

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM**

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2007 and 2006, 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2007 and 2006, and changes therein for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007 on our consideration of the System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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Our audit was 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 audits of the basic financial statements and, in our opinion, is fairly presented in all material respects, when considered in relation to the basic financial statements taken as a whole.

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

Simpson & Simpson  
November 20, 2007

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

ASSETS	June 30, 2007			June 30, 2006
	Pension	Health Subsidy	Combined	Combined
Cash	\$ 4,795,792	\$ 248,901	\$ 5,044,693	\$ 712,400
Receivables				
Accrued Interest and Dividends	49,814,264	2,585,352	52,399,616	48,570,636
Contributions	5,511,909	286,067	5,797,976	5,640,840
Due from Brokers	256,080,193	13,290,519	269,370,712	339,017,755
Total Receivables	311,406,366	16,161,938	327,568,304	393,229,231
Investments at Fair Value				
Temporary	576,958,031	29,944,025	606,902,056	767,314,885
U.S. Government Obligations	1,534,269,323	79,628,321	1,613,897,644	1,479,902,172
Domestic Corporate Bonds	1,883,735,788	97,765,572	1,981,501,360	1,927,855,410
Foreign Bonds	32,059,127	1,663,863	33,722,990	5,825,140
Domestic Stocks	6,267,874,638	325,301,643	6,593,176,281	5,561,773,481
Foreign Stocks	3,080,143,953	159,858,955	3,240,002,908	2,684,964,028
Real Estate	1,121,309,590	58,195,780	1,179,505,370	1,034,390,568
Alternative Investments	786,144,470	40,800,766	826,945,236	484,313,113
Total Investments	15,282,494,920	793,158,925	16,075,653,845	13,946,338,797
Securities Lending Collateral	2,929,105,547	152,020,087	3,081,125,634	2,492,659,412
TOTAL ASSETS	18,527,802,625	961,589,851	19,489,392,476	16,832,939,840
LIABILITIES				
Accounts Payable and Accrued Expenses	14,537,459	754,492	15,291,951	9,859,740
Benefits in Process of Payment	29,735,893	197,339	29,933,232	11,918,515
Due to Brokers	474,501,044	24,626,525	499,127,569	505,682,310
Mortgage Payable	323,341,239	16,781,356	340,122,595	309,658,988
Securities Lending Collateral	2,929,105,547	152,020,087	3,081,125,634	2,492,659,412
TOTAL LIABILITIES	3,771,221,182	194,379,799	3,965,600,981	3,329,778,965
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS	\$ 14,756,581,443	\$ 767,210,052	\$ 15,523,791,495	\$ 13,503,160,875

The notes are an integral part of these financial statements.

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

	Year Ended June 30, 2007			Year Ended June 30, 2006
	Pension	Health Subsidy	Combined	Combined
<b>ADDITIONS</b>				
<b>Contributions</b>				
City Contributions	\$ 224,946,082	\$ 55,162,681	\$ 280,108,763	\$ 175,359,083
Member Contributions	91,263,474	-	91,263,474	79,402,694
<b>Total Contributions</b>	<b>316,209,556</b>	<b>55,162,681</b>	<b>371,372,237</b>	<b>254,761,777</b>
<b>Investment Income</b>				
Net Appreciation in Fair Value of Plan Investments, Including Gains and Losses on Sales	1,977,505,066	104,941,826	2,082,446,892	1,196,506,562
Interest	170,382,033	9,041,798	179,423,831	175,036,705
Dividends	164,765,973	8,743,766	173,509,739	142,897,955
Net Real Estate Income	39,540,351	2,098,319	41,638,670	41,370,198
Income from Alternative Investments	12,599,256	668,615	13,267,871	8,191,101
Securities Lending Income	9,532,658	505,877	10,038,535	11,573,821
Less: Securities Lending Expense	(1,187,347)	(63,010)	(1,250,357)	(1,365,442)
Other Income	7,576,559	402,071	7,978,630	387,372
<b>Subtotal</b>	<b>2,380,714,549</b>	<b>126,339,262</b>	<b>2,507,053,811</b>	<b>1,574,598,272</b>
Less: Investment Manager Expense	(45,352,364)	(2,406,750)	(47,759,114)	(41,524,390)
<b>Net Investment Income</b>	<b>2,335,362,185</b>	<b>123,932,512</b>	<b>2,459,294,697</b>	<b>1,533,073,882</b>
<b>Other Income</b>				
Donations	820,727	43,554	864,281	-
Miscellaneous	1,470,760	78,051	1,548,811	1,425,026
<b>Total Other Income</b>	<b>2,291,487</b>	<b>121,605</b>	<b>2,413,092</b>	<b>1,425,026</b>
<b>TOTAL ADDITIONS</b>	<b>2,653,863,228</b>	<b>179,216,798</b>	<b>2,833,080,026</b>	<b>1,789,260,685</b>
<b>DEDUCTIONS</b>				
Pension Benefits	733,810,365	-	733,810,365	591,041,908
Payment of Medicare Reimbursement	-	6,258,210	6,258,210	5,565,510
Payment of Health Subsidy	-	55,957,812	55,957,812	53,120,341
Refund of Contributions	4,792,898	-	4,792,898	4,113,034
Administrative Expenses	11,044,038	586,083	11,630,121	9,617,352
<b>TOTAL DEDUCTIONS</b>	<b>749,647,301</b>	<b>62,802,105</b>	<b>812,449,406</b>	<b>663,458,145</b>
<b>NET INCREASE</b>	<b>1,904,215,927</b>	<b>116,414,693</b>	<b>2,020,630,620</b>	<b>1,125,802,540</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS</b>				
Beginning of Year	12,852,365,516	650,795,359	13,503,160,875	12,377,358,335
End of Year	<u>\$ 14,756,581,443</u>	<u>\$ 767,210,052</u>	<u>\$ 15,523,791,495</u>	<u>\$ 13,503,160,875</u>

The notes are an integral part of these financial statements.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS

The City of Los Angeles Fire and Police Pension System (the System or the Plan) operates under the City of Los Angeles Charter and Administrative Code provisions, which provide that the funding requirements of the System will be satisfied by the City of Los Angeles. The funding requirements of the System are determined by the result of annual actuarial valuations.

Pension Plan

The System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain port police officers of the City of Los Angeles. As of June 30, 2007, the System is composed of five tiers. Benefits are based on the 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 firefighters and police officers hired on or after January 1, 2002. Active members of Tiers 2, 3, and 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 5 is also the current tier for all harbor port police officers hired on or after January 8, 2006. 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 through January 5, 2007.

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 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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%. 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 age 50, with at least 10 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. 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. Members who terminate their employment before they are eligible for pension benefits do not receive a refund of contributions.

Tier 5 members 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-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%. On July 1, 2006, eligible Tier 5 pensioners, including Tier 5 pensioners in DROP, had an additional 2.1% deposited in the COLA bank. The City Council may grant an ad-hoc COLA no more than every three years. Members who terminate their employment are entitled to a refund of their contributions plus Board approved interest 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 CITY CHARTER AND ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.

Health Subsidy Plan

Members of the System are entitled to post-employment 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 on or after July 1, 1998, regular benefits begin at age 55.



CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

Administrative Code Section 4.1154 (e) provides that beginning in 2006, the System's Board is authorized to make discretionary changes, on an annual basis, 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. Effective July 1, 2006, the maximum subsidy amount is \$782.44 per month. The System 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, 2007, of \$15,523,791,495 in total net assets available for benefits, \$767,210,052 was determined to be available for the Health Subsidy Plan based on a percentage derived from the actuarial report adopted on November 15, 2007.

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 have had at least ten years of sworn service 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 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.

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, 2006, the maximum subsidy amount is \$782.44 per month. For members with Medicare Parts A and B, a different subsidy maximum is used. The System also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to post-employment 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 dental subsidy in effect for LACERS (civilian retirees) and active Safety Members. The maximum subsidy amount was \$34.84 for the period July 1, 2006 through December 31, 2006. Effective January 1, 2007 the maximum subsidy amount is \$37.18 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 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 DROP.

Letters of Agreement have been signed to extend DROP for a five-year period, until April 30, 2012. The City will complete an actuarial study of the DROP program in order to evaluate the cost neutrality of the DROP program. If the actuary determines that DROP is not cost neutral, the City and the unions will negotiate adjustments to the program. These adjustments would be effective no later than May 1, 2008. If the City and the unions cannot agree on necessary plan adjustments by March 1, 2008, the City will suspend new entrants into DROP until an agreement is reached.

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 DROP, plus applicable COLA's.

At June 30, 2007 and 2006, 1,200 and 1,215 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of \$213,000,000 and \$255,000,000, respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership were as follows at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Active Nonvested:		
Tier 1	--	--
Tier 2	--	--
Tier 3	167	360
Tier 4	331	354
Tier 5	<u>8,592</u>	<u>8,145</u>
	<u>9,090</u>	<u>8,859</u>
Active Vested:		
Tier 1	--	--
Tier 2	225	240
Tier 3	863	717
Tier 4	139	135
Tier 5	<u>2,901</u>	<u>2,952</u>
	<u>4,128</u>	<u>4,044</u>
Pensioners and Beneficiaries:		
Tier 1	929	996
Tier 2	9,341	9,542
Tier 3	388	357
Tier 4	117	102
Tier 5	<u>1,199</u>	<u>818</u>
	<u>11,974</u>	<u>11,815</u>
	<u>25,192</u>	<u>24,718</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

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.

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, 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 statement of changes in plan net assets.

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 mainly in privately-owned 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

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.

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 recorded on ex-dividend date and interest income are 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.

F. Implementation of New Accounting Pronouncement

The System implemented the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal year 2006-07. Other postemployment benefits (OPEB) include postemployment healthcare, as well as other nonpension benefits provided to employees as part of their compensation for services.

NOTE 3 - FUNDING POLICY

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 Tier 5 contributions contingent on the System remaining at least 100% actuarially funded for pension benefits. Effective July 1, 2006, Tier 5 members are required to contribute 9% of salary because the System was 94.1% actuarially funded based on the actuarial valuation report as of June 30, 2005.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007 AND 2006

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.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above, for the year ended June 30, 2007 to be as follows:

	Percentage of Members' Salaries				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Entry-Age Normal Cost Contribution	N/A	23.74%	15.43%	12.84%	16.62%
Amortization of Unfunded Liability *	\$22.0M	\$24.4M	\$18.7M	\$ 6.9M	\$159.2M
Health Plan Subsidy *	\$ 2.2M	\$26.2M	\$(2.5)M	\$(0.4)M	\$31.0M

\*Stated as required dollar amount.

The actuarially determined unfunded liability (UAAL) of the System was \$1,077,977,939 and \$1,707,386,108 at June 30, 2007 and 2006, 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, UAAL at June 30, 2007 is to be amortized over the next 30 years\*\* through contributions to be made by the City.

\*\*Amortization to be completed by year 2037.

During fiscal year 2007, total contributions of \$371,372,237 (\$280,108,763 from the City and \$91,263,474 from the members) were made, with respect to the pension and health subsidy plans, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2005. For the pension plan, the contributions included City contributions of \$181.7 million for normal cost and \$43.3 million for unfunded supplemental present value annual amount. For the health plan subsidy, the contributions consisted of \$29.7 million for normal cost and \$25.4 million for unfunded actuarial accrued liability annual amount.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

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.

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 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 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 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. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

The following represents the balances relating to the security lending transactions as of June 30, 2007.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 4 - SECURITIES LENDING (Continued)

Fair Value of collateral received for loaned securities as of June 30, 2007:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Collateral Securities</u>
U. S. Government and Agency Securities	\$1,182,199,380	\$160,330,449	\$1,342,529,829
Domestic Corporate Fixed Income Securities	145,722,601	51,404,181	197,126,782
International Fixed Income Securities	3,663,798	--	3,663,798
Domestic Stocks	1,214,386,613	22,061,905	1,236,448,518
International Stocks	<u>535,153,242</u>	<u>28,560,972</u>	<u>563,714,214</u>
	<u>\$ 3,081,125,634</u>	<u>\$262,357,507</u>	<u>\$3,343,483,141</u>

Fair value of loaned securities as of June 30, 2007:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Fair Value of Underlying Securities</u>
U. S. Government and Agency Securities	\$1,160,074,419	\$157,036,948	\$1,317,111,367
Domestic Corporate Fixed Income Securities	142,591,825	50,501,085	193,092,910
International Fixed Income Securities	3,504,844	--	3,504,844
Domestic Stocks	1,186,271,669	21,505,516	1,207,777,185
International Stocks	<u>510,303,340</u>	<u>27,170,309</u>	<u>537,473,649</u>
	<u>\$3,002,746,097</u>	<u>\$256,213,858</u>	<u>\$3,258,959,955</u>

As of June 30, 2007, the fair value of total securities lent was \$3,258,959,955. The fair value of collateral received was \$3,343,483,141. Of this amount, \$3,081,125,634 represents cash collateral and \$262,357,507 represents 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 statement of plan net assets. The System's income and expenses related to securities lending were \$10,038,535 and \$1,250,357, respectively for the year ended June 30, 2007.



CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS

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 System considers investments purchased with a maturity of 12 months or less to be temporary investments. The carrying value of cash and temporary investments at June 30, 2007 includes \$5,044,693 held by the City Treasurer's office and \$606,902,056 in short-term investment funds (STIF). The amounts held by the City Treasurer's office are pooled with funds of other City agencies and are not individually identifiable. Short-term investments are comprised of \$606,902,056 in collective STIF.

Credit Risk

Credit risk is the risk that an issuer or a counter party 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. As of June 30, 2007, the quality ratings of the System's fixed income investments in U.S. Government obligations, domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 187,444,142	9.31%
AA	37,072,568	1.84%
A	96,735,171	4.80%
BBB	287,832,095	14.28%
BB	232,429,412	11.53%
B	267,268,448	13.26%
CCC	97,927,481	4.86%
Not Rated	<u>808,515,033</u>	<u>40.12%</u>
Subtotal	\$2,015,224,350	<u>100.00%</u>
U. S. Government Issued or Guaranteed Securities	<u>1,613,897,644</u>	
Total Fixed Income Investments	<u>\$3,629,121,994</u>	

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 5 - 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, 2007, the System's exposure to such risk was \$20,401,971 comprised of foreign currencies held outside the custodial bank.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counter party, 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 counter party. The System's investments are not exposed to custodial risk since they are all held by the custodian and are registered in the System's name.

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, 2007 the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. One of the ways the System manages its exposure to interest rate risk is by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Lehman Brothers Aggregate Index for core fixed income investments, (2) the Lehman Brothers Long Term Government/Corporate Index for long duration investments, and (3) the First Boston High Yield 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.

Investment Type	Fair Value	Effective Duration (in Years)
Asset Backed Securities	\$ 58,385,970	5.10
Commercial Mortgages	65,992,589	31.70
Corporate Bonds	1,189,991,014	24.38
Government Agencies	104,532,319	2.13
Government Bonds	623,414,243	16.17
Government Mortgage Backed Securities	344,905,333	16.03
Index Linked Government Bonds	541,045,749	10.57
Non-Government Backed Collateralized Mortgage Obligations	16,521,082	24.54
Bond Index Fund	<u>684,333,695</u>	22.34
Total Fixed Income Investments	<u>\$ 3,629,121,994</u>	

Investments that are highly sensitive to interest rate risk as of June 30, 2007 are as follows:

Investment Type	Fair Value
Asset Backed Securities	\$ 58,385,970
Commercial Mortgages	65,992,589
Government Agencies	104,532,319
Government Mortgage Backed Securities	344,905,333
Index Linked Government Bonds	541,045,749
Non-Government Backed Collateralized Mortgage Obligations	<u>16,521,082</u>
	<u>\$ 1,131,383,042</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 5 - CASH, TEMPORARY INVESTMENTS AND OTHER INVESTMENTS (Continued)

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 18% of the total portfolio for non-U.S. investments in equities. 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, 2007 are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value</u>
Australian Dollar	\$ 77,911,554
Brazilian Real	55,688,545
British Pound	471,779,614
Canadian Dollar	42,586,998
Chile Peso	778,944
Czech Koruna	15,893,718
Danish Krone	21,384,645
Egyptian Pound	3,774,601
Euro	1,229,400,194
Hong Kong Dollar	101,057,912
Hungarian Forint	24,379,924
Indonesian Rupiah	9,143,097
Israeli Shekel	2,420,889
Japanese Yen	604,166,677
Korean Won	134,144,862
Mexican Peso	17,045,586
Myanmar Kyat	19,188,744
New Zealand Dollar	13,542,885
Norwegian Krone	46,531,856
Philippine Peso	5,056,349
Polish Zloty	24,631,062
Russian Ruble	631,146
Singapore Dollar	12,446,445
South African Rand	32,096,436
Swedish Krona	75,669,907
Swiss Franc	161,439,666
Taiwan New Dollar	59,198,100
Thai Baht	2,020,199
Turkish New Lira	9,875,154
	<u>\$ 3,273,885,709</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 6 - FUTURES AND FORWARD CONTRACTS

The System, through its outside investment managers, 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.

At June 30, 2007, the System had notional value of \$205,258,624 exposure in futures and forward contracts in foreign currency exchange transactions with an unrealized gain of \$1,357,665. At June 30, 2007, the System held other futures and forward contracts with a notional value of \$135,498,204 with an unrealized gain of \$12,563.

NOTE 7 - MORTGAGES PAYABLE

Mortgages are secured by real estate. Interest rates range from 4.35% to 7.5% per annum. Monthly principal and interest payments range from \$48,520 to \$1,242,765. The mortgages mature from February 2008 to June 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>
2008	\$ 16,875,493	\$ 19,995,142	\$ 36,870,635
2009	60,623,324	16,883,942	77,507,266
2010	22,070,450	15,071,483	37,141,933
2011	35,515,803	13,675,665	49,191,468
2012	2,600,288	12,589,263	15,189,551
2013 through 2017	150,750,266	37,572,486	188,322,752
2018 through 2022	15,620,053	15,369,711	30,989,764
2023 through 2027	20,164,425	9,091,841	29,256,266
2028 through 2032	<u>15,902,493</u>	<u>2,484,592</u>	<u>18,387,085</u>
	<u>\$ 340,122,595</u>	<u>\$ 142,734,125</u>	<u>\$ 482,856,720</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007 AND 2006

NOTE 8 - OPERATING LEASE

The System leases office space under an operating lease that expires on April 14, 2012.

The annual lease payments for the year ended June 30, 2007, were \$826,998 and the minimum lease commitments for futures fiscal years are as follows:

2008	\$	991,346
2009		1,020,676
2010		1,056,662
2011		1,100,942
2012		<u>1,155,586</u>
	<u>\$</u>	<u>5,325,212</u>

NOTE 9 - 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 was \$1,188,525,936 and \$1,168,037,586 as of June 30, 2007 and 2006, 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.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$572,908,000 and \$678,300,000 at June 30, 2007 and 2006 respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 10 - DONATIONS

From 1999 to 2002, the System received donations of non-voting common stock of non-public corporations, pursuant to repurchase agreements, between the System and the donors, structured entirely by the donors' tax advisers. Under the terms of the agreements, the System, although the owner of the donated common stock, acknowledge that: the non-voting common shares have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968; that no public market exists with respect to the non-voting common shares; and, that the common shares are subject to a right of first refusal prohibiting the System from selling or otherwise disposing of any common shares without first offering to sell them to the donor. The shares are recorded at carry and market values of zero for the following reasons: (1) there is no public market for the shares, (2) the System does not have the right to sell or otherwise dispose of the shares until the agreed upon future date, and (3) the shares were received as a donation for no consideration. Donation income is only recorded if cash dividends are received from the stock while in the possession of the System.

The System has been informed that the Internal Revenue Service is investigating the tax treatment claimed by the donors in connection with these donations of stock. There have been no allegations of inappropriate activity by the System. The last donation of private equity accepted by the System was in 2002. The System has returned majority of donation of private equity since August 2005. The System has received the following income from these donations: \$2,685,000 in 2002; \$2,918,066 in 2003; \$14,402,308 in 2004; \$7,791,262 in 2005, none in 2006, and \$864,281 in 2007.

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION**



CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 1A

SCHEDULE OF FUNDING PROGRESS – PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
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%)
June 30, 2005	11,634,113,683	12,357,524,467	723,410,784	94.1%	1,037,444,701	69.7%
June 30, 2006	12,121,402,902	12,811,383,737	689,980,835	94.6%	1,092,814,844	63.1%
June 30, 2007	13,215,668,458	13,324,089,628	108,421,170	99.2%	1,135,591,951	9.5%

SCHEDULE 1B

SCHEDULE OF FUNDING PROGRESS – HEALTH SUBSIDY PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL As a % of Payroll
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%
June 30, 2005	597,199,108	1,257,504,654	660,305,546	47.5%	1,037,444,701	63.6%
June 30, 2006	613,782,166	1,631,187,439	1,017,405,273	37.6%	1,092,814,844	93.1%
June 30, 2007	687,096,380	1,656,653,149	969,556,769	41.5%	1,135,591,951	85.4%

CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM

SCHEDULE 2A

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2002	\$ 73,120,666	100%
2003	64,634,125	100%
2004	97,465,612	100%
2005	135,853,688	100%
2006	143,945,802	100%
2007	224,946,082	100%

SCHEDULE 2B

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution (1)</u>	<u>Percent Contributed</u>
2002	\$ 30,326,543	100%
2003	33,894,924	100%
2004	38,737,255	100%
2005	31,541,933	100%
2006	31,413,281	100%
2007	55,162,681	100%

(1) Payable throughout the plan year. For years 2007 and prior, Annual Required Contribution may not have been determined in compliance with GASB 43 and 45 due to maximum amortization period and for the medical trend rate employed. All results for 2007 and prior years were based on valuation by the actuary.

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

NOTE 1 – DESCRIPTION

The information presented in the required supplementary schedules for the Pension and Health Subsidy Plan was determined as part of the actuarial valuations for the applicable year.

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS

Pension Plan

Valuation Date – June 30, 2007

Actuarial Cost Method – Entry Age Normal Cost Method

Amortization Method – For Tier 1, level dollar amortization is used ending on June 30, 2037. For Tier 2, level percent of payroll amortization is used ending on June 30, 2037 as a percent of total valuation payroll. For other Tiers, level percent of payroll with multiple layers. Actuarial gains/losses are amortized over 15 years (21 years for gains/losses at June 30, 2007). Plan and assumption changes are amortized over 30 years.

Asset Valuation Method – Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period.

Other Actuarial Assumptions:

Investment Return Rate:	8.00%
Inflation Rate:	3.75%
Real Across-the-Board Salary Increase:	0.50%
Projected Salary Increase:	4.90% through 10.09%

Annual Salary Scale Increase:

Age:	(Varies by age)
Under 25	5.84%
25-29	4.99%
30-34	3.87%
35-39	2.75%
40-44	1.75%
45-49	1.17%
50-54	0.87%
55-59	0.69%
60 and Over	0.65%

Cost-of-Living Adjustments:

Tiers 1 and 2:	3.75%
Tiers 3, 4, and 5:	3.00%

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

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Pension Plan (Continued)

Mortality Among Retirees – The valuation for those on service retirement is based upon the RP-2000 Combined Healthy Mortality Table (separate for males and females) set back two years for members. The valuation for those on disability retirement is based upon the RP-2000 Combined Healthy Mortality Table (separate for males and females) set forward one year for members.

Mortality Among Beneficiaries – The valuation is based upon the RP-2000 Combined Healthy Mortality Table (separate for males and females) for beneficiaries.

Health Subsidy Plan

Valuation Date – June 30, 2007

Actuarial Cost Method – Entry Age Normal, Level Percent of Pay

Amortization Method – Level Percent of Pay Over 30 Years (with the exception of Tier 1 that is amortized as a level dollar)

Remaining Amortization Period – 29 Years as of June 30, 2007

Asset Valuation Method – The actuarial value of assets is a five-year smoothed market value of assets. This method recognizes 20 percent of the year's investment earnings in excess of (or less than) expected investment earnings in the current year and each of the four prior years. The expected value of assets for the year is the market value of assets at the beginning of the prior year brought forward with interest at the assumed rate of return to the end of the current year plus contributions minus benefit disbursements, all adjusted with interest at the assumed rate of return to the end of the current year.

Other Actuarial Assumptions:

Projected Payroll Increase – 4.25%

Health Care Cost Trend Rate:

Medical (applicable to both pre-65 and post-65 Premiums)	9.00%*
Dental	5.00%
Medical Part B	4.07%**

\*Decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%

\*\*Adjusting to 5% for all years

Participation – 80% of all eligible retirees under age 65 are assumed to receive a subsidy for an approved health carrier. 90% of all eligible future retirees age 65 and older are assumed to receive a subsidy for an approved health carrier.

Medicare Coverage – 100% of future retirees are assumed to elect Medicare Parts A and B.

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

NOTE 2 – ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

Health Subsidy Plan (Continued)

Dental Coverage – 70% of future retirees are assumed to elect dental coverage.

Spousal Coverage – 65% of future retirees who receive a medical subsidy are assumed to elect coverage for married and surviving spouses or domestic partners.

Spouse Age Difference – Husbands are assumed to be 3 years older than wives.

Other actuarial assumptions on mortality rates, consumer price index, net investment return, age of spouse, and future benefit accruals are the same as for retirement benefits.

The following methodology is used to develop per capita cost to be used in the valuation of current actives health subsidies. The assumed costs on a composite basis (and other demographic factors such as sex and family status) are the future costs of providing postretirement health care benefits at each age. To determine the assumed costs on a composite basis, historical claims costs are reviewed, and adjusted for increases in the cost of health care services.

For Participants Under Age 65:

Plan	Election Percentage	Maximum Subsidies			Utilization
		Single	Married	Surviving Spouse	
Fire Medical	15%	\$ 837.21	\$ 837.21	\$ 492.36	80%
Blue Cross PPO	55%	837.21	837.21	492.36	80%
California Care	15%	837.21	837.21	492.36	80%
Fire Kaiser	0%	837.21	837.21	492.36	80%
Police Kaiser	15%	837.21	837.21	492.36	80%
Dental	100%	37.18	37.18	0.00	70%

For Participants Age 65 and Over:

Plan	Election Percentage	Maximum Subsidies			Utilization
		Single	Married	Surviving Spouse	
Fire Medical	35%	\$ 364.22	\$ 597.11	\$ 364.22	90%
Blue Cross PPO	45%	353.67	696.09	353.67	90%
California Care	5%	307.92	628.05	307.92	90%
Fire Kaiser	5%	343.97	743.77	343.97	90%
Police Kaiser	10%	210.54	532.38	210.54	90%
Dental	100%	37.18	37.18	0.00	70%
Medicare B	100%	93.50	93.50	0.00	100%



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
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CARL P. SIMPSON, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

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, 2007 and 2006, and related statements of changes in plan net assets for the years ended, and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

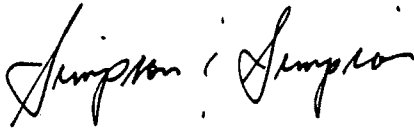
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 result of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Fire and Police Pension Commissioners, the System's audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties.



Simpson & Simpson  
Los Angeles, California  
November 20, 2007