

**CITY OF LOS ANGELES  
FIRE AND POLICE PENSION SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

**TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITOR'S REPORT	1
STATEMENTS OF PLAN NET ASSETS	3
STATEMENTS OF CHANGES IN PLAN NET ASSETS	4
NOTES TO FINANCIAL STATEMENTS	5
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE 1A - Schedule of Funding Progress – Pension Plan	22
SCHEDULE 1B – Schedule of Funding Progress – Health Subsidy Plan	22
SCHEDULE 2A – Schedule of Employer Contributions – Pension Plan	23
SCHEDULE 2B –Schedule of Employer Contributions – Health Subsidy Plan	23
Notes to Schedules of Funding Progress and Employer Contributions	24
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>	27



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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, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2006 and 2005, and changes therein for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2006 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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". The signature is written in black ink and is located below the main body of text.

Simpson & Simpson  
November 30, 2006, except for the annual Actuarial  
Valuation information which is December 12, 2006

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

ASSETS	June 30, 2006			June 30, 2005
	Pension	Health Subsidy	Combined	Combined
Cash	\$ 678,087	\$ 34,313	\$ 712,400	\$ 610,085
Receivables				
Accrued Interest and Dividends	46,231,233	2,339,403	48,570,636	47,975,095
Contributions	5,369,149	271,691	5,640,840	5,010,835
Due from Brokers	322,688,974	16,328,781	339,017,755	510,188,994
Total Receivables	<u>374,289,356</u>	<u>18,939,875</u>	<u>393,229,231</u>	<u>563,174,924</u>
Investments at Fair Value				
Temporary	730,357,183	36,957,702	767,314,885	530,205,704
U.S. Government Obligations	1,408,622,722	71,279,450	1,479,902,172	1,188,677,833
Domestic Corporate Bonds	1,835,000,304	92,855,106	1,927,855,410	2,195,691,093
Foreign Bonds	5,544,572	280,568	5,825,140	26,984,864
Domestic Stocks	5,293,890,804	267,882,677	5,561,773,481	5,353,091,866
Foreign Stocks	2,555,642,805	129,321,223	2,684,964,028	2,169,409,001
Real Estate	984,569,173	49,821,395	1,034,390,568	900,240,788
Alternative Investments	460,986,184	23,326,929	484,313,113	455,813,441
Total Investments	<u>13,274,613,747</u>	<u>671,725,050</u>	<u>13,946,338,797</u>	<u>12,820,114,590</u>
Securities Lending Collateral	<u>2,372,600,535</u>	<u>120,058,877</u>	<u>2,492,659,412</u>	<u>1,678,941,822</u>
TOTAL ASSETS	<u>16,022,181,725</u>	<u>810,758,115</u>	<u>16,832,939,840</u>	<u>15,062,841,421</u>
LIABILITIES				
Accounts Payable and Accrued Expenses	9,384,846	474,894	9,859,740	8,028,954
Benefits in Process of Payment	11,760,422	158,093	11,918,515	10,243,619
Due to Brokers	481,326,135	24,356,175	505,682,310	676,645,960
Mortgage Payable	294,744,271	14,914,717	309,658,988	311,622,731
Securities Lending Collateral	<u>2,372,600,535</u>	<u>120,058,877</u>	<u>2,492,659,412</u>	<u>1,678,941,822</u>
TOTAL LIABILITIES	<u>3,169,816,209</u>	<u>159,962,756</u>	<u>3,329,778,965</u>	<u>2,685,483,086</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS	<u>\$ 12,852,365,516</u>	<u>\$ 650,795,359</u>	<u>\$ 13,503,160,875</u>	<u>\$ 12,377,358,335</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, 2006			Year Ended June 30, 2005
	Pension	Health Subsidy	Combined	Combined
<b>ADDITIONS</b>				
<b>Contributions</b>				
City Contributions	\$ 143,945,802	\$ 31,413,281	\$ 175,359,083	\$ 167,395,621
Member Contributions	79,402,694	-	79,402,694	75,785,506
<b>Total Contributions</b>	<b>223,348,496</b>	<b>31,413,281</b>	<b>254,761,777</b>	<b>243,181,127</b>
<b>Investment Income</b>				
Net Appreciation in Fair Value of Plan Investments, Including Gains and Losses on Sales	1,138,647,576	57,858,986	1,196,506,562	851,355,988
Interest	166,572,525	8,464,180	175,036,705	155,112,138
Dividends	135,987,896	6,910,059	142,897,955	138,925,864
Net Real Estate Income	39,369,676	2,000,522	41,370,198	42,366,122
Income from Alternative Investments	7,795,007	396,094	8,191,101	13,489,048
Securities Lending Income	11,014,150	559,671	11,573,821	4,408,546
Less: Securities Lending Expense	(1,299,414)	(66,028)	(1,365,442)	(421,716)
Other Income	368,640	18,732	387,372	1,851,481
<b>Subtotal</b>	<b>1,498,456,056</b>	<b>76,142,216</b>	<b>1,574,598,272</b>	<b>1,207,087,471</b>
Less: Investment Manager Expense	(39,516,412)	(2,007,978)	(41,524,390)	(33,082,521)
<b>Net Investment Income</b>	<b>1,458,939,644</b>	<b>74,134,238</b>	<b>1,533,073,882</b>	<b>1,174,004,950</b>
<b>Other Income</b>				
Donations	-	-	-	7,791,262
Miscellaneous	1,356,117	68,909	1,425,026	796,802
<b>Total Other Income</b>	<b>1,356,117</b>	<b>68,909</b>	<b>1,425,026</b>	<b>8,588,064</b>
<b>TOTAL ADDITIONS</b>	<b>1,683,644,257</b>	<b>105,616,428</b>	<b>1,789,260,685</b>	<b>1,425,774,141</b>
<b>DEDUCTIONS</b>				
Pension Benefits	591,041,908	-	591,041,908	552,436,651
Payment of Medicare Reimbursement	-	5,565,510	5,565,510	4,721,424
Payment of Health Subsidy	-	53,120,341	53,120,341	48,727,547
Refund of Contributions	4,113,034	-	4,113,034	3,206,330
Administrative Expenses	9,152,290	465,062	9,617,352	9,552,993
<b>TOTAL DEDUCTIONS</b>	<b>604,307,232</b>	<b>59,150,913</b>	<b>663,458,145</b>	<b>618,644,945</b>
<b>NET INCREASE</b>	<b>1,079,337,025</b>	<b>46,465,515</b>	<b>1,125,802,540</b>	<b>807,129,196</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST- EMPLOYMENT BENEFITS</b>				
Beginning of Year	11,773,028,491	604,329,844	12,377,358,335	11,570,229,139
End of Year	<u>\$ 12,852,365,516</u>	<u>\$ 650,795,359</u>	<u>\$ 13,503,160,875</u>	<u>\$ 12,377,358,335</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, 2006 AND 2005

NOTE 1 - DESCRIPTION OF THE PLANS

The City of Los Angeles Fire and Police Pension System operates under the provisions of the City of Los Angeles Charter and Administrative Code, which provide that the funding requirements of the City of Los Angeles Fire and Police Pension System (the System or the Plan) 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, 2006, the System is composed of five tiers. Benefits are based on members' pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Those members hired on or before January 28, 1967 participate in Tier 1. Tier 2 includes members hired on or after January 29, 1967, and Tier 1 members who transferred to Tier 2. Members hired on or after December 8, 1980 participate in Tier 3, and those hired on or after July 1, 1997 are in Tier 4. Tier 3 members were allowed to transfer to Tier 4 during an enrollment period. Also, Tier 4 members hired between July 1, 1997 and December 31, 1997 could elect to transfer to Tier 3 during an enrollment period. Tier 5 is the current Tier established for all 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 port police officers hired on or after January 8, 2006. Port police officers hired before January 8, 2006 who were members of LACERS are 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-retirement 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, 2006 AND 2005

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.

Members of Tier 3 must be age 50, with at least 10 years of service, to be entitled to a service pension. Annual pension benefits are equal to 20% of 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.

Members of Tier 4 must have at least 20 years of service to be entitled to a service pension. There is no minimum age requirement. Annual pension benefits are equal to 40% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 4 provides for post-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.

Members of Tier 5 must be age 50, with at least 20 years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years to a maximum of 90% for 33 years. Tier 5 provides for post-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%. As of July 1, 2005, eligible Tier 5 pensioners, including Tier 5 pensioners in DROP, had 0.8% 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, 2006 AND 2005

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by LACERS (civilian retirees) and active Safety Members. Effective July 1, 2005, the maximum subsidy amount is \$735.38 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, 2006, of \$13,503,160,875 in total net assets available for benefits, \$650,795,359 was determined to be available for the Health Subsidy Plan based on a percentage derived from the actuarial report dated December 12, 2006.

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 as a fire or police pension member and must have met minimum age requirements on the effective date of retirement. The pensioner or qualified surviving spouse/domestic partner must reside either outside 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, 2005, the maximum subsidy amount is \$735.38 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, 2006 AND 2005

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 health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective January 1, 2005 the maximum subsidy amount is \$34.84 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.

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.

Letters of Agreement have been signed to extend DROP for a five-year period, until April 20, 2012. An actuary will evaluate DROP at the end of the first five-year period (April 30, 2007). 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.

At June 30, 2006 and 2005, 1,215 and 1,217 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of \$255,000,000 and \$193,000,000, respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Membership

The components of the System's membership were as follows at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Active Nonvested:		
Tier 1	--	--
Tier 2	--	1
Tier 3	360	575
Tier 4	354	383
Tier 5	<u>8,145</u>	<u>7,759</u>
	<u>8,859</u>	<u>8,718</u>
Active Vested:		
Tier 1	--	--
Tier 2	240	272
Tier 3	717	554
Tier 4	135	130
Tier 5	<u>2,952</u>	<u>2,982</u>
	<u>4,044</u>	<u>3,938</u>
Pensioners and beneficiaries:		
Tier 1	996	1,077
Tier 2	9,542	9,647
Tier 3	357	334
Tier 4	102	84
Tier 5	<u>818</u>	<u>604</u>
	<u>11,815</u>	<u>11,746</u>
	<u>24,718</u>	<u>24,402</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 in private equity companies. The fair values of alternative investments are estimated by the General Partners based on consideration of various factors, including current net asset valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the General Partners of investee limited partnerships.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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. Reclassification

Certain reclassifications have been made in the 2005 financial statements to conform to the current year presentation.

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. For the year ended June 30, 2006, Tier 5 members were required to contribute 8% of salary.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005

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, 2006 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	21.30%	13.67%	11.56%	15.07%
Amortization of Unfunded Liability *	\$23.0M	\$ 4.9M	\$12.8M	\$ 4.1M	\$95.5M
Health Plan Subsidy *	\$ 2.2M	\$24.2M	\$(4.6)M	\$(1.5)M	\$10.7M

\*Stated as required dollar amount. Does not include 1% Tier 5 City contribution portion.

The actuarially determined unfunded liability (UAAL) of the System was \$1,707,386,108 and \$1,383,716,330 at June 30, 2006 and 2005, 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, 2006 is to be amortized over the next 31 years\*\* through contributions to be made by the City.

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

During fiscal year 2006, total contributions of \$254,761,777 (\$175,359,083 from the City and \$79,402,694 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, 2004. For the pension plan, the contributions included City contributions of \$160.9 million for normal cost, (\$24.5 million) for unfunded supplemental present value annual amount, and \$7.6 million relating to the 1% Tier 5 City contribution. For the health plan subsidy, the contributions consisted of \$18.9 million for normal cost, \$11.7 million for unfunded actuarial accrued liability annual amount, and \$0.8 million relating to the 1% Tier 5 City contribution.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 2006.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 4 - SECURITIES LENDING (Continued)

Fair Value of collateral received for loaned securities as June 30, 2006:

<u>Securities Lent</u>	<u>Cash</u>	<u>Non-Cash</u>	<u>Total Collateral Securities</u>
U. S. Government and Agency Securities	\$1,031,985,387	\$77,268,998	\$1,109,254,385
Domestic Corporate Fixed Income Securities	70,522,813	26,829,689	97,352,502
International Fixed Income Securities	6,609,806	--	6,609,806
Domestic Stocks	957,799,873	47,935,245	1,005,735,118
International Stocks	<u>425,741,533</u>	<u>6,770,866</u>	<u>432,512,399</u>
	<u>\$ 2,492,659,412</u>	<u>\$158,804,798</u>	<u>\$2,651,464,210</u>

Fair value of loaned securities as June 30, 2006:

<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	\$1,015,596,665	\$75,980,519	\$1,091,577,184
Domestic Corporate Fixed Income Securities	69,295,205	26,399,230	95,694,435
International Fixed Income Securities	6,558,277	--	6,558,277
Domestic Stocks	941,711,711	47,127,312	988,839,023
International Stocks	<u>414,865,122</u>	<u>6,526,044</u>	<u>421,391,166</u>
	<u>\$2,448,026,980</u>	<u>\$156,033,105</u>	<u>\$2,604,060,085</u>

As of June 30, 2006, the fair value of total securities lent was \$2,604,060,085. The fair value of collateral received was \$2,651,464,210. Of this amount, \$2,492,659,412 represents cash collateral and \$158,804,798 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 \$11,573,821 and \$1,365,442, respectively for the year ended June 30, 2006.



CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005

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, 2006 includes \$712,400 held by the City Treasurer's office and \$767,314,885 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 \$767,314,885 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, 2006, 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	\$ 156,263,670	8.08%
AA	40,852,990	2.11%
A	156,767,736	8.11%
BBB	239,408,612	12.38%
BB	265,370,056	13.72%
B	318,339,268	16.46%
CCC	56,686,010	2.93%
CC	917,813	0.05%
C	5,338,651	0.28%
D	4,495,975	0.23%
Not Rated	<u>689,239,769</u>	<u>35.65%</u>
Subtotal	\$1,933,680,550	<u>100.00%</u>
U. S. Government Issued or Guaranteed Securities	<u>1,479,902,172</u>	
Total Fixed Income Investments	<u>\$3,413,582,722</u>	

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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, 2006, the System's exposure to such risk was \$19,408,209 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, 2006 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, 2006 AND 2005

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	\$ 52,920,461	6.65
Commercial Mortgages	59,412,014	33.23
Corporate Bonds	1,156,147,161	11.86
Government Agencies	73,956,176	2.17
Government Bonds	453,842,634	21.83
Government Mortgage Backed Securities	468,400,263	21.17
Government Issued Commercial Mortgage Backed	1,208,289	2.91
Index Linked Government Bonds	481,066,838	10.91
Non-Government Backed Collateralized Mortgage Obligations	18,027,079	24.16
Municipal/Provincial Bonds	1,427,973	2.93
Bond Index Fund	<u>647,173,834</u>	18.35
Total Fixed Income Investments	<u>\$ 3,413,582,722</u>	

Investments that are highly sensitive to interest rate risk as of June 30, 2006 are as follows:

Investment Type	Fair Value
Asset Backed Securities	\$ 52,920,461
Commercial Mortgages	59,412,014
Government Agencies	73,956,176
Government Mortgage Backed Securities	468,400,263
Government Issued Commercial Mortgage Backed	1,208,289
Index Linked Government Bonds	481,066,838
Non-Government Backed Collateralized Mortgage Obligations	<u>18,027,079</u>
	<u>\$ 1,154,991,120</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 and temporary investments as of June 30, 2006 are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value</u>
Australian Dollar	\$ 62,017,604
Brazilian Real	49,081,982
British Pound	375,567,277
Canadian Dollar	44,287,946
Czech Koruna	10,262,257
Danish Krone	7,647,286
Egyptian Pound	2,683,202
Euro	988,909,859
Hong Kong Dollar	70,863,688
Hungarian Forint	6,288,200
Indian Rupee	226,839
Indonesian Rupiah	3,657,958
Israeli Shekel	1,678,346
Japanese Yen	543,263,223
Korean Won	82,265,716
Lithuanian Litas	74,251
Malaysian Ringgit	5,066,956
Mexican Peso	13,980,241
Moroccan Dirham	566,927
New Zealand Dollar	8,581,229
Norwegian Krone	55,832,517
Philippine Peso	1,853,237
Polish Zloty	21,242,305
Singapore Dollar	28,967,734
South African Rand	32,277,006
Swedish Krona	39,113,003
Swiss Franc	157,946,504
Taiwan New Dollar	65,821,389
Thai Baht	3,453,233
Turkish New Lira	7,311,253
	<u>\$ 2,690,789,168</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005

NOTE 6 - 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 \$48,454 to \$447,958. 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>
2007	\$ 2,412,696	\$ 18,336,404	\$ 20,749,100
2008	16,856,509	17,840,113	34,696,622
2009	60,639,368	14,815,771	75,455,139
2010	22,084,347	13,034,246	35,118,593
2011	26,104,863	10,193,876	36,298,739
2012 through 2016	125,538,836	37,714,693	163,253,529
2017 through 2021	14,242,599	16,747,165	30,989,764
2022 through 2026	19,833,029	11,153,735	30,986,764
2027 through 2031	19,982,932	28,241,030	48,223,962
2032	<u>1,963,809</u>	<u>74,408</u>	<u>2,038,217</u>
	<u>\$ 309,658,988</u>	<u>\$ 168,151,441</u>	<u>\$ 477,810,429</u>

NOTE 7 - OPERATING LEASE

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

The annual lease payments for the year ended June 30, 2006, were \$987,070 and the minimum lease commitments for futures fiscal years are as follows:

2007	\$ 862,734
2008	991,346
2009	1,020,676
2010	1,056,662
2011	1,100,942
2012	<u>577,793</u>
	<u>\$ 5,610,153</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 8 - 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 \$1,168,037,586 and \$1,089,114,169 as of June 30, 2006 and 2005 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 \$678,300,000 and \$423,100,000 at June 30, 2006 and 2005 respectively.

NOTE 9 - 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, and none in 2006.

**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, 2001	\$11,835,548,939	\$ 9,954,056,461	\$(1,881,492,478)	118.9%	\$ 882,758,282	(213.1%)
June 30, 2002	11,491,922,362	10,606,825,276	(885,097,086)	108.3%	946,037,252	(93.6%)
June 30, 2003	11,690,750,393	11,203,558,461	(487,191,932)	104.3%	970,726,720	(50.2%)
June 30, 2004	11,735,696,180	11,389,980,813	(345,715,367)	103.0%	1,001,003,937	(34.5%)
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%

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, 2001	\$ 573,844,190	\$ 840,287,944	\$ 266,443,754	68.3%	\$ 882,758,282	30.2%
June 30, 2002	586,953,850	884,371,214	297,417,364	66.4%	946,037,252	31.4%
June 30, 2003	592,539,000	926,760,943	334,221,943	63.9%	970,726,720	34.4%
June 30, 2004	605,998,904	1,009,062,407	403,063,503	60.1%	1,001,003,937	40.3%
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%



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>
2001	\$ 113,849,004	100%
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%

SCHEDULE 2B

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH SUBSIDY PLAN

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2001	\$ 25,084,169	100%
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%

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 ASSUPMTIONS

Pension Plan

Actuarial Cost Method – Entry Age Normal Cost Method

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. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Amortization Method and Period – Level percent of payroll. 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. Actuarial gains/losses are amortized over 15 years. Plan and assumption changes are amortized over 30 years. Tiers 1 and 2 UAAL are amortized over a 31-year closed (declining) period.

Investment Return Rate: 8.00%

Inflation Rate: 3.75%

Annual Salary Scale Increase:

Age:	(Varies by age)
Under 25	5.25%
25-29	4.25%
30-34	3.25%
35-39	2.25%
40-44	1.25%
45-49	1.00%
50 and Over	0.75%

Annual Cost-of-Living Increase:

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

\*Accrued for all subsequent service and subject to any applicable caps.

Mortality Among Retirees – The valuation for those on service retirement is based upon the 1994 Uninsured Pensioner Mortality Table for males set back two years for members. The valuation for those on disability retirement is based upon the 1994 Uninsured Pensioner Mortality Table for males set forward two years for members.

Mortality Among Spouses – The valuation is based upon the 1994 Uninsured Pensioner Mortality Table for males set back four years for spouses.

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

Health Subsidy Plan

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

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.

Amortization Method and Period – level percent of pay over 30 years

Graded Medical and Dental Cost Rate Increases:

Medical (applicable to both pre-65 and post-65 Premiums)	12.0%*
Dental and Medical Part B	5.0%*

\*Decreasing gradually to 5.0% in 2016 and later

80% of all retirees over age 65 are assumed to receive a subsidy for an approved health carrier.

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

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

65% of retirees are assumed to elect dental coverage.

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

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.

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

Health Subsidy Plan (Continued)

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 without Medicare Parts A and B

<u>Plan</u>	<u>Participation Percentage</u>	<u>Maximum Subsidies</u>			<u>Utilization</u>
		<u>Single</u>	<u>Married</u>	<u>Surviving Spouse</u>	
Fire Medical	12.9%	\$ 713.79	\$ 782.44	\$ 439.45	75.0%
Blue Cross PPO	54.6%	642.56	782.44	439.45	75.0%
California Care	16.5%	321.04	672.46	321.04	75.0%
Fire Kaiser	1.5%	404.20	782.44	404.20	75.0%
Police Kaiser	14.5%	323.63	641.85	323.63	75.0%
Dental	100.0%	34.84	34.84	0.00	65.0%

For Participants with Medicare Parts A and B

<u>Plan</u>	<u>Participation Percentage</u>	<u>Maximum Subsidies</u>			<u>Utilization</u>
		<u>Single</u>	<u>Married</u>	<u>Surviving Spouse</u>	
Fire Medical	34.5%	\$ 320.01	\$ 583.01	\$ 320.01	85.0%
Fire Kaiser	5.1%	320.01	698.25	320.01	85.0%
Blue Cross PPO	42.8%	320.01	649.21	320.01	85.0%
California Care	4.2%	287.65	586.77	287.65	85.0%
Police Kaiser	13.4%	177.30	495.52	177.30	85.0%
Dental	100.0%	34.84	34.84	0.00	65.0%
Medicare B	100.0%	88.50	88.50	0.00	100.0%



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2006 and 2005, and related statements of changes in plan net assets for the years ended and have issued our report thereon dated November 30, 2006, except for the annual actuarial valuation information which is December 12, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

**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 grant 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 reporting under *Government Auditing Standards*.

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

A handwritten signature in cursive script, appearing to read 'Simpson : Simpson'.

Los Angeles, California  
November 30, 2006