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Mayor of the City of Los Angeles

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Lita Payne, Executive Officer  
Todd Bouey, Assistant General Manager  
Rodney Junc, Chief Investment Officer

February 05, 2020

The Honorable City Council  
City of Los Angeles  
City Hall Room 395  
Los Angeles, CA 90012

**LACERS' POSTEMPLOYMENT HEALTH CARE (115 TRUST) AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2019**

Honorable Members:

On November 9, 2018, the City Council approved Ordinance No. 185829 to establish the Los Angeles City Employees' Retirement System (LACERS) Health Care Fund (115 Trust or Fund) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS' retirees and beneficiaries, including to help stabilize premium rates over time.

The ordinance provides that LACERS Board serves as the trustee of the Fund, and requires the Board and the City to enter into an agreement to administer the Fund. In December 2018, the City and the Board entered into a trust agreement to formalize the roles and responsibilities of each party with respect to the administration and investment of the Fund, consistent with Charter Section 1106 and Section 17 of Article XVI of the California Constitution.

Although 115 Trust financial data were included as part of LACERS' overall Postemployment Health Care Plan financial statements, the trust agreement requires audited financial statements specifically for the 115 Trust. To comply with this provision, LACERS prepared statements specifically to capture trust fund activities, and engaged Brown Armstrong, LACERS current external auditor, to audit the statements. The attached 115 Trust financial statements along with the auditors' reports are hereby transmitted to the City pursuant to the trust agreement.

Honorable City Council of the City of Los Angeles  
February 05, 2020  
Page 2 of 2

If there are any questions, please contact Todd Bouey, Assistant General Manager, at (213) 473-7134 or Mikyong Jang, Departmental Chief Accountant, at (213) 473-7227.

Sincerely,



LITA PAYNE, Executive Officer  
Los Angeles City Employees' Retirement System

LP/TB:ek

Attachments: (1) LACERS' 115 Trust Financial Statements for FY Ended June 30, 2019 and Independent Auditor's Report

c: Richard Llewellyn, City Administrative Officer

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE MUNICIPALITY OF  
THE CITY OF LOS ANGELES, CALIFORNIA)  
POSTEMPLOYMENT HEALTH CARE FUND (115 TRUST)**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
(A DEPARTMENT OF THE MUNICIPALITY OF THE CITY OF LOS ANGELES, CALIFORNIA)  
POSTEMPLOYMENT HEALTH CARE FUND (115 TRUST)**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Board of Administration  
Los Angeles City Employees' Retirement System  
Los Angeles, California

### Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Los Angeles City Employees' Retirement System (LACERS) Postemployment Health Care Fund (115 Trust) as of June 30, 2019, and the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LACERS 115 Trust preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LACERS 115 Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the 115 Trust of LACERS as of June 30, 2019, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 4, these financial statements present only the 115 Trust, and do not purport to, and do not present fairly the financial position of LACERS, as of June 30, 2019, the changes in its financial position, for the fiscal 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

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the 115 Trust that collectively comprise the 115 Trust's basic financial statements. The Schedule of Administrative Expenses, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Administrative Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used in the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2020, on our consideration of LACERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERS 115 Trust internal control over financial reporting and compliance.

Bakersfield, California  
January 7, 2020

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

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### Financial Highlights

- On November 9, 2018, Los Angeles City Employees' Retirement System (LACERS or the System) Postemployment Health Care Fund (115 Trust Fund, 115 Trust or the "Fund") was established upon City Council approval of Ordinance No. 185829 amending Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code, for the sole purpose of funding the retiree healthcare benefits for eligible LACERS retirees and beneficiaries in addition to or in lieu of the LACERS' Health Care Coverage Account (the "401(h)") as well as to help stabilize premium rates over time (refer to Note 1 – Postemployment Health Care Fund (115 Trust) Description on page 9).
- Effective January 1, 2019, LACERS' fully-insured Delta Dental Preferred Provider Organization (PPO) Plan was replaced with LACERS Self-funded Delta Dental PPO Plan under the LACERS 115 Trust Fund.
- The LACERS 115 Trust fiduciary net position as of June 30, 2019 was \$2,188,937.
- The total additions to the fiduciary net position of the Fund, from Self-funded Dental ("Dental") insurance premium, Members' portion of premium reserve, and investment income from the Short-Term Investment were \$6,578,797. These are the only funding sources to the 115 Trust fund for this fiscal year.
- The total deductions from the fiduciary net position of the Fund were \$4,389,860, for the payment of Self-Funded Dental insurance claims and third party fee for the administration of the Dental claims and the Fund's share in the System's administrative expenses.

### Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to LACERS' 115 Trust financial statements and the accompanying notes thereto. The required supplementary information and supplemental schedule provide additional financial data on the Fund's operations. All notes to the financial Statements, additional information in the Required Supplementary Information and Supplemental Schedule apply to 115 Trust only unless indicated otherwise.

#### Financial Statements

There are two financial statements presented by the LACERS' Health Care Fund. The Statement of Fiduciary Net Position on page 7 gives a snapshot of the account balances at year-end and shows the amount of the fiduciary net position (the difference between the assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) available to pay future benefits. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the fiduciary net position of the Fund is improving or deteriorating. The Statement of Changes in Fiduciary Net Position on page 8 provides a view of current year additions to, and deductions from, the fiduciary net position.

#### Notes to the Financial Statements

The notes to the financial statements (Notes) provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 - 12 of this report.

#### Required Supplementary Information

In addition to the Management's Discussion and Analysis, other required supplementary information consists of the Schedule of Investment Return for the Fund. This required supplementary information can be found on page 13 of this report.



## Management's Discussion and Analysis

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### Overview of the Financial Statements (Continued)

#### Supplemental Schedule

The supplemental schedule consists of a Schedule of Administrative Expenses. This is presented to provide additional financial information on the Fund's operations for the current fiscal year. This schedule can be found on page 14 of this report.

#### Financial Analysis

LACERS Postemployment Health Care Fund (115 Trust) was established in this fiscal year, and therefore, comparative information is not available in the foregoing analysis and reports. The 115 Trust is part of LACERS Postemployment Health Care Plan which is composed of the existing 401(h) account and the newly established 115 Trust account. Internally, LACERS accounts each in a separate fund, however, for purposes of the financial statements presentation, these are combined into one and presented in the Postemployment Healthcare Plan of LACERS.

#### Fiduciary Net Position

The following table details the components of the fiduciary net position of the Fund as of June 30, 2019. The majority of the Fund's fiduciary net position consists of cash and short-term investments, and self-funded insurance prepayment.

	<u>June 30, 2019</u>
Cash and Short-Term Investments	<u>\$ 1,801,302</u>
Receivables	
Accrued Investment Income	4,400
Accrued Insurance Premium	<u>307</u>
Total Receivables	<u>4,707</u>
Self-Funded Insurance Prepayment	<u>1,056,000</u>
Total Assets	<u>2,862,009</u>
Accrued Benefit Claims	610,363
Accrued Administrative Expenses	62,589
Accrued Investment Expenses	<u>120</u>
Total Liabilities	<u>673,072</u>
Fiduciary Net Position Restricted for Postemployment Health Care Benefits – 115 Trust	<u>\$ 2,188,937</u>

## Management's Discussion and Analysis

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### Financial Analysis (Continued)

#### Net Increase in Fiduciary Net Position

The increase in fiduciary net position during the reporting period was the net effect of factors that either added to or deducted from the fiduciary net position. The following table summarizes the changes in fiduciary net position during the fiscal year:

	<u>June 30, 2019</u>
Total Additions	\$ 6,578,797
Total Deductions	<u>4,389,860</u>
Net Increase in Fiduciary Net Position	2,188,937
Fiduciary Net Position, Beginning of Year	<u>-</u>
Fiduciary Net Position, End of Year	<u>\$ 2,188,937</u>

#### Net Increase in Fiduciary Net Position – Additions to Fiduciary Net Position

The additions to the Fund's net position that constitute the funding sources of 115 Trust health benefits are Self-Funded Dental ("Dental") Insurance Premium, Members' Insurance Premium Reserve, and Short-Term Investment Income.

In this fiscal year, the Fund recognized revenue of \$5,034,036 representing monthly dental insurance premium and \$1,056,000 one-time payment received from the existing 401(h) Health Care fund to prepay a reserve for the Dental Plan. Additionally, \$468,153 of Members' portion from the health insurance premium reserve amount was also recognized as revenue (refer to Note 2 – Summary of Significant Accounting Policies, subheading Reserves on page 10).

The following table represents the components that make up the additions to the Fund's fiduciary net position for the fiscal year ended June 30, 2019:

	<u>June 30, 2019</u>
Self-Funded Dental Insurance Premium	\$ 6,090,036
Members Insurance Premium Reserve	468,153
Net Investment Income	<u>20,608</u>
Additions to Fiduciary Net Position	<u>\$ 6,578,797</u>

#### Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position

The following table provides information related to the deductions from the Fund's fiduciary net position for the fiscal year ended June 30, 2019:

	<u>June 30, 2019</u>
Self-Funded Dental Insurance Claims	\$ 4,018,393
Administrative Expenses	<u>371,467</u>
Deductions from Fiduciary Net Position	<u>\$ 4,389,860</u>

## **Management's Discussion and Analysis**

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### **Financial Analysis (Continued)**

#### **Net Increase in Fiduciary Net Position – Deductions from Fiduciary Net Position (Continued)**

The deductions from the Fund's fiduciary net position in this reporting period can be summarized as Self-Funded Dental Insurance Claims, and Administrative Expenses.

In this reporting period, the Fund paid Dental insurance claims of \$4,018,393 representing dental benefit claims paid from January through June 2019.

Administrative expenses included \$364,721 of third party fees charged for the administration of Dental benefit claims and some legal counsel cost for legal advice and guidance needed for the establishment of 115 Trust Fund (refer to Note 1 – Postemployment Health Care Fund (115 Trust) Description on page 9).

### **Requests for Information**

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

LACERS  
Fiscal Management Division  
PO Box 512218  
Los Angeles, CA 90051-0218

**FINANCIAL STATEMENTS**

**Statement of Fiduciary Net Position**  
**Postemployment Health Care Fund (115 Trust)**  
**As of June 30, 2019**

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	<u>2019</u>
<b>Assets</b>	
Cash and Short-Term Investments	\$ 1,801,302
Receivables	
Accrued Investment Income	4,400
Accrued Insurance Premium	<u>307</u>
Total Receivables	<u>4,707</u>
Self-Funded Insurance Prepayment	<u>1,056,000</u>
<b>Total Assets</b>	<b><u>2,862,009</u></b>
<b>Liabilities</b>	
Accrued Benefit Claims	610,363
Accrued Administrative Expenses	62,589
Accrued Investment Expenses	<u>120</u>
<b>Total Liabilities</b>	<b><u>673,072</u></b>
<b>Fiduciary Net Position Restricted for Postemployment Health Care Benefits - 115 Trust</b>	<b><u>\$ 2,188,937</u></b>

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

**Statement of Changes in Fiduciary Net Position  
Postemployment Health Care Fund (115 Trust)  
For the Fiscal Year Ended June 30, 2019**

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	<u>2019</u>
<b>Additions</b>	
Self-Funded Dental Insurance Premium	\$ 6,090,036
Members Insurance Premium Reserve	468,153
Investment Income	
Interest	21,261
Less: Investment Expenses	(566)
Investment Related Administrative Expenses	<u>(87)</u>
Net Investment Income	<u>20,608</u>
<b>Total Additions</b>	<u>6,578,797</u>
<b>Deductions</b>	
Self-Funded Dental Insurance Claims	4,018,393
Administrative Expenses	<u>371,467</u>
<b>Total Deductions</b>	<u>4,389,860</u>
<b>Net Increase in Fiduciary Net Position</b>	2,188,937
<b>Fiduciary Net Position Restricted for  Postemployment Health Care  Benefits – 115 Trust</b>	
<b>Beginning of Year</b>	<u>-</u>
<b>End of Year</b>	<u>\$ 2,188,937</u>

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

## Notes to the Financial Statements

### 1. Postemployment Health Care Fund (115 Trust) Description

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

The System operates a single-employer defined benefit plan (the Retirement Plan) and a single-employer Postemployment Health Care Plan, which consist of a 401(h) fund (the 401(h) account) and a 115 Trust Fund. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor.

#### Establishment of 115 Trust

On November 9, 2018, the City Council approved Ordinance No. 185829 to amend Article 1 of Chapter 11, Division 4 of the Los Angeles Administrative Code to establish the LACERS Health Care Fund (115 Trust Account) for the sole purpose of funding the retiree healthcare benefits for eligible LACERS' retirees and beneficiaries as well as to help stabilize premium rates over time.

#### 115 Trust Administration

The City and the Board of LACERS entered into a written trust agreement for the LACERS Health Care Fund which shall provide an alternative funding mechanism, in addition to or in lieu of the existing 401(h) account described in LAAC Section 4.1102 for funding benefits under the health and welfare programs. The LACERS Health Care Fund is intended to qualify for federal tax exemption under Section 115 of the Internal Revenue Code. Because health benefits paid out of the LACERS Health Care Fund are not required to be subordinate to the Plan retirement benefits, the LACERS Health Care Fund would not become taxable if the Plan's health benefits surpass the 25% threshold. Second, the LACERS

Health Care Fund gives LACERS more flexibility to invest premium surpluses to provide for smoothing should healthcare premiums increased considerably in the future. Currently, 401(h) account cannot receive full refunds of excess premiums from insurance providers.

#### Plan Administration

LACERS administers, and provides single-employer postemployment healthcare benefits to eligible retirees and their eligible spouses/domestic partners who participate in the Retirement Plan regardless of their membership tiers. These benefits consist of subsidies, which may also apply to the coverage of other eligible dependent(s).

The Plan is currently funded by existing Health Care Coverage Account (the "401(h)") and Health Care Fund (the "115 Trust"). Health care benefit cost (except Self-funded Dental Plan benefits and its administrative cost) shall be paid first from the 401(h) account until it is depleted. Upon depletion of the 401(h), the 115 Trust shall solely fund the health benefit cost.

#### Eligibility Requirement and Benefits Provided

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

The maximum subsidies are set annually by the Board. Effective February 21, 2016, healthcare benefit eligibility requirements have changed for the Members who have periods of part-time service. Such Members are now eligible to participate in the LACERS retiree medical programs with a 10 whole years of service, even if some or all of that service was part-time, provided that the Member meets the eligibility requirements. Both Tier 1 and Tier 3 Members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and eligible Members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service.

## Notes to the Financial Statements

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### 1. Postemployment Health Care Fund (115 Trust) Description (Continued)

#### Eligibility Requirement and Benefits Provided (Continued)

Eligible spouses/domestic partners of Plan Members are entitled to the System's postemployment healthcare benefits after the retired Member's death. During the 2011 fiscal year, the City adopted an ordinance ("Subsidy Cap Ordinance") to limit the maximum medical subsidy at \$1,190 for those Members who retire on or after July 1, 2011; however, Members who at any time prior to retirement made additional contributions are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2019, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Presentation

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP) as outlined by the Governmental Accounting Standards Board (GASB). The financial statements are maintained on the accrual basis of accounting. Premiums from the Members and other expenses are recognized when due and payable.

#### Investments

##### Investment Policies

Funds of the System are invested pursuant to the System's investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. The System's investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private equity, and short-term investments.

During this reporting year, the funds of the 115 Trust were separately invested under short-term investment assets in order to maintain enough cash flow to pay out the monthly benefit claims and third party dental claims administrator's fee.

#### Fair Value of Investments

US GAAP requires that assets be reported at fair value in accordance with Accounting Standards Codification Topic 820 – *Fair Value Measurement and Disclosures*. Additionally, the provisions of the GASB Statement No. 72, *Fair Value Measurement and Application*, require investments to be measured at fair value as well as to classify the inputs used to determine fair value based on a three-level fair value hierarchy (refer to Note 3 – Cash and Short-Term Investments and Investments, subheading Fair Value Measurements on page 12).

The 115 Trust Fund's investments as of June 30, 2019 were all in the form of short-term investments assets, and it's reported at fair value.

#### Concentrations

The 115 Trust Fund's investments as of June 30, 2019, contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio.

#### Receivables

As of June 30, 2019, the 115 Trust held no long-term contracts for contributions receivable from the City.

#### Administrative Expenses

All administrative expenses were funded from the 115 Trust fiduciary net position, which represents investment earnings, one-time payment received from 401(h) and premium received from the Dental Plan participating Members net of payments.

#### Reserves

As provided in the Los Angeles City Charter, LACERS fund is maintained on a reserve basis, determined in accordance with recognized actuarial methods. LACERS' established a separate reserve for the 115 Trust under the System's Postemployment Health Care Plan as follows:

115 Trust Account – This new Health Care fund currently pays the benefit claims from LACERS' self-funded Dental Plan, but ultimately will fund all health care benefits for retirees upon depletion of the existing 401(h) account reserves. The 115 Trust account currently consists of self-funded dental plan premiums and prepayments; certain retired Members' health insurance premium deductions; and short-term investment earnings; less payments for the self-funded dental plan claims and for administration fees to the third party contractor who administered the dental plan claims for the System; and certain allocated administrative expenses.



## Notes to the Financial Statements

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### 2. Summary of Significant Accounting Policies (Continued)

#### Reserves (Continued)

The 115 Trust Reserve balance as of June 30, 2019 was \$2,188,937.

#### Estimates

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

#### Self-funded Delta Dental Plan

Effective January 1, 2019, the LACERS fully-insured Delta Dental PPO Plan was replaced with the LACERS Self-funded Delta Dental PPO Plan under the 115 Trust. Although Delta continues to administer the plan for a fee, LACERS sets and collects premiums from enrolled Members and pays billed claims to Delta. With this arrangement, LACERS bears financial risk if claims costs exceed collected premiums. This change does not affect the maximum dental subsidy amount to the eligible retired Members.

#### Employer Contributions

There was no employer contributions required and received by 115 Trust for the fiscal year ended June 30, 2019.

## Notes to the Financial Statements

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### 3. Cash and Short-Term Investments and Investments

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

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments at June 30, 2019, for the 115 Trust was \$1,801,302.

#### Fair Value Measurements

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

The System's investments are measured and reported within the fair value hierarchy established by US GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

#### Schedule of Investments by Fair Value Hierarchy

All 115 Trust funds were invested in the short-term investment assets during this fiscal year, and therefore, GASB 72 requirements are not applicable to the 115 Trust fund.

### 4. Relationship of the 115 Trust Financial Statements to LACERS

These financial statements present only the Postemployment Health Care Fund (115 Trust), and do not purport to, and do not present fairly the financial position of LACERS, as of June 30, 2019, the changes in its financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. The financial statements were reconciled to LACERS' Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position in LACERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019, along with information presented in the Notes to the Basic Financial Statements and the Required Supplementary Information Section (RSI). Included in LACERS' CAFR Note 3 – Postemployment Health Care Plan Description, are disclosures regarding the Plan's Net Other Postemployment Benefit (OPEB) Liability. The Plan's Net OPEB Liability as of June 30, 2019 was approximately \$522,201,000 and the Plan's Fiduciary Net Position as a percentage of the total OPEB liability was 84.3%.

### 5. Subsequent Event

#### Date of Management's Review

The potential for subsequent events was evaluated through January 7, 2020, which was the date of management's review.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Required Supplementary Information

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### Schedule of Investment Returns For the Fiscal Year Ended June 30

	<u>2019</u>
Annual money-weighted rate of return, net of investment expenses	2.4%

**Note to Schedule:**

The required disclosure about factors that significantly affect trends in the money-weighted rate of return is not provided as only one year's rate is available. As additional years' money-weighted rate of return become available, the factors that significantly affect trends in the rate of return will be disclosed.

**SUPPLEMENTAL SCHEDULE**

**Schedule of Administrative Expenses  
For the Fiscal Year Ended June 30, 2019**

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	<u>2019</u>
<b>Personnel Services:</b>	
Salaries	\$ 431
Employee Benefits and Development	<u>182</u>
<b>Total Personnel Services</b>	<u>613</u>
<b>Professional Services:</b>	
Actuarial	12
Audit	3
Legal Counsel	5,643
Disability Evaluation	8
Retirees' Health Admin Consulting	321
Benefit Payroll Processing	9
Self-Funded Dental Plan Admin Fees	364,721
Other Consulting	<u>5</u>
<b>Total Professional Services</b>	<u>370,722</u>
<b>Information Technology:</b>	
Computer Hardware and Software	24
Computer Maintenance and Support	<u>29</u>
<b>Total Information Technology</b>	<u>53</u>
<b>Leases:</b>	
Office Space	34
Office Equipment	<u>1</u>
<b>Total Leases</b>	<u>35</u>
<b>Other Expenses:</b>	
Fiduciary Insurance	1
Educational and Due Diligence Travel	2
Office Expenses	14
Depreciation and Amortization	<u>27</u>
<b>Total Other Expenses</b>	<u>44</u>
<b>Total Administrative Expenses</b>	<u><u>\$ 371,467</u></u>