

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

JUNE 30, 2003 AND 2002

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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Independent Auditors' Report

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

Members of the Board:

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2003 and 2002, 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, 2003 and 2002, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

MILLER, KAPLAN, ARASE & CO., LLP

October 24, 2003

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

<u>ASSETS</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<u>CASH</u>	\$ 4,576,819	\$ 1,684,648
<u>RECEIVABLES</u>		
Accrued Interest and Dividends	\$ 48,936,015	\$ 51,710,932
Contributions	3,957,765	3,106,516
Due from Brokers	<u>43,381,418</u>	<u>82,902,561</u>
<u>TOTAL RECEIVABLES</u>	96,275,198	137,720,009
<u>INVESTMENTS AT FAIR VALUE</u>		
Temporary	\$ 450,529,257	\$ 736,949,485
U.S. Government Obligations	1,350,230,087	1,119,828,687
Domestic Corporate Bonds	1,698,057,711	1,572,999,419
Foreign Bonds	156,550,523	99,579,517
Domestic Stocks	4,077,003,290	3,977,530,486
Foreign Stocks	1,436,539,901	1,553,143,336
Real Estate	912,541,642	929,828,939
Alternative Investments	<u>362,078,659</u>	<u>354,428,599</u>
<u>TOTAL INVESTMENTS</u>	10,443,531,070	10,344,288,468
Securities Lending Collateral	<u>15,591,862</u>	<u>1,085,856,585</u>
<u>TOTAL ASSETS</u>	\$ 10,559,974,949	\$ 11,569,549,710
<u>LIABILITIES</u>		
Accounts Payable and Accrued Expenses	\$ 6,758,455	\$ 6,957,728
Benefits in Process of Payment	3,361,048	272,317
Due to Brokers	126,125,511	199,536,891
Mortgage Payable	209,317,727	211,196,013
Securities Lending Collateral	<u>15,591,862</u>	<u>1,085,856,585</u>
<u>TOTAL LIABILITIES</u>	<u>361,154,603</u>	<u>1,503,819,534</u>
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS</u>	<u>\$ 10,198,820,346</u>	<u>\$ 10,065,730,176</u>

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

	July 1, 2002 to June 30, 2003	July 1, 2001 to June 30, 2002
ADDITIONS		
Contributions:		
City Contributions	\$ 98,529,049	\$ 103,447,209
Member Contributions	<u>70,953,454</u>	<u>63,445,503</u>
TOTAL CONTRIBUTIONS	\$ 169,482,503	\$ 166,892,712
Miscellaneous	<u>4,179,049</u>	<u>3,637,472</u>
	\$ 173,661,552	\$ 170,530,184
INVESTMENT INCOME (LOSS)		
Net Appreciation (Depreciation) in Fair Value of Plan Investments, Including Gains and Losses on Sales	\$ 169,167,669	\$ (1,360,013,911)
Interest	200,926,272	226,168,227
Dividends	84,122,838	90,424,735
Net Real Estate Income	62,071,384	75,562,736
Income from Alternative Investments	3,984,118	5,999,293
Securities Lending Income	3,547,765	5,649,108
Other Income	<u>374,528</u>	<u>363,840</u>
SUBTOTAL	\$ 524,194,574	\$ (955,845,972)
Less: Investment Manager Expense	<u>(23,286,743)</u>	<u>(26,255,942)</u>
Net Investment Income (Loss)	<u>500,907,831</u>	<u>(982,101,914)</u>
TOTAL ADDITIONS (REDUCTIONS)	\$ 674,569,383	\$ (811,571,730)
DEDUCTIONS		
Pension Benefits	\$ 489,958,681	\$ 464,163,812
Payment of Medicare Reimbursement	3,433,705	3,045,511
Payment of Health Subsidy	37,075,855	26,701,421
Refund of Contributions	3,158,990	3,512,028
Administrative Expenses	<u>7,851,982</u>	<u>7,979,684</u>
TOTAL DEDUCTIONS	<u>541,479,213</u>	<u>505,402,456</u>
NET INCREASE (DECREASE)	\$ 133,090,170	\$ (1,316,974,186)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS		
Beginning of Year	<u>10,065,730,176</u>	<u>11,382,704,362</u>
End of Year	<u>\$ 10,198,820,346</u>	<u>\$ 10,065,730,176</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

NOTE 1 - DESCRIPTION OF THE PLANS

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

Pension Plan

The System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters and police officers of the City of Los Angeles. As of June 30, 2003, the System is composed of five tiers. Benefits are based on members' pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

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

The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ending June 30, 1983, or have since been hired.

Tier 1 and 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 66-2/3% in Tier 1 and 70% in Tier 2. Tiers 1 and 2 have no minimum age requirement. These Tiers provide for unlimited post-retirement cost-of-living adjustments based on the Consumer Price Index ("CPI") for local Urban Consumers. Tier 1 and 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements.

Members of Tier 3 must be age 50, with at least 10 years of service, to be entitled to a service pension. Annual pension benefits are equal to 20% of their one-year average compensation, increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Tier 3 provides for post-retirement cost-of-living adjustments based on the CPI, to a maximum of 3% per year. The Los Angeles City Council may grant an ad-hoc cost-of-living adjustment no more than every three years. Members who terminate their employment are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements.

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

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

Members of Tier 5 must be age 50, with at least 20 years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years to a maximum of 90% for 33 years. Tier 5 provides for post-retirement cost-of-living adjustments based upon the CPI, to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a Cost-of-Living-Adjustment ("COLA") bank for use in years in which the increase in CPI is less than 3%. The City Council may grant an ad-hoc cost-of-living adjustment no more than every three years. Members who terminate their employment are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements.

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

Health Subsidy Plan

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

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the LACERS (civilian retirees) and active Safety Members. Effective July 1, 2002, maximum subsidy amount is \$563 per month. The City also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Health Subsidy benefits are available to Members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, 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, 2003, of \$10,198,820,346 in total net assets available for benefits, \$442,986,622 was actuarially determined to be available for the Health Subsidy Plan.

Health Insurance Premium Reimbursement Program

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

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The Pensioner (whether living or deceased) must have had at least ten years of sworn service as a fire or police pension member and must have met minimum age requirements on the effective date of retirement. The pensioner or qualified surviving spouse/domestic partner must reside either outside of California or in the state of California but not within a City-approved health plan zip code service area. They may not be enrolled in a City-approved plan.

