

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

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

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
STATEMENTS OF PLAN NET ASSETS	10
STATEMENTS OF CHANGES IN PLAN NET ASSETS	11
NOTES TO FINANCIAL STATEMENTS	12
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE 1A - Schedule of Funding Progress – Pension Plan	34
SCHEDULE 1B – Schedule of Funding Progress – Health Subsidy Plan	34
SCHEDULE 2A – Schedule of Employer Contributions – Pension Plan	35
SCHEDULE 2B –Schedule of Employer Contributions – Health Subsidy Plan	35
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36



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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, 2008 and 2007, 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, the System's net assets as of June 30, 2008 and 2007, and the changes in net assets 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. 50, *Pension Disclosures – An Amendment of GASB Statement No. 25 and No. 27*.

The Management's Discussion and Analysis on pages 3 through 9, the Schedules of Funding Progress on page 34, and the Schedules of Employer Contributions on page 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008 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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, which appears to read 'Simpson : Simpson'.

Los Angeles, California  
November 21, 2008

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

We are pleased to provide this overview and analysis of the financial activities of the City of Los Angeles Fire and Police Pension System (the System or the Plan) for the years ended June 30, 2008 and 2007.

**FINANCIAL HIGHLIGHTS**

- Net assets at the close of the fiscal year ended June 30, 2008 were \$13.6 billion and \$738.7 million for the Pension Plan and Health Subsidy Plan, respectively. All of the net assets may be used to meet the System's obligations to members and their beneficiaries.
- Net assets decreased by \$1.1 billion or 7.7% and \$28.5 million or 3.7% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2008, the date of the latest actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 99.1% and 41.8%, respectively.
- Additions to the Pension Plan's net assets decreased \$3.0 billion or 113.9% from \$2.6 billion to a negative \$368.3 million, due primarily to the net depreciation in the fair value of investments in 2008.
- Deductions from the Pension Plan's net assets increased \$19.2 million or 2.6% over the prior year from \$749.7 million to \$768.9 million over the prior year.
- Additions to the Health Subsidy Plan's net assets decreased \$136.3 million or 76.0% from \$179.2 million to \$42.9 million, due to the net depreciation in the fair value of investments in 2008.
- Deductions from the Health Subsidy Plan's net assets increased \$8.6 million or 13.8% over the prior year from \$62.8 million to \$71.4 million.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

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

*The Statement of Changes in Plan Net Assets* reports additions to and deductions from the plan net assets during the year.

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

*Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented in pages 12 to 32 of this report.

*Required Supplementary Information:* This report presents certain required supplementary information concerning the Pension Plan's and Health Subsidy Plan's progress in funding to provide pension and health benefits to members. The report also provides summary information on employer contributions. The required supplementary information is on pages 34 and 35 of this report.

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

**FINANCIAL ANALYSIS**

*Pension Plan*

**Plan Net Assets**

A summary of the Pension Plan's net assets and changes in net assets are presented below:

Condensed Statement of Plan Net Assets

(In Thousands)

	2008	2007	Change	% Change
Cash	\$ 651	\$ 4,796	\$ (4,145)	(86.4%)
Receivables	311,911	311,406	505	0.2%
Investments	<u>16,585,064</u>	<u>18,211,600</u>	<u>(1,626,536)</u>	(8.9%)
Total Assets	16,897,626	18,527,802	(1,630,176)	(8.8%)
Liabilities	<u>3,278,180</u>	<u>3,771,221</u>	<u>(493,041)</u>	(13.1%)
Net Assets	<u>\$ 13,619,446</u>	<u>\$ 14,756,581</u>	<u>\$ (1,137,135)</u>	(7.7%)

Net assets decreased by \$1.1 billion (7.7%) to \$13.6 billion from the prior fiscal year. Investments were down \$1.6 billion when compared with the prior fiscal year, attributable to the decline in fair value of investments as a result of the subprime mortgage melt down and financial market crisis.

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

***Pension Plan (Continued)***

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets

	(In Thousands)			
	2008	2007	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 261,636	\$ 224,946	\$ 36,690	16.3%
Member Contributions	98,074	91,263	6,811	7.5%
Net Investment (Loss) Income	(730,673)	2,335,362	(3,066,035)	(131.3%)
Other Income	2,709	2,292	417	18.2%
	<u>(368,254)</u>	<u>2,653,863</u>	<u>(3,022,117)</u>	<u>(113.9%)</u>
<b>Deductions</b>				
Benefits Payment	754,312	733,810	20,502	2.8%
Refund of Contributions	2,768	4,793	(2,025)	(42.2%)
Administrative Expenses	11,801	11,044	757	6.9%
	<u>768,881</u>	<u>749,647</u>	<u>19,234</u>	<u>2.6%</u>
Net Increase (Decrease)	(1,137,135)	1,904,216	(3,041,351)	(159.7%)
Net Assets, Beginning of Year	14,756,581	12,852,365	1,904,216	14.8%
	<u>\$ 13,619,446</u>	<u>\$ 14,756,581</u>	<u>\$ (1,137,135)</u>	<u>(7.7%)</u>

**Additions to Plan Net Assets**

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

Contributions for fiscal year 2008 totaled \$359.7 million, up \$43.5 million or 13.8% over fiscal year 2007. The increase in contributions was due to: a) an increase of 277 active members and b) an increase in the actuarial determined contribution rate. The employer contribution rate for fiscal year 2008 was 21.7% of covered payroll compared to 19.8% of covered payroll for fiscal year 2007. Current year contributions also included \$4.7 million remittance from the Harbor Department and \$5.4 million transfers from LACERS for certain Harbor port police officers previously members of LACERS who elected to transfer to the System during the enrollment period of January 8, 2006 to January 5, 2007.



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

***Pension Plan (Continued)***

Net investment income amounted to a negative \$730.7 million, down by \$3.1 billion or 131.3% when compared with \$2.3 billion from the prior fiscal year. This decline in net investment income is mostly attributed to the net depreciation in the fair value of investments.

**Deductions from Plan Net Assets**

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

Deductions for the fiscal year ended June 30, 2008 totaled \$768.9 million, an increase of \$19.2 million over 2007. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of pensioners and beneficiaries and the cost-of-living adjustment granted starting July 1, 2007.

***Health Subsidy Plan***

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

**Plan Net Assets**

Condensed Statement of Plan Net Assets

	(In Thousands)			
	2008	2007	Change	% Change
Cash	\$ 35	\$ 249	\$ (214)	(85.9%)
Receivables	16,877	16,162	715	4.4%
Investments	897,403	945,179	(47,776)	(5.1%)
 Total Assets	 914,315	 961,590	 (47,275)	 (4.9%)
 Liabilities	 175,622	 194,380	 (18,758)	 (9.7%)
 Net Assets	 \$ 738,693	 \$ 767,210	 \$ (28,517)	 (3.7%)

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

***Health Subsidy Plan (Continued)***

Net assets decreased by \$28.5 million (3.7%) to \$738.7 million when compared to \$767.2 million of the prior fiscal year. Investments were down \$47.8 million when compared with the prior fiscal year, attributable to the decline in fair value as a result of the subprime mortgage melt down and financial market crisis.

**Changes in Plan Net Assets**

Condensed Statement of Changes in Plan Net Assets

	(In Thousands)			
	2008	2007	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 78,257	\$ 55,163	\$ 23,094	41.9%
Net Investment (Loss) Income	(35,454)	123,932	(159,386)	(128.6%)
Other Income	132	122	10	8.2%
	<u>42,935</u>	<u>179,217</u>	<u>(136,282)</u>	<u>(76.0%)</u>
<b>Deductions</b>				
Benefits Payment	70,879	62,216	8,663	13.9%
Administrative Expenses	573	586	(13)	(2.2%)
	<u>71,452</u>	<u>62,802</u>	<u>8,650</u>	<u>13.8%</u>
Net Increase (Decrease)	(28,517)	116,415	(144,932)	(124.5%)
Net Assets, Beginning of Year	<u>767,210</u>	<u>650,795</u>	<u>116,415</u>	<u>17.9%</u>
Net assets, End of Year	<u>\$ 738,693</u>	<u>\$ 767,210</u>	<u>\$ (28,517)</u>	<u>(3.7%)</u>

**Additions to Plan Net Assets**

Total additions to net assets decreased \$136.3 million compared to fiscal year 2007. This is due primarily to the decrease in net investment income in the amount of \$159.4 million mostly attributed to the decline in the fair value of investments, offset by increase in contributions of \$23.1 million or 41.9% over fiscal year 2007. The employer contribution rate for fiscal year 2008 was 6.5% of covered payroll compared to 4.9% of covered payroll for fiscal year 2007.

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

*Health Subsidy Plan (Continued)*

Deductions from Plan Net Assets

Deductions represent medical and dental insurance premiums paid for the pensioners and beneficiaries and administrative expenses. Current year deductions were \$8.7 million or 13.8% more than the total deductions of the prior year. This is due primarily to increase in the medical and dental insurance premiums and increase in the number of pensioners and beneficiaries.

**REQUEST FOR INFORMATION**

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

Michael A. Perez, General Manager  
City of Los Angeles Fire and Police Pension System  
360 E. Second Street, Suite 400  
Los Angeles, CA 90012

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

ASSETS	June 30, 2008			June 30, 2007
	Pension	Health Subsidy	Combined	Combined
Cash	\$ 651,462	\$ 35,250	\$ 686,712	\$ 5,044,693
Receivables				
Accrued Interest and Dividends	44,727,361	2,420,156	47,147,517	52,399,616
Contributions	6,191,505	335,017	6,526,522	5,797,976
Due from Brokers	260,992,484	14,122,059	275,114,543	269,370,712
Total Receivables	<u>311,911,350</u>	<u>16,877,232</u>	<u>328,788,582</u>	<u>327,568,304</u>
Investments at Fair Value				
Temporary	592,016,332	32,033,449	624,049,781	606,902,056
U.S. Government Obligations	1,321,650,346	71,513,262	1,393,163,608	1,613,897,644
Domestic Corporate Bonds	1,737,182,948	93,997,342	1,831,180,290	1,981,501,360
Foreign Bonds	31,352,147	1,696,435	33,048,582	33,722,990
Domestic Stocks	5,519,787,887	298,670,552	5,818,458,439	6,593,176,281
Foreign Stocks	2,748,670,585	148,727,991	2,897,398,576	3,240,002,908
Real Estate	1,223,473,137	66,200,985	1,289,674,122	1,179,505,370
Alternative Investments	1,007,953,452	54,539,417	1,062,492,869	826,945,236
Total Investments	<u>14,182,086,834</u>	<u>767,379,433</u>	<u>14,949,466,267</u>	<u>16,075,653,845</u>
Securities Lending Collateral	<u>2,402,976,904</u>	<u>130,022,829</u>	<u>2,532,999,733</u>	<u>3,081,125,634</u>
TOTAL ASSETS	<u>16,897,626,550</u>	<u>914,314,744</u>	<u>17,811,941,294</u>	<u>19,489,392,476</u>
LIABILITIES				
Accounts Payable and Accrued Expenses	9,930,539	537,332	10,467,871	15,291,951
Benefits in Process of Payment	36,716,356	229,596	36,945,952	29,933,232
Due to Brokers	540,504,587	29,246,197	569,750,784	499,127,569
Mortgage Payable	288,051,759	15,586,211	303,637,970	340,122,595
Securities Lending Collateral	<u>2,402,976,904</u>	<u>130,022,829</u>	<u>2,532,999,733</u>	<u>3,081,125,634</u>
TOTAL LIABILITIES	<u>3,278,180,145</u>	<u>175,622,165</u>	<u>3,453,802,310</u>	<u>3,965,600,981</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS	<u>\$ 13,619,446,405</u>	<u>\$ 738,692,579</u>	<u>\$ 14,358,138,984</u>	<u>\$ 15,523,791,495</u>

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, 2008			Year Ended June 30, 2007
	Pension	Health Subsidy	Combined	Combined
<b>ADDITIONS</b>				
<b>Contributions</b>				
Employer Contributions	\$ 261,635,491	\$ 78,257,328	\$ 339,892,819	\$ 280,108,763
Member Contributions	98,074,219	-	98,074,219	91,263,474
<b>Total Contributions</b>	<b>359,709,710</b>	<b>78,257,328</b>	<b>437,967,038</b>	<b>371,372,237</b>
<b>Investment Income</b>				
Net (Depreciation) Appreciation in Fair Value of Investments, Including Gains and Losses on Sales	(1,080,860,928)	(52,446,524)	(1,133,307,452)	2,082,446,892
Interest	161,559,187	7,839,323	169,398,510	179,423,831
Dividends	186,570,668	9,052,953	195,623,621	173,509,739
Net Real Estate Income	46,549,954	2,258,740	48,808,694	41,638,670
Income from Alternative Investments	9,341,934	453,298	9,795,232	13,267,871
Securities Lending Income	5,910,784	286,809	6,197,593	10,038,535
Less: Securities Lending Expense	(1,962,804)	(95,241)	(2,058,045)	(1,250,357)
Other (Loss) Income	(1,750,721)	(84,950)	(1,835,671)	7,978,630
<b>Subtotal</b>	<b>(674,641,926)</b>	<b>(32,735,592)</b>	<b>(707,377,518)</b>	<b>2,507,053,811</b>
Less: Investment Manager Expense	(56,031,430)	(2,718,808)	(58,750,238)	(47,759,114)
<b>Net Investment (Loss) Income</b>	<b>(730,673,356)</b>	<b>(35,454,400)</b>	<b>(766,127,756)</b>	<b>2,459,294,697</b>
<b>Other Income</b>				
Donations (Note 11)	64,441	3,127	67,568	864,281
Miscellaneous	2,644,740	128,329	2,773,069	1,548,811
<b>Total Other Income</b>	<b>2,709,181</b>	<b>131,456</b>	<b>2,840,637</b>	<b>2,413,092</b>
<b>TOTAL ADDITIONS</b>	<b>(368,254,465)</b>	<b>42,934,384</b>	<b>(325,320,081)</b>	<b>2,833,080,026</b>
<b>DEDUCTIONS</b>				
Pension Benefits	754,312,321	-	754,312,321	733,810,365
Payment of Medicare Reimbursement	-	6,796,582	6,796,582	6,258,210
Payment of Health Subsidy	-	64,082,676	64,082,676	55,957,812
Refund of Contributions	2,767,666	-	2,767,666	4,792,898
Administrative Expenses	11,800,586	572,599	12,373,185	11,630,121
<b>TOTAL DEDUCTIONS</b>	<b>768,880,573</b>	<b>71,451,857</b>	<b>840,332,430</b>	<b>812,449,406</b>
<b>NET (DECREASE) INCREASE</b>	<b>(1,137,135,038)</b>	<b>(28,517,473)</b>	<b>(1,165,652,511)</b>	<b>2,020,630,620</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS</b>				
Beginning of Year	14,756,581,443	767,210,052	15,523,791,495	13,503,160,875
End of Year	<u>\$ 13,619,446,405</u>	<u>\$ 738,692,579</u>	<u>\$ 14,358,138,984</u>	<u>\$ 15,523,791,495</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, 2008 AND 2007

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 Harbor port police officers of the City of Los Angeles. 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.

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997 and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of June 30, 1998. Tier 4 includes members hired from July 1, 1997 through December 31, 2001 and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 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 ended 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. Harbor port police officers hired before January 8, 2006 who were members of LACERS were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

Tier 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, 2008 AND 2007

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 at age 50 with 10 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 20% of the monthly average of a member's salary during any 12 consecutive months of service as a Plan Member (one-year average compensation), increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Tier 3 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The Los Angeles City Council (City Council) may grant an ad-hoc COLA no more than every three years. 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, 2007, eligible Tier 5 pensioners, including Tier 5 pensioners in DROP, had an additional 0.5% 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 related ordinances. Members who retire from the System with at least 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, 2008 AND 2007

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the System's Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. Effective July 1, 2007, the maximum subsidy amount is \$837.21 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, 2008, of \$14,358,138,984 in total net assets available for benefits, \$738,692,579 was determined to be available for the Health Subsidy Plan based on a percentage derived from the actuarial report adopted on November 6, 2008.

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 at least ten years of sworn service and must meet 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 the maximum subsidy for health care. Effective July 1, 2007, the maximum subsidy amount is \$837.21 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, 2008 AND 2007

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 at least 10 years of service, are age 55 years or older, and 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 lower of the dental subsidy in effect for LACERS (civilian retirees) or active Safety Members. The maximum subsidy amount was \$37.18 for the period July 1, 2007 through December 31, 2007. Effective January 1, 2008 the maximum subsidy amount is \$39.04 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 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.

The DROP program was extended for an additional five-year period beginning May 1, 2007. Members were allowed to continue to enroll in DROP through March 1, 2008, while the City and unions negotiated potential changes to the program. Enrollment in the program was suspended temporarily on March 2, 2008 since an agreement to the changes was not reached by the March 1 deadline. However, an ordinance, which took effect on March 25, 2008, extended the deadline to August 1, 2008 and enrollment in DROP resumed.

Members who enroll continue to work and receive their active salary up to five years. Enrolled members continue to contribute to the System until they have completed the maximum number of years required for their Tier but cease to earn additional retirement service and 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 their DROP participation, plus applicable COLAs.

At June 30, 2008 and 2007, 1,107 and 1,200 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$221,000,000 and \$213,000,000, respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Active Nonvested:		
Tier 1	--	--
Tier 2	--	--
Tier 3	20	167
Tier 4	297	331
Tier 5	<u>8,889</u>	<u>8,592</u>
	<u>9,206</u>	<u>9,090</u>
Active Vested:		
Tier 1	--	--
Tier 2	182	225
Tier 3	976	863
Tier 4	155	139
Tier 5	<u>2,976</u>	<u>2,901</u>
	<u>4,289</u>	<u>4,128</u>
Pensioners and Beneficiaries:		
Tier 1	868	929
Tier 2	9,240	9,341
Tier 3	414	388
Tier 4	135	117
Tier 5	<u>1,525</u>	<u>1,199</u>
	<u>12,182</u>	<u>11,974</u>
	<u>25,677</u>	<u>25,192</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Financial Reporting

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

Investments and Method Used to Value 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.

Alternative investments are comprised predominantly of limited partnerships that invest mainly in privately-owned companies.

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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments (Continued)

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their fair value. 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. Hedge Fund of Fund investments are valued by the fund manager based upon the information it receives from individual hedge fund managers that it has invested the money with. 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.

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.

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.

Implementation of New Accounting Pronouncement

The System implemented the provisions of GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statement No. 25 and No. 27*, effective July 1, 2007. The objective of this statement is to amend the note disclosure and required supplementary information (RSI) standards of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform to applicable changes adopted in GASB No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Other postemployment benefits (OPEB) include postemployment healthcare, as well as other non-pension benefits provided to employees as part of their compensation for services.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 AND 2007

NOTE 3 - FUNDING POLICY AND CONTRIBUTION INFORMATION

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of the Tier 5 required contribution rate contingent on the System remaining at least 100% actuarially funded for pension benefits. Since July 1, 2006, Tier 5 members have been required to contribute 9% of salary because the System has remained less than 100% actuarially funded for pension benefits as determined by the System's actuary.

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 Subsidy Plan.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above, for the year ended June 30, 2008 to be as follows (\$ in millions):

	Percentage of Members' Salaries				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Entry-Age Normal Cost Contribution	N/A	20.39%	17.52%	14.07%	18.83%
Amortization of Unfunded Liability *	\$19.4	\$(1.9)	\$20.7	\$ 7.6	\$216.3
Health Subsidy Plan *	\$ 1.2	\$33.5	\$5.5	\$2.4	\$37.2

\*Stated as required dollar amount.

During fiscal year 2008, total contributions of \$437,967,038 (\$339,892,819 from the employer and \$98,074,219 from the members) were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2006. For the Pension Plan, employer contributions for the current year included \$212.2 million for normal cost and \$39.4 million for unfunded supplemental present value annual amount. For the Health Subsidy Plan, employer contributions for the current year consisted of \$38.0 million for normal cost and \$38.9 million for unfunded actuarial accrued liability annual amount. In addition to the current year's contribution, the Harbor Department remitted \$4.7 million for the Pension Plan and \$0.5 million for the Health Subsidy Plan as a result of the transfer of certain Harbor port police officers to Tier 5 of the System effective January 8, 2006. Likewise, LACERS transferred contributions of \$5.4 million for the Pension Plan and \$0.8 million for the Health Subsidy Plan.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS

The System retains an independent consulting actuary to conduct annual actuarial valuations of the Pension Plan and Health Subsidy Plan to monitor the System’s funding status and funding integrity. The Health Subsidy Plan includes post-employment medical and dental benefits.

Pension Plan

The June 30, 2008 and 2007 annual valuations determined the funding status to be 99.1% and 99.2%, respectively.

The funded status of the Pension Plan as of June 30, 2008, the most recent actuarial valuation date is as follows (\$ in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) – (a)) / (c)
\$14,153,296	\$14,279,116	\$125,820	99.1%	\$1,206,589	10.4%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation are as follows:

Valuation Date	June 30, 2008
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 and 17 years for gains/losses at June 30, 2007 and June 30, 2008, respectively). 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Pension Plan (Continued)

Actuarial Assumptions:

Investment Return Rate	8.00%
Inflation Rate	3.75%
Real Across-the-board Salary Increase	0.50%
Projected Salary Increase	Ranges from 4.90% to 10.09% based on age.
Cost of Living Adjustments	3.75% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, and 5 retirement income.

Mortality Rates:

Healthy	RP-2000 Combined Healthy Mortality Table (separate for males and females) set back two years for members. RP-2000 Combined Health Mortality Table (separate for males and females) for beneficiaries.
Disabled	RP-2000 Combined Health Mortality Table (separate for males and females) set forward one year.

Health Subsidy Plan

The June 30, 2008 and 2007 annual valuations determined the funding status to be 41.8% and 41.5%, respectively.

The funded status of the Health Subsidy Plan as of June 30, 2008, the most recent actuarial valuation date is as follows (\$ in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) / (c)
\$767,647	\$1,836,840	\$1,069,193	41.8%	\$1,206,589	88.6%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

Additional information as of the latest actuarial valuation are as follows:

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method	30 years, level percent of pay (with the exception of Tier 1 that is amortized as a level dollar amount)
Remaining Amortization Period	28 years as of June 30, 2008
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.

Actuarial Assumptions:

Discount rate	8.00%
Inflation rate	3.75%
Across-the-board pay increase	0.50%
Projected Salary Increase	4.25%

Health care cost trend rate:  
(To Calculate following  
Year's premium)

Medical	9.0% in 2008-2009, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%.
Dental	5%
Medical Part B Premium	1.53% in 2008-2009 based on actual Medicare Part B premium increase, then 5% for all years.



CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 AND 2007

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

The following assumptions were adopted by the System’s Board based on the actuarial experience study as of June 30, 2007 and the Economic Assumptions Study of June 30, 2006:

Data	Detailed census data and the System’s financial data for post employment benefits.
Actuarial Cost Method	Entry age normal, level percent of pay
Administrative Expenses	No administrative expenses were valued separately from the claim costs
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.
Dental Coverage	70% of future retirees are assumed to elect dental coverage.
Spousal Coverage	Of future retirees receiving a medical subsidy, 70% are assumed to elect coverage for married and surviving spouses or domestic partners. For those retired on valuation date, spousal coverage is based on census data.
Implicit Subsidy	No implicit subsidy exists since retiree medical premiums are underwritten separately from active premiums.

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

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

For Participants under Age 65:

<u>Plan</u>	<u>Assumed Election Percentage</u>	<u>Maximum Subsidies</u>		
		<u>Single</u>	<u>Married</u>	<u>Surviving Spouse</u>
Fire Medical	15%	\$895.81	\$895.81	\$ 511.76
Blue Cross PPO	55%	895.81	895.81	511.76
California Care	15%	895.81	895.81	511.76
Fire Kaiser	0%	895.81	895.81	511.76
Police Kaiser	15%	895.81	895.81	511.76
Dental	100%	39.04	39.04	0.00

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 AND 2007

NOTE 4 – FUNDED STATUS AND FUNDING PROGRESS (Continued)

Health Subsidy Plan (Continued)

For Participants Age 65 and Over:

<u>Plan</u>	Assumed Election Percentage	<u>Maximum Subsidies</u>		
		<u>Single</u>	<u>Married</u>	<u>Surviving Spouse</u>
Fire Medical	35%	\$406.44	\$623.70	\$ 406.44
Blue Cross PPO	45%	406.44	690.21	406.44
California Care	5%	406.44	666.60	406.44
Fire Kaiser	5%	406.44	677.10	406.44
Police Kaiser	10%	406.44	433.88	406.44
Dental	100%	39.04	39.04	0.00
Medicare B	100%	96.40	96.40	96.40

NOTE 5 - 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 5 - SECURITIES LENDING (Continued)

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, 2008.

Fair Value of collateral received for loaned securities as of June 30, 2008:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Collateral Securities</u>
U. S. Government and Agency Securities	\$ 942,866,045	\$ 83,364,339	\$1,026,230,384
Domestic Corporate Fixed Income Securities	149,697,921	--	149,697,921
International Fixed Income Securities	738,859	--	738,859
Domestic Stocks	1,062,321,563	14,683,099	1,077,004,662
International Stocks	<u>377,375,345</u>	<u>31,308,741</u>	<u>408,684,086</u>
	<u>\$ 2,532,999,733</u>	<u>\$129,356,179</u>	<u>\$2,662,355,912</u>

Fair value of loaned securities as of June 30, 2008:

<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	\$ 922,856,602	\$ 81,343,744	\$1,004,200,346
Domestic Corporate Fixed Income Securities	145,857,537	--	145,857,537
International Fixed Income Securities	701,168	--	701,168
Domestic Stocks	1,033,540,047	14,248,522	1,047,788,569
International Stocks	<u>357,537,849</u>	<u>29,440,949</u>	<u>386,978,798</u>
	<u>\$2,460,493,203</u>	<u>\$125,033,215</u>	<u>\$2,585,526,418</u>

As of June 30, 2008, the fair value of total securities lent was \$2,585,526,418. The fair value of collateral received was \$2,662,355,912. Of this amount, \$2,532,999,733 represents cash collateral and \$129,356,179 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 \$6,197,593 and \$2,058,045, respectively for the year ended June 30, 2008.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008 AND 2007

NOTE 6 - 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, 2008 includes \$686,712 held by the City Treasurer's office and \$624,049,781 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 \$624,049,781 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, 2008, 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	\$ 1,103,682,847	39.57%
AA	53,994,732	1.94%
A	107,161,176	3.84%
BBB	213,549,411	7.66%
BB	141,815,494	5.08%
B	180,733,989	6.48%
CCC	74,776,090	2.68%
CC	2,166,450	0.08%
Not Rated	<u>911,411,855</u>	<u>32.67%</u>
Subtotal	2,789,292,044	<u>100.00%</u>
U. S. Government Issued or Guaranteed Securities	<u>468,100,436</u>	
Total Fixed Income Investments	<u>\$3,257,392,480</u>	

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 6 - 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, 2008, the System's exposure to such risk was \$42,000,770 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 in publicly traded stocks and bonds are not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. However, the System's other investments in hedge fund of funds amounting to \$460,829,482, private equity of \$601,663,387, and commingled real estate funds of \$424,798,451 as of June 30, 2008 are exposed to custodial credit risk.

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, 2008 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, 2008 AND 2007

NOTE 6 - 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	\$ 37,677,379	10.34
Commercial Mortgages	124,834,980	33.94
Corporate Bonds	922,527,524	16.70
Government Agencies Bonds	49,662,091	4.62
Government Bonds	297,297,341	14.22
Government Mortgage Backed Securities	399,342,064	23.77
Index Linked Government Bonds	667,106,703	10.18
Non-Government Backed Collateralized Mortgage Obligations	9,801,217	24.52
Bond Index Fund	<u>749,143,181</u>	0.48
Total Fixed Income Investments	<u>\$ 3,257,392,480</u>	

Investments that are highly sensitive to interest rate risk as of June 30, 2008 are as follows:

Investment Type	Fair Value
Asset Backed Securities	\$ 37,677,379
Commercial Mortgages	124,834,980
Government Agencies Bonds	49,662,091
Government Mortgage Backed Securities	399,342,064
Index Linked Government Bonds	667,106,703
Non-Government Backed Collateralized Mortgage Obligations	<u>9,801,217</u>
	<u>\$ 1,288,424,434</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 6 - 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, 2008 are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value</u>
Australian Dollar	\$ 132,663,738
Brazilian Real	77,053,835
British Pound Sterling	465,378,391
Canadian Dollar	70,642,514
Chilean Peso	508,069
Czech Koruna	24,896,376
Danish Krone	24,090,018
Egyptian Pound	7,246,625
Euro	921,773,209
Hong Kong Dollar	82,988,738
Hungarian Forint	10,970,619
Indonesian Rupiah	20,886,524
Japanese Yen	602,632,383
Malaysian Ringgit	6,691,423
Mexican Peso	14,403,940
New Israeli Shekel	11,193,886
New Taiwan Dollar	47,043,612
New Zealand Dollar	7,428,287
Norwegian Krone	27,019,356
Polish Zloty	13,283,794
Singapore Dollar	13,881,512
South African Rand	24,431,466
South Korean Won	55,966,190
Swedish Krona	43,995,844
Swiss Franc	201,215,882
Thai Baht	11,647,554
Turkish Lira	8,444,569
United Arab Emirates Dirham	<u>2,068,804</u>
	<u>\$ 2,930,447,158</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 7 - 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, 2008, the System had notional value of \$129,482,457 exposure in futures and forward contracts in foreign currency exchange transactions with an unrealized loss of \$274,428. At June 30, 2008, the System held other futures and forward contracts with a notional value of \$74,569,645 with an unrealized gain of \$91,674.

NOTE 8 - 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 \$2,158,106. The mortgages mature from June 2009 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>
2009	\$ 40,810,159	\$ 16,584,038	\$ 57,394,197
2010	22,674,005	14,727,975	37,401,980
2011	35,723,683	13,467,786	49,191,469
2012	2,812,268	12,377,282	15,189,550
2013	28,008,042	10,988,187	38,996,229
2014 through 2018	126,796,044	28,728,432	155,524,476
2019 through 2023	17,865,850	13,123,914	30,989,764
2024 through 2028	16,743,234	7,332,072	24,075,306
2029 through 2032	<u>12,204,685</u>	<u>1,483,733</u>	<u>13,688,418</u>
	<u>\$ 303,637,970</u>	<u>\$ 118,813,419</u>	<u>\$ 422,451,389</u>



CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 9 - 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, 2008, were \$930,007 and the minimum lease commitments for futures fiscal years are as follows:

2009	\$ 1,021,000
2010	1,057,000
2011	1,101,000
2012	<u>1,155,000</u>
	<u>\$ 4,334,000</u>

NOTE 10 - 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 \$1,237,821,370 and \$1,188,525,936 as of June 30, 2008 and 2007, respectively.

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

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1,052,751,000 and \$572,908,000 at June 30, 2008 and 2007, respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 11 - 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 disputing 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 the 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, \$864,281 in 2007 and \$67,568 in 2008.

NOTE 12 - SUBSEQUENT EVENTS

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the subprime mortgage crisis and current financial market events, changes in the values of investment could materially affect the amounts reported in the financial statements.

**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, 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%
June 30, 2008	14,153,296,122	14,279,115,742	125,819,620	99.1%	1,206,589,277	10.4%

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, 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%
June 30, 2008	767,647,562	1,836,840,337	1,069,192,775	41.8%	1,206,589,277	88.6%

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>Actual Contributions</u>	<u>Percent Contributed</u>
2003	\$ 64,634,125	\$ 64,634,125	100.00%
2004	97,465,612	97,465,612	100.00%
2005	135,853,688	135,853,688	100.00%
2006	143,945,802	143,945,802	100.00%
2007	224,946,082	224,946,082	100.00%
2008 <sup>(1)</sup>	261,635,491	261,635,491	100.00%

- (1) Figures include amounts transferred and contributed during the fiscal year that were related to the transfer of certain Harbor port police members from the Los Angeles City Employees' Retirement System (LACERS).

SCHEDULE 2B

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contributions</u>	<u>Percent Contributed</u>
2003	\$ 33,894,924 <sup>(1)</sup>	\$ 33,894,924	100.00%
2004	38,737,255 <sup>(1)</sup>	38,737,255	100.00%
2005	31,541,933 <sup>(1)</sup>	31,541,933	100.00%
2006	31,413,281 <sup>(1)</sup>	31,413,281	100.00%
2007	55,162,681 <sup>(1)</sup>	55,162,681	100.00%
2008	98,033,338 <sup>(2)</sup>	78,257,328	79.83%

- (1) Payable at the beginning of the 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/or for the medical trend rate employed.
- (2) Based on the beginning of year contribution rate of 8.15% of compensation calculated in the June 30, 2006 valuation before the phase-in, the Annual Required Contribution dollar amount has been approximated by applying the ratio of the contribution before the phase-in to the contribution after the phase-in as determined in the June 30, 2006 valuation to the actual contributions made during 2007-2008.



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**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, 2008 and 2007, and related statements of changes in plan net assets for the years ended, and have issued our report thereon dated November 21, 2008. 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 audits, 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.

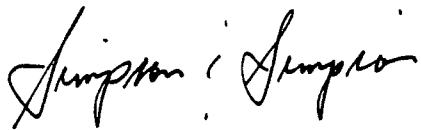
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

We noted certain matters that we reported to management of the System in a separate letter dated November 21, 2008.

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.



Los Angeles, California  
November 21, 2008