



December 11, 2020

TO: Each Trustee,
Board of Retirement
Board of Investments

SUBJECT: Audit Committee Meeting on December 11, 2020 – Item V. A.

Following you will find Green Folder Items pertaining to Item V. A.

July 20, 2020

To the Boards of Retirement and Investments
Los Angeles County Employees Retirement
Association

We have audited the fiduciary net position and the changes in fiduciary net position (collectively, the "Schedule") of the Agent Multiple-Employer Other Post-Employment Benefits Trust of Los Angeles County Employee Retirement Association (LACERA) as of and for the year ended June 30, 2019 and have issued our report thereon dated July 20, 2020. This additional audit report is used primarily to record accounting information under Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Professional standards require that we provide you with any internal control matters we noted as a result of this additional audit. In addition, we are required to communicate certain other matters identified in our audit. We previously provided you with these communications in our letter dated October 11, 2019, issued in conjunction with the completion of the June 30, 2019 financial statement audit. We did not note any additional items that we are required to communicate as a result of this additional audit.

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have not identified likely misstatements during our additional audit procedures on the Schedule.

We would like to take this opportunity to thank LACERA's staff for the cooperation and courtesy extended to us during our audit.

This information is intended solely for the use of the board of retirement, the board of investments, and management of the Los Angeles County Employees Retirement Association and the participating employers, along with their auditors; this report is not intended to be and should not be used by anyone other than these specified parties.

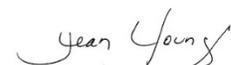
We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Michelle Watterworth, CPA
Partner



Jean Young, CPA
Partner

**LOS ANGELES COUNTY EMPLOYEES
RETIREMENT ASSOCIATION**

AGENT MULTIPLE-EMPLOYER OTHER POST-EMPLOYMENT BENEFITS TRUST

**SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION BY EMPLOYER
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Introduction

The Los Angeles County Employees Retirement Association (LACERA) administers the Los Angeles County Other Post-Employment Benefits (OPEB) Program for eligible retired members, and eligible dependents and survivors of LACERA members, formerly employed by Los Angeles County (County), Los Angeles County Superior Court (Court), LACERA, or a participating Outside District.¹ LACERA also administers the OPEB Trusts for the County, Court, and LACERA (Employers) which were established to provide a pre-funding vehicle for each Employers' OPEB liabilities. In order to track and allocate these liabilities and ongoing program costs by Employer, as of July 1, 2018, the OPEB Program transitioned from a cost-sharing plan structure to an agent multiple-employer plan structure.

In accordance with Governmental Accounting Standards Board Statement No. 75 (GASB Statement No. 75), employers are required to recognize and report their specific OPEB amounts which include Net OPEB Liability (NOL), deferred outflows of resources, deferred inflows of resources, and OPEB expenses. For those participating Employers who request the information, LACERA works with its consulting actuary, Milliman, to provide this information.

The accompanying Schedule of Changes in Fiduciary Net Position by Employer includes the additions and deductions made to each Employer's OPEB Trust Fund as well as the beginning and ending fiduciary net position restricted for benefits by Employer. The Fiduciary Net Position (FNP) or "net assets" calculated for each Employer are deducted from its Total OPEB Liability (TOL) to determine the Employer's NOL.

LACERA has also completed an examination engagement over selected Management assertions related to census data maintained by the plan of which the external auditor's opinion is included in a separate report.

¹Participating Outside Districts include: Local Agency Formation Commission for Los Angeles County (LAFCO), Los Angeles County Office of Education (LACOE), Little Lake Cemetery District (LLCD), and South Coast Air Quality Management District (SCAQMD).

Independent Auditor's Report

To the Boards of Retirement and Investments
Los Angeles County Employees Retirement Association

Report on the Financial Statements

We have audited the fiduciary net position as of June 30, 2019 and the changes in fiduciary net position for the year then ended, included in the accompanying schedule of changes in fiduciary net position by employer (the "Schedule") of the Agent Multiple-Employer Other Post-Employment Benefits Trust of Los Angeles County Employees Retirement Association (LACERA), and the related notes. We have also audited the fiduciary net position of the Los Angeles County column as of June 30, 2019 and the changes in fiduciary net position of the Los Angeles County column for the year then ended, included in the accompanying Schedule.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express opinions on the fiduciary net position and the changes in fiduciary net position based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fiduciary net position and the changes in fiduciary net position are free from material misstatement.

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

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

Opinions

In our opinion, the Schedule referred to above presents fairly, in all material respects, the fiduciary net position of the Agent Multiple-Employer Other Post-Employment Benefits Trust of Los Angeles County Employees Retirement Association as of June 30, 2019 and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule referred to above presents fairly, in all material respects, the fiduciary net position of the Los Angeles County column as of June 30, 2019 and the changes in fiduciary net position of the Los Angeles County column for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Boards of Retirement and Investments
Los Angeles County Employees Retirement Association

Emphasis of Matter

As discussed in Note A, the Schedule presents only the fiduciary net position and the changes in fiduciary net position by employer of the Agent Multiple-Employer Other Post-Employment Benefits Trust and does not purport to, and does not, present fairly the fiduciary net position of LACERA as a whole or Los Angeles County itself as of June 30, 2019, nor their related changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of LACERA as of and for the year ended June 30, 2019, and our report thereon dated October 11, 2019 expressed an unmodified opinion on those financial statements. The Agent Multiple-Employer Other Post-Employment Benefits Trust is reported as a fund of LACERA.

Other Information

Our audit was conducted for the purpose of forming opinions on the Schedule. The introductory section is presented for the purpose of additional analysis and is not a required part of the Schedule. The introductory section has not been subjected to the auditing procedures applied in the audit of the Schedule, and, accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of management and the boards of retirement and investments, LACERA employers, and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

July 20, 2020

Schedule of Changes in Fiduciary Net Position by Employer — OPEB Trust

For the Fiscal Year Ended June 30, 2019

(Dollars in Thousands)

	Los Angeles County	Superior Court	LACERA	Total
Additions				
Employer Contributions	\$832,480	\$27,929	\$2,619	\$863,028
Net Investment and Miscellaneous Income	59,666	2,219	231	62,116
Total Additions	\$892,146	\$30,148	\$2,850	\$925,144
Deductions				
Post-Employment Benefits	\$601,985	\$23,751	\$1,679	\$627,415
Administrative Expenses	175	47	12	234
Redemptions	—	25	—	25
Total Deductions	\$602,160	\$23,823	\$1,691	\$627,674
Net Increase/(Decrease) in Fiduciary Net Position	\$289,986	\$6,325	\$1,159	\$297,470
Fiduciary Net Position Restricted for Benefits				
Beginning of Year	\$899,420	\$38,149	\$3,438	\$941,007
End of Year	\$1,189,406	\$44,474	\$4,597	\$1,238,477

The accompanying Notes are an integral part of this schedule.

NOTE A — Plan Description

The County OPEB Trust and the Court OPEB Trust are administered through trusts that are considered as qualified OPEB plans under Governmental Accounting Standards Board (GASB) Statements No. 74 and 75. A qualifying OPEB plan meets the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Establishment of the County OPEB Trust

Pursuant to the California Government Code Sections 31694.3 and 31694.4, the County established an irrevocable, tax exempt OPEB Trust for the purpose of holding and investing assets to pre-fund the Retiree Healthcare Benefits Program which LACERA administers. In May 2012, the County Board of Supervisors approved entering into a Trust and Investment Services Agreement with the LACERA Board of Investments to serve as trustee and investment services manager.

Establishing and funding an OPEB Trust was the County's initial action in offsetting the unfunded OPEB liability. This reporting method provides a framework in which the County pre-funds OPEB costs through a Trust and over time, transitions from funding post-retirement benefits using the existing "pay-as-you-go" model to a prefunding model. The County OPEB Trust and agent reporting method does not modify the participating Employers' existing benefit programs.

The County OPEB Trust serves as a funding tool for the participating Employers to hold and invest assets used to pay expenses associated with OPEB benefits, such as medical, dental, and vision insurance plans and Medicare Part B reimbursements administered by the Retiree Healthcare Benefits Program including retiree death/burial benefit. The participating Employers will be responsible for and have discretion over OPEB Trust funding and in applying those assets restricted for paying OPEB benefits as defined in the Trust Agreement. There are two participating employers in the County OPEB Trust: Los Angeles County and LACERA.

Establishment of the Court OPEB Trust

Similar to the OPEB Trust established by the County, the Court followed the County's action and established a separate OPEB Trust Fund, the Court OPEB Trust, to begin prefunding its own OPEB unfunded liability.

Pursuant to the California Government Code, the Court established an irrevocable OPEB Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program, which LACERA administers for Court retirees. In April 2016, the Judicial Council of California approved the Court's request to establish a qualified irrevocable Trust, as well as engage LACERA's Board of Investments as trustee and investment services manager.

In May 2016, to conform the language of the County OPEB Trust agreement to the language of the Court's OPEB Trust agreement, the Board of Supervisors approved the First Amendment to the *Trust and Investment Services Agreement for the County of Los Angeles OPEB Program* between the County and LACERA. This amendment permits the pooling of County and Court OPEB Trust assets solely for investment purposes and updates the fiduciary duty provisions due to the addition of the Court's OPEB

Trust agreement. Although the County and Court OPEB Trust assets are pooled for investment purposes, separate accounts are maintained for each employer.

In June 2016, similar to the County, the Court entered into a Trust and Investment Services Agreement with the LACERA Board of Investments.

OPEB Master Trust

In July 2016, the LACERA Board of Investments adopted the OPEB Master Trust Declaration and unitized fund structure for OPEB Trust investments. As trustee of the separate OPEB Trusts established by the County and the Court, the Board of Investments has sole and exclusive authority, control over, and responsibility for directing the investment and management of the Master Trust assets which includes all of the assets held in both OPEB Trusts. This investment pool is commonly referred to throughout LACERA's financial statements and note disclosures as the "OPEB Trust" or the "OPEB Master Trust".

A unitized fund structure may allow for synergy from the shared economy and leveraged investment opportunities for greater diversification of assets. Unitization also provides participants the ability to pool assets and resources while retaining total fund and functional category values and reporting for each participant. This approach can offer administrative efficiency, potential cost savings, and permit flexibility in asset allocation.

Agent Plan Transition

As of July 1, 2018, the OPEB Program transitioned from a cost-sharing plan structure to an agent multiple-employer plan structure in order to track and allocate OPEB liabilities and ongoing program costs by Employer.

NOTE B — Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying Schedule of Changes in Fiduciary Net Position by Employer — OPEB Trust (Schedule) was prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, LACERA adheres to the reporting requirements established by the Governmental Accounting Standards Board (GASB).

The OPEB Trust is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Contributions are voluntarily determined by each Employers' funding schedule, and there are no long-term contracts established for contributions to LACERA. As such, contributions are elective and not required. LACERA recognizes employer contributions received by June 30, the end of the fiscal year. In addition, inflows of employer contributions and outflows of pay-as-you-go OPEB benefits that are paid through the OPEB Agency Fund are included LACERA's financial statements.

Net investment income represents realized and unrealized gains and losses based on the fair value of investments, interest, and dividends, net of investment expenses. LACERA allocates investment income/loss to each Employer monthly based on the Employers' ownership percentage using the average daily net asset value (NAV) provided by the custodian bank. The recognition of investment income/loss is also affected by the timing of contributions and redemptions.

The CERL provision states that the Post-Employment Benefits Trust Account shall be used to pay the reasonable costs related to investment expenses and administration of the Post-Employment Benefits Trust Account to the extent allowed by federal tax law. The participating Employers are charged investment management and administrative expenses, which covers all costs to administer the OPEB

Trust and are typically charged against the investment earnings of the OPEB Trust. Investment expenses are charged to each Employer based on their average daily NAV. Administrative expenses are charged to each employer based on an annual budget which is approved jointly by LACERA's governing Boards.

Redemptions are conducted at each employer's discretion to fund the OPEB Program pay-as-you-go benefits or for investment management and administrative expenses incurred by the OPEB Trust.

OPEB Program investments are presented at fair value. Short-term investments are valued at cost plus accrued interest, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based upon equivalent values of comparable securities with similar yield and risk. Independent appraisals are the basis for valuing the fair value of real estate. Other investments that do not have established markets are recorded at an estimated fair value.

Use of Estimates in the Preparation of the Schedule

The preparation of the Schedule in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results may differ from these estimates.

Relationship of the Schedule to LACERA's Financial Statements

The Schedule was reconciled to the Statement of Changes in Fiduciary Net Position in LACERA's CAFR for the fiscal year ended June 30, 2019.

NOTE C — Subsequent Events

Management is currently evaluating the recent introduction of the COVID-19 virus and its impact on the financial services industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the fair value of LACERA's investments and results of operations, the specific impact is not readily determinable as of the date of this Schedule. This Schedule does not include any adjustments that might result from the outcome of this uncertainty.

NOTE D — Additional Financial Information

Additional financial information is located within LACERA's CAFR for the fiscal year ended June 30, 2019, which can be found on LACERA's website. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to the Interim Chief Financial Officer, Ted Granger, at tgranger@lacera.com.