

**LOS ANGELES FIRE AND  
POLICE PENSION SYSTEM**

**FINANCIAL STATEMENTS**

**JUNE 30, 2022 AND 2021**

# LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
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## INDEPENDENT AUDITOR'S REPORT

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

### Opinions

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2022 and 2021, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements for each plan as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the Pension Plan and Health Subsidy Plan, as of June 30, 2022 and 2021, and the respective changes in fiduciary net position for the years then ended in accordance with accounting standards generally accepted in the United States of America.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in United State of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.





## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standard* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

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



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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 21, 2022

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

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2022. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

**FINANCIAL HIGHLIGHTS**

- Net position at the close of the fiscal year ended June 30, 2022, was \$25.26 billion and \$2.72 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.
- Net position decreased by \$2.6 billion, or 9.3%, and decreased by \$166.19 million, or 5.8%, for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2022, the date of the most recent funding actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 98.0% and 74.3%, respectively.
- Additions to the Pension Plan's net position decreased by \$9.01 billion or 117.4% from \$7.67 billion to \$(1.34) billion, due primarily to the net depreciation in the fair value of investments in fiscal year 2022 relative to fiscal year 2021.
- Deductions from the Pension Plan's net position increased by \$58.55 million, or 4.8%, over fiscal year 2021 from \$1.21 billion to \$1.27 billion in fiscal year 2022.
- Additions to the Health Subsidy Plan's net position decreased by \$915.28 million, or 101.8%, from \$898.86 million to \$(16.43) million, due to the net depreciation in the fair value of investments in fiscal year 2022 relative to fiscal year 2021.
- Deductions from the Health Subsidy Plan's net position decreased by \$4.23 million, or 2.7%, over fiscal year 2021 from \$154.0 million to \$149.76 million in fiscal year 2022.
- The total pension liability for the Pension Plan at June 30, 2022, was \$25.91 billion, and the fiduciary net position was \$25.26 billion. Thus, the net pension liability for the Pension Plan was \$648.76 million, and the fiduciary net position as a percentage of the total pension liability was 97.50%.
- The total Other Post-Employment Benefits (OPEB) liability for the Health Subsidy Plan at June 30, 2022, was \$3.65 billion, and the fiduciary net position was \$2.72 billion. Thus, the net OPEB liability for the Health Subsidy Plan was \$927.21 million, and the fiduciary net position as a percentage of the total OPEB liability was 74.59%.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

*Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 15 to 51 of this report.

The *Required Supplementary Information* (RSI) section includes the following five schedules with respect to the Pension Plan and Health Subsidy Plan:

**Pension Plan:**

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

**Health Subsidy Plan:**

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

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

**FINANCIAL ANALYSIS**

*Pension Plan*

**Fiduciary Net Position**

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

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2022	2021	Change	% Change
Cash	\$ 6,107	\$ 6,442	\$ (335)	-5.2%
Receivables/Prepayments	507,808	175,836	331,972	188.8%
Investments	26,587,118	28,914,759	(2,327,641)	-8.1%
Capital Assets	20,853	22,048	(1,195)	-5.4%
Total Assets	27,121,886	29,119,085	(1,997,199)	-6.9%
Liabilities	1,863,350	1,256,778	606,572	48.3%
Net Position	\$25,258,536	\$27,862,307	\$(2,603,771)	-9.3%

Net position decreased by \$2.60 billion, or 9.3%, to \$25.26 billion from fiscal year 2021. Total assets decreased in value by \$2.0 billion, or 6.9%, when compared with the prior fiscal year 2021, attributable to depreciation of investments due to unfavorable market conditions.

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2021	2020	Change	% Change
Cash	\$ 6,442	\$ 1,861	\$ 4,581	246.2%
Receivables/Prepayments	175,836	367,205	(191,369)	-52.1%
Investments	28,914,759	23,020,542	5,894,217	25.6%
Capital Assets	22,048	24,104	(2,056)	-8.5%
Total Assets	29,119,085	23,413,712	5,705,373	24.4%
Liabilities	1,256,778	2,016,779	(760,001)	-37.7%
Net Position	\$27,862,307	\$21,396,933	\$6,465,374	30.2%

Net position increased by \$6.47 billion, or 30.2%, to \$27.86 billion from fiscal year 2020. Total assets increased in value by \$5.71 billion, or 24.4%, when compared with the prior fiscal year 2020, attributable to appreciation of investments due to favorable market conditions.



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

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position**

Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)				
	2022	2021	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 535,450	\$ 543,819	\$ (8,369)	-1.5%
Member Contributions	149,243	157,786	(8,543)	-5.4%
Net Investment Income (Loss)	(2,021,951)	6,971,432	(8,993,383)	-129.0%
Other Income	369	673	(304)	-45.2%
Total Additions	<u>(1,336,889)</u>	<u>7,673,710</u>	<u>(9,010,599)</u>	-117.4%
<b>Deductions</b>				
Pension Benefits	1,237,262	1,182,407	54,855	4.6%
Refund of Contributions	7,474	4,556	2,918	64.0%
Administrative Expenses	22,146	21,372	774	3.6%
Total Deductions	<u>1,266,882</u>	<u>1,208,335</u>	<u>58,547</u>	4.8%
Net Increase (Decrease)	(2,603,771)	6,465,375	(9,069,146)	-140.3%
Net Position, Beginning of Year	<u>27,862,307</u>	<u>21,396,932</u>	<u>6,465,375</u>	30.2%
Net Position, End of Year	<u>\$ 25,258,536</u>	<u>\$ 27,862,307</u>	<u>\$ (2,603,771)</u>	-9.3%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2022 totaled \$684.69 million, decreased by \$16.91 million, or 2.4%, over fiscal year 2021. The employer's contribution for fiscal year 2022 was \$535.45 million compared to \$543.82 million for fiscal year 2021. The decrease in employer's contributions was due to the decrease in required contribution. The decrease in members' contribution was due to a decline in the number of active members.

Net investment loss amounted to \$2.02 billion, a decrease in net investment income of \$8.99 billion, or 129.0%, when compared with \$6.97 billion from fiscal year 2021. Investment income decreased in fiscal year 2022 due to the net depreciation in the fair value of investments in fiscal year 2022 relative to fiscal year 2021.

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

*Pension Plan (Continued)*

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

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2022, totaled \$1.27 billion, up by \$58.55 million, or 4.8%, over fiscal year 2021. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2021.

Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)				
	2021	2020	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 543,819	\$ 516,638	\$ 27,181	5.3%
Member Contributions	157,786	153,787	3,999	2.6%
Net Investment Income	6,971,432	605,869	6,365,563	1050.7%
Other Income	673	375	298	79.5%
Total Additions	7,673,710	1,276,669	6,397,041	501.1%
<b>Deductions</b>				
Pension Benefits	1,182,407	1,116,722	65,685	5.9%
Refund of Contributions	4,556	4,530	26	0.6%
Administrative Expenses	21,372	20,685	687	3.3%
Total Deductions	1,208,335	1,141,937	66,398	5.8%
Net Increase	6,465,375	134,732	6,330,643	4698.7%
Net Position, Beginning of Year	21,396,932	21,262,200	134,732	0.6%
Net Position, End of Year	\$27,862,307	\$21,396,932	\$ 6,465,375	30.2%

Additions to Fiduciary Net Position

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

Contributions for fiscal year 2021 totaled \$701.61 million, up by \$31.18 million, or 4.65%, over fiscal year 2020. The employer's contribution for fiscal year 2021 was \$543.82 million compared to \$516.64 million for fiscal year 2020. The increase in employer's contributions was due to the increase in required contribution. The increase in members' contribution was due to an increase in general wage growth.

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

***Pension Plan (Continued)***

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

Net investment income amounted to \$6.97 billion, an increase in net investment income of \$6.37 billion, or 1050.7%, when compared with \$605.87 million from fiscal year 2020. Investment income increased in fiscal year 2021 due to the net appreciation in the fair value of investments in fiscal year 2021 relative to fiscal year 2020.

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2021, totaled \$1.21 billion, up by \$66.40 million, or 5.8%, over fiscal year 2020. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2020.

***Health Subsidy Plan***

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

**Fiduciary Net Position**

	Condensed Statement of Fiduciary Net Position			
	(\$ in Thousands)			
	2022	2021	Change	% Change
Cash	\$ 654	\$ 665	\$ (11)	-1.7%
Receivables/Prepayments	66,435	29,899	36,536	122.2%
Investments	2,849,404	2,984,117	(134,713)	-4.5%
Capital Assets	2,235	2,275	(40)	-1.8%
Total Assets	2,918,728	3,016,956	(98,228)	-3.3%
Liabilities	196,606	128,646	67,960	52.8%
Net Position	\$ 2,722,122	\$ 2,888,310	\$ (166,188)	-5.8%

Net position decreased by \$166.19 million, or 5.8%, to \$2.72 billion from fiscal year 2021. Total assets decreased in value by \$98.23 million, or 3.3%, when compared with the prior fiscal year 2021, attributable to depreciation of investments due to unfavorable market conditions.

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

*Health Subsidy Plan (Continued)*

**Fiduciary Net Position**

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2021	2020	Change	% Change
Cash	\$ 665	\$ 185	\$ 480	259.5%
Receivables/Prepayments	29,899	48,120	(18,221)	-37.9%
Investments	2,984,117	2,293,222	690,895	30.1%
Capital Assets	2,275	2,401	(126)	-5.2%
Total Assets	3,016,956	2,343,928	673,028	28.7%
Liabilities	128,646	200,480	(71,834)	-35.8%
Net Position	<u>\$ 2,888,310</u>	<u>\$ 2,143,448</u>	<u>\$ 744,862</u>	34.8%

Net position increased by \$744.86 million, or 34.8%, to \$2.89 billion from fiscal year 2020. Total assets increased in value by \$673.03 million, or 28.7%, when compared with the prior fiscal year 2020, attributable to appreciation of investments due to favorable market conditions.

**Changes in Fiduciary Net Position**

	Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)			
	2022	2021	Change	% Change
<b>Additions</b>				
Contributions	\$ 193,140	\$ 200,424	\$ (7,284)	-3.6%
Net Investment Income (Loss)	(209,603)	698,367	(907,970)	-130.0%
Other	38	67	(29)	-43.3%
Total Additions	<u>(16,425)</u>	<u>898,858</u>	<u>(915,283)</u>	-101.8%
<b>Deductions</b>				
Benefits Payment	147,467	151,855	(4,388)	-2.9%
Administrative Expenses	2,296	2,141	155	7.2%
Total Deductions	<u>149,763</u>	<u>153,996</u>	<u>(4,233)</u>	-2.7%
Net Increase (Decrease)	(166,188)	744,862	(911,050)	-122.3%
Net Position, Beginning of Year	<u>2,888,310</u>	<u>2,143,448</u>	<u>744,862</u>	34.8%
Net Position, End of Year	<u>\$ 2,722,122</u>	<u>\$ 2,888,310</u>	<u>\$ (166,188)</u>	-5.8%

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

*Health Subsidy Plan (Continued)*

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

Additions to Fiduciary Net Position

Total additions to net position decreased by \$915.28 million compared to fiscal year 2021. This is due primarily to the net depreciation in the fair value of investments which decreased by \$907.97 million or 130.0% over fiscal year 2021. For fiscal year 2022, net investment loss was \$<209.60> million compared to \$698.37 million in fiscal year 2021.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$149.77 million, \$4.23 million or 2.7% less than the total deductions of fiscal year 2021. This is due primarily to a decrease in premiums for some of the most popular health insurance options in fiscal year 2022 and a decrease in the Medicare health subsidy as of January 1, 2022.

Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)				
	2021	2020	Change	% Change
<b>Additions</b>				
Contributions	\$ 200,424	\$ 193,213	\$ 7,211	3.7%
Net Investment Income	698,367	58,065	640,302	1102.7%
Other	67	36	31	86.1%
Total Additions	898,858	251,314	647,544	257.7%
<b>Deductions</b>				
Benefits Payment	151,855	143,600	8,255	5.7%
Administrative Expenses	2,141	1,982	159	8.0%
Total Deductions	153,996	145,582	8,414	5.8%
Net Increase	744,862	105,732	639,130	604.5%
Net Position, Beginning of Year	2,143,448	2,037,716	105,732	5.2%
Net Position, End of Year	\$ 2,888,310	\$ 2,143,448	\$ 744,862	34.8%

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

*Health Subsidy Plan (Continued)*

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

Additions to Fiduciary Net Position

Total additions to net position increased by \$647.54 million compared to fiscal year 2020. This is due primarily to appreciation of investments attributable to favorable market conditions in prior fiscal year. The increase of investments by \$640.30 million, or 1,102.7%, over fiscal year 2020. For fiscal year 2021, net investment income was \$698.37 million compared to \$58.07 million in fiscal year 2020.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Deductions for fiscal year 2021 were \$154.0 million, \$8.41 million, or 5.8%, more than the total deductions of fiscal year 2020. This is due primarily to an increase in the medical insurance subsidies and an increase in the number of eligible pensioners and beneficiaries.

**REQUEST FOR INFORMATION**

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

Joseph D. Salazar, Interim General Manager  
Los Angeles Fire and Police Pension System  
701 E. Third Street, Suite 200  
Los Angeles, CA 90013

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**JUNE 30, 2022 AND 2021**

	2022			2021		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ASSETS</b>						
Cash	\$ 6,106,575	\$ 654,456	\$ 6,761,031	\$ 6,441,606	\$ 664,799	\$ 7,106,405
Receivables						
Accrued Interest and Dividends	81,395,493	8,723,348	90,118,841	66,784,232	6,892,396	73,676,628
Contributions	5,007,452	-	5,007,452	5,163,342	-	5,163,342
Due from Brokers	421,404,672	45,162,935	466,567,607	103,888,114	10,721,662	114,609,776
Total Receivables	507,807,617	53,886,283	561,693,900	175,835,688	17,614,058	193,449,746
Prepaid benefits	992	12,549,207	12,550,199	992	12,284,726	12,285,718
Investments at Fair Value						
Temporary	822,595,583	88,159,514	910,755,097	1,648,612,637	170,143,317	1,818,755,954
U.S. Government Obligations	2,774,048,020	297,301,287	3,071,349,307	2,498,210,183	257,825,130	2,756,035,313
Domestic Corporate Bonds	2,181,686,252	233,816,476	2,415,502,728	2,186,714,140	225,677,511	2,412,391,651
Foreign Bonds	48,346,894	5,181,451	53,528,345	87,463,613	9,026,589	96,490,202
Domestic Stocks	8,729,791,483	935,592,401	9,665,383,884	10,785,370,508	1,113,092,713	11,898,463,221
Foreign Stocks	4,343,927,276	465,548,961	4,809,476,237	5,417,893,208	559,147,917	5,977,041,125
Real Estate	1,945,508,919	208,504,793	2,154,013,712	1,466,561,009	151,354,872	1,617,915,881
Alternative Investments	4,517,483,244	484,149,364	5,001,632,608	3,930,570,918	405,650,399	4,336,221,317
Total Investments	25,363,387,671	2,718,254,247	28,081,641,918	28,021,396,216	2,891,918,448	30,913,314,664
Capital Assets	20,852,944	2,234,859	23,087,803	22,047,887	2,275,429	24,323,316
Securities Lending Collateral	1,223,730,170	131,150,057	1,354,880,227	893,362,910	92,198,571	985,561,481
TOTAL ASSETS	27,121,885,969	2,918,729,109	30,040,615,078	29,119,085,299	3,016,956,031	32,136,041,330
<b>LIABILITIES</b>						
Accounts Payable and Accrued Expenses	27,611,676	2,959,208	30,570,884	17,286,180	1,784,002	19,070,182
Benefits in Process of Payment	39,967,721	1,190,445	41,158,166	21,339,845	1,143,549	22,483,394
Due to Brokers	380,076,358	40,733,682	420,810,040	127,195,710	13,127,098	140,322,808
Mortgage Payable	191,930,376	20,569,632	212,500,008	197,559,887	20,388,958	217,948,845
Security Deposit	33,512	3,592	37,104	33,633	3,471	37,104
Securities Lending Collateral	1,223,730,170	131,150,057	1,354,880,227	893,362,910	92,198,571	985,561,481
TOTAL LIABILITIES	1,863,349,813	196,606,616	2,059,956,429	1,256,778,165	128,645,649	1,385,423,814
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	<u>\$ 25,258,536,156</u>	<u>\$ 2,722,122,493</u>	<u>\$ 27,980,658,649</u>	<u>\$ 27,862,307,134</u>	<u>\$ 2,888,310,382</u>	<u>\$ 30,750,617,516</u>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
JUNE 30, 2022 AND 2021**

	2022			2021		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ADDITIONS</b>						
<b>Contributions</b>						
Employer Contributions	\$ 535,450,402	\$ 193,139,555	\$ 728,589,957	\$ 543,818,747	\$ 200,424,568	\$ 744,243,315
Member Contributions	149,243,422	-	149,243,422	157,785,911	-	157,785,911
Total Contributions	684,693,824	193,139,555	877,833,379	701,604,658	200,424,568	902,029,226
<b>Investment Income (Loss)</b>						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	(2,469,735,128)	(256,021,929)	(2,725,757,057)	6,540,739,198	655,221,746	7,195,960,944
Interest	131,893,968	13,672,619	145,566,587	124,782,839	12,500,182	137,283,021
Dividends	342,857,992	35,541,935	378,399,927	274,205,974	27,468,717	301,674,691
Net Real Estate Income	59,187,167	6,135,562	65,322,729	48,061,972	4,814,632	52,876,604
Income from Alternative Investments	33,415,506	3,463,975	36,879,481	106,308,036	10,649,458	116,957,494
Securities Lending Income	4,293,296	445,059	4,738,355	4,753,731	476,207	5,229,938
Less: Securities Lending Expense	(599,796)	(62,177)	(661,973)	(664,318)	(66,548)	(730,866)
Other Income	(1,280,915)	(132,784)	(1,413,699)	(3,080,018)	(308,542)	(3,388,560)
Subtotal	(1,899,967,910)	(196,957,740)	(2,096,925,650)	7,095,107,414	710,755,852	7,805,863,266
Less: Investment Manager Expense	(121,983,306)	(12,645,243)	(134,628,549)	(123,675,279)	(12,389,231)	(136,064,510)
Net Investment Income	(2,021,951,216)	(209,602,983)	(2,231,554,199)	6,971,432,135	698,366,621	7,669,798,756
<b>Other Income</b>						
Donations	-	-	-	-	-	-
Miscellaneous	368,695	38,220	406,915	672,618	67,380	739,998
Total Other Income	368,695	38,220	406,915	672,618	67,380	739,998
TOTAL ADDITIONS	(1,336,888,697)	(16,425,208)	(1,353,313,905)	7,673,709,411	898,858,569	8,572,567,980
<b>DEDUCTIONS</b>						
Pension Benefits	1,237,262,247	-	1,237,262,247	1,182,406,486	-	1,182,406,486
Payment of Health Subsidy	-	134,266,616	134,266,616	-	139,044,388	139,044,388
Payment of Medicare Reimbursement	-	13,200,319	13,200,319	-	12,811,006	12,811,006
Refund of Contributions	7,473,946	-	7,473,946	4,556,135	-	4,556,135
Administrative Expenses	22,146,088	2,295,746	24,441,834	21,372,303	2,140,981	23,513,284
TOTAL DEDUCTIONS	1,266,882,281	149,762,681	1,416,644,962	1,208,334,924	153,996,375	1,362,331,299
NET INCREASE (DECREASE)	(2,603,770,978)	(166,187,889)	(2,769,958,867)	6,465,374,487	744,862,194	7,210,236,681
<b>NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS</b>						
Beginning of Year	27,862,307,134	2,888,310,382	30,750,617,516	21,396,932,647	2,143,448,188	23,540,380,835
End of Year	<u>\$ 25,258,536,156</u>	<u>\$ 2,722,122,493</u>	<u>\$ 27,980,658,649</u>	<u>\$ 27,862,307,134</u>	<u>\$ 2,888,310,382</u>	<u>\$ 30,750,617,516</u>

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



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

**NOTE 1 – DESCRIPTION OF THE PLANS**

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

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

**Pension Plan**

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Pension Plan (Continued)

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

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

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

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

Tier 5 members must be at least age 50 with 20 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Pension Plan (Continued)

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

Health Subsidy Plan

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

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. The maximum monthly subsidy for fiscal years 2022 and 2021 was \$1,958.82 and \$1,920.41, respectively. The System also reimburses the basic Medicare Part B premium for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Health Insurance Premium Reimbursement Program

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

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

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

Dental Subsidy Plan

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

The benefit paid is a percentage of a maximum subsidy for dental insurance based on the lower of the dental subsidy in effect for LACERS or active Safety Members. The maximum monthly subsidy was \$44.60 for calendar years 2022 and 2021. In determining the dental subsidy, members receive 4% for each whole year of service, up to 100% of the maximum.

Deferred Retirement Option Plan

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

Deferred Retirement Option Plan (Continued)

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

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

At June 30, 2022 and 2021, 1,415 and 1,484 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$386,872,708 and \$370,857,105, respectively.

Two Percent Opt-In

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

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

SINCE THE PENSION AND HEALTH SUBSIDY PLANS INCLUDE DETAILED PROVISIONS, MEMBERS SHOULD REFER TO THE LEGAL TEXT OF THE CITY CHARTER AND LOS ANGELES CITY ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Pension Plan Membership

The components of the System’s Pension Plan membership at June 30, 2022 and 2021, are as follows:

	2022	2021
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	-
Tier 4	6	30
Tier 5	4,062	4,442
Tier 6	4,402	3,848
	8,470	8,320
Active Vested:		
Tier 1	-	-
Tier 2	4	5
Tier 3	472	542
Tier 4	168	168
Tier 5	3,653	3,785
Tier 6	4	3
	4,301	4,503
Pensioners and Beneficiaries:		
Tier 1	190	212
Tier 2	6,334	6,564
Tier 3	910	843
Tier 4	389	365
Tier 5	5,995	5,540
Tier 6	3	3
	13,821	13,527
Vested Terminated		
Tier 3	33	38
Tier 5	257	245
Tier 6	433	350
	723	633
	27,315	26,983

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Basis of Presentation

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

Financial Reporting

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

Investments and Method Used to Value Investments

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

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

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Investments and Method Used to Value Investments (Continued)

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

Cash

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

Capital Assets

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

Mortgage Payable

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

Use of Estimates

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



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 3 – NEW ACCOUNTING STANDARDS**

Implementation of the following GASB statements effective beginning fiscal year 2022.

In June 2017, the GASB issued Statement No. 87, *Leases* effective for fiscal years beginning after December 15, 2019. In May 2020, the GASB issued Statement No. 95 which changed the effective date for Statement No. 87 to fiscal years beginning after June 15, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The System has evaluated its applicable lease agreements and deemed them immaterial for accounting and reporting requirements under the new lease standard.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020* effective for fiscal years beginning after June 15, 2020. In May 2020, the GASB issued Statement No. 95 which changed the effective date for Statement No. 92 to fiscal years beginning after June 15, 2021. The objectives of this Statement are to enhance comparability in accounting and financial reporting as well as improve the consistency of authoritative literature. The variety of topics covered include the effective date for Statement No. 87, the reporting of intra-entity transfers, the applicability of certain requirements of Statements No. 73, 74, and 84, and the measurement of liabilities related to asset retirement obligations. There are no applicable reporting requirements for the System related to this Statement.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, effective for fiscal years ending after December 31, 2021 for the removal of LIBOR as a benchmark interest rate. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of LIBOR. There are no applicable reporting requirements for the System related to this Statement.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*, effective upon issuance, except for the requirements related to leases, PPP's, and SBITAs that are effective for fiscal years beginning after June 15, 2022 and for the requirements related to financial guarantees and classification and reporting of derivative instruments that are effective for fiscal years beginning after June 15, 2023. The objective of this Statement is to improve the consistency of authoritative literature and enhance the comparability in accounting and financial reporting. The variety of topics covered include the requirements related to the extension of the use of LIBOR, disclosures of nonmonetary transactions, pledges of future revenues by the pledging governments, clarification of provisions in Statement No. 34, and terminology used in Statement No. 53 and 63. There are no applicable reporting requirements for the System related to this Statement.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

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

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

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

Accordingly, the City’s contributions as determined by the System’s actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2022 and 2021, were as follows (\$ in thousands):

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Fiscal Year Ended June 30, 2022

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 155	\$15,193	\$ 5,985	\$233,043	\$ 61,729	\$ 2,859	\$ 556	\$ 1,766
Pension Unfunded Supplemental Present Value Amount	13,745	3,930	(2,044)	5,817	130,352	41,012	981	245	143
Pension Administrative Expense	-	8	1,002	363	13,903	4,374	166	41	126
Health subsidy entry age Normal cost	-	22	3,688	1,318	47,380	23,236	733	189	747
Health subsidy unfunded actuarial accrued liability annual amount	1,304	60,366	5,188	3,144	33,367	10,498	123	31	47
Health Administrative Expenses	-	1	88	32	1,223	385	15	4	11
<b>Total</b>	<b>\$15,049</b>	<b>\$64,482</b>	<b>\$23,115</b>	<b>\$16,659</b>	<b>\$459,268</b>	<b>\$141,234</b>	<b>\$ 4,877</b>	<b>\$ 1,066</b>	<b>\$ 2,840</b>

During fiscal year 2022, total contributions of \$728.59 million from the employer and \$149.24 million from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2020. For the Pension Plan, fiscal year 2022 employer contributions included \$321.29 million for entry age normal cost, \$194.18 million for the unfunded supplemental present value annual amount, and \$19.98 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2022 employer contributions consisted of \$77.31 million for entry age normal cost, \$114.07 million for the unfunded actuarial accrued liability annual amount, and \$1.76 million for health administrative expense.

Fiscal Year Ended June 30, 2021

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 235	\$15,181	\$ 6,354	\$229,871	\$ 51,976	\$ 2,682	\$ 456	\$ 1,350
Pension Unfunded Supplemental Present Value Amount	14,150	5,371	(474)	7,267	150,571	39,768	814	170	118
Pension Administrative Expense	-	11	959	363	12,942	3,418	146	31	88
Health subsidy entry age Normal cost	-	28	3,956	1,451	50,036	21,151	787	185	617
Health subsidy unfunded actuarial accrued liability annual amount	1,393	63,505	5,529	3,475	36,863	9,736	186	39	44
Health Administrative Expenses	-	1	77	29	1,040	275	12	2	7
<b>Total</b>	<b>\$15,543</b>	<b>\$69,151</b>	<b>\$25,228</b>	<b>\$18,939</b>	<b>\$481,323</b>	<b>\$126,324</b>	<b>\$ 4,627</b>	<b>\$ 883</b>	<b>\$ 2,224</b>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

During fiscal year 2021, total contributions of \$744.24 million from the employer and \$157.79 million from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2019. For the Pension Plan, fiscal year 2021 employer contributions included \$308.11 million for entry age normal cost, \$217.76 million for the unfunded supplemental present value annual amount, and \$17.96 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2021 employer contributions consisted of \$78.21 million for entry age normal cost, \$120.77 million for the unfunded actuarial accrued liability annual amount, and \$1.44 million for health administrative expense.

**NOTE 5 – NET PENSION LIABILITY**

The components of the System’s net pension liability (NPL) at June 30, 2022 and 2021, were as follows:

	<u>2022</u>	<u>2021</u>
Total Pension Liability	\$ 25,907,293,994	\$ 25,160,777,262
Less: Fiduciary Net Position	<u>25,258,536,156</u>	<u>27,862,307,134</u>
Net Pension Liability (Asset)	<u>\$ 648,757,838</u>	<u>\$ (2,701,529,872)</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	97.50%	110.74%

The NPL was measured as of June 30, 2022 and June 30, 2021 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2021 and 2020, respectively.

**Actuarial Assumptions**

The TPL as of June 30, 2022 and June 30, 2021 that were measured by actuarial valuations as of June 30, 2021 and June 30, 2020, respectively, used the following actuarial assumptions, which were based on the July 1, 2016 through June 30, 2019 Experience Study Report dated May 13, 2020, applied to all periods included in the measurement as of June 30, 2022 and 2021:

Inflation Rate	2.75%
Projected Salary Increase	Ranges from 4.15% to 12.25% based on years of service, including inflation.
Investment Return Rate	7.00%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	2.75% of Tiers 1 - 6 retirement income.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Mortality

Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

Disabled: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.

Beneficiary: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105%, projected generationally with the two-dimensional mortality improvement scale MP-2019.

**Investment Return Rate**

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2022 and 2021 are summarized in the following table. This information may change every three years based on the actuarial experience study.

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2022	2021	2022	2021
Large Cap U.S. Equity	23.00%	23.00%	5.40%	5.40%
Small Cap U.S. Equity	6.00%	6.00%	6.20%	6.20%
Developed International Equity	16.00%	16.00%	6.54%	6.54%
Emerging Markets Equity	5.00%	5.00%	8.78%	8.78%
U.S. Core Fixed Income	13.00%	13.00%	1.07%	1.07%
High Yield Bonds	3.00%	3.00%	3.31%	3.31%
Real Estate	7.00%	7.00%	4.65%	4.65%
Treasury Inflation Protected Securities (TIPS)	4.00%	4.00%	0.62%	0.62%
Commodities	5.00%	5.00%	3.05%	3.05%
Cash	1.00%	1.00%	0.01%	0.01%
Unconstrained Fixed Income	2.00%	2.00%	1.37%	1.37%
Private Equity	12.00%	12.00%	8.25%	8.25%
Real Estate Investment Trusts (REITS)	3.00%	3.00%	4.40%	4.40%
Total Portfolio	100.00%	100.00%	4.99%	4.99%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Discount Rate

The discount rate used to measure the TPL was 7.00% as of June 30, 2022 and June 30, 2021. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2022 and 2021.

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2022 and 2021, calculated using the discount rate of 7.00% for 2022 and 2021, as well as what the System’s NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Sensitivity Analysis (Continued)

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
NPL as of June 30, 2022	\$ 4,269,849,343	\$ 648,757,838	\$ (2,290,019,010)
NPL as of June 30, 2021	\$ 814,268,204	\$ (2,701,529,872)	\$ (5,555,520,445)

**NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY**

The components of the System’s net Other Postemployment Benefits (OPEB) liability at June 30, 2022 and 2021, were as follows:

	<u>2022</u>	<u>2021</u>
Total OPEB Liability	\$ 3,649,332,287	\$ 3,793,174,035
Less: Fiduciary Net Position	<u>2,722,122,493</u>	<u>2,888,310,382</u>
Net OPEB Liability	<u>\$ 927,209,794</u>	<u>\$ 904,863,653</u>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	74.59%	76.14%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

**NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)**

The Net OPEB Liability (NOL) was measured as of June 30, 2022 and June 30, 2021. The Health Subsidy's Net Position was valued as of the measurement date, while the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuations as of June 30, 2022 and 2021.

Actuarial Assumptions

The TOL as of June 30, 2022 and 2021 were determined by actuarial valuations as of June 30, 2022 and 2021, respectively. The actuarial assumptions were based on the results of an experience study for the period from July 1, 2016 through June 30, 2019 with the exception of the mortality assumption where the Board adopted the updated Pub-2010 mortality tables proposed in a separate letter dated December 12, 2019 and the health assumptions letter dated September 8, 2022. They are the same as the assumptions used in the June 30, 2022 funding actuarial valuation.

The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2022 and 2021:

Inflation Rate	2.75%
Projected Salary Increase	Ranges from 4.15% to 12.25% based on years of service, including inflation
Investment Return Rate	7.00%, including inflation but net of investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	2.75% of Tiers 1-6 retirement income.
Mortality	<p>Healthy: Pub-2010 Safety Healthy Retiree Headcount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>Disabled: Pub-2010 Safety Disabled Retiree Headcount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>Beneficiary: Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table multiplied by 105%, projected generationally with the two-dimensional mortality improvement scale MP-2019.</p>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)**

Investment Return Rate

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2022 and 2021 are summarized in the following table. This information will change every three years based on the actuarial experience study.

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2022	2021	2022	2021
Large Cap U.S. Equity	23.00%	23.00%	5.40%	5.40%
Small Cap U.S. Equity	6.00%	6.00%	6.20%	6.20%
Developed International Equity	16.00%	16.00%	6.54%	6.54%
Emerging Markets Equity	5.00%	5.00%	8.78%	8.78%
U.S. Core Fixed Income	13.00%	13.00%	1.07%	1.07%
High Yield Bonds	3.00%	3.00%	3.31%	3.31%
Real Estate	7.00%	7.00%	4.65%	4.65%
Treasury Inflation Protected Securities (TIPS)	4.00%	4.00%	0.62%	0.62%
Commodities	5.00%	5.00%	3.05%	3.05%
Cash	1.00%	1.00%	0.01%	0.01%
Unconstrained Fixed Income	2.00%	2.00%	1.37%	1.37%
Private Equity	12.00%	12.00%	8.25%	8.25%
Real Estate Investment Trusts (REITS)	3.00%	3.00%	4.40%	4.40%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>	<u>4.99%</u>	<u>4.99%</u>

Discount Rate

The discount rate used to measure the TOL was 7.00% as of June 30, 2022 and June 30, 2021. The projection of cash flows used to determine the discount rate assumed employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future members and their beneficiaries are not included. Based on those assumptions, the Plan Fiduciary Net Position was projected to be available to make all projected future benefits payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL as of both June 30, 2022 and June 30, 2021.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

Sensitivity Analysis

The following presents the NOL of the System as of June 30, 2022 and 2021, calculated using the discount rate of 7.00, as well as what the System’s NOL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
NOL as of June 30, 2022	\$1,469,980,422	\$ 927,209,794	\$ 488,482,606
NOL as of June 30, 2021	\$1,477,432,841	\$ 904,863,653	\$ 442,549,325

Sensitivity Analysis to Changes in Trend Rate

The following presents the NOL of the Health Subsidy Plan of the System as of June 30, 2022 and 2021, as well as what the System’s NOL would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Trend	1% Increase
NOL as of June 30, 2022	\$ 470,992,806	\$ 927,209,794	\$ 1,503,027,800
NOL as of June 30, 2021	\$ 422,856,037	\$ 904,863,653	\$ 1,513,968,861

Additional information from the actuarial valuations as of June 30, 2022 and 2021 are as follows:

	June 30, 2022	June 30, 2021
Non-Medicare Medical Plan	7.25%, then graded down to an ultimate of 4.50% over 11 years	7.50%, then graded down to an ultimate of 4.50% over 12 years
Medicare Medical Plan	6.50%, then graded down to an ultimate of 4.50% over 8 years	6.50%, then graded down to an ultimate of 4.50% over 8 years
Dental	3.00%	4.00%
Medicare Part B	4.50%	4.50%
Medical Subsidy Trend	For employees not subject to subsidy freeze. For all non-Medicare retirees, increase at lesser of 7.00% or non-Medicare medical trend. For Medicare retirees with single party premium, increase with medical trend. For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2022 and 2021 (e.g., Fire Kaiser), increase with medical trend. For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2022 and 2021 (e.g., Police Blue Cross PPO), increase with lesser of 7.00% or medical trend.	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

**NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)**

Sensitivity Analysis to Changes in Trend Rate (Continued)

The following assumptions were adopted by the Board based on the July 1, 2016 through June 30, 2019 actuarial experience study for June 30, 2022 and June 30, 2021 actuarial valuations:

Actuarial Cost Method	Entry age normal, level percent of pay.			
Administrative Expenses	Out of the total 1.40% of payroll in administrative expense, 0.11% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.11% of payroll payable at beginning of the year.			
Spouse Age Difference	Males are assumed to be 3 years older than a female spouse.			
Participation	Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation Upon Attaining Age 65 for Current Retiree Aged 55-64 Without Subsidy (Percentage)
	10-14	45%	80%	63.64%
	15-19	65%	85%	57.14%
	20-24	80%	85%	25.00%
	25 and over	95%	95%	0.00%
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.			
Dental Coverage	85% of future retirees are assumed to elect dental coverage.			
Spousal Coverage	Of future retirees receiving a medical subsidy, 75% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data.			
Implicit Subsidy	Based on information provided in 2019 by the health consultant retained by Los Angeles Firemen’s Relief Association (LAFRA), we understand that retirees under age 65 enrolled in the Fire Kaiser Medical Plan are presently underwritten with the actives enrolled in that plan. LAFPP has made a decision to include the implicit subsidy in the employer’s contribution rate starting with the June 30, 2019 funding valuation. No implicit subsidy needs to be valued for the other medical plans since retiree medical premiums are underwritten separately from active premiums.			

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)**

Sensitivity Analysis to Changes in Trend Rate (Continued)

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

For fiscal year 2022:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse
Fire Medical	85%	\$ 2,046.97	\$ 2,046.97	\$ 900.24	85%	\$ 494.67	\$ 793.46	\$ 494.67
Fire Kaiser	10%	2,046.97	2,046.97	900.24	12.5%	494.67	484.14	494.67
UFLAC Select HMO	2.5%	2,046.97	2,046.97	900.24	0%	494.67	732.97	494.67
UFLAC HDHP	2.5%	2,046.97	2,046.97	900.24	2.5%	494.67	984.54	494.67
Police Blue Cross PPO	65%	2,046.97	2,046.97	900.24	75%	494.67	1,133.81	494.67
Police Blue Cross HMO	10%	2,046.97	2,046.97	900.24	10%	494.67	1,096.31	494.67
Police Kaiser	25%	2,046.97	2,046.97	900.24	15%	494.67	361.98	494.67
Dental	85%	44.60	44.60	-	85%	44.60	44.60	-
Medicare	N/A	-	-	-	100%	170.10	170.10	-

For fiscal year 2021:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse
Fire Medical	85%	\$ 1,958.82	\$ 1,958.82	\$ 853.39	85%	\$ 564.92	\$ 863.71	\$ 564.92
Fire Kaiser	10%	1,958.82	1,958.82	853.39	15%	564.92	499.64	564.92
UFLAC Select HMO	2.5%	1,958.82	1,958.82	853.39	0%	564.92	1,004.06	564.92
UFLAC HDHP	2.5%	1,958.82	1,958.82	853.39	0%	564.92	1,004.06	564.92
Police Blue Cross PPO	60%	1,958.82	1,958.82	853.39	75%	564.92	1,151.06	564.92
Police Blue Cross HMO	15%	1,958.82	1,958.82	853.39	10%	564.92	1,189.56	564.92
Police Kaiser	25%	1,958.82	1,958.82	853.39	15%	564.92	402.04	564.92
Dental	85%	44.60	44.60	-	85%	44.60	44.60	-
Medicare	N/A	-	-	-	100%	148.50	148.50	-

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

**NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)**

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2022 and 2021, are as follows:

	2022	2021
Retired Members	9,966	9,750
Beneficiaries	1,703	1,689
Vested Terminated Members	1,011	948
Active Members	12,771	12,823
	25,451	25,210

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

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2022, cash and temporary investments consisted of \$6,761,031 cash held by the City Treasurer’s office and \$910,755,097 in collective short-term investment funds (STIF). At June 30, 2021, cash and temporary investments consisted of \$7,106,405 cash held by the City Treasurer’s office and \$1,818,755,954 in collective short-term investment funds (STIF). Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
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**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

At June 30, 2022, the System has the following recurring fair value measurements (\$ in thousands):

	<u>June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Investments by fair value level</b>				
Debt Securities				
U.S. Treasuries	\$ 2,453,839	\$ -	\$ 2,453,839	\$ -
U.S. Agencies	530,433	-	530,433	-
Municipal/Provincial Bonds	14,157	-	14,157	-
Collateralized Debt Obligations	444,046	-	442,249	1,797
Commercial Paper	36,919	-	36,919	-
Corporate Bonds	2,012,315	-	2,012,315	-
Total Debt Securities	<u>5,491,709</u>	<u>-</u>	<u>5,489,912</u>	<u>1,797</u>
Equity Securities				
Common Stock	14,372,403	14,354,604	2,125	15,674
Preferred Stock	102,228	98,711	-	3,517
Other	229	26	-	203
Total Equity Securities	<u>14,474,860</u>	<u>14,453,341</u>	<u>2,125</u>	<u>19,394</u>
Real Estate	<u>794,699</u>	<u>191,939</u>	<u>-</u>	<u>602,760</u>
Derivatives	<u>(18,387)</u>	<u>415</u>	<u>(18,802)</u>	
Total Investments by Fair Value	<u>\$ 20,742,881</u>	<u>\$ 14,645,695</u>	<u>\$ 5,473,235</u>	<u>\$ 623,951</u>
<b>Investment measured at the net asset value (NAV)</b>				
Private Equity Partnerships	\$ 4,944,864			
Real Estate	1,359,315			
Hedge Funds	75,156			
Corporate Debt Securities	48,671			
Total Investments Measured at NAV	<u>\$ 6,428,006</u>			

*Note: Temporary investments of \$911 million are not included in the fair value hierarchy above.*

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

Fair Value of Investments (continued)

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

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

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

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity funds and Partnerships	\$ 4,944,864	\$ 2,450,100	N/A	-
Real Estate <sup>(1)</sup>	1,359,315	725,552	Quarterly	90 -179 days
Hedge Funds	75,156		Quarterly	90 days
Corporate Debt Securities	48,671		Anytime	-
<b>Total Investments measured at NAV</b>	<b>\$ 6,428,006</b>			

<sup>(1)</sup> This type investment includes \$697.9 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

Investment Policy

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

The Board’s adopted allocation policy effective during fiscal years 2022 and 2021 were as follow:

<u>Asset Class</u>	<u>2022</u>	<u>2021</u>
Large Cap U.S. Equity	23.00%	23.00%
Small Cap U.S. Equity	6.00%	6.00%
Developed International Equity	16.00%	16.00%
Emerging Markets Equity	5.00%	5.00%
U.S. Core Fixed Income	12.00%	12.00%
High Yield Bonds	3.00%	3.00%
Real Estate	7.00%	7.00%
Treasury Inflation Protected Securities (TIPS)	5.00%	5.00%
Commodities	1.00%	1.00%
Cash	1.00%	1.00%
Unconstrained Fixed Income	2.00%	2.00%
Private Equity	14.00%	14.00%
Private Credit	2.00%	2.00%
Real Estate Investment Trusts (REITS)	3.00%	3.00%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>

Credit Risk

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Credit Risk (continued)

As of June 30, 2022, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,566,540,497	51.75%
AA	75,175,787	1.52%
A	506,417,149	10.21%
BBB	703,673,286	14.19%
BB	372,461,496	7.50%
B	252,744,776	5.10%
CCC	44,268,310	0.89%
CC	617,696	0.01%
C	581,514	0.01%
Not Rated	436,862,036	8.81%
Subtotal	4,959,342,547	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	<u>581,037,833</u>	
Total Fixed Income Investments	<u>\$ 5,540,380,380</u>	

As of June 30, 2021, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,379,167,922	49.71%
AA	114,457,628	2.39%
A	475,862,353	9.94%
BBB	762,269,788	15.93%
BB	398,360,486	8.31%
B	290,928,805	6.08%
CCC	59,264,956	1.24%
CC	799,830	0.02%
C	769,120	0.02%
Not Rated	304,008,745	6.35%
Subtotal	4,785,889,633	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	<u>479,027,533</u>	
Total Fixed Income Investments	<u>\$ 5,264,917,166</u>	



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2022 and 2021, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$15,875,021 and \$14,085,788, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2022 and 2021, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2022 and 2021, the System's sole hedge fund investment of \$75,155,719 and \$111,081,619, private equity of \$4,926,476,889 and \$4,225,139,697, and commingled real estate funds of \$1,359,314,896 and \$905,292,725, were exposed to custodial credit risk, respectively.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2022 and 2021, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Interest Rate Risk (Continued)

Fiscal Year 2022		Weighted Average Maturity (in Years)
Investment Type	Fair Value	
Asset Backed Securities	\$ 241,431,855	10.86
Bank Loans	36,919,080	4.88
Commercial Mortgage-Backed	173,293,013	21.13
Corporate Bonds	1,863,157,461	10.27
Corporate Convertible Bonds	8,154,100	10.9
Government Agencies Bonds	61,151,462	7.02
Government Bonds	1,298,560,108	9.92
Government Mortgage Backed Securities	497,879,139	23.48
Government Issued Commercial Mortgage-Backed	3,076,808	2.93
Index Linked Government Bonds	1,243,779,939	8.23
Municipal/Provincial Bonds	15,121,625	33.63
Non-Government Backed Collateralized Mortgage Obligations	50,265,844	21.94
Sukuk	992,500	4.94
Asset/Mortgage Backed Securities/Other Fixed Income Funds	46,597,446	N/A
Total Fixed Income Investments	<u>\$ 5,540,380,380</u>	

Fiscal Year 2021		Weighted Average Maturity (in Years)
Investment Type	Fair Value	
Asset Backed Securities	\$ 164,588,782	10.09
Bank Loans	35,352,270	5.58
Commercial Mortgage-Backed	90,638,789	22.92
Corporate Bonds	2,020,363,906	11.34
Corporate Convertible Bonds	9,766,032	13.33
Government Agencies Bonds	77,810,416	8.19
Government Bonds	1,067,606,830	10.53
Government Mortgage Backed Securities	378,537,144	21.78
Government Issued Commercial Mortgage-Backed	8,514,853	3.71
Index Linked Government Bonds	1,286,759,088	9.02
Municipal/Provincial Bonds	30,964,051	23.85
Non-Government Backed Collateralized Mortgage Obligations	41,626,903	23.37
Asset/Mortgage Backed Securities/Other Fixed Income Funds	52,388,102	N/A
Total Fixed Income Investments	<u>\$ 5,264,917,166</u>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Interest Rate Risk (Continued)

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

Investment Type	2022 Fair Value	2021 Fair Value
Asset Backed Securities	\$ 241,431,855	\$ 164,588,784
Commercial Mortgage-Backed	173,293,013	90,638,789
Government Agencies Bonds	61,151,462	77,810,416
Government Mortgage Backed Securities	497,879,139	378,537,144
Index Linked Government Bonds	1,243,779,939	1,286,759,088
Non-Government Backed Collateralized Mortgage Obligations	50,265,844	41,626,903
	<u>\$ 2,267,801,252</u>	<u>\$ 2,039,961,124</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 21% of the total portfolio for non-U.S. investments in equities for fiscal years 2022 and 2021. The majority of the System's currency exposure comes from its holdings of foreign stocks.

The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2022 and 2021 are as follows:

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Foreign Currency Risk (Continued)

Foreign Currency Type	2022	2021
United Arab Emirates Dirham	\$ 10,880,417	\$ 3,878,540
Australian Dollar	150,071,863	233,195,634
Brazilian Real	146,378,522	142,235,844
British Pound Sterling	537,496,996	758,488,320
Canadian Dollar	115,816,092	193,695,618
Chilean Peso	2,865,143	2,822,159
Chinese Yuan Renminbi	65,065	-
Colombian Peso	1,230,297	1,287,532
Czech Koruna	4,662,176	4,775,790
Danish Krone	83,102,429	124,618,172
Euro	1,234,022,381	1,568,538,814
HK offshore Chinese Yuan Renminbi	75,769,687	46,204,738
Hong Kong Dollar	520,902,656	654,361,852
Hungarian Forint	1,407,082	1,963,437
Indian Rupee	178,706,642	168,510,376
Indonesian Rupiah	30,933,577	23,585,668
Japanese Yen	704,017,214	836,009,827
Kenyan Shilling	3,810,345	7,893,264
Malaysian Ringgit	11,832,131	10,723,451
Mexican Peso	80,621,057	59,759,032
New Israeli Shekel	9,229,812	16,535,728
New Taiwan Dollar	207,826,496	238,731,334
New Zealand Dollar	3,283,434	6,712,935
Norwegian Krone	21,690,555	28,304,346
Philippine Peso	6,370,727	5,882,638
Polish Zloty	8,887,744	8,814,193
Qatari Riyal	10,125,916	3,694,632
Singapore Dollar	37,688,070	40,269,553
South African Rand	52,195,002	55,077,072
South Korean Won	196,833,863	267,083,475
Swedish Krona	96,557,151	149,741,187
Swiss Franc	331,868,162	382,746,272
Thai Baht	24,988,710	20,350,504
Turkish Lira	4,604,226	3,517,233
	<u>\$4,906,741,640</u>	<u>\$6,070,009,170</u>

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on the investment of the Pension Plan and Health Subsidy Plan, gross of investment expense, for the years ended June 30, 2022 and 2021, was (7.23)% and 32.56%, respectively. The source for the rate of return was the June 30, 2022 and 2021 Monthly Returns Analysis provided by the custodian bank, Northern Trust.

**NOTE 8 – SECURITIES LENDING**

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

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

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

As of June 30, 2022 and 2021, the fair value of securities on loan was \$1,599,550,397 and \$1,568,607,084, respectively, and the fair value of collateral received was \$1,660,438,274 and \$1,614,260,735, respectively. Of the \$1,660,438,274 collateral received as of June 30, 2022, \$1,354,880,227 was cash collateral and \$305,558,047 represented the fair value of non-cash collateral; and of the \$1,614,260,735 collateral received as of June 30, 2021 \$985,561,481 was cash collateral and \$628,699,254 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2022 and 2021:

Fair value of collateral received for loaned securities as of June 30, 2022:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 341,949,422	\$ 20,605,443	\$ 362,554,865
Domestic Corporate Fixed Income Securities	333,799,335	42,406,953	376,206,288
Domestic Equities	584,665,304	153,146,801	737,812,105
International Fixed Income Securities	8,039,120	-	8,039,120
International Equities	86,427,046	89,398,850	175,825,896
	<u>\$ 1,354,880,227</u>	<u>\$ 305,558,047</u>	<u>\$ 1,660,438,274</u>

Fair value of loaned securities as of June 30, 2022:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 334,637,691	\$ 20,082,756	\$ 354,720,447
Domestic Corporate Fixed Income Securities	324,739,112	41,134,810	365,873,922
Domestic Equities	564,702,886	149,053,075	713,755,961
International Fixed Income Securities	7,565,775	-	7,565,775
International Equities	77,269,724	80,364,568	157,634,292
	<u>\$ 1,308,915,188</u>	<u>\$ 290,635,209</u>	<u>\$ 1,599,550,397</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

Fair value of collateral received for loaned securities as of June 30, 2021:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 293,817,228	\$ 55,779,810	\$ 349,597,038
Domestic Corporate Fixed Income Securities	206,526,707	29,294,463	235,821,170
Domestic Equities	430,062,687	468,000,822	898,063,509
International Fixed Income Securities	5,866,560	-	5,866,560
International Equities	49,288,299	75,624,159	124,912,458
	<u>\$ 985,561,481</u>	<u>\$ 628,699,254</u>	<u>\$ 1,614,260,735</u>

Fair value of loaned securities as of June 30, 2021:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 287,681,538	\$ 54,588,066	\$ 342,269,604
Domestic Corporate Fixed Income Securities	201,640,608	28,606,798	230,247,406
Domestic Equities	419,180,717	456,087,075	875,267,792
International Fixed Income Securities	5,430,997	-	5,430,997
International Equities	45,440,842	69,950,443	115,391,285
	<u>\$ 959,374,702</u>	<u>\$ 609,232,382</u>	<u>\$ 1,568,607,084</u>

For the fiscal years ended June 30, 2022 and 2021, securities lending income amounted to \$4,738,355 and \$5,229,938, respectively, while securities lending expenses amounted to \$661,973 and \$730,866, respectively.

**NOTE 9 – DERIVATIVE INSTRUMENTS**

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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

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

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2022, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2022 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2022		Notional Amount
	Classification		Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$ (280,769,372)
Futures - Longs	Investment Loss	(5,810,631)	Investment	-	130,114,162
Forwards	Investment Revenue	3,488,032	Investment	5,777,602	-
Options	Investment Loss	(243,874)	Investment	334,460	-
Rights/Warrants	Investment Loss	(115,236)	Investment	229,529	-
Swaps	Investment Loss	(50,859,880)	Investment	(18,721,369)	-

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2021, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2021 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2021		Notional Amount
	Classification		Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$ (232,091,720)
Futures - Longs	Investment Revenue	49,503,715	Investment	-	241,038,362
Forwards	Investment Loss	(775,596)	Investment	(1,171,232)	-
Options	Investment Revenue	486,026	Investment	362	(17,774)
Rights/Warrants	Investment Loss	(373,230)	Investment	252,341	-
Swaps	Investment Revenue	98,923,274	Investment	4,446,915	-



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 10 – CAPITAL ASSETS**

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

The following is a summary of the System’s capital assets at June 30, 2022 and 2021:

	2022	2021
Capital Assets Not Depreciated/Amortized		
Land	\$ 6,465,660	\$ 6,465,660
Total Capital Assets Not Depreciated/Amortized	6,465,660	6,465,660
Capital Assets Depreciated/Amortized		
Building	18,777,794	18,777,794
Computer/Software under Development	5,302,524	5,010,487
Furniture and fixtures	1,297,014	1,297,014
Total Capital Assets Depreciated/Amortized	25,377,332	25,085,295
Less: Accumulated Depreciation/Amortization		
Building	(5,867,418)	(4,928,528)
Computer/Software under Development	(1,590,757)	(1,002,097)
Furniture and fixtures	(1,297,014)	(1,297,014)
Total Accumulated Depreciation/Amortization	(8,755,189)	(7,227,639)
Total Capital Assets Depreciated/Amortized, Net	16,622,143	17,857,656
Total Capital Assets, Net	\$ 23,087,803	\$ 24,323,316

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 11 – MORTGAGES PAYABLE**

Mortgages are secured by real estate. For fiscal year 2022, interest rates range from 1.81% to 4.30% per annum. The average monthly principal and interest payments range from \$37,708 to \$88,479. For fiscal year 2021, interest rates range from 2.56% to 4.30% per annum. The average monthly principal and interest payments range from \$40,874 to \$86,424.

The mortgages mature from October 2023 to November 2032. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 553,869	\$ 6,756,539	\$ 7,310,408
2024	37,593,299	5,985,982	43,579,281
2025	29,050,000	4,752,566	33,802,566
2026	-	4,536,506	4,536,506
2027	25,000,000	4,197,131	29,197,131
2028-2032	109,810,000	10,148,527	119,958,527
2033	19,160,000	163,499	19,323,499
	<u>\$ 221,167,168</u>	<u>\$ 36,540,750</u>	<u>\$ 257,707,918</u>

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

The following is a summary of mortgage payable activities for the years ended June 30, 2022 and 2021:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Fair Value</u> <u>June 30, 2022</u>
Mortgage Payable	\$ 217,434,561	\$ 4,270,664	\$ 538,057	\$ 221,167,168	\$ 212,500,008
	<u>Balance</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Fair Value</u> <u>June 30, 2021</u>
Mortgage Payable	\$ 194,537,009	\$ 23,960,000	\$ 1,062,448	\$ 217,434,561	\$ 217,948,845

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were \$2,123,853,131 and \$2,115,353,061 as of June 30, 2022 and 2021, respectively.

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

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$3,175,652,000 and \$2,619,213,000 at June 30, 2022 and 2021, respectively.

Retiree Health Subsidy Freeze Litigation

In fiscal year 2021-2022, there were two cases before the courts that involved the retiree health insurance premium subsidy program that LAFPP administers (“retiree medical subsidy”). Both pending actions were brought by the Los Angeles Police Protective League against the Board and the City.

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

In the LAPPL I Action, on April 15, 2016, the plaintiffs agreed to dismiss LAFPP from the action in exchange for LAFPP’s agreement to be bound by the final judgment rendered in the case. Until a court of competent jurisdiction renders a final judgement on the interpretation of the LOA, LAFPP has a fiduciary duty to follow LAAC § 4.1154(e) as written and its Board must continue to exercise its discretion in setting the retiree medical subsidy as it did before the 2011 Freeze Ordinance.

The LAPPL Action I proceeded to trial, and on November 1, 2016, the trial court ruled in favor of the plaintiffs, finding that the language of the LOA was unambiguous without weighing the conflicting evidence regarding the interpretation of the LOA and the parties’ intent. The City appealed, and on October 30, 2018, the Second District Court of Appeal reversed and remanded the case for further proceedings consistent with the Court of Appeal’s decision. In its decision, the Court of Appeal found that the provisions at issue in the LOA were ambiguous, which required the trial court to consider and weigh the evidence of the parties’ intent in its interpretation of the provisions, which the trial court did not do.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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

Retiree Health Subsidy Freeze Litigation (Continued)

While the LAPPL Action I was pending on appeal, on August 10, 2017, the union filed LAPPL Action II. The LAPPL Action II raises the same issues as the LAPPL Action I regarding the 2% contribution and the interpretation of the LOA, but also asserts a new breach of fiduciary duty claim against LAFPP, which preserves the union’s rights to challenge LAFPP’s 2017 discretionary action to set the subsidy should the union lose in the pending LAPPL Action I. On July 3, 2018, the LAPPL filed a First Amended Complaint, asserting the same claims based on LAFPP’s 2018 discretionary action in setting the subsidy. The union filed a Second Amended Complaint to add LAFPP’s 2019 and 2020 discretionary actions in setting the subsidy. The union later sought to file a Third Amended Complaint to add LAFPP’s 2021 discretionary actions in setting the subsidy, and on or around August 11, 2021, the parties stipulated to permit the union to file its Third Amended Complaint.

Upon remand of the LAPPL I Action back to the Superior Court, the case was reassigned to Judge Holly Fujie for further trial proceedings. The City filed a motion to consolidate the two actions before Judge Fujie, which the Court granted. On September 30, 2019, Judge Fujie ordered that the case be heard in phases. In Phase One, the LOA interpretation issues common to LAPPL I and LAPPL II were to be heard in a bench trial. Upon resolution of Phase One, the Court will then address the residual fiduciary duty claims against LAFPP unique to LAPPL II.

On September 20 and 21, and October 28, 2021, Judge Fujie held a bench trial began in Phase One of the consolidated action. On May 2, 2022, Judge Fujie issued the trial court’s Final Statement of Decision for Phase One in favor of the City on the LOA interpretation issues. On June 23, 2022 the union plaintiff appealed the trial court’s Final Statement of Decision for Phase One. As of June 30, 2022 Phase One of the consolidated action is pending on appeal and Phase Two continues to be stayed pending the final resolution of Phase One.

Current Status of the Retiree Medical Subsidy

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

With regard to the LAPPL Action I and LAPPL Action II, until a final judgment is rendered on the LOA issues, LAFPP will continue to abide by its fiduciary duty to follow LAAC § 4.1154(e) as written and to set and implement the retiree health insurance premium subsidy increases in the same manner as it did prior to the 2011 Freeze Ordinance for members who opted-in to pay the 2% contribution. This means that the LAFPP Board continues to exercise its discretion provided under the Los Angeles Administrative Code to set the subsidy up to and including the medical trend rate or 7%, whichever is lower, until the courts render final judgment.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**NOTE 13 – RISKS AND UNCERTAINTIES**

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

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and contributed to the deterioration and instability in financial markets. As a result, the Plan's investment portfolio has experienced volatility in fair market value. However, because the values of the Plan's investments have and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. The value of the Plan's investments has a direct impact on its funded status. As a result of any declines in market value the Plan Sponsor may need to make greater cash contributions to fund the Plan in the future. However, the actual impact, if any, on future required contributions or Plan liquidity cannot be determined at this time.

**NOTE 14 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 21, 2022, which is the date the financial statements were available to be issued and, no events have occurred that require consideration or adjustments in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	06/30/22	06/30/21	06/30/20	06/30/19	06/30/18
Total Pension Liability:					
Service Cost	\$ 456,446	\$ 455,362	\$ 410,559	\$ 402,708	\$ 390,743
Interest	1,749,640	1,668,212	1,654,964	1,572,220	1,502,656
Benefit Payments	(1,244,736)	(1,186,963)	(1,121,252)	(1,070,456)	(994,800)
Experience Losses (Gains)	(214,833)	254,452	(23,348)	81,465	21,700
Assumption Changes	-	-	48,286	357,369	-
Benefit Changes	-	-	-	(79,650)	-
Other <sup>(1)</sup>	-	-	-	-	2,505
Net Change	746,517	1,191,063	969,209	1,263,656	922,804
Total Pension Liability at Beginning of Year	<u>25,160,777</u>	<u>23,969,714</u>	<u>23,000,505</u>	<u>21,736,849</u>	<u>20,814,045</u>
Total Pension Liability at End of Year (a)	<u>\$ 25,907,294</u>	<u>\$ 25,160,777</u>	<u>\$ 23,969,714</u>	<u>\$ 23,000,505</u>	<u>\$ 21,736,849</u>
Fiduciary Net Position:					
Employer Contributions	\$ 535,450	\$ 543,819	\$ 516,638	\$ 504,877	\$ 459,632
Member Contributions	149,243	157,786	153,787	147,753	145,112
Net Investment Income	(2,021,582)	6,972,104	606,244	1,218,138	1,892,870
Benefit Payments	(1,244,736)	(1,186,963)	(1,121,252)	(1,070,456)	(994,800)
Administrative Expenses	(22,146)	(21,372)	(20,685)	(20,244)	(19,908)
Other <sup>(1)</sup>	-	-	-	-	2,505
Net Change (Gain)	(2,603,771)	6,465,374	134,732	780,068	1,485,411
Fiduciary Net Position at Beginning of Year	<u>27,862,307</u>	<u>21,396,933</u>	<u>21,262,201</u>	<u>20,482,133</u>	<u>18,996,722</u>
Fiduciary Net Position at End of Year (b) <sup>(2)</sup>	<u>\$ 25,258,536</u>	<u>\$ 27,862,307</u>	<u>\$ 21,396,933</u>	<u>\$ 21,262,201</u>	<u>\$ 20,482,133</u>
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 648,758</u>	<u>\$ (2,701,530)</u>	<u>\$ 2,572,781</u>	<u>\$ 1,738,304</u>	<u>\$ 1,254,716</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.50%	110.74%	89.27%	92.44%	94.23%
Covered Employee Payroll	\$ 1,598,685	\$ 1,603,349	\$ 1,509,613	\$ 1,487,978	\$ 1,451,996
Plan Net Position Liability as a Percentage of Covered Employee Payroll	40.58%	-168.49%	170.43%	116.82%	86.41%

Notes to Schedule:

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

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

<sup>(1)</sup> Includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police Officers who elected to join the System in Tier 6.

<sup>(2)</sup> Excludes the transfer of employer and employee contributions referenced in footnote (1).

See accompanying notes to required schedule and accompanying independent auditor's report.

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

	06/30/17	06/30/16	06/30/15	06/30/14
Total Pension Liability:				
Service Cost	\$ 367,600	\$ 365,956	\$ 368,700	\$ 368,018
Interest	1,436,068	1,399,576	1,384,527	1,392,552
Benefit Payments	(930,078)	(990,363)	(918,909)	(858,986)
Experience Losses (Gains)	(320,404)	(595,188)	(310,882)	(234,638)
Assumption Changes	695,450	-	-	(69,482)
Benefit Changes	-	-	-	-
Other <sup>(1)</sup>	-	-	-	-
Net Change	1,248,636	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	<u>19,565,409</u>	<u>19,385,428</u>	<u>18,861,992</u>	<u>18,264,528</u>
Total Pension Liability at End of Year (a)	<u>\$ 20,814,045</u>	<u>\$ 19,565,409</u>	<u>\$ 19,385,428</u>	<u>\$ 18,861,992</u>
Fiduciary Net Position:				
Employer Contributions	\$ 454,309	\$ 478,385	\$ 480,332	\$ 440,698
Member Contributions	128,900	129,734	126,771	124,395
Net Investment Income	2,260,130	159,313	686,470	2,617,090
Benefit Payments	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	(20,816)	(19,346)	(17,815)	(13,865)
Other <sup>(1)</sup>	-	-	-	-
Net Change (Gain)	1,892,445	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	<u>17,104,277</u>	<u>17,346,554</u>	<u>16,989,705</u>	<u>14,680,373</u>
Fiduciary Net Position at End of Year (b) <sup>(2)</sup>	<u>\$ 18,996,722</u>	<u>\$ 17,104,277</u>	<u>\$ 17,346,554</u>	<u>\$ 16,989,705</u>
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 1,817,323</u>	<u>\$ 2,461,132</u>	<u>\$ 2,038,874</u>	<u>\$ 1,872,287</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.27%	87.42%	89.48%	90.07%
Covered Employee Payroll	\$ 1,397,245	\$ 1,351,788	\$ 1,316,969	\$ 1,308,149
Plan Net Position Liability as a Percentage of Covered Employee Payroll	130.06%	182.06%	154.82%	143.12%

Notes to Schedule:

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

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

<sup>(1)</sup> Includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police Officers who elected to join the System in Tier 6.

<sup>(2)</sup> Excludes the transfer of employer and employee contributions referenced in footnote (1).

See accompanying notes to required schedule and accompanying independent auditor's report.



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

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll <sup>(3)</sup>	Contribution as % of Payroll <sup>(1)</sup>
6/30/2022	\$ 535,450	\$ 535,450	-	\$ 1,598,685	33%
6/30/2021	543,819	543,819	-	1,603,349	34%
6/30/2020	516,638	516,638	-	1,509,613	34%
6/30/2019	504,877	504,877	-	1,487,978	34%
6/30/2018	459,632 <sup>(2)</sup>	459,632 <sup>(2)</sup>	-	1,451,996	32%
6/30/2017	454,309	454,309	-	1,397,245	33%
6/30/2016	478,385	478,385	-	1,351,788	35%
6/30/2015	480,332	480,332	-	1,316,969	36%
6/30/2014	440,698	440,698	-	1,308,149	34%
6/30/2013	375,448	375,448	-	1,277,031	29%

Notes to Schedule:

- <sup>(1)</sup> Contribution rate as a percentage of covered payroll reflects discount applied when the employer prepays its contributions. This rate has been “backed” into by dividing the actual contributions by the budgeted covered payroll.
- <sup>(2)</sup> Amount excluded \$1.3 million transferred from the Los Angeles City Employees’ Retirement System (LACERS) for the Airport Police members who elected to join the Pension Plan in Tier 6.
- <sup>(3)</sup> Covered payroll represents payroll on which contributions to the Pension Plan are based.

See accompanying notes to required schedule and accompanying independent auditor’s report.

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

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

The assumptions used in establishing the ADC for the year ended June 30, 2022 were based on the June 30, 2020 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method	Entry Age Actuarial Cost Method.
Amortization Method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Department, or Airport Department).
Remaining Amortization Period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset Valuation Method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a seven-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial Assumptions: June 30, 2020 Valuation	
Investment Rate of Return	7.00%, net of investment expenses
Inflation Rate	2.75%
Administrative Expenses:	Out of the total 1.40% of payroll in administrative expense, 1.29% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 1.25% of payroll payable at beginning of the year.
Real Across-the-Board Salary	0.50%
Projected Salary Increases	Ranges from 4.15% to 12.25% based on years of service
Cost of Living Adjustments	2.75% of retirement income for all Tiers.

See accompanying notes to required schedule and accompanying independent auditor’s report.

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

	2022	2021	2020	2019	2018
Annual Money-Weighted Rate of Return, Gross of Investment Expense	-7.23%	32.56%	3.04%	6.21%	9.91%
	2017	2016	2015	2014	
Annual Money-Weighted Rate of Return, Gross of Investment Expense	13.27%	1.18%	4.15%	17.85%	

Notes to Schedule:

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

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy and Monthly Returns Analysis provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2022, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense. Rates for the fiscal years 2014, 2016 and 2018 were updated from preliminary rates to final rates.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

<u>Date</u>	<u>Discount Rate</u>	<u>Total Pension Liability (TPL)</u>	<u>Fiduciary Net Position (FNP)</u>	<u>Net Pension Liability (NPL)</u>	<u>Funded Status (FNP/TPL)</u>	<u>Covered Payroll</u>	<u>NPL %Pay</u>
6/30/2022	7.00%	\$ 25,907,294	\$ 25,258,536	\$ 648,758	97.5%	\$ 1,598,685	41%
6/30/2021	7.00%	25,160,777	27,862,307	(2,701,530)	110.7%	1,603,349	-168%
6/30/2020	7.00%	23,969,714	21,396,933	2,572,781	89.3%	1,509,613	170%
6/30/2019	7.25%	23,000,505	21,262,200	1,738,304	92.4%	1,487,978	117%
6/30/2018	7.25%	21,736,849	20,482,133	1,254,716	94.2%	1,451,996	86%
6/30/2017	7.25%	20,814,045	18,996,721	1,817,323	91.3%	1,397,245	130%
6/30/2016	7.50%	19,565,409	17,104,276	2,461,132	87.4%	1,351,788	182%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.5%	1,316,969	155%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.1%	1,308,149	143%
6/30/2013	7.75%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	281%

Notes to Schedule:

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

See accompanying notes to required schedule and accompanying independent auditor's report.

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

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Total OPEB Liability:				
Service Cost	\$ 79,825	\$ 80,618	\$ 79,394	\$ 74,090
Interest	266,036	260,018	263,088	260,513
Benefit Payments	(147,467)	(151,855)	(143,600)	(137,874)
Experience Losses (Gains)	(8,923)	8,191	(190,525)	(249,568)
Assumption Changes	(333,313)	(113,656)	80,297	85,911
Other <sup>1)</sup>	-	-	-	-
Net Change	(143,842)	83,316	88,654	33,072
Total OPEB Liability at Beginning of Year	<u>3,793,174</u>	<u>3,709,858</u>	<u>3,621,204</u>	<u>3,588,132</u>
Total OPEB Liability at End of Year (a)	<u>\$ 3,649,332</u>	<u>\$ 3,793,174</u>	<u>\$ 3,709,858</u>	<u>\$ 3,621,204</u>
Fiduciary Net Position:				
Employer Contributions	\$ 193,140	\$ 200,425	\$ 193,213	\$ 188,020
Net Investment Income	(209,565)	698,434	58,101	111,188
Benefit Payments	(147,467)	(151,856)	(143,600)	(137,874)
Administrative Expenses	(2,296)	(2,141)	(1,982)	(1,856)
Other <sup>1)</sup>	-	-	-	-
Net Change (Gain)	(166,188)	744,862	105,732	159,478
Fiduciary Net Position at Beginning of Year	<u>2,888,310</u>	<u>2,143,448</u>	<u>2,037,716</u>	<u>1,878,238</u>
Fiduciary Net Position at End of Year (b) <sup>2)</sup>	<u>\$ 2,722,122</u>	<u>\$ 2,888,310</u>	<u>\$ 2,143,448</u>	<u>\$ 2,037,716</u>
Net OPEB Liability/(Asset) (a)-(b)	<u>\$ 927,210</u>	<u>\$ 904,864</u>	<u>\$ 1,566,410</u>	<u>\$ 1,583,488</u>
Plan fiduciary net position as a percentage of the total OPEB liability	74.59%	76.14%	57.78%	56.27%
Covered employee payroll	\$ 1,598,865	\$ 1,603,349	\$ 1,509,613	\$ 1,487,978
Plan net position liability as a percentage of covered employee payroll	58.00%	56.44%	103.76%	106.42%

Notes to Schedule:

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

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

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

2) Excludes the transfer of employer contributions referenced in footnote 1).

See accompanying notes to required schedule and accompanying independent auditor's report.

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

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

Notes to Schedule:

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

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

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

(2) Excludes the transfer of employer contributions referenced in footnote 1.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Actuarially</u> <u>Determined</u> <u>Contribution</u>	<u>Actual</u> <u>Fiscal Year</u> <u>Contribution</u>	<u>Deficiency</u> <u>(Excess)</u>	<u>Covered</u> <u>Payroll</u> <sup>(2)</sup>	<u>Contribution as</u> <u>% of Payroll</u>
2022	\$ 193,140	\$ 193,140	-	\$ 1,598,685	12%
2021	200,425	200,425	-	1,603,349	13%
2020	193,213	193,213	-	1,509,613	13%
2019	188,020	188,020	-	1,487,978	13%
2018	178,462 <sup>(1)</sup>	178,462 <sup>(1)</sup>	-	1,451,996	12%
2017	165,170	165,170	-	1,397,245	12%
2016	150,315	150,315	-	1,351,788	11%
2015	148,477	148,477	-	1,316,969	11%
2014	138,107	138,107	-	1,308,149	11%
2013	132,939	132,939	-	1,277,031	10%

Notes to Schedule:

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

<sup>(2)</sup> Covered payroll represents payroll on which contributions to the Health Subsidy Plan are based.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

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

The assumptions used in establishing the ADC for the year ended June 30, 2022 were based on the June 30, 2020 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Department or Airport Department).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions: June 30, 2020 valuation	
Investment rate of return	7.00%, net of investment expenses
Inflation rate	2.75%
Administrative Expenses:	Out of the total 1.40% of payroll in administrative expense, 0.11% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.11% of payroll payable at beginning of the year.
Real across-the-board salary	0.50%
Projected salary increases	Ranges from 4.15% to 12.25% based on years of service
Other assumptions	Same as those used in the June 30, 2020 funding actuarial valuations.

See accompanying notes to required schedule and accompanying independent auditor’s report.



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

	2022	2021	2020	2019	2018
Annual Money-Weighted Rate of Return, Gross of Investment Expense	-7.23%	32.56%	3.04%	6.21%	9.91%
	2017	2016	2015	2014	
Annual Money-Weighted Rate of Return, Gross of Investment Expense	13.27%	1.18%	4.15%	17.85%	

Notes to Schedule:

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

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy and Monthly Returns Analysis provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2022, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense. Rates for the fiscal years 2014, 2016 and 2018 were updated from preliminary rates to final rates.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

<u>Date*</u>	<u>Discount Rate</u>	<u>Total OPEB Liability (TOL)</u>	<u>Fiduciary Net Position (FNP)</u>	<u>Net OPEB Liability (NOL)</u>	<u>Funded Status (FNP/TOL)</u>	<u>Covered Payroll</u>	<u>NOL %Pay</u>
6/30/2022	7.00%	\$ 3,649,332	\$ 2,722,122	\$ 927,210	74.6%	\$ 1,598,685	58%
6/30/2021	7.00%	3,793,174	2,888,310	904,864	76.1%	1,603,349	56%
6/30/2020	7.00%	3,709,858	2,143,448	1,566,410	57.8%	1,509,613	104%
6/30/2019	7.25%	3,621,204	2,037,716	1,583,488	56.3%	1,487,978	106%
6/30/2018	7.25%	3,588,132	1,878,237	1,709,895	52.3%	1,451,996	118%
6/30/2017	7.25%	3,357,828	1,665,686	1,692,142	49.6%	1,397,245	121%
6/30/2016	7.50%	3,079,670	1,435,404	1,644,266	46.6%	1,351,788	122%

Notes to Schedule:

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

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

See accompanying notes to required schedule and accompanying independent auditor's report.



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2022, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 21, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

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



### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Los Angeles, California

November 21, 2022