 41,028    |
| Egyptian Pound         | 13,333    |              |                  |                              | 13,333    |
| Euro                   | 1,428,068 | 3,431        | 696              | 39,035                       | 1,471,230 |
| Ghanaian Cedi          | 216       |              |                  |                              | 216       |
| Hong Kong Dollar       | 342,705   |              | 1,258            | 25,169                       | 369,132   |
| Hungarian Forint       | 6,100     |              |                  |                              | 6,100     |
| Iceland Krona          |           | 1,425        | 153              |                              | 1,578     |
| Indian Rupee           | 87,969    |              |                  |                              | 87,969    |
| Indonesian Rupiah      | 31,646    |              |                  |                              | 31,646    |
| Israeli Shekel         | 19,630    |              |                  |                              | 19,630    |
| Japanese Yen           | 1,064,615 |              | 2,503            | 16,126                       | 1,083,244 |
| Kazakhstan Tenge       | 404       |              |                  |                              | 404       |
| Kenyan Shilling        | 1,106     |              |                  |                              | 1,106     |
| Malaysian Ringgit      | 29,071    |              | 193              |                              | 29,264    |
| Mexican Peso           | 75,932    | 6,931        | 11               |                              | 82,874    |
| Morocco Dirham         | 1,371     |              |                  |                              | 1,371     |
| New Turkish Lira       | 32,366    |              | 188              |                              | 32,554    |

\*LACERA is invested in several international equity commingled funds. This means LACERA owns units of a commingled fund and the fund holds the actual securities and/or currencies. The values shown are based on LACERA's pro rata portion of commingled fund holdings.

**International Investment Securities at Fair Value — continued**
*As of June 30, 2009*

(Dollars in Thousands)

| Currency  | Equity*            | Fixed<br>Income | Foreign<br>Currency | Real Estate<br>Commingled<br>Funds | Total              |
|---|--------------------|-----------------|---------------------|------------------------------------|--------------------|
| New Zealand Dollar  | \$ 4,427           |                 | \$ 26               |                                    | \$ 4,453           |
| Nigerian Naira  | 4,020              |                 |                     |                                    | 4,020              |
| Norwegian Krone   | 37,541             |                 | 449                 |                                    | 37,990             |
| Pakastani Rupee   | 979                |                 |                     |                                    | 979                |
| Peruvian Nuevo Sol  | 2,806              |                 |                     |                                    | 2,806              |
| Philippine Peso   | 9,242              |                 |                     |                                    | 9,242              |
| Polish Zloty  | 9,780              |                 | 435                 |                                    | 10,215             |
| Russian Ruble   | 77,483             |                 |                     |                                    | 77,483             |
| Singapore Dollar  | 111,920            |                 | 5,835               | \$ 7,887                           | 125,642            |
| South African Rand  | 91,361             |                 | 136                 |                                    | 91,497             |
| South Korean Won  | 118,996            |                 | 216                 |                                    | 119,212            |
| Sri Lankan Rupee  | 2,200              |                 |                     |                                    | 2,200              |
| Swedish Krona   | 101,916            |                 | 358                 | 245                                | 102,519            |
| Swiss Franc   | 313,557            |                 | 631                 |                                    | 314,188            |
| Taiwan Dollar   | 81,384             |                 |                     |                                    | 81,384             |
| Thailand Baht   | 16,918             |                 | 5                   | 1,755                              | 18,678             |
| UAE Dirham  | 1,005              |                 |                     |                                    | 1,005              |
| Zambian Kwacha  | 201                |                 |                     |                                    | 201                |
| <b>Total Securities Subject to<br/>Foreign Currency Risk</b>  | <b>\$6,003,517</b> | <b>\$46,288</b> | <b>\$25,277</b>     | <b>\$112,044</b>                   | <b>\$6,187,126</b> |
| U.S. Dollar<br>(Securities held by<br>International Managers) | 90,158             |                 |                     |                                    | 90,158             |
| <b>Total International<br/>Investment Securities</b>          | <b>\$6,093,675</b> | <b>\$46,288</b> | <b>\$25,277</b>     | <b>\$112,044</b>                   | <b>\$6,277,284</b> |

\*LACERA is invested in several international equity commingled funds. This means LACERA owns units of a commingled fund and the fund holds the actual securities and/or currencies. The values shown are based on LACERA's pro rata portion of commingled fund holdings.

## FINANCIAL SECTION

### Notes to Financial Statements: Note H

#### NOTE H — Securities Lending Program

The Board of Investment's (BOI) policies authorize LACERA to participate in a securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower) and in turn, LACERA receives cash as collateral. LACERA pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represent the net income to LACERA from the transaction.

LACERA's securities lending program is managed by one principal borrower, Goldman Sachs (Goldman) and two agent lenders, BNY Mellon Global Securities Lending (BNY Mellon) and Wachovia Global Securities Lending (Wachovia). Goldman has exclusive rights to borrow LACERA's domestic equities and corporate bonds. In exchange for these rights, Goldman pays LACERA an annual guarantee fee. Under this exclusive borrowing arrangement, Goldman's loans are secured by collateral with a market value of at least 102 percent of the borrowed securities. BNY Mellon Cash Investment Strategies (formerly known as Standish Mellon) invests collateral received from Goldman in short-term debt and money market instruments. Wachovia lends LACERA's domestic treasury, agency, and mortgage-backed securities which are initially collateralized at 102 percent of the loan market value. The market value of the collateral is marked-to-market daily, and additional collateral is required if the market value falls below the maintenance margin. Wachovia invests the collateral it receives on loans in short-term highly liquid instruments. BNY Mellon lends LACERA's international equities. International loans are 105 percent collateralized and are marked-to-market on a daily basis. BNY Mellon collateral is reinvested in its commingled fund. The income earned from investments made by Wachovia and BNY Mellon is split between LACERA and the lending agent, based on contractual agreements.

At year-end, LACERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. As of June 30, 2009, there were no violations of legal or contractual provisions. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2009 and 2008.

Under the terms of their lending agreements, BNY Mellon and Wachovia have agreed to hold LACERA harmless for borrower default from the loss of securities or income or from any litigation arising from these loans. The terms of Goldman's lending agreement entitle LACERA to terminate all loans upon the occurrence of default and purchase a like amount of "replacement securities." In the event the purchase price of replacement securities exceeds the amount of collateral, Goldman shall be liable to LACERA for the amount of such excess, with interest. Either LACERA or the borrower can terminate all loans on securities on demand.

As of June 30, 2009, the fair value of securities on loan was \$1.17 billion with the value of cash collateral received for the securities on loan of \$1.22 billion and no non-cash collateral. As of June 30, 2008, the fair value of securities on loan was \$2.25 billion with the value of cash collateral received for the securities on loan of \$2.32 billion and no non-cash collateral. LACERA's income net of expenses from securities lending was \$16.2 million and \$17.6 million for the years ended June 30, 2009 and 2008, respectively.

The following securities were on loan and cash collateral received.

**Securities Lending**

As of June 30, 2009

(Dollars in Thousands)

| Securities on Loan   | Market Value<br>of Securities on Loan | Cash Collateral<br>Received |
|--|---------------------------------------|-----------------------------|
| U.S. Government and Agencies, and Mortgage-Backed Securities | \$ 716,431                            | \$ 727,929                  |
| Domestic Equities  | 282,509                               | 290,718                     |
| Domestic Corporate Fixed Income                              | 98,413                                | 119,878                     |
| International Equities                                       | 76,130                                | 80,542                      |
| <b>Total</b>   | <b>\$1,173,483</b>                    | <b>\$1,219,067</b>          |

**NOTE I — Derivative Financial Instruments**

The Board of Investment’s (BOI) Investment Policy Statement and Manager Guidelines allow the use of derivatives by certain investment managers. Derivatives are financial instruments that derive their value, usefulness, and marketability from an underlying instrument which represents direct ownership of an asset or an obligation of an issuer. Managers are required to mark-to-market derivative positions daily and may only trade with counterparties with a credit rating of A3/A- as defined by Moody’s and Standard & Poor’s, respectively. Substitution, risk control, and arbitrage are the only derivative strategies permitted; speculation is prohibited. The following types of derivatives are permitted: futures contracts, currency forward contracts, options, and swaps. Derivatives

are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income. LACERA requires managers to 100 percent collateralize all derivative positions with cash and/or cash equivalents so the positions are not leveraged.

**Futures Contracts**

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

LACERA held the following futures contracts.

**Futures Contracts**

As of June 30, 2009

(Dollars in Thousands)

| Description                       | Exposure         |
|-----------------------------------|------------------|
| Long — Cash and Cash Equivalents  | \$772,955        |
| Long — Commodities                | 146,538          |
| Long — Fixed Income               | 135,947          |
| Short — Cash and Cash Equivalents | (234,391)        |
| <b>Total</b>                      | <b>\$821,049</b> |

## FINANCIAL SECTION

### Notes to Financial Statements: Note I — continued

#### Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific

transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

LACERA held the following forward contracts.

#### Forward Contracts

As of June 30, 2009

(Dollars in Thousands)

| Description                           | Amount     |
|---------------------------------------|------------|
| Foreign Exchange Contracts Receivable | \$ 96,571  |
| Foreign Exchange Contracts Payable    | \$(97,991) |

#### Option Contracts

An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the

option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

LACERA held the following option contracts.

#### Option Contracts

As of June 30, 2009

(Dollars in Thousands)

| Option Type            | Asset Type                | Fair Value     |
|------------------------|---------------------------|----------------|
| Purchased Call Options | Fixed Income              | \$2,534        |
| Purchased Call Options | Commodities               | 143            |
| Written Call Options   | Cash and Cash Equivalents | (14)           |
| Written Call Options   | Equity                    | (151)          |
| Written Call Options   | Commodities               | (3)            |
| Written Put Options    | Cash and Cash Equivalents | (6)            |
| Written Put Options    | Fixed Income              | (386)          |
| Written Put Options    | Commodities               | (18)           |
| <b>Total</b>           |                           | <b>\$2,099</b> |

**Swap Agreements**

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows the counterparties exchange are tied to a “notional”

amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The Fair Value represents the gains or losses as of the prior marking-to-market.

*LACERA held the following swap agreements.*

**Swap Agreements**

*As of June 30, 2009*

(Dollars in Thousands)

| Description          | Number of Agreements | Notional Amount | Fair Value |
|----------------------|----------------------|-----------------|------------|
| Interest Rate Swap   | 35                   | \$ 818,607      | \$ 14,605  |
| Credit Default Swaps | 53                   | 205,759         | (12,341)   |
| Commodities Swaps    | 21                   | 223,128         | (2,479)    |

**NOTE J — Title Holding Corporations and Limited Liability Companies**

The LACERA real estate portfolio includes 81 Title Holding Corporations (THCs) and 18 Limited

Liability Companies (LLCs) and 80 THCs and 15 LLCs as of June 30, 2009 and 2008, respectively.

*The following is a summary of the THCs’ and LLCs’ financial position.*

**Title Holding Corporations’ and Limited Liability Companies’ Financial Position**

*As of June 30, 2009 and 2008*

(Dollars in Thousands)

|                   | 2009               | 2008               |
|-------------------|--------------------|--------------------|
| Assets            | \$3,609,802        | \$4,550,991        |
| Less: Liabilities | 876,005            | 838,301            |
| <b>Net Assets</b> | <b>\$2,733,797</b> | <b>\$3,712,690</b> |
| <b>Net Income</b> | <b>\$ 173,725</b>  | <b>\$ 195,655</b>  |

## FINANCIAL SECTION

### Notes to Financial Statements: Note K and Note L

#### NOTE K — Related Party Transactions

##### Office Lease

LACERA, as the sole shareholder, formed a Title Holding Corporation (THC) to acquire Gateway Plaza. In January 1991, LACERA entered into its original lease agreement with the THC to occupy approximately 85,000 square feet. Under the terms of the agreement, LACERA's base rent is abated via a "base rent credit." However, LACERA is required to pay its proportionate share of the building's taxes and operating costs as defined in the lease.

Subsequent to the original lease agreement, several amendments have been entered into that adjusted the rentable square footage and lease expiration dates. The latest is the Tenth Amendment to the Office Lease dated September 2, 2008, leasing a total of approximately 96,000 rentable square feet of space, and maintaining the lease's existing expiration date of December 31, 2015. LACERA has two five-year options to further extend the terms of the lease. A new Tenant Improvement Allowance of \$543,000 was provided for the construction of permanently affixed improvements to the premises.

Total operating expenses charged to LACERA was approximately \$1.13 million for the years ended June 30, 2009 and 2008.

##### Notes Receivable

LACERA has notes receivable of approximately \$43.0 million from three of its THCs as of fiscal year-end June 30, 2009. LACERA had notes receivables of approximately \$52.2 million from two of its THCs as of June 30, 2008. These amounts are reflected in the Accounts Receivable-Other balance for both years.

##### Guaranty of Unsecured Line of Credit

LACERA invests in a housing program called TriPacific Residential Investors-One, LLC (TRIO)

which provides mezzanine financing to builders of single-family housing. TRIO is the successor to Lowe Enterprises Residential Investors (LERI). LACERA is a 99.0 percent investor in TRIO, and the 1.0 percent managing member is TriPacific Capital Advisors. TRIO/LERI has an unsecured line of credit with various lenders. The aggregate principal balance of the unsecured line of credit outstanding as of June 2009 was \$200 million. The interest rate for the outstanding balance is LIBOR plus a spread. The line of credit is payable on May 30, 2010. LACERA has agreed to guarantee payment of this unsecured line of credit. The guaranty is not reflected on LACERA's financial statements. The Board of Investments has authorized LACERA to guarantee up to \$300 million of TRIO/LERI's unsecured line of credit debt. Subsequent to June 30, 2009, TRIO/LERI obtained an additional \$40 million line of credit, which LACERA also agreed to guarantee.

#### NOTE L — Administrative Expenses

The LACERA Boards of Retirement and Investments annually adopt the operating budget for the administration of LACERA. The administrative expenses are charged against the earnings of the retirement fund and are limited to eighteen-hundredths of one percent (0.18%)<sup>1</sup> of total system assets, as set forth Section 31580.2 of the County Employees Retirement Law of 1937 (CERL). In addition, the cost of legal representation shall not exceed one-hundredth of one percent (0.01%) of system assets in any budget year, pursuant to Section 31529.1.

<sup>1</sup>As of January 1, 2007, Section 31580.3 of the CERL, increased the amount from eighteen-hundredths of one percent (0.18%) to twenty-three hundredths of one percent (0.23%). The additional administrative expenses allowed include expenditures for software, hardware, and computer technology consulting services in support of that software or hardware. This increase shall remain in effect only until January 1, 2013, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2013, deletes or extends that date. LACERA's budget for fiscal year end June 30, 2009, was prepared and approved by the Boards based upon eighteen-hundredths of one percent (0.18%) under Section 31580.2 of the CERL.

The following budget-to-actual analysis of administrative expenses is based upon the budget, as approved by the governing boards, and reflects actual administrative expenses.

**Budget-to-Actual Analysis of Administrative Expenses**

As of June 30, 2009 and 2008

(Dollars in Thousands)

|  | 2009             | 2008             |
|--|------------------|------------------|
| Total Projected Asset Base at Fair Value             | \$43,909,015     | \$40,409,684     |
| Maximum Allowable for Administrative Expense (0.18%) | 79,036           | 72,737           |
| Maximum Legal Representation Appropriation (0.01%)   | 4,391            | 4,041            |
| <b>Total Statutory Budget Appropriation</b>          | <b>\$ 83,427</b> | <b>\$ 76,778</b> |
| Operating Budget Request                             | 53,747           | 53,046           |
| Actual Administrative Expenses                       | 49,730           | 48,223           |
| <b>Underexpended Operating Budget</b>                | <b>\$ 4,017</b>  | <b>\$ 4,823</b>  |

**NOTE M — Commitments and Contingencies**

**Litigation**

LACERA is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. LACERA’s management and legal counsel estimate the ultimate outcome of such litigation will not have a material effect on LACERA’s financial statements.

**Local 1014 Case** - This matter involves a dispute over the classification of approximately 500 former Fire Control Laborers who were classified by the County as temporary employees for a period of time, and thus not eligible for membership in LACERA.

Most Fire Control Laborers were reclassified as permanent County firefighters by 1994, which made most of them eligible for membership in LACERA Safety Plan B. They have argued they should have been reclassified as of their temporary hire dates, which would have given them more favorable retirement benefits. LACERA filed a declaratory relief action on February 9, 2001 to resolve the dispute. Shortly thereafter, a group of approximately 150 former Fire Control Laborers intervened on their own behalf and filed a class action cross-complaint raising related issues. A class was subsequently

certified. The class action alleges, among other things, a breach of fiduciary duty against LACERA.

A judgment incorporating a settlement of class member claims was entered on March 1, 2006, and is now final. Under the judgment, the Fire Control Laborers will receive permanent service credit for their temporary time, provided they deposit with LACERA the applicable employee contributions plus interest. The employer’s portion of the contributions will constitute an unfunded actuarial accrued liability (UAAL), which will be recovered by assessing additional employer contributions.

On September 13, 2006, the Court awarded plaintiffs’ counsel attorneys’ fees and costs in the amount of \$4,923,526, which LACERA was ordered to pay to class counsel within 30 days of the September 13th hearing. Additionally, LACERA was ordered to set aside attorneys’ fees in an amount subject to proof, but not to exceed \$762,500, covering attorneys’ fees incurred after September 13, 2006 in connection with implementation of the judgment. Fees and costs were awarded on a common fund basis, which provides such fees and costs will be allocated against each participating class member’s recovery.

## FINANCIAL SECTION

### Notes to Financial Statements: Note M — continued

On February 21, 2007, the court entered judgment on class counsel's motion for attorneys' fees and costs, which class counsel subsequently appealed. Following a court-ordered mediation on June 18, 2007, the parties reached a tentative settlement agreement that provides for LACERA to assume a portion of the attorneys' fees and costs paid to (and set aside for) class counsel in exchange for dismissal of the appeal. Under the terms of the settlement, which was approved by the Board of Retirement (BOR) on September 13, 2007, LACERA will recover approximately \$3.6 million of the nearly \$5.7 million it has already paid out and set aside for class counsel. Thus, LACERA will assume as much as \$2.1 million of the attorneys' fees award. This portion assumed by LACERA will be handled through inclusion in the UAAL.

The terms of the settlement also call for class counsel to obtain releases from each of the class members. The settlement became final in November 2007 after class counsel obtained a sufficient number of releases (slightly less than 100 percent of all class members), and LACERA agreed to waive this contingency. On November 15, 2007, class counsel filed a formal request for dismissal of the appeal, which was approved. Staff continues to work on implementing the settlement for all eligible class members.

**Securities Litigation** - In 2001, the Board of Investments (BOI) adopted a Securities Litigation Policy in response to growing incidents of corporate corruption and fraud. The policy requires LACERA's Legal Office to monitor securities fraud class actions and to actively pursue recovery of LACERA's losses.

Compliance with the Securities Litigation Policy assures the BOI, with the assistance of the LACERA Legal Office, will continue to aggressively protect the financial interests of LACERA members.

#### **Emergency Line of Credit**

The County Employees Retirement Law of 1937 (CERL) allows the BOI to obtain a loan, and pledge assets as collateral, for the purpose of delivering benefits when due in the event of an emergency. In

order to make a draw on the loan, the BOI would need to find all of the following circumstances:

- (a) An emergency exists affecting the national banking system or financial markets;
- (b) The emergency prevents the association from readily accessing its funds;
- (c) The loan is necessary to promptly deliver benefits when due.

Currently LACERA has a Revolving Credit Agreement with Bank of New York (BNY) Mellon for a Commitment Amount of \$182 million that would be available if the BOI found the circumstances described above. LACERA is required to maintain eligible assets as collateral in a pledged account valued at 115 percent of the Commitment Amount. The current agreement expires on November 6, 2009.

#### **Guaranty of Unsecured Line of Credit**

LACERA invests in a housing program called TriPacific Residential Investors-One, LLC (TRIO) which provides mezzanine financing to builders of single-family housing. TRIO is the successor to Lowe Enterprises Residential Investors (LERI). LACERA is a 99.0 percent investor in TRIO; the 1.0 percent managing member is TriPacific Capital Advisors. TRIO/LERI has an unsecured line of credit with various lenders. The aggregate principal balance of the unsecured line of credit outstanding as of June 2009 was \$200 million. The interest rate for the outstanding balance is LIBOR plus a spread. The line of credit is payable on May 30, 2010. LACERA has agreed to guarantee payment of this unsecured line of credit. The guaranty is not reflected on LACERA's financial statements. The BOI has authorized LACERA to guarantee up to \$300 million of TRIO/ LERI's unsecured line of credit debt. Subsequent to June 30, 2009, TRIO/LERI obtained an additional \$40 million line of credit, which LACERA also agreed to guarantee.

#### **Leases**

LACERA leases equipment under lease agreements that expire over the next five years. The annual commitments under such equipment leases were

approximately \$277,000 and \$308,000 in fiscal years 2009 and 2008, respectively. The building space lease agreement entered in January 1991, and subsequently amended to include additional rentable square footage and termed to expire on December 31, 2015, requires LACERA to pay a portion of the building’s operating expenses based on square footage occupied as discussed in Note K – Related Party Transactions.

Total rent expense for all leases was \$1.40 million and \$1.44 million in fiscal years 2009 and 2008, respectively.

**Capital Commitments**

LACERA real estate, private equity, and activist investment managers identify and acquire investments on a discretionary basis. Each manager’s investment activity is controlled by the Manager Investment Plan, which identifies the limitations on each manager’s discretion. Such investment activities are further restricted by the amount of capital allocated or committed to each manager. Both the Manager Investment Plan and capital commitments are subject to approval by the BOI and may be updated as often as necessary to reflect LACERA investment preferences, as well as changes in market conditions.

As of June 30, 2009, outstanding capital commitments to the various investment managers, as approved by the BOI, totaled \$2.58 billion. Subsequent to June 30, 2009, LACERA funded \$129 million of these capital commitments.

**Note N — Other Post-Employment Benefits (OPEB)**

**Plan Description**

In April 1982, the County of Los Angeles (County) adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) which provided for a health insurance program and death benefits for retired employees and their dependents. In 1994, the County amended the agreement to continue to support LACERA’s retiree insurance benefits program, regardless of the status of active member insurance.

LACERA administers a cost-sharing multiple-employer defined benefit Other Post-Employment Benefit (OPEB) Plan on behalf of the County, including its outside Districts, and the Superior Court. The County’s outside Districts include Little Lake Cemetery District, Local Agency Formation Commission, Los Angeles County Office of Education, and the South Coast Air Quality Management District. This OPEB Plan is presented in the Statement of Plan Net Assets as the OPEB Agency Fund.

**Membership**

Employees are eligible for the OPEB Plan if they are a member of LACERA and retire from the County, outside Districts, or the Superior Court. Health care benefits are also offered to qualifying survivors of: (a) deceased retired members and (b) deceased active employees, who are eligible to retire at the time of death. Receipt of a pension benefit is a prerequisite for retiree health care and death benefits; therefore, all eligibility and qualifications applicable to pension benefits also apply to retiree health care and death benefits.

## FINANCIAL SECTION

### Notes to Financial Statements: Note N — continued

#### Summary of Participating Retired Members, Spouses, and Dependents

OPEB Actuarial Valuation — July 1, 2008

| Plan Type     | Retirees and Survivors | Spouses and Dependents | Total  |
|---------------|------------------------|------------------------|--------|
| Medical       | 40,444                 | 21,082                 | 61,526 |
| Dental/Vision | 40,628                 | 21,801                 | 62,429 |
| Death Benefit | 45,023                 | N/A                    | 45,023 |

#### Benefit Provisions

The OPEB Plan offers members an extensive choice of medical plans, as well as two dental/vision plans. The medical plans are either HMOs or indemnity plans, and some are designed to work with Medicare benefits, such as the Medicare supplement or Medicare HMO plans.

**Medical/Dental/Vision** - The participant's cost for medical, dental/vision insurance varies according to the years of retirement service credit with LACERA, the plan selected, and number of persons covered. The County contribution subsidizing the participant's cost starts from 40 percent of the benchmark plan rate (Blue Cross Plans I and II) for ten years of service credit. For each year of retirement service credit beyond ten years, the County contributes an additional 4.0 percent per year, up to a maximum of 100 percent for a member with 25 years of service credit. The County contribution can never exceed the premium of the benchmark plan.

**Medicare Part B** - The member's base rate premiums paid to Social Security for Part B coverage are reimbursed by the County, subject to annual approval by the County Board of Supervisors. Eligible members must be enrolled in both Medicare Part A and Medicare Part B, plus be enrolled in a LACERA-administered Medicare Advantage plan or Medicare supplement plan.

**Disability** - If a member is granted a service-connected disability retirement and has less than 13 years of service, the County contributes 50 percent of the lesser of the benchmark plan rate or the premium

of the plan in which the retiree is enrolled. A member with 13 years of service credit receives a 52 percent subsidy; this percentage increases 4.0 percent for each additional completed year of service credit.

**Death Benefit** - There is a one-time lump-sum \$5,000 death benefit payable to the designated beneficiary upon the death of a retiree. Active and vested terminated (deferred) members are eligible for this benefit once they retire. Spouses and dependents are not eligible for this death benefit upon their death.

#### Summary of Significant Accounting Policies

**Basis of Presentation** - The OPEB Agency Fund is presented according to the principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). This Agency Fund accounts for assets held as an agent on behalf of others. This fund is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting. Receivables include contributions due as of the reporting date. Payables include premium payments and refunds due to members and accrued investment and administrative expenses.

**Investment Valuation** - Investments are carried at fair value. Fair values for investments are derived from quoted market prices. For publicly traded stocks and bonds and issues of the U.S. government and its agencies, the most recent sales price as of fiscal year-end is used.

**Contributions**

**Authority** - Pursuant to the 1982 and 1994 Agreements between the County and LACERA, the parties agreed to the continuation of the health benefits then in existence. The County agreed to subsidize a portion of the insurance premiums of retired members and their dependents based on the member’s length of service. The County further agreed not to decrease or eliminate benefits provided under such insurance programs. LACERA agreed not to lower retired members’ contributions toward insurance premiums or increase medical benefit levels without the consent of the County.

**Funding Policy and Contributions** - In fiscal year 1997, the County and LACERA entered into an agreement establishing a health care funding account pursuant to Section 401(h) of the Internal Revenue Code. Section 401(h) permits the establishment of a separate account (a “401(h) account”) to fund retiree health care benefits, and limits contributions to the 401(h) account to 25 percent of aggregate contributions to LACERA.

Plan net assets are not held in trust for OPEB. For fiscal year 2008-09, the health care premiums were billed to the County and members on a monthly basis. The County has historically discharged its premium subsidy obligations on a pay-as-you-go basis. Participants are charged a monthly administrative fee of \$3.00 to cover the costs of administering the OPEB Plan. Internal cost allocations among the County agencies, including the Superior Court, have historically been based on the number of active employees.

During fiscal year ending June 30, 2009, \$379 million in premium payments were made to insurance carriers. These payments were funded by employer subsidy payments of \$343 million and \$35.6 million by the participants. In addition, the County paid \$31.6 million in Medicare Part B reimbursements and \$7.0 million in death benefits.

**Employer Disclosures**

Participating employers, upon their implementation of the related GASB Statement No. 45, are required to disclose additional information with regard to funding policy, the employer’s annual OPEB costs and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used to prepare the valuation.

**OPEB Actuarial Valuation**

The Los Angeles County OPEB Program actuarial valuation was conducted by Milliman, Inc. as of July 1, 2008. The valuation was performed in accordance with GASB Statement Nos. 43 and 45 requirements at the request of the County to satisfy financial statement reporting guidelines that apply to the sponsoring employers and organizations that administer the benefits program. The reporting guidelines are intended to improve cost disclosures and do not require any funding arrangements. The valuations are conducted at least every two years. The next actuarial valuation will be conducted as of July 1, 2010.

## FINANCIAL SECTION

### Notes to Financial Statements: Note N — continued

#### Funded Status as of the Most Recent Actuarial Valuation Date

(Dollars in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)* (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b-a]/c) |
|--------------------------|-------------------------------|--|---------------------------|--------------------|---------------------|---|
| July 1, 2008             | —                             | \$21,863,600                           | \$21,863,600              | 0%                 | \$6,123,888         | 357.0%  |

\*Using the Projected Unit Credit method of valuation.

#### Disclosure of Information about Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required Schedule of Funding Progress immediately following the Notes to the Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan

in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

#### Actuarial Methods and Assumptions — OPEB Plan

Where applicable, the same actuarial assumptions used for the LACERA Pension Plan are used for the Los Angeles County OPEB Plan, which is administered by LACERA. The following table summarizes the primary OPEB-related assumptions.

|                                  |                       |
|----------------------------------|-----------------------|
| Actuarial Cost Method            | Projected Unit Credit |
| Actuarial Asset Valuation Method | Not applicable        |
| Inflation Rate                   | 3.5 percent per annum |

**Actuarial Methods and Assumptions — OPEB Plan continued**

**Investment Return** 5.0 percent

**Projected Salary Increases** 4.0 percent  
 The general wage increase assumption is 4.0 percent per annum, which is used for projecting the total future payroll. The amortization of the UAAL is determined as a level percentage of payroll. General wage increases and individual salary increases due to promotion and longevity do not affect the amount of the OPEB Program's benefits.

| Health Care Cost Trend Rates* | FY        | FY        | Ultimate** |
|-------------------------------|-----------|-----------|------------|
|                               | 6/30/2010 | 6/30/2011 |            |
| LACERA Medical Under 65       | 6.92%     | 6.75%     | 5.00%      |
| LACERA Medical Over 65        | 3.93%     | 11.00%    | 5.00%      |
| Firefighters Local 1014 (all) | 4.83%     | 6.75%     | 5.00%      |
| Part B Premiums               | 3.50%     | 6.25%     | 5.00%      |
| Dental (all)                  | 1.66%     | 4.50%     | 4.50%      |
| Weighted Average Trend        | 4.69%     | 8.59%     | 4.99%      |

**Amortization Method** Level percentage of projected payroll over a rolling (open) 30-year amortization period.

| Probability of Initial Enrollment Upon Retirement | Years of Service | Medical | Dental/Vision |
|---|------------------|---------|---------------|
|   | <10              | 14%     | 18%           |
| 10-14   | 51%              | 53%     |               |
| 15-19   | 72%              | 74%     |               |
| 20-24   | 86%              | 84%     |               |
| 25+, Disabled                                     | 100%             | 100%    |               |

| Medical Spouse/Dependent Enrollment Probability | Non-Firefighter 1014 |            |          |            | Firefighter 1014 |
|---|----------------------|------------|----------|------------|------------------|
|   | <65 Male             | <65 Female | 65+ Male | 65+ Female | All              |
|   | 77%                  | 46%        | 67%      | 27%        | 87%              |

| Dental/Vision Spouse/Dependent Enrollment Probability | Male | Female |
|---|------|--------|
|   |      | 74%    |

\*The first year trend rates for LACERA medical and dental plans were adjusted to reflect actual premium increases effective July 1, 2009. These are different from the 2008 OPEB Investigation of Experience Study rates due to refinements in the premium information that occurred between the Experience Study and the 2008 OPEB Valuation Report.

\*\*The grading period is from 6/30/2009 to 6/30/2078 or 69 years.

## FINANCIAL SECTION

### Required Supplementary Information

#### Schedule of Funding Progress - Pension Plan

(Dollars in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b-a]/c) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| June 30, 2003            | \$26,564,328                  | \$30,474,025                                    | \$3,909,697               | 87.2%              | \$4,933,615         | 79.2%   |
| June 30, 2004            | 27,089,440                    | 32,700,505                                      | 5,611,065                 | 82.8%              | 4,919,531           | 114.1%  |
| June 30, 2005            | 29,497,485                    | 34,375,949                                      | 4,878,464                 | 85.8%              | 4,982,084           | 97.9%   |
| June 30, 2006            | 32,819,725                    | 36,258,929                                      | 3,439,204                 | 90.5%              | 5,205,802           | 66.1%   |
| June 30, 2007            | 37,041,832                    | 39,502,456                                      | 2,460,624                 | 93.8%              | 5,615,736           | 43.8%   |
| June 30, 2008            | 39,662,361                    | 41,975,631                                      | 2,313,270                 | 94.5%              | 6,123,888           | 37.8%   |

#### Schedule of Employer Contributions - Pension Plan

(Dollars in Thousands)

| Year Ended June 30 | Annual Required Contribution (ARC) | Actual Employer Contributions |                               |           | Percentage of ARC Contributed |
|--------------------|------------------------------------|-------------------------------|-------------------------------|-----------|-------------------------------|
|                    |                                    | Cash Payment                  | Transfer from Reserve Account | Total     |                               |
| 2004               | \$521,978                          | \$395,062                     | \$126,916                     | \$521,978 | 100%                          |
| 2005               | 750,352                            | 527,810                       | 222,542                       | 750,352   | 100%                          |
| 2006               | 855,531                            | 676,667                       | 179,368                       | 856,035   | 100%                          |
| 2007               | 863,626                            | 751,851                       | 111,775                       | 863,626   | 100%                          |
| 2008               | 827,911                            | 788,029                       | 40,601                        | 828,630   | 100%                          |
| 2009               | 847,172                            | 831,672                       | 15,500                        | 847,172   | 100%                          |

**Schedule of Funding Progress - Other Post-Employment Benefits Plan**

(Dollars in Thousands)

**Los Angeles County and Outside Districts**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)*<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>([b-a]/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| July 1, 2006                   | —                                      | \$21,215,800                                       | \$21,215,800                       | 0%                       | \$5,205,804               | 407.5%   |
| July 1, 2008                   | —                                      | 21,863,600   | 21,863,600                         | 0%                       | 6,123,888                 | 357.0%   |

\*Using the Projected Unit Credit method of valuation.

The first OPEB actuarial valuation was conducted as of July 1, 2006. There is no data available prior to the first valuation. The next scheduled OPEB Actuarial Valuation will be as of July 1, 2010.

**Schedule of Employer Contributions - Other Post-Employment Benefits Plan**

(Dollars in Thousands)

| Year Ended<br>June 30 | Annual<br>Required<br>Contribution<br>(ARC) | Actual Employer Contributions |                                  |           | Percentage<br>of ARC<br>Contributed |
|-----------------------|---|-------------------------------|----------------------------------|-----------|-------------------------------------|
|                       |   | Cash Payment                  | Transfer from<br>Reserve Account | Total     |                                     |
| 2008                  | \$1,630,700                                 | \$357,751                     | \$9,000                          | \$366,751 | 22%                                 |
| 2009                  | 1,630,700                                   | 381,612                       | —                                | 381,612   | 23%                                 |

Los Angeles County implemented GASB Statement No. 45 for its fiscal year-end June 30, 2008. The amounts in the table are not reduced by federal government payments under Medicare Part D.

**FINANCIAL SECTION**  
**Other Supplementary Information**

**Administrative Expenses**

*For the Years Ended June 30, 2009 and 2008*

(Dollars in Thousands)

|  | 2009            | 2008            |
|--|-----------------|-----------------|
| <b>Personnel Services</b>              |                 |                 |
| Salaries and Wages                     | \$24,608        | \$23,150        |
| Employee Benefits                      | 11,235          | 10,476          |
| <b>Total Personnel Services</b>        | <b>35,843</b>   | <b>33,626</b>   |
| <b>Professional Services</b>           |                 |                 |
| Computer Software Services and Support | 2,505           | 2,273           |
| External Audit Fees                    | 180             | 95              |
| Disability Medical Fees                | 888             | 734             |
| Disability Hearing Officer Fees        | 273             | 218             |
| Disability Stenographic Fees           | 60              | 74              |
| Temporary Personnel Services           | 1,078           | 884             |
| Legislative and Other Legal Services   | 477             | 253             |
| Other Professional Services            | 1,021           | 1,560           |
| <b>Total Professional Services</b>     | <b>6,482</b>    | <b>6,091</b>    |
| <b>Communication</b>                   |                 |                 |
| Forms and Brochures                    | 550             | 565             |
| Postage                                | 783             | 681             |
| Telecommunications                     | 320             | 357             |
| Transportation and Travel              | 339             | 494             |
| <b>Total Communications</b>            | <b>1,992</b>    | <b>2,097</b>    |
| <b>Rentals</b>                         |                 |                 |
| Rents and Leases                       | 1,405           | 1,436           |
| <b>Total Rentals</b>                   | <b>1,405</b>    | <b>1,436</b>    |
| <b>Miscellaneous</b>                   |                 |                 |
| Computer Equipment & Supplies          | 268             | 1,355           |
| Office Furniture                       | 24              | 21              |
| Other Office Expenses                  | 122             | 220             |
| Maintenance                            | 1,397           | 1,167           |
| Educational Expenses                   | 689             | 786             |
| Parking Fees                           | 332             | 344             |
| Other County Department Charges        | 202             | 230             |
| Insurance                              | 476             | 459             |
| Administrative Support                 | 111             | 105             |
| Other Service Charges                  | 387             | 286             |
| <b>Total Miscellaneous</b>             | <b>4,008</b>    | <b>4,973</b>    |
| <b>Total Administrative Expenses</b>   | <b>\$49,730</b> | <b>\$48,223</b> |

**Schedule of Investment Expenses**

*For the Years Ended June 30, 2009 and 2008*

(Dollars in Thousands)

|  | 2009             | 2008             |
|--|------------------|------------------|
| <b>Investment Management Fees</b>                            |                  |                  |
| Equity Managers  |                  |                  |
| Domestic   | \$ 11,770        | \$ 18,570        |
| International  | 9,476            | 13,303           |
| Fixed Income Managers  | 14,674           | 15,846           |
| Cash and Short-Term Managers                                 | 500              | 627              |
| Mortgage Loan Servicers                                      | 579              | 676              |
| Private Equity Managers                                      | 4,589            | 4,409            |
| Real Estate Managers   | 56,073           | 52,917           |
| Commodity Managers   | 1,256            | 1,096            |
| Total Investment Management Fees                             | 98,917           | 107,444          |
| <b>Other Investment Expenses</b>                             |                  |                  |
| Consultants  | 821              | 793              |
| Custodian  | 1,512            | 1,922            |
| Legal Counsel  | 550              | 449              |
| Other  | 2,803            | 3,575            |
| Total Other Investment Expenses                              | 5,686            | 6,739            |
| <b>Total Management Fees &amp; Other Investment Expenses</b> | <b>\$104,603</b> | <b>\$114,183</b> |

**FINANCIAL SECTION**  
**Other Supplementary Information**

**Schedule of Payments to Consultants**

*For the Years Ended June 30, 2009 and 2008*

(Dollars in Thousands)

|   | 2009           | 2008           |
|---|----------------|----------------|
| <b>Audit</b>                              |                |                |
| External Audit Services                   | \$ 180         | \$ 95          |
| Contract Audits                           | 0              | 515            |
| Total                                     | 180            | 610            |
| <b>Legal</b>                              |                |                |
| Investment Legal Counsel                  | 550            | 449            |
| Other Legal Services                      | 427            | 197            |
| Total                                     | 977            | 646            |
| <b>Actuarial</b>                          |                |                |
| Actuarial Valuations and Consulting Fees  | 255            | 397            |
| Total                                     | 255            | 397            |
| <b>Management</b>                         |                |                |
| Legislative Consulting                    | 50             | 56             |
| Management and Human Resources Consulting | 46             | 141            |
| System and Software Consulting            | 153            | 85             |
| Total                                     | 249            | 282            |
| <b>Total Payments to Consultants</b>      | <b>\$1,661</b> | <b>\$1,935</b> |

For fees paid to Investment Professionals, refer to Schedule of Investment Management Fees in the Investment Section.

**Statement of Changes in Assets and Liabilities - OPEB Agency Fund**

*For the Year Ended June 30, 2009*

(Dollars in Thousands)

|                                    | Balance<br>July 1, 2008 | Additions          | Deductions         | Balance<br>June 30, 2009 |
|------------------------------------|-------------------------|--------------------|--------------------|--------------------------|
| <b>Assets</b>                      |                         |                    |                    |                          |
| Cash                               | \$ 278                  | \$ 30,308          | \$ 30,199          | \$ 387                   |
| Accounts Receivable-Other          | 31,504                  | 438,590            | 437,313            | 32,781                   |
| Fixed Income                       | 119,596                 | 1,601,750          | 1,577,629          | 143,717                  |
| <b>Total Assets</b>                | <b>\$151,378</b>        | <b>\$2,070,648</b> | <b>\$2,045,141</b> | <b>\$176,885</b>         |
| <b>Liabilities</b>                 |                         |                    |                    |                          |
| Retiree Payroll and Other Payables | 7                       | 45,837             | 45,840             | 4                        |
| Accrued Expenses                   | 118                     | 395                | 192                | 321                      |
| Accounts Payable-Other             | 33,267                  | 448,686            | 449,110            | 32,843                   |
| Due to Employers                   | 117,986                 | 1,603,360          | 1,577,629          | 143,717                  |
| <b>Total Liabilities</b>           | <b>\$151,378</b>        | <b>\$2,098,278</b> | <b>\$2,072,771</b> | <b>\$176,885</b>         |