

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

JUNE 30, 2004 AND 2003

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
EXHIBIT "A" - Statements of Plan Net Assets as of June 30, 2004 and 2003	2
EXHIBIT "B" - Statements of Changes in Plan Net Assets for the Years Ended June 30, 2004 and 2003	3
NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003	4-12
SUPPLEMENTAL SCHEDULES FOR THE SIX YEARS ENDED JUNE 30, 2004:	
SCHEDULE 1A - Supplemental Schedule of Funding Progress - Pension Plans	13
SCHEDULE 1B - Supplemental Schedule of Funding Progress - Health Subsidy Plans	13
SCHEDULE 2A - Supplemental Schedule of Employer Contributions - Pension Plans	14
SCHEDULE 2B - Supplemental Schedule of Employer Contributions - Health Subsidy Plans	14
NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS	15-17

MANNON KAPLAN, C.P.A.
GEORGE NADEL RIVIN, C.P.A.
EDWIN KANEMARU, C.P.A.
KENNETH R. HOLMER, C.P.A.
DOUGLAS S. WAITE, C.P.A.
CHARLES SCHNAID, C.P.A.
DONALD G. GARRETT, C.P.A.
CATHERINE C. GARDNER, C.P.A.
JEFFREY L. GOSS, C.P.A.
JAMES E. VEALE, C.P.A.
JOANNA BOLSKY, C.P.A.
RONALD D. CHANDLER, C.P.A.
MICHAEL G. KAPLAN, C.P.A.

STANLEY L. MILLER, C.P.A. (1921 - 1995)
PAUL ARASE, C.P.A.*
JOSEPH C. CAHN, C.P.A.*
*RETIRED



Miller, Kaplan, Arase & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS

SINCE 1941

4123 LANKERSHIM BOULEVARD
NORTH HOLLYWOOD, CALIFORNIA 91602-2828

(818) 769-2010

FAX (818) 769-3100

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
THE CALIFORNIA SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS
BAKER TILLY INTERNATIONAL
EIN 95-2036255

OTHER OFFICES:
SAN FRANCISCO
LAS VEGAS

Independent Auditors' Report

To the Board of Fire and Police
Pension Commissioners
Los Angeles, California


Members of the Board:

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2004 and 2003, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules and the related notes are presented for the purpose of additional analysis and are not a part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audit of the financials statements and, in our opinion, is fairly presented, when considered in relation to the basic financial statements taken as a whole.


MILLER, KAPLAN, ARASE & CO., LLP

September 24, 2004 except for the Annual Actuarial Valuation information which is October 14, 2004

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF PLAN NET ASSETS

<u>ASSETS</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<u>CASH</u>	\$ 814,532	\$ 4,576,819
<u>RECEIVABLES</u>		
Accrued Interest and Dividends	\$ 46,628,223	\$ 48,936,015
Contributions	5,062,749	3,957,765
Due from Brokers	<u>338,302,763</u>	<u>43,381,418</u>
<u>TOTAL RECEIVABLES</u>	389,993,735	96,275,198
<u>INVESTMENTS AT FAIR VALUE</u>		
Temporary	\$ 569,114,300	\$ 450,529,257
U.S. Government Obligations	1,093,224,273	1,350,230,087
Domestic Corporate Bonds	1,568,575,205	1,698,057,711
Foreign Bonds	128,339,624	156,550,523
Domestic Stocks	5,495,426,877	4,077,003,290
Foreign Stocks	1,773,542,279	1,436,539,901
Real Estate	949,164,002	912,541,642
Alternative Investments	<u>354,172,422</u>	<u>362,078,659</u>
<u>TOTAL INVESTMENTS</u>	11,931,558,982	10,443,531,070
<u>SECURITIES LENDING COLLATERAL</u>	<u>1,398,032,348</u>	<u>15,591,862</u>
<u>TOTAL ASSETS</u>	\$ 13,720,399,597	\$ 10,559,974,949
<u>LIABILITIES</u>		
Accounts Payable and Accrued Expenses	\$ 6,829,349	\$ 6,758,455
Benefits in Process of Payment	5,377,855	3,361,048
Due to Brokers	452,468,558	126,125,511
Mortgage Payable	287,462,348	209,317,727
Securities Lending Collateral	<u>1,398,032,348</u>	<u>15,591,862</u>
<u>TOTAL LIABILITIES</u>	<u>2,150,170,458</u>	<u>361,154,603</u>
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS</u>	<u>\$ 11,570,229,139</u>	<u>\$ 10,198,820,346</u>

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS**

	July 1, 2003 to June 30, 2004	July 1, 2002 to June 30, 2003
<u>ADDITIONS</u>		
<u>CONTRIBUTIONS</u>		
City Contributions	\$ 136,202,867	\$ 98,529,049
Member Contributions	73,439,319	70,953,454
<u>TOTAL CONTRIBUTIONS</u>	\$ 209,642,186	\$ 169,482,503
<u>INVESTMENT INCOME</u>		
Net Appreciation in Fair Value of Plan Investments, Including Gains and Losses on Sales	\$ 1,410,905,593	\$ 169,167,669
Interest	179,917,019	200,926,272
Dividends	99,181,435	84,122,838
Net Real Estate Income	51,417,306	62,071,384
Income from Alternative Investments	5,494,248	3,984,118
Securities Lending Income	3,338,460	3,547,765
Other Income	828,518	374,528
<u>SUBTOTAL</u>	\$ 1,751,082,579	\$ 524,194,574
Less: Investment Manager Expense	<u>(28,249,568)</u>	<u>(23,286,743)</u>
<u>NET INVESTMENT INCOME</u>	1,722,833,011	500,907,831
<u>OTHER INCOME</u>		
Donations (Note 9)	\$ 14,402,308	\$ 2,918,066
Miscellaneous	1,356,075	1,260,983
<u>TOTAL OTHER INCOME</u>	15,758,383	4,179,049
<u>TOTAL ADDITIONS</u>	\$ 1,948,233,580	\$ 674,569,383
<u>DEDUCTIONS</u>		
Pension Benefits	\$ 518,518,140	\$ 489,958,681
Payment of Medicare Reimbursement	3,934,369	3,433,705
Payment of Health Subsidy	41,278,175	37,075,855
Refund of Contributions	3,963,440	3,158,990
Administrative Expenses	9,130,663	7,851,982
<u>TOTAL DEDUCTIONS</u>	576,824,787	541,479,213
<u>NET INCREASE</u>	\$ 1,371,408,793	\$ 133,090,170
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS</u>		
Beginning of Year	<u>10,198,820,346</u>	<u>10,065,730,176</u>
End of Year	<u>\$ 11,570,229,139</u>	<u>\$ 10,198,820,346</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1 - DESCRIPTION OF THE PLANS

The City of Los Angeles Department of Fire and Police Pensions operates under the provisions of the City of Los Angeles Charter and Administrative Code, which provide that the funding requirements of the City of Los Angeles Fire and Police Pension System (the System or the Plan), based on the results of actuarial valuation, will be satisfied by the City of Los Angeles.

Pension Plan

The System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters and police officers of the City of Los Angeles. As of June 30, 2004, the System is composed of five tiers. Benefits are based on members' 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.

Those members hired on or before January 28, 1967 participate in Tier 1. Tier 2 includes members hired on or after January 29, 1967, and Tier 1 members who transferred to Tier 2. Members hired on or after December 8, 1980 participate in Tier 3, and those hired on or after July 1, 1997 are in Tier 4. Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 could elect to transfer to Tier 3 during an enrollment period. Tier 5 is the current Tier established for all members hired on or after January 1, 2002. Active Members of Tiers 2, 3, & 4 were allowed to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002.

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 ending June 30, 1983, or have since been hired.

Tier 1 and 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 66-2/3% in Tier 1 and 70% in Tier 2. Tiers 1 and 2 have no minimum age requirement. These Tiers provide for unlimited post-retirement cost-of-living adjustments based on the Consumer Price Index (CPI) for local Urban Consumers. Tier 1 and 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 if they do not qualify for a pension or if they waive their pension entitlements.

Members of Tier 3 must be age 50, with at least 10 years of service, to be entitled to a service pension. Annual pension benefits are equal to 20% of their 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-retirement cost-of-living adjustments based on the CPI, to a maximum of 3% per year. The Los Angeles City Council may grant an ad-hoc cost-of-living adjustment no more than every three years. Members who terminate their employment are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements.

Members of Tier 4 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-retirement cost-of-living adjustments based upon the CPI, to a maximum of 3% per year. The City Council may grant an ad-hoc cost-of-living adjustments no more than every three years. Members who terminate their employment before they are eligible for pension benefits do not receive a refund of contributions.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

Members of Tier 5 must be age 50, with at least 20 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-retirement cost-of-living adjustments based upon the CPI, to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a Cost-of-Living-Adjustment (COLA) bank for use in years in which the increase in CPI is less than 3%. The City Council may grant an ad-hoc cost-of-living adjustment no more than every three years. Members who terminate their employment are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements.

Since the Plan includes detailed provisions for each situation, members should refer to the Plan documents for more complete information.

Health Subsidy Plan

Members of the System are entitled to post-retirement health subsidy benefits under Sections 1330, 1428, 1518 and 1618 of the City Charter, Section 4.2018 of the Administrative Code, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60. Temporary subsidies are available to certain groups at earlier ages. For retirement effective dates after June 30, 1998, regular benefits begin at age 55.

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the LACERS (civilian retirees) and active Safety Members. Effective July 1, 2003, the maximum subsidy amount is \$618 per month. The City also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Health Subsidy benefits are available to members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for Health Subsidy benefits.

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

At June 30, 2004, of \$11,570,229,139 in total net assets available for benefits, \$570,069,372 was actuarially determined to be available for the Health Subsidy Plan.

Health Insurance Premium Reimbursement Program

Effective January 1, 2001, members of the System are entitled to post-retirement 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 have had at least ten years of sworn service as a fire or police pension member and must have met minimum age requirements on the effective date of retirement. The pensioner or qualified surviving spouse/domestic partner must reside either outside of California or in the state of California but not within a City-approved health plan zip code service area. They may not be enrolled in a City-approved plan.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Insurance Premium Reimbursement Program (Continued)

The reimbursement paid is a percentage of a maximum subsidy for health care based on the lesser of the health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective July 1, 2003, the maximum subsidy amount is \$618 per month. For members with Medicare Parts A and B, a different subsidy maximum is used. The City also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to post-retirement dental subsidy benefits under Section 4.1164 of the Administrative Code.

Members who retire from the System with 10 years of service, are at least 55 years old, and who are enrolled in a City 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 care based on the lesser of the health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective January 1, 2004 the maximum subsidy amount is \$39.86 per month. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, 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 and who have at least 25 years of service, and members of Tiers 3 and 5 who have at least 25 years of service and who are at least age 50 are eligible for the DROP.

Members who enroll continue to work and receive their active salary up to 5 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 pay credits. Monthly pension benefits that would have been paid to enrolled members are credited into their DROP accounts. DROP account balances will earn interest at an annual rate of 5%.

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

At June 30, 2004 and 2003, 1,120 and 882 pensioners, respectively, were enrolled in the DROP program, with total estimated values of all DROP accounts of \$131,000,000 and \$63,000,000, respectively.

Membership

The components of the System's membership were as follows at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Active Nonvested:		
Tier 1	-	-
Tier 2	1	1
Tier 3	709	802
Tier 4	430	479
Tier 5	7,700	7,687
	<u>8,840</u>	<u>8,969</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

<u>Membership (Continued)</u>	<u>2004</u>	<u>2003</u>
Active Vested:		
Tier 1	-	-
Tier 2	293	326
Tier 3	467	434
Tier 4	109	93
Tier 5	<u>2,940</u>	<u>2,836</u>
	<u>3,809</u>	<u>3,689</u>
 Pensioners and beneficiaries:		
Tier 1	1,183	1,261
Tier 2	9,810	9,943
Tier 3	314	293
Tier 4	64	37
Tier 5	<u>411</u>	<u>280</u>
	<u>11,782</u>	<u>11,814</u>
	<u>24,431</u>	<u>24,472</u>

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

B. Financial Reporting

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

C. Cash

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

D. Investments

The System is authorized to make temporary investments in instruments rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record or the equivalent as determined by the Custodian, State Street Bank.

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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

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 A-1 or P-1, 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 pension plan statement of changes in plan net assets, if material.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers.

Alternative investments are comprised predominantly of limited partnerships that invest in private equity companies. The fair values of alternative investments are estimated by the General Partners based on consideration of various factors, including current net asset 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 General Partners of investee limited partnerships.

Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by an annual external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the System's real estate consultant.

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. The corresponding proceeds due from sales are reported on the statement of plan net assets 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.

E. 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.

NOTE 3 - FUNDING POLICY

As a condition of participation, members are required to contribute a percentage of their salaries to the System. The System's actuary, in its report as of June 30, 2004, 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. Tier 1 members were required by the City Charter to contribute 6% of salary. Tiers 3, 4 and 5 members are required to contribute 8% of salary.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 3 - FUNDING POLICY (Continued)

The Charter of the City of Los Angeles 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" shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.
- C. An amount to provide for health plan subsidies for retired members.

	Percentage of Members' Salaries				
	(Tier 1)	(Tier 2)	(Tier 3)	(Tier 4)	(Tier 5)
Entry-Age Normal Cost Contribution	N/A	20.94%	15.20%	13.05%	15.63%
Amortization of Unfunded Liability	\$25.0M	\$(8.0)M	\$42.5M	\$15.1 M	\$31.0M
Health Plan Subsidy *	\$ 1.1M	\$22.0M	\$(2.3)M	\$.7M	\$ 6.8M

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above for the year ended June 30, 2004 to be as follows:

*Stated as required dollar amount. **Actuarial assumption stipulates that 83% of Tier 2 members and 100% of Tier 3 and 4 members will convert to Tier 5.

The actuarially determined unfunded (surplus) liability of the System was \$57,348,136 and (\$152,969,989) at June 30, 2004 and 2003, respectively, (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City charter, the amount at June 30, 2004 is to be amortized over the next 33 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

Contributions totaling \$209,642,186 (\$136,202,867 City and \$73,439,319 member) were made during the year ending June 30, 2004 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, 2002. These contributions included City contributions of approximately \$145,500,000 normal cost and (\$44,700,000) amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately \$21,000,000 normal cost and \$6,100,000 amortization of the unfunded actuarial accrued liability.

NOTE 4 - 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 4 - SECURITIES LENDING (Continued)

The City Charter permits the System to use investments of the System to enter into securities lending transactions - loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. 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 market value plus any accrued interest for U.S. securities lending and 105 percent of the market 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 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 market value on the System's plan net assets.

As required by GASB, cash received as collateral on securities lending transactions is reported as assets, and the liabilities from these transactions are reported in the statement of plan net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are netted against securities lending income.

The market value of total securities lent was \$1,357,500,856 and \$14,847,809 as of June 30, 2004 and 2003, respectively. The collateralized value of cash and securities was \$1,398,032,348 and \$15,591,862 as of June 30, 2004 and 2003, respectively.

NOTE 5 - CONTINGENCIES

A. 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 was \$1,057,559,214 and \$975,852,484 as of June 30, 2004 and 2003, respectively.

The Charter of the City of Los Angeles provides that member contributions earn interest at a rate based on return from investments, exclusive of gains and losses.

B. Investment Commitment

The System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately \$230,500,000 at June 30, 2004.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 6 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) INVESTMENT CATEGORIES

The System's investments in securities, which are held by State Street Bank, the Custodian, are categorized below, in accordance with categories established by the GASB, to give an indication of relative custodial credit risk assumed at year end. Investments in real estate represent non-categorized investments under GASB guidelines. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, their trust departments or agents, but not in the System's name.

Investments presented in Category 3 represent the System's investment in a pooled short-term investment fund managed by the Custodian, which also performs safekeeping of the pool's securities (Note 2-D).

At June 30, 2004, the market value of categorized investments were as follows:

<u>Types of Investments</u>	<u>Category</u>			<u>AMOUNT</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
<u>Investments - Categorized</u>				
<u>Securities Not on Securities Loan</u>				
Temporary Investments	\$ 170,127,198	\$ -	\$ 398,987,102	\$ 569,114,300
U.S. Government Obligations	475,620,187	-	-	475,620,187
Domestic Corporate Bonds	1,153,696,293	-	-	1,153,696,293
Foreign Bonds	128,339,624	-	-	128,339,624
Domestic Stocks	5,495,426,877	-	-	5,495,426,877
Foreign Stocks	1,448,524,421	-	-	1,448,524,421
<u>Total Securities Not on Loan</u>	<u>\$ 8,871,734,600</u>	<u>\$ -</u>	<u>\$ 398,987,102</u>	<u>\$ 9,270,721,702</u>
<u>Securities on Loan for Securities Collateral</u>				
U.S. Government Obligations	\$ 86,897,088	\$ -	\$ -	\$ 86,897,088
<u>Total Securities on Loan for Securities Collateral</u>	<u>\$ 86,897,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,897,088</u>
<u>Total Categorized Investments</u>	<u>\$ 8,958,631,688</u>	<u>\$ -</u>	<u>\$ 398,987,102</u>	<u>\$ 9,357,618,790</u>
<u>Investments - Non-Categorized</u>				
<u>Securities Held by Broker/Dealer Under Securities Loans with Cash Collateral:</u>				
U.S. Government Obligations				\$ 530,706,998
Domestic Corporate Bonds				414,878,912
Foreign Stocks				325,017,858
<u>Total Securities Held by Broker/Dealer Under Securities Loans with Cash Collateral</u>				<u>\$ 1,270,603,768</u>
Securities Lending Short Term Investment Pool				1,398,032,348
Alternative Investments				354,172,422
Real Estate				949,164,002
<u>Total Non-Categorized Investments</u>				<u>\$ 3,971,972,540</u>
<u>TOTAL</u>				<u>\$ 13,329,591,330</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 7 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2004:

Secured by real estate. Interest rate ranges from 2.53% to 8.26% per annum. Monthly principal and interest payments range from \$21,964 to \$190,800. The notes mature June 2005 through July 2034.

\$287,462,348

Principal payments due under such notes are as follows for the year ended June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 58,374,687	\$ 12,301,864	\$ 70,676,551
2006	12,081,978	11,775,951	23,857,929
2007	15,110,235	10,168,082	25,278,317
2008	16,581,716	9,591,364	26,173,080
2009	77,664,233	6,012,140	83,676,373
2010 through 2014	52,599,798	18,294,815	70,894,613
2015 through 2019	11,810,259	15,101,155	26,911,414
2020 through 2024	15,647,518	11,253,983	26,901,501
2025 through 2029	18,803,780	5,967,619	24,771,399
2030 through 2034	8,788,144	1,052,242	9,840,386
	<u>\$ 287,462,348</u>	<u>\$ 101,519,215</u>	<u>\$ 388,981,563</u>

NOTE 8 - OPERATING LEASE

The System leases office space under an operating lease that expires on December 31, 2011.

The annual lease payments during fiscal year ending June 30, 2004 were \$808,588 and the future minimum lease commitments are as follows :

2005	\$ 820,298
2006	834,317
2007	955,824
2008	976,273
2009	1,001,159
2010 through 2011	<u>2,100,430</u>
	<u>\$ 6,688,301</u>

NOTE 9 - DONATIONS

The System has been the recipient of donations of private equity. Under the terms of such donations, the System is the owner of the stocks until an agreed upon future date at which time the System has the right to sell them back to their original donors. Donations are recorded if proceeds are received upon sale and if the stocks earn dividends while in the possession of the System. As of June 30, 2004, potential future sales proceeds due the System from various donors are estimated to be \$15,000,000 to \$20,000,000.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

SUPPLEMENTAL SCHEDULES

FOR THE SIX YEARS ENDED JUNE 30, 2004

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - PENSION PLANS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1999	\$ 9,637,255,489	\$ 9,203,636,397	\$ (433,619,092)	104.7%	\$ 819,740,647	(52.9%)
June 30, 2000	10,985,936,206	9,604,173,677	(1,381,762,529)	114.4%	845,426,191	(163.4%)
June 30, 2001	11,835,548,939	9,954,056,461	(1,881,492,478)	118.9%	882,758,282	(213.1%)
June 30, 2002	11,491,922,362	10,606,825,276	(885,097,086)	108.3%	946,037,252	(93.6%)
June 30, 2003	11,690,750,393	11,203,558,461	(487,191,932)	104.3%	970,726,720	(50.2%)
June 30, 2004	11,735,696,180	11,389,980,813	(345,715,367)	103.0%	1,001,003,937	(34.5%)

SCHEDULE 1B

SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - HEALTH SUBSIDY PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1999	\$ 443,492,170	\$ 666,565,679	\$ 223,073,509	66.5%	\$ 819,740,647	27.2%
June 30, 2000	519,240,573	791,337,962	272,097,389	65.6%	845,426,191	32.2%
June 30, 2001	573,844,190	840,287,944	266,443,754	68.3%	882,758,282	30.2%
June 30, 2002	586,953,850	884,371,214	297,417,364	66.4%	946,037,252	31.4%
June 30, 2003	592,539,000	926,760,943	334,221,943	63.9%	970,726,720	34.4%
June 30, 2004	605,998,904	1,009,062,407	403,063,503	60.1%	1,001,003,937	40.3%

(See accompanying Independent Auditors' Report and notes to supplemental schedules of funding progress and employer contributions)

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLANS

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
1999	\$ 221,755,062	100%
2000	163,380,843	100%
2001	113,849,004	100%
2002	73,120,666	100%
2003	64,634,125	100%
2004	97,465,612	100%

SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS - HEALTH SUBSIDY PLANS

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
1999	\$ 26,633,603	100%
2000	27,456,320	100%
2001	25,084,169	100%
2002	30,326,543	100%
2003	33,894,924	100%
2004	38,737,255	100%

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING
PROGRESS AND EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules for the Pension and Health Subsidy Plan was determined as part of the actuarial valuations as of June 30, 2004. Additional information as of June 30, 2004 follows:

PENSION PLAN

Funding Method - Entry Age Normal Actuarial Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Investment Return Rate: 8.50%

Annual Salary Scale Increase:

Individually	(Varies by age)
Age:	
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and Over	5.50%

Annual Cost-of-Living Increase:

Tiers 1 and 2:	
Accrued for All Subsequent Service) [Subject to Any Applicable Caps]	5.00%
Tiers 3, 4 and 5	3.00%

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Basic Table. The valuation for those on disability retirement is based upon the 1994 Group Annuity Basic Table.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Basic Table.

HEALTH SUBSIDY PLAN

Funding Method - Entry Age Normal Actuarial Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING
PROGRESS AND EMPLOYER CONTRIBUTIONS

HEALTH SUBSIDY PLAN (Continued)

Graded Medical and Dental Cost Rate Increases:	
Pre-65 Premiums	6.75%*
Post-65 Premiums	6.50%*
Dental	6.75%*
Medicare Part B	6.50%

*Decreasing gradually to 5.0% in 2013 and beyond

85% of all retirees over age 65 are assumed to receive a subsidy for an approved health carrier. 75% of retirees under age 65 are assumed to receive a subsidy.

86% of retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage, with members being three years older than spouses/domestic partners.

90% of retirees are assumed to elect Medicare Parts A and B.

65% of retirees are assumed to elect dental coverage.

With regard to members who are currently alive, 70% of eligible spouses or domestic partners are assumed to elect continued health coverage after the member's death. With regard to deceased members, 70% of the current eligible survivors are assumed to elect health coverage.

All other assumptions used are the same as for retirement benefits.

The following methodology is used to develop blended subsidy amounts to be used in the valuation of current actives health subsidies. The participation percentages for carrier elections are assumed to be the same as the current retiree participation rates. These participation percentages are used to determine a blend of different carrier amounts. Utilization assumption factors are then applied to the blended rates. Service is prorated to determine the portion subsidized. This methodology is done separately for those with and without Medicare Parts A and B coverage, and for single, married, and surviving spouse coverage as shown.

For Participants Without Medicare Parts A and B

Plan	Participation Percentage	Maximum Subsidies			Utilization
		Single	Married	Surviving Spouse	
Fire Medical	14.3%	\$ 618.00	\$ 668.00	\$ 452.86	75.0%
Blue Cross PPO	55.8%	535.21	668.00	452.86	75.0%
California Care	15.4%	274.80	574.66	274.80	75.0%
Fire Kaiser	14.5%	286.51	569.38	286.51	75.0%
Dental	100.0%	39.86	39.86	0.00	65.0%

Coverage Type	Blended Monthly Premiums						
	Fire Medical	Blue Cross	California Care	Fire Kaiser	Dental	Medicare	Sum
Single Coverage	\$ 66.28	\$ 223.99	\$ 31.74	\$ 31.16	\$ 25.91	\$ 0.00	\$ 379.08
Married Coverage	71.64	279.56	66.37	61.92	25.91	0.00	505.40
Surviving Spouse	48.57	189.52	31.74	31.16	0.00	0.00	300.99

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING
PROGRESS AND EMPLOYER CONTRIBUTIONS

HEALTH SUBSIDY PLAN (Continued)

For Participants With Medicare Parts A and B

<u>Plan</u>	<u>Participation Percentage</u>	<u>Maximum Subsidies</u>			<u>Utilization</u>
		<u>Single</u>	<u>Married</u>	<u>Surviving Spouse</u>	
Fire Medical	36.4%	\$ 340.29	\$ 568.00	\$ 340.29	85.0%
Fire Kaiser	5.6%	340.29	648.46	340.29	85.0%
Blue Cross PPO	40.9%	311.88	571.70	311.88	85.0%
California Care	3.9%	279.67	552.72	279.67	85.0%
Police Kaiser	13.2%	232.36	462.52	232.36	85.0%
Dental	100.0%	39.86	39.86	0.00	65.0%
Medicare B	100.0%	66.60	66.60	66.60	100.0%

<u>Coverage Type</u>	<u>Blended Monthly Premiums</u>							
	<u>Fire Kaiser</u>	<u>Fire Medical</u>	<u>Blue Cross</u>	<u>California Care</u>	<u>Police Kaiser</u>	<u>Dental</u>	<u>Medicare</u>	<u>Sum</u>
Single Coverage	\$ 105.29	\$ 16.20	\$ 108.42	\$ 9.27	\$ 26.07	\$ 25.91	\$ 66.60	\$ 357.76
Married Coverage	175.74	30.87	198.75	18.32	51.89	25.91	66.60	568.08
Surviving Spouse	105.29	16.20	108.42	9.27	26.07	0.00	66.60	331.85

For the valuation of current retirees, subsidies valued are based on actual average subsidies shown below. Averages are calculated on a health participant basis and include medical, dental, and Medicare Part B premium subsidies.

Monthly Average Retiree Subsidies

	<u>Pre-65</u>	<u>Post-65</u>
Single	\$ 458.00	\$ 400.00
Married	607.00	621.00
Surviving Spouse	344.00	357.00