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## SPECIAL AGENDA

### BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

December 3, 2020  
10:00 a.m.

Sam Diannitto Boardroom  
Los Angeles Fire and Police Pensions Building  
701 East 3rd Street, Suite 400  
Los Angeles, CA 90013

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**Important Message to the Public:** In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the public health concerns over COVID-19, this meeting of the Board of Fire and Police Pension Commissioners will be conducted via telephone and/or videoconferencing.

**PLEASE NOTE: The Board Room will be closed during this meeting.**

To provide public comment telephonically, please call (669) 900-9128 or (346) 248-7799 and enter Meeting ID 816 4300 4246 # (Please note: Toll charges may apply).

If you do not want to make a public comment, you may stream the meeting from the website ([www.lafpp.com](http://www.lafpp.com)) or call any of the following numbers to access the Council Phone system and listen to live coverage: (213) 621-CITY (Downtown), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Please refer to [www.lafpp.com](http://www.lafpp.com) for more information.

An opportunity for the public to address the Board or Committee about any item on today's agenda for which there has been no previous opportunity for public comment will be provided before or during consideration of the item. Members of the public who wish to speak on any item on today's agenda are requested to use the telephone number provided above.

**Notice to Paid Representatives:** If you are compensated to monitor, attend, or speak at this meeting, City law may require you to register as a lobbyist and report your activity. See Los Angeles Municipal Code §§ 48.01 *et seq.* More information is available at [ethics.lacity.org/lobbying](http://ethics.lacity.org/lobbying). For assistance, please contact the Ethics Commission at (213) 978-1960 or [ethics.commission@lacity.org](mailto:ethics.commission@lacity.org).

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Board or applicable Committee of the Board in advance of their meetings may be viewed by clicking on LAFPP's website at [www.lafpp.com](http://www.lafpp.com). In addition, if you would like a copy of any record related to an item on the agenda, please contact the Commission Executive Assistant, at (213) 279-3037 or by e-mail at [evange.masud@lafpp.com](mailto:evange.masud@lafpp.com).

Sign language interpreters, communication access real-time transcription, assistive listening devices, Telecommunication Relay Services (TRS) or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing sign language interpreters, five or more business days notice is strongly recommended. For additional information, please contact the Department of Fire and Police Pensions, (213) 279-3000 voice or (213) 628-7713 TDD.

**A. GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION**

**B. REPORTS TO THE BOARD**

1. [AUDITED FINANCIAL STATEMENTS AS OF JUNE 30, 2020 AND POSSIBLE BOARD ACTION](#)
2. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF ONE (1) PARTICULAR, SPECIFIC INVESTMENT AND POSSIBLE BOARD ACTION



# DEPARTMENT OF FIRE AND POLICE PENSIONS

701 E. 3rd Street, Suite 200  
Los Angeles, CA 90013  
(213) 279-3000

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## REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

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**DATE:** DECEMBER 3, 2020 **ITEM:** B.1

**FROM:** RAYMOND P. CIRANNA, GENERAL MANAGER

**SUBJECT:** AUDITED FINANCIAL STATEMENTS AS OF JUNE 30, 2020 AND POSSIBLE BOARD ACTION

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### RECOMMENDATIONS

That the Board:

1. Adopt the System's Audited Financial Statements as of June 30, 2020; and,
2. Direct staff to provide copies of the adopted Audited Financial Statements to the State Controller and City Controller.

### BACKGROUND

Under the provisions of the State of California Government Code Sections 7501-7504, all California Public Retirement Systems are required to furnish audited financial statements to the State Controller annually, within six months of the close of each fiscal year. The City Controller requires the System's audited financial statements for inclusion in the City's Comprehensive Annual Financial (CAFR) before December 31, 2020.

### DISCUSSION

Simpson & Simpson Certified Public Accountants (Simpson & Simpson) performed the audit of the System's financial statements for the fiscal year ending June 30, 2020. Simpson & Simpson issued an unqualified opinion, also referred to as a "clean opinion" thereon, stating:

*"In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2020 and 2019, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America."*

The attachment to this Board report includes the following reports, statements, and conclusions:

- Financial Statements including Management's Discussion and Analysis which indicates:
  - As of June 30, 2020, the net positions of the Pension Plan and Health Subsidy Plan were \$21.4 billion and \$2.14 billion, respectively.

- As of June 30, 2020, the funding ratios of the Pension Plan and Health Subsidy Plan were 93.2% and 59.7%, respectively.
- Financial Statements including the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* which indicates:
  - No internal control deficiencies were identified that were considered to be material weaknesses.
  - No instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* were identified.
- Communication to the Board of Fire and Police Pension Commissioners dated November 23, 2020 which indicates:
  - All significant transactions have been recognized in the financial statements in the proper period.
  - Key factors and assumptions used to develop the fair value of investments are reasonable.
  - Key factors and assumptions used to develop the Health Subsidy Plan's funded status and funding progress are reasonable.
  - Key factors and assumptions used to develop the employer's net pension liabilities for the Pension Plan are reasonable.
  - The financial statement disclosures are neutral, consistent, and clear.
  - No disagreements and no difficulties in dealing with management arose during the course of the audit.

## **BUDGET**

There is no budget impact at this time.

## **POLICY**

No policy changes are recommended.

## **CONTRACTOR DISCLOSURE INFORMATION**

There is no contractor disclosure information required with this report.

This report was prepared by:

Cynthia Varela, Departmental Audit Manager  
Internal Audit Section

RPC:CV

Attachment: Financial Statements with Independent Auditor's Report dated November 23, 2020

**LOS ANGELES FIRE AND  
POLICE PENSION SYSTEM  
FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

# LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Fire and Police Pension Commissioners  
Los Angeles Fire and Police Pension System

### Report on the Financial Statements

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2020 and 2019, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on the respective financial statements for each plan, based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.





## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Plan and Health Subsidy Plan administered by the System as of June 30, 2020 and 2019, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

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

Los Angeles, California  
November 23, 2020



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

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2020. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

**FINANCIAL HIGHLIGHTS**

- Net position at the close of the fiscal year ended June 30, 2020, was \$21.40 billion and \$2.14 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.
- Net position increase by \$134.73 million or 0.6% and increased by \$105.73 million or 5.2% for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2020, the date of the most recent funding actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 93.2% and 59.7%, respectively.
- Additions to the Pension Plan's net position decreased by \$593.65 million or 31.7% from \$1.87 billion to \$1.28 billion, due primarily to lesser appreciation in the fair value of investments in fiscal year 2020 relative to fiscal year 2019.
- Deductions from the Pension Plan's net position increased by \$51.24 million or 4.7% over fiscal year 2019 from \$1.09 billion to \$1.14 billion in fiscal year 2020.
- Additions to the Health Subsidy Plan's net position decreased by \$48.34 million or 16.1% from \$299.66 million to \$251.31 million, due to lesser appreciation in the fair value of investments in fiscal year 2020 relative to fiscal year 2019.
- Deductions from the Health Subsidy Plan's net position increased by \$5.85 million or 4.2% over fiscal year 2019 from \$139.7 million to \$145.58 million in fiscal year 2020.
- The total pension liability for the Pension Plan at June 30, 2020, was \$23.97 billion, and the fiduciary net position was \$21.40 billion. Thus, the net pension liability for the Pension Plan was \$2.57 billion, and the fiduciary net position as a percentage of the total pension liability was 89.3%
- The total Other Post-Employment Benefits (OPEB) liability for the Health Subsidy Plan at June 30, 2020, was \$3.71 billion, and the fiduciary net position was \$2.14 billion. Thus, the net OPEB liability for the Health Subsidy Plan was \$1.57 billion, and the fiduciary net position as a percentage of the total OPEB liability was 57.8%.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

1. Statement of Fiduciary Net Position
2. Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements

The *Statement of Fiduciary Net Position* 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 Fiduciary Net Position* reports additions to and deductions from the fiduciary net position 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 14 to 51 of this report.

The *Required Supplementary Information* (RSI) section includes the following six schedules:

**Pension Plan:**

- Schedule of Changes in Net Pension Liability and Related Ratio
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Pension Liability

**Health Subsidy Plan:**

- Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to Schedule of Employer Contribution
- Schedule of Investment Returns
- Schedule of Employer's Net Other Postemployment Benefits Liability

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

**FINANCIAL ANALYSIS**

*Pension Plan*

**Fiduciary Net Position**

A summary of the Pension Plan's net position and changes in net position is presented below:

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2020	2019	Change	% Change
Cash	\$ 1,861	\$ 2,766	\$ (905)	-32.7%
Receivables/Prepayments	367,205	467,108	(99,903)	-21.4%
Investments	23,020,542	21,990,502	1,030,040	4.7%
Capital Assets	24,104	24,195	(91)	-0.4%
Total Assets	23,413,712	22,484,571	929,141	4.1%
Liabilities	2,016,779	1,222,371	794,408	65.0%
Net Position	\$ 21,396,933	\$ 21,262,200	\$ 134,733	0.6%

Net position increased by \$134.73 million (0.6%) to \$21.40 billion from fiscal year 2019. Total Assets increased in value by \$929.14 million (4.1%) when compared with the prior fiscal year 2019, attributable to appreciation of investments despite the market conditions.

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2019	2018	Change	% Change
Cash	\$ 2,766	\$ 1,748	\$ 1,018	58.2%
Receivables/Prepayments	467,108	177,363	289,745	163.4%
Investments	21,990,502	21,175,122	815,380	3.9%
Capital Assets	24,195	23,757	438	1.8%
Total Assets	22,484,571	21,377,990	1,106,581	5.2%
Liabilities	1,222,371	895,411	326,960	36.5%
Net Position	\$ 21,262,200	\$ 20,482,579	\$ 779,621	3.8%

Net position increased by \$779.6 million (3.8%) to \$21.3 billion from fiscal year 2018. Total Assets increased in value by \$1.1 billion (5.2%) when compared with the prior fiscal year 2018, attributable to appreciation of investments due to favorable market conditions.

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

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position**

	Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)			
	2020	2019	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 516,638	\$ 504,877	\$ 11,761	2.3%
Member Contributions	153,787	147,753	6,034	4.1%
Net Investment Income	605,869	1,217,329	(611,460)	-50.2%
Other Income	375	363	12	3.3%
Total Additions	1,276,669	1,870,322	(593,653)	-31.7%
<b>Deductions</b>				
Pension Benefits	1,116,722	1,065,979	50,743	4.8%
Refund of Contributions	4,530	4,478	52	1.2%
Administrative Expenses	20,685	20,244	441	2.2%
Total Deductions	1,141,937	1,090,701	51,236	4.7%
Net Increase	134,732	779,621	(644,889)	-82.7%
Net Position, Beginning of Year	21,262,200	20,482,579	779,621	3.8%
Net Position, End of Year	\$ 21,396,932	\$ 21,262,200	\$ 134,732	0.6%

Additions to Fiduciary Net Position

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 2020 totaled \$670.42 million, up by \$17.79 million or 2.7% over fiscal year 2019. The employer's contribution for fiscal year 2020 was \$516.64 million compared to \$504.88 million for fiscal year 2019. The increase in employer's contributions was due to the increase in required contribution. The increase in members' contribution was due to an increase in membership in Tier 6 and general wage growth.

Net investment income amounted to \$605.87 million, a decrease in net investment income of \$611.46 million or 50.2% when compared with \$1.22 billion from fiscal year 2019. Investment income decreased in fiscal year 2020 due to less appreciation in the fair value of investments in fiscal year 2020 relative to fiscal year 2019.

Deductions from Fiduciary Net Position

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

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

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions for the fiscal year ended June 30, 2020, totaled \$1.14 billion, up by \$51.24 million or 4.7% over fiscal year 2019. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2019.

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2019	2018	Change	% Change
<b>Additions</b>				
Employer Contributions	\$ 504,877	\$ 460,967	\$ 43,910	9.5%
Member Contributions	147,753	145,425	2,328	1.6%
Net Investment Income	1,217,329	1,886,956	(669,627)	-35.5%
Other Income	363	5,536	(5,173)	-93.4%
Total Additions	<u>1,870,322</u>	<u>2,498,884</u>	<u>(628,562)</u>	-25.2%
<b>Deductions</b>				
Pension Benefits	1,065,979	991,013	74,966	7.6%
Refund of Contributions	4,478	3,786	692	18.3%
Administrative Expenses	20,244	19,909	335	1.7%
Total Deductions	<u>1,090,701</u>	<u>1,014,708</u>	<u>75,993</u>	7.5%
Net Increase (Decrease)	779,621	1,484,176	(704,555)	-47.5%
Net Position, Beginning of Year	<u>20,482,579</u>	<u>18,998,403</u>	<u>1,484,176</u>	7.8%
Net Position, End of Year	<u>\$ 21,262,200</u>	<u>\$ 20,482,579</u>	<u>\$ 779,621</u>	3.8%

Additions to Fiduciary Net Position

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 2019 totaled \$652.6 million, up by \$46.2 million or 7.6% over fiscal year 2018. The employer's contribution for fiscal year 2019 was \$504.9 million compared to \$461.0 million for fiscal year 2018. The increase in employer's contributions was due to the increase in required contribution. The increase in members' contribution was due to an increase in membership in Tier 6 and general wage growth.

Net investment income amounted to \$1.2 billion, a decrease in net investment income of \$669.6 million or 35.5% when compared with \$1.9 billion from fiscal year 2018. Investment income decreased in fiscal year 2019 due to less appreciation in the fair value of investments in fiscal year 2019 relative to fiscal year 2018.

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

*Pension Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions from Fiduciary Net Position

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, 2019, totaled \$1.1 billion, up by \$76.0 million or 7.5% over fiscal year 2018. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2018.

*Health Subsidy Plan*

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

**Fiduciary Net Position**

	Condensed Statement of Fiduciary Net Position			
	(\$ in Thousands)			
	2020	2019	Change	% Change
Cash	\$ 185	\$ 264	\$ (79)	-29.9%
Receivables/Prepayments	48,120	54,680	(6,560)	-12.0%
Investments	2,293,222	2,095,842	197,380	9.4%
Capital Assets	2,401	2,306	95	4.1%
Total Assets	2,343,928	2,153,092	190,836	8.9%
Liabilities	200,480	115,376	85,104	73.8%
Net Position	\$ 2,143,448	\$ 2,037,716	\$ 105,732	5.2%

Net position increased by \$105.73 million (5.2%) to \$2.14 billion from fiscal year 2019. Total Assets increased in value by \$190.84 million (8.9%) when compared with the prior fiscal year 2019, attributable to appreciation of investments due to favorable market conditions.

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

*Health Subsidy Plan (Continued)*

**Fiduciary Net Position**

Condensed Statement of Fiduciary Net Position (\$ in Thousands)				
	2019	2018	Change	% Change
Cash	\$ 264	\$ 159	\$ 105	66.0%
Receivables/Prepayments	54,680	25,939	28,741	110.8%
Investments	2,095,842	1,930,589	165,253	8.6%
Capital Assets	2,306	2,166	140	6.5%
Total Assets	2,153,092	1,958,853	194,239	9.9%
Liabilities	115,376	81,062	34,314	42.3%
Net Position	\$ 2,037,716	\$ 1,877,791	\$ 159,925	8.5%

Net position increased by \$160.0 million (8.5%) to \$2.0 billion when compared to fiscal year 2018 due to an increase in the actuarially determined employer contribution towards health benefits and prepayment of the health subsidy and the result of favorable market conditions.

**Changes in Fiduciary Net Position**

Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)				
	2020	2019	Change	% Change
<b>Additions</b>				
Contributions	\$ 193,213	\$ 188,020	\$ 5,193	2.8%
Net Investment Income	58,065	111,635	(53,570)	-48.0%
Other	36	-	36	N/A
Total Additions	251,314	299,655	(48,341)	-16.1%
<b>Deductions</b>				
Benefits Payment	143,600	137,874	5,726	4.2%
Administrative Expenses	1,982	1,856	126	6.8%
Total Deductions	145,582	139,730	5,852	4.2%
Net Increase	105,732	159,925	(54,193)	-33.9%
Net Position, Beginning of Year	2,037,716	1,877,791	159,925	8.5%
Net Position, End of Year	\$ 2,143,448	\$ 2,037,716	\$ 105,732	5.2%

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

*Health Subsidy Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Additions to Fiduciary Net Position

Total additions to net position decreased by \$48.34 million compared to fiscal year 2019. This is due primarily to lesser appreciation in the fair value of investments which decreased by \$53.57 million or 48.0% over fiscal year 2019. For fiscal year 2020, net investment income was \$58.06 million compared to \$111.63 million in fiscal year 2019.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$145.58 million, \$5.85 million or 4.2% more than the total deductions of fiscal year 2019. This is due primarily to an increase in the medical insurance subsidies and an increase in the number of eligible pensioners and beneficiaries.

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2019	2018	Change	% Change
<b>Additions</b>				
Contributions	\$ 188,020	\$ 178,979	\$ 9,041	5.1%
Net Investment Income	111,635	165,453	(53,818)	-32.5%
Total Additions	299,655	344,432	(44,777)	-13.0%
<b>Deductions</b>				
Benefits Payment	137,874	130,722	7,152	5.5%
Administrative Expenses	1,856	1,745	111	6.4%
Total Deductions	139,730	132,467	7,263	5.5%
Net Increase (Decrease)	159,925	211,965	(52,040)	-24.6%
Net Position, Beginning of Year	1,877,791	1,665,826	211,965	12.7%
Net Position	\$ 2,037,716	\$ 1,877,791	\$ 159,925	8.5%

Additions to Fiduciary Net Position

Total additions to net position decreased by \$44.8 million compared to fiscal year 2018. This is due primarily to lesser appreciation in the fair value of investments which decreased by \$770.4 million or 47.0% over fiscal year 2018. For fiscal year 2019, net investment income was \$111.6 million compared to \$165.5 million in fiscal year 2018.



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

*Health Subsidy Plan (Continued)*

**Changes in Fiduciary Net Position (Continued)**

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$139.7 million, \$7.3 million or 5.5% more than the total deductions of fiscal year 2018. This is due primarily to an increase in the medical insurance subsidies and an increase in the number of eligible 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 LAFPP's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Raymond P. Ciranna, General Manager  
Los Angeles Fire and Police Pension System  
701 E. Third Street, Suite 200  
Los Angeles, CA 90013

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**JUNE 30, 2020 AND 2019**

	2020			2019		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ASSETS</b>						
Cash	\$ 1,860,753	\$ 185,361	\$ 2,046,114	\$ 2,766,426	\$ 263,659	\$ 3,030,085
Receivables						
Accrued Interest and Dividends	58,355,762	5,813,186	64,168,948	67,188,013	6,403,469	73,591,482
Contributions	9,804,546	-	9,804,546	8,340,007	-	8,340,007
Due from Brokers	299,043,956	29,789,656	328,833,612	391,578,652	37,320,077	428,898,729
Total Receivables	367,204,264	35,602,842	402,807,106	467,106,672	43,723,546	510,830,218
Prepaid benefits	992	12,517,232	12,518,224	1,532	10,956,695	10,958,227
Investments at Fair Value						
Temporary	1,401,803,112	139,642,454	1,541,445,566	1,636,173,961	155,938,374	1,792,112,335
U.S. Government Obligations	2,101,494,013	209,343,080	2,310,837,093	2,608,878,521	248,643,657	2,857,522,178
Domestic Corporate Bonds	2,470,730,582	246,125,065	2,716,855,647	1,625,869,847	154,956,323	1,780,826,170
Foreign Bonds	60,093,307	5,986,274	66,079,581	12,134,059	1,156,458	13,290,517
Domestic Stocks	7,895,255,071	786,496,182	8,681,751,253	7,818,764,981	745,180,849	8,563,945,830
Foreign Stocks	3,867,682,357	385,284,246	4,252,966,603	4,142,595,819	394,817,223	4,537,413,042
Real Estate	1,307,944,276	130,292,583	1,438,236,859	1,324,193,571	126,204,547	1,450,398,118
Alternative Investments	2,658,132,583	264,793,361	2,922,925,944	2,423,764,224	231,001,020	2,654,765,244
Total Investments	21,763,135,301	2,167,963,245	23,931,098,546	21,592,374,983	2,057,898,451	23,650,273,434
Capital Assets	24,104,160	2,401,168	26,505,328	24,194,753	2,305,922	26,500,675
Securities Lending Collateral	1,257,406,411	125,258,187	1,382,664,598	398,126,784	37,944,158	436,070,942
TOTAL ASSETS	23,413,711,881	2,343,928,035	25,757,639,916	22,484,571,150	2,153,092,431	24,637,663,581
<b>LIABILITIES</b>						
Accounts Payable and Accrued Expenses	17,891,396	1,782,275	19,673,671	16,085,959	1,533,100	17,619,059
Benefits in Process of Payment	16,957,243	1,264,960	18,222,203	21,120,786	888,936	22,009,722
Due to Brokers	547,728,773	54,562,719	602,291,492	623,944,799	59,466,133	683,410,932
Mortgage Payable	176,761,668	17,608,345	194,370,013	163,058,583	15,540,579	178,599,162
Security Deposit	33,743	3,361	37,104	33,876	3,228	37,104
Securities Lending Collateral	1,257,406,411	125,258,187	1,382,664,598	398,126,784	37,944,158	436,070,942
TOTAL LIABILITIES	2,016,779,234	200,479,847	2,217,259,081	1,222,370,787	115,376,134	1,337,746,921
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	\$ 21,396,932,647	\$ 2,143,448,188	\$ 23,540,380,835	\$ 21,262,200,363	\$ 2,037,716,297	\$ 23,299,916,660

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
JUNE 30, 2020 AND 2019**

	2020			2019		
	Pension	Health Subsidy	Combined	Pension	Health Subsidy	Combined
<b>ADDITIONS</b>						
Contributions						
Employer Contributions	\$ 516,638,053	\$ 193,213,520	\$ 709,851,573	\$ 504,877,399	\$ 188,019,917	\$ 692,897,316
Member Contributions	153,786,863	-	153,786,863	147,752,497	-	147,752,497
Total Contributions	<u>670,424,916</u>	<u>193,213,520</u>	<u>863,638,436</u>	<u>652,629,896</u>	<u>188,019,917</u>	<u>840,649,813</u>
Investment Income (Loss)						
Net Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	233,990,401	22,425,057	256,415,458	797,310,753	73,095,438	870,406,191
Interest	153,181,153	14,680,500	167,861,653	156,480,173	14,345,707	170,825,880
Dividends	260,827,637	24,997,071	285,824,708	287,148,353	26,325,036	313,473,389
Net Real Estate Income	39,454,915	3,781,261	43,236,176	56,964,334	5,222,347	62,186,681
Income from Alternative Investments	14,533,531	1,392,857	15,926,388	14,820,490	1,358,705	16,179,195
Securities Lending Income	6,134,849	587,949	6,722,798	5,447,393	499,403	5,946,796
Less: Securities Lending Expense	(857,699)	(82,200)	(939,899)	(762,066)	(69,864)	(831,930)
Other Income	(277,852)	(26,629)	(304,481)	3,788,307	347,303	4,135,610
Subtotal	<u>706,986,935</u>	<u>67,755,866</u>	<u>774,742,801</u>	<u>1,321,197,737</u>	<u>121,124,075</u>	<u>1,442,321,812</u>
Less: Investment Manager Expense	(101,117,833)	(9,690,881)	(110,808,714)	(103,868,573)	(9,522,409)	(113,390,982)
Net Investment Income	<u>605,869,102</u>	<u>58,064,985</u>	<u>663,934,087</u>	<u>1,217,329,164</u>	<u>111,601,666</u>	<u>1,328,930,830</u>
Other Income						
Miscellaneous	375,381	35,975	411,356	362,496	33,232	395,728
Total Other Income	<u>375,381</u>	<u>35,975</u>	<u>411,356</u>	<u>362,496</u>	<u>33,232</u>	<u>395,728</u>
TOTAL ADDITIONS	<u>1,276,669,399</u>	<u>251,314,480</u>	<u>1,527,983,879</u>	<u>1,870,321,556</u>	<u>299,654,815</u>	<u>2,169,976,371</u>
<b>DEDUCTIONS</b>						
Pension Benefits	1,116,721,637	-	1,116,721,637	1,065,978,500	-	1,065,978,500
Payment of Health Subsidy	-	132,755,800	132,755,800	-	126,579,292	126,579,292
Payment of Medicare Reimbursement	-	10,844,349	10,844,349	-	11,294,464	11,294,464
Refund of Contributions	4,530,043	-	4,530,043	4,477,787	-	4,477,787
Administrative Expenses	20,685,435	1,982,440	22,667,875	20,243,956	1,855,915	22,099,871
TOTAL DEDUCTIONS	<u>1,141,937,115</u>	<u>145,582,589</u>	<u>1,287,519,704</u>	<u>1,090,700,243</u>	<u>139,729,671</u>	<u>1,230,429,914</u>
<b>NET INCREASE</b>	134,732,284	105,731,891	240,464,175	779,621,313	159,925,144	939,546,457
<b>NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS</b>						
Beginning of Year	<u>21,262,200,363</u>	<u>2,037,716,297</u>	<u>23,299,916,660</u>	<u>20,482,579,050</u>	<u>1,877,791,153</u>	<u>22,360,370,203</u>
End of Year	<u>\$ 21,396,932,647</u>	<u>\$ 2,143,448,188</u>	<u>\$ 23,540,380,835</u>	<u>\$ 21,262,200,363</u>	<u>\$ 2,037,716,297</u>	<u>\$ 23,299,916,660</u>

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 – DESCRIPTION OF THE PLANS**

The Los Angeles Fire and Police Pension System (the System or LAFPP) was established by the City of Los Angeles (the City) in 1899 and operates under the provisions of the City Charter and Administrative Code. The System is a single employer public employee retirement system whose main function is to provide retirement benefits to the safety members employed by the City.

The System is administered by a Board of Fire and Police Pension Commissioners (Board) composed of five commissioners who are appointed by the Mayor, two commissioners elected by Police members of the System and two commissioners elected by Fire members of the System. Under the provisions of the City Charter and Administrative Code and the State Constitution, the Board has the responsibility to administer the Pension Plan and Health Subsidy Plan.

**Pension Plan**

The System's Pension Plan is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain Harbor Port Police and Airport police officers of the City of Los Angeles. 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. The System is composed of six tiers. Benefits are based on the member's 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 August 6, 1999. 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 includes members hired from January 1, 2002 through June 30, 2011, and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2011. 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 6 was established for all firefighters, police and Harbor Port Police officers hired on or after July 1, 2011. Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and elected to opt out of LACERS by the December 12, 2014 deadline. Effective January 7, 2018, Tier 6 also includes all new Airport police officers, as well as any Airport police officers hired prior to January 7, 2018 who elected to transfer to Tier 6 from LACERS at their own expense.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Pension Plan (Continued)

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 terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board-approved interest if they did not qualify for a pension or if they waived their pension entitlements.

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% for 30 years. 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 least 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, subject to certain conditions. 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, subject to certain conditions. Members who terminate their employment before they are eligible for pension benefits do not receive a refund of contributions.

Tier 5 members must be at least age 50 with 20 or more 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%. The City Council may also grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 – DESCRIPTION OF THE PLANS** (Continued)

Pension Plan (Continued)

if they do not qualify for a pension or if they waive pension entitlements.

Tier 6 members must be at least age 50 with 20 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 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%. The City Council may also grant an ad-hoc COLA no more than every three years, subject to certain conditions. 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 pension entitlements.

Health Subsidy Plan

Members of the System are entitled to post-employment health subsidy benefits under Sections 1330, 1428, 1518, 1618, and 1718 of the City Charter; Section 4.2018 of the Administrative Code; and related ordinances. Health subsidy benefits are available to members and their covered dependents (e.g., spouses/domestic partners and/or children) on disability and service retirement. Effective January 1, 2000, qualified surviving spouses/domestic partners are eligible for health subsidy benefits. Members who retire from the System with at least 10 years of service are eligible for health subsidy benefits. For retirement effective dates prior to July 1, 1998, regular benefits began at age 60. For retirement effective dates on or after July 1, 1998, regular benefits begin at age 55. Tier 6 members who retire on a service-connected disability pension are eligible for a minimum health subsidy at age 55 if they have fewer than 10 years of service.

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the 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. The maximum monthly subsidy for fiscal years 2020 and 2019 was \$1,820.29 and \$1,725.39, respectively. The System also reimburses the basic Medicare Part B premiums for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

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

Effective July 1, 2008, actual employer contributions and benefit payments relating to health subsidy benefits are separately accounted for in order to comply with Internal Revenue Code Section 401-(h).

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

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 meet minimum age and service requirements for a health subsidy. The pensioner or qualified surviving spouse/domestic partner must reside either outside California or in the State of California but not within a Board-approved health plan zip code service area. They may not be enrolled in a Board-approved plan. Effective April 6, 2017, pensioners or qualified surviving spouses/domestic partners may reside anywhere and be eligible to participate in this program.

The reimbursement paid is a percentage of the maximum health subsidy. The System also reimburses basic Medicare Part B premiums for any pensioner or qualified surviving spouse/domestic partner eligible to receive a subsidy and enrolled in Medicare Parts A and B.

Dental Subsidy Plan

Members who retire from the System with at least 10 years of service, are age 55 years or older, and are enrolled in a Board-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 monthly subsidy was \$44.60 for calendar years 2020 and 2019. In determining the dental subsidy, members receive 4% for each whole year of service, up to 100% of the maximum.

Deferred Retirement Option Plan

Effective May 1, 2002, 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, 5, and 6 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 for 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 salary credits. Monthly pension benefits that would have been paid to enrolled members are credited to their DROP accounts. DROP account balances earn interest at an annual rate of 5%.

Effective February 1, 2019, for members who enroll on or after this date, participation in DROP will be suspended for any calendar month in which a participant does not spend at least 112 hours on “active duty” status. However, if a participant sustains a serious injury on duty and is admitted to the hospital for at least three consecutive days as a result of that injury, their participation will not be suspended during the first 12 calendar months following the date of injury. If a member’s DROP participation is suspended, he/she is eligible to participate in DROP for a maximum of 30 additional months beyond his/her original five-year

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Deferred Retirement Option Plan (Continued)

participation period. The participation period can only be extended for as many months as the member's participation was suspended and no interest is credited to the member's DROP account following the initial five-year participation period.

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive the 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, 2020 and 2019, 1,478 and 1,665 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$353,643,961 and \$332,592,779, respectively.

Two Percent Opt-In

On July 15, 2011, the City Council adopted an ordinance to permanently freeze the retiree health subsidies and reimbursements for members of the System who retired or entered DROP on or after July 15, 2011. This ordinance added language to the Los Angeles Administrative Code to freeze the maximum monthly non-Medicare subsidy at the July 1, 2011, rate of \$1,097.41 per month, and freeze the maximum monthly Medicare subsidy at the January 1, 2011, rate of \$480.41 per month. However, the ordinance also provided that members may make an irrevocable election to contribute towards vesting increases in the maximum health subsidy, as allowed by an applicable Memorandum of Understanding.

Members who opted-in to make the additional two-percent pension contributions are entitled to the current maximum health subsidy benefit and all future subsidy increases once they retire and become eligible to receive a subsidy. The opt-in period for the majority of the members began August 15, 2011, and closed September 29, 2011.

SINCE THE PENSION AND HEALTH SUBSIDY PLANS INCLUDE DETAILED PROVISIONS FOR EACH SITUATION, MEMBERS SHOULD REFER TO THE LEGAL TEXT OF THE CITY CHARTER AND LOS ANGELES CITY ADMINISTRATIVE CODE FOR MORE COMPLETE INFORMATION.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 – DESCRIPTION OF THE PLANS (Continued)**

Pension Plan Membership

The components of the System’s Pension Plan membership at June 30, 2020 and 2019, are as follows:

	2020	2019
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	-
Tier 4	71	112
Tier 5	4,886	5,246
Tier 6	3,925	3,485
	8,882	8,843
Active Vested:		
Tier 1	-	-
Tier 2	5	7
Tier 3	615	664
Tier 4	151	138
Tier 5	3,829	3,880
Tier 6	4	3
	4,604	4,692
Pensioners and Beneficiaries:		
Tier 1	236	264
Tier 2	6,845	7,085
Tier 3	776	731
Tier 4	346	321
Tier 5	5,087	4,695
Tier 6	1	1
	13,291	13,097
Vested Terminated		
Tier 3	47	49
Tier 5	256	277
Tier 6	272	197
	575	523
	27,352	27,155

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**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 by the Governmental Accounting Standards Board (GASB).

Investments and Method Used to Value Investments

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 by Moody's Investors Service and Standard & Poor's, respectively, 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 Statements of Changes in Fiduciary Net Position.

The category of alternative investments includes private equity and hedge funds. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies. Hedge funds are pooled investment programs that invest in a wide variety of asset classes and use a wide variety of approaches. The use of leverage and short selling is a common characteristic.

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 of accounting. The corresponding proceeds due from sales are reported on the Statements of Fiduciary Net Position as receivables and labeled due from brokers and amounts payable for purchases are reported as liabilities and labeled due to brokers. Dividend income is recorded on ex-dividend date and interest income is accrued as earned.

Investments are carried at fair value. The fair 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 estimated fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position 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 investment managers of investee limited partnerships.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments and Method Used to Value Investments (Continued)

The sole hedge fund investment is valued by the fund manager based upon the information received from individual hedge funds in which monies are invested. Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers with periodic external valuations.

Cash

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

Capital Assets

Capital assets include land, building, improvements, computer/software, furniture and fixtures that are used in operation. Assets with an individual cost of at least \$5,000 and an estimated useful life of more than one year are capitalized. Capital assets are valued at acquisition cost plus the cost of improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the building and improvements (20-year), computer/software (10-year) and furniture and fixtures (5-year). The System acquired the Neptune Building in fiscal year 2013 and occupied as the headquarters in fiscal year 2016. Recorded values of land and building were assigned based on a ratio obtained from the November 2016 independent appraisal report.

Mortgage Payable

Effective July 1, 2017, mortgage payable is stated at fair value. The fair value of mortgage loans payable is presented at the amount at which the liability could be transferred to a market participant, exclusive of direct transaction costs such as prepayment penalties. The fair value of mortgage loans payable have been determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates and/or interest rate spreads for loans of comparable quality and maturity, (ii) the value of the underlying collateral, (iii) the credit risk of the borrower based on key elements of the real estate investment's valuation, (iv) market based loan-to-value and debt-service-coverage ratios relative to each mortgage loan payable valuation, and (v) key terms such as assumability, recourse provisions and guaranties. These inputs are considered within a discounted cash flow model used to determine the estimated fair value of mortgage loans payable. Prior to July 1, 2017, mortgage payable consists of the outstanding unpaid principal balance on the loans.

Use of 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.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 3 – NEW ACCOUNTING STANDARDS**

Implementation of the following GASB statements effective beginning fiscal year 2020.

Issued in January 2017, GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. LAFPP implemented this statement without material impact.

Issued in August 2018, GASB Statement No. 90, *Majority Equity Interests- An Amendment of GASB Statements No. 14 and 61* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. LAFPP implemented this statement without material impact.

Implementation of the following GASB statements effective beginning fiscal year 2019.

Issued in November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes standards of accounting and financial reporting for certain Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. LAFPP implemented this statement without material impact.

Issued in March 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. LAFPP implemented this statement without material impact.

**NOTE 4 – 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. Tier 6 members are required to contribute 9% of salary for regular pension contributions. Tier 6 members are also required to make an additional pension contribution of 2% of salary to support the City's ability to fund retiree health benefits. Airport police officers who transferred to Tier 6 from LACERS are required to contribute to the System at their same LACERS contribution rates until they retire.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)**

The City Charter 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” resulting from plan amendments shall be amortized over a 25-year period, and actuarial experience gains and losses shall be amortized over a 20-year period. For Tier 6, the unfunded liabilities shall be funded in accordance with the actuarial funding method adopted by the Board upon the advice of the consulting actuary. Charter Amendment G, effective April 8, 2011, now provides that with the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses for all Tiers.
  
- C. An amount to provide for the Health Subsidy Plan.

Accordingly, the City’s contributions as determined by the System’s actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2020 and 2019, were as follows (\$ in thousands):

**Fiscal Year Ended June 30, 2020**

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 369	\$14,749	\$ 6,148	\$219,107	\$38,257	\$ 2,619	\$ 368	\$ 993
Pension Unfunded Supplemental Present Value Amount	14,561	13,690	-	7,738	148,938	31,159	778	134	121
Pension Administrative Expense	-	17	967	367	12,666	2,650	148	25	69
Health subsidy entry age Normal cost	-	42	3,910	1,424	47,610	15,544	764	144	441
Health subsidy unfunded actuarial accrued liability annual amount	1,566	64,580	5,803	3,422	38,337	8,021	161	28	58
Health Administrative Expenses	-	1	78	29	1,018	213	12	2	6
<b>Total</b>	<b>\$16,127</b>	<b>\$78,699</b>	<b>\$25,507</b>	<b>\$19,128</b>	<b>\$467,676</b>	<b>\$95,844</b>	<b>\$ 4,482</b>	<b>\$ 701</b>	<b>\$ 1,688</b>

During fiscal year 2020, total contributions of \$709.85 million from the employer and \$153.79 million 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, 2018. For the Pension Plan, fiscal year 2020 employer contributions included \$282.61 million for entry age normal cost, \$217.12 million for the unfunded supplemental present value annual amount, and \$16.91 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2020 employer contributions consisted of \$69.88 million for entry age normal cost, \$121.98 million for the unfunded actuarial accrued liability annual amount, and \$1.36 million for health administrative expense.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)**

Fiscal Year Ended June 30, 2019

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 364	\$15,415	\$ 6,178	\$223,865	\$30,594	\$ 2,531	\$ 298	\$ 783
Supplemental Present Value Amount	14,731	16,888	25,699	17,328	113,781	18,698	818	122	118
Pension Administrative Expense	-	16	1,020	378	12,911	2,122	142	21	55
Health Subsidy Entry Age Normal Cost	-	48	4,115	1,476	48,878	12,579	730	112	362
Health Subsidy Unfunded Actuarial Accrued Liability Annual Amount	1,654	63,147	5,580	3,378	38,157	6,270	156	24	14
Health Administrative Expenses	-	1	82	30	1,038	171	12	2	5
<b>Total</b>	<b>\$16,385</b>	<b>\$80,464</b>	<b>\$51,911</b>	<b>\$28,768</b>	<b>\$438,630</b>	<b>\$70,434</b>	<b>\$ 4,389</b>	<b>\$ 579</b>	<b>\$ 1,337</b>

During fiscal year 2019, total contributions of \$692.9 million from the employer and \$147.8 million 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, 2017. For the Pension Plan, fiscal year 2019 employer contributions included \$280.0 million for entry age normal cost, \$208.2 million for the unfunded supplemental present value annual amount, and \$16.7 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2019 employer contributions consisted of \$68.3 million for entry age normal cost, \$118.4 million for the unfunded actuarial accrued liability annual amount, and \$1.3 million for health administrative expense.

**NOTE 5 – NET PENSION LIABILITY**

The components of the System’s net pension liability (NPL) at June 30, 2020 and 2019, were as follows:

	2020	2019
Total Pension Liability	\$ 23,969,714,355	\$ 23,000,504,726
Less: Fiduciary Net Position	21,396,932,648	21,262,200,363
Net Pension Liability	\$ 2,572,781,707	\$ 1,738,304,363
Fiduciary Net Position as a Percentage of the Total Pension Liability	89.27%	92.44%

The NPL was measured as of June 30, 2020 and June 30, 2019 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2019 and 2018 respectively.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 5 – NET PENSION LIABILITY (Continued)**

Actuarial Assumptions

The TPL as of June 30, 2020 that was determined by an actuarial valuation as of June 30, 2019, was re-valued as of June 30, 2019 (before roll forward) using the actuarial assumptions that the Board of Commissioners has approved for use in the pension funding valuation as of June 30, 2020. This revalued TPL was then rolled forward to June 30, 2020 to determine the final TPL as of June 30, 2020. The updated actuarial assumptions were based on the July 1, 2016 through June 30, 2019 Experience Study Report dated May 13, 2020. In particular, the following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2020:

Inflation Rate	2.75%
Projected Salary Increase	Ranges from 4.15% to 12.25% based on years of service, including inflation.
Investment Return Rate	7.00%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	2.75% of Tiers 1 - 6 retirement income.
Mortality	<p>Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>Disabled: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.</p>

The TPL as of June 30, 2019 was determined by actuarial valuation as of June 30, 2018, was re-measured as of June 30, 2019 to reflect the mortality assumption that the Board has approved for use in the pension funding valuation as of June 30, 2019. Those actuarial assumptions were based on the result of an experience study for the period from July 1, 2013 through June 30, 2016 with the exception of the mortality assumption where the Board adopted the base mortality table recommended but with a static projection with increased margin while an updated mortality assumption for the June 30, 2019 TPL was the Mortality Experience Study covering the period from July 1, 2010 through June 30, 2019. The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2019:

Inflation Rate	3.00%
Projected Salary Increase	Ranges from 4.30% to 12.00% based on years of service, including inflation.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 5 – NET PENSION LIABILITY (Continued)**

Actuarial Assumptions (Continued)

Investment Return Rate	7.25%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	3.00% of Tiers 1, 2, 3, and 4 retirement income and 3.00% maximum of Tiers 5 and 6 retirement income.
Mortality	Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.  Disabled: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2020 and 2019 are summarized in the following table:

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2020	2019	2020	2019
Large Cap U.S. Equity	23.00%	23.00%	5.40%	5.61%
Small Cap U.S. Equity	6.00%	6.00%	6.20%	6.37%
Developed International Equity	16.00%	16.00%	6.54%	6.96%
Emerging Markets Equity	5.00%	5.00%	8.78%	9.28%
U.S. Core Fixed Income	13.00%	12.00%	1.07%	1.06%
High Yield Bonds	3.00%	3.00%	3.31%	3.65%
Real Estate	7.00%	10.00%	4.65%	4.37%
Treasury Inflation Protected Securities (TIPS)	4.00%	5.00%	0.62%	0.94%
Commodities	5.00%	5.00%	3.05%	3.76%
Cash	1.00%	1.00%	0.01%	-0.17%
Unconstrained Fixed Income	2.00%	2.00%	1.37%	2.50%
Private Equity	12.00%	12.00%	8.25%	7.50%
Real Estate Investment Trusts (REITS)	3.00%	N/A	4.40%	N/A
Total Portfolio	100.00%	100.00%	4.99%	5.11%



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 5 – NET PENSION LIABILITY (Continued)**

Discount Rate

The discount rate used to measure the TPL was 7.00% as of June 30, 2020 and 7.25% as of 2019. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2020 and 2019.

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2020 and 2019, calculated using the discount rate of 7.00% for 2020 and 7.25% for 2019, as well as what the System’s NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
NPL as of June 30, 2020	\$ 5,922,721,361	\$ 2,572,781,707	\$ (146,429,639)
	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
NPL as of June 30, 2019	\$ 4,952,113,933	\$ 1,738,304,363	\$ (872,832,397)

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY**

The components of the System’s net Other Postemployment Benefits (OPEB) liability at June 30, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Total OPEB Liability	\$ 3,709,858,281	\$ 3,621,203,927
Less: Fiduciary Net Position	<u>2,143,448,187</u>	<u>2,037,716,297</u>
Net OPEB Liability	<u>\$ 1,566,410,094</u>	<u>\$ 1,583,487,630</u>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	57.78%	56.27%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

The Net OPEB Liability (NOL) was measured as of June 30, 2020 and June 30, 2019. The Health Subsidy’s Net Position was valued as of the measurement date, while the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuation as of June 30, 2020 and 2019, respectively, with the following exception:

- The NOL as of June 30, 2019 reflected the impact of the excise tax on high-cost health plans imposed in 2022 (deferred from 2020) by the Affordable Care Act (ACA).

Actuarial Assumptions

The TOL as of June 30, 2020 and 2019 were determined by actuarial valuations as of June 30, 2020 and 2019, respectively. The actuarial assumptions were based on the results of an experience study for the period from July 1, 2016 through June 30, 2019 with the exception of the mortality assumption where the Board adopted the updated Pub-2010 mortality tables proposed in a separate letter dated December 12, 2019. They are the same as the assumptions used in the June 30, 2020 funding actuarial valuation.

The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2020 and 2019:

Inflation Rate	2.75% for 2020 and 3.00% for 2019
Projected Salary Increase	Ranges from 4.15% to 12.25% based on years of service, including inflation for 2020, and ranges from 4.30% to 12.00% based on years of service, including inflation for 2019.
Investment Return Rate	7.00%, including inflation but net of investment expenses for 2020, and 7.25%, including inflation but net of investment expenses for 2019.
Real Across-the-Board Salary Increase	0.50% for 2020 and 2019
Cost of Living Adjustments (COLAs)	2.75% of Tiers 1-6 retirement income for 2020 and 3.00% of Tiers 1-6 retirement income for 2019.
Mortality	<p><u>June 30, 2020 and 2019:</u>            Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table multiplied by 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p>Disabled: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2019.</p>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Investment Return Rate

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses, used in the derivation of the long-term expected investment return rate assumption for June 30, 2020 and 2019 are summarized in the following table:

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2020	2019	2020	2019
Large Cap U.S. Equity	23.00%	23.00%	5.40%	5.61%
Small Cap U.S. Equity	6.00%	6.00%	6.20%	6.37%
Developed International Equity	16.00%	16.00%	6.54%	6.96%
Emerging Markets Equity	5.00%	5.00%	8.78%	9.28%
U.S. Core Fixed Income	13.00%	12.00%	1.07%	1.06%
High Yield Bonds	3.00%	3.00%	3.31%	3.65%
Real Estate	7.00%	10.00%	4.65%	4.37%
Treasury Inflation Protected Securities (TIPS)	4.00%	5.00%	0.62%	0.94%
Commodities	5.00%	5.00%	3.05%	3.76%
Cash	1.00%	1.00%	0.01%	-0.17%
Unconstrained Fixed Income	2.00%	2.00%	1.37%	2.50%
Private Equity	12.00%	12.00%	8.25%	7.50%
Real Estate Investment Trusts (REITS)	3.00%	N/A	4.40%	N/A
Total Portfolio	100.00%	100.00%	4.99%	5.11%

Discount Rate

The discount rates used to measure the TOL were 7.00% as of June 30, 2020 and 7.25% as of June 30, 2019. As contributions that are required to be made by the City to amortize the Unfunded Actuarial Accrued Liability in the funding valuation are determined on an actuarial basis, the future Actuarially Determined Contributions and current Plan assets, when projected in accordance with the method prescribed by GASB 74, are expected to be sufficient to make all benefit payments to current members.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Sensitivity Analysis

The following presents the NOL of the System as of June 30, 2020 and 2019, calculated using the discount rate of 7.00% and 7.25%, respectively, as well as what the System’s NOL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
NOL as of June 30, 2020	\$ 2,126,363,981	\$ 1,566,410,094	\$ 1,114,093,597
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
NOL as of June 30, 2019	\$ 2,126,785,914	\$ 1,583,487,630	\$ 1,143,755,017

Sensitivity Analysis to Changes in Trend Rate

The following presents the NOL of the Health Subsidy Plan of the System as of June 30, 2020, as well as what the System’s NOL would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Trend	1% Increase
NOL as of June 30, 2020	\$ 1,093,547,454	\$ 1,566,410,094	\$ 2,163,866,259
	1% Decrease	Current Trend	1% Increase
NOL as of June 30, 2019	\$ 1,105,675,287	\$ 1,583,487,630	\$ 2,238,482,815

Additional information from the actuarial valuations as of June 30, 2020 and 2019 are as follows:

	June 30, 2020	June 30, 2019
Non-Medicare Medical plan	4.75%, then 6.50% then graded down to an ultimate of 4.50% over 8 years	8.75%, graded down to an ultimate of 4.50% over 9 years
Medicare Medical Plan	4.50%, then 6.00% graded down to an ultimate of 4.50% over 6 years	8.00%, graded down to an ultimate of 4.50% over 7 years
Dental	4.00%	4.00%
Medicare Part B	4.50%	4.50%
Medical Subsidy Trend	For employees not subject to freeze For all non-Medicare retirees, increase at lesser of 7.00% or non-Medicare medical trend. For Medicare retirees with single party premium, increase with medical trend. For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2020 and 2019 (e.g., Fire Kaiser), increase with medical trend. For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2020 and 2019 (e.g., Police Blue Cross PPO), increase with lesser of 7.00% or medical trend.	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

The following assumptions were adopted by the Board based on the July 1, 2016 through June 30, 2019 actuarial experience study for June 30, 2020 actuarial valuations and the July 1, 2013 through June 30, 2016 actuarial experience study for June 30, 2019 actuarial valuations:

Actuarial Cost Method	Entry age normal, level percent of pay.			
Administrative Expenses	For 2020, out of the total 1.40% of payroll in administrative expense, 0.11% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.11% of payroll payable at beginning of the year. For 2019, out of the total of 1.25% of payroll in administrative expense, 0.09% of payroll payable bi-weekly is allocated to the Retiree Health Plan. This is equal to 0.09% of payroll payable at the beginning of the year.			
Spouse Age Difference	Husbands are assumed to be 3 years older than wives			
Participation				Participation for Current Retiree Age
	Participation for Future Retirees	Participation for	55-64 Without Subsidy	
	Under 65	Future Retirees Over	Upon Attaining Age 65	
	Service Range (Years)	65 (Percentage)	(Percentage)	
	10-14	45	80	63.64
	15-19	65	85	57.14
	20-24	80	85	25.00
	25 and over	95	95	0.00
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.			
Dental Coverage	85% of future retirees are assumed to elect dental coverage.			
Spousal Coverage	Of future retirees receiving a medical subsidy, 75% for 2020 and 80% for 2019 are assumed to elect coverage for married and surviving spouse or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data			
Implicit Subsidy	Based on information provided in 2019 by the health consultant retained by Los Angeles Firemen’s Relief Association (LAFRA), we understand that retirees under age 65 enrolled in the Fire Kaiser Medical Plan are presently underwritten with the actives enrolled in that plan. LAFPP has made a decision to include the implicit subsidy in the employer’s contribution rate starting with the June 30, 2019 funding valuation. No implicit subsidy needs to be valued for the other medical plans.			

Other actuarial assumptions on mortality rates, termination rates, retirement rates, net investment return, and future benefit accruals are the same as for Pension Plan benefits.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

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

For fiscal year 2020:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse
Fire Medical	85	\$ 1,920.41	\$ 1,920.41	\$ 853.39	85	\$ 550.57	\$ 859.46	\$ 550.57
Fire Kaiser	10	1,920.41	1,920.41	853.39	15	550.57	556.26	550.57
UFLAC Select HMO	2.5	1,920.41	1,920.41	853.39	0	550.57	715.29	550.57
UFLAC HDHP	2.5	1,920.41	1,920.41	853.39	0	550.57	982.78	550.57
Police Blue Cross PPO	60	1,920.41	1,920.41	853.39	75	550.57	1,360.87	550.57
Police Blue Cross HMO	15	1,920.41	1,920.41	853.39	10	550.57	1,174.85	550.57
Police Kaiser	25	1,920.41	1,920.41	853.39	15	550.57	465.88	550.57
Dental	85	44.60	44.60	-	100	44.60	44.60	-
Medicare	N/A	-	-	-	100	144.60	144.60	-

For fiscal year 2019:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse
Fire Medical	85	\$ 1,820.29	\$ 1,820.29	\$ 853.39	85	\$ 542.51	\$ 821.89	\$ 542.51
Fire Kaiser	10	1,820.29	1,820.29	853.39	15	542.51	551.21	542.51
Fire PPO*	0	1,820.29	1,820.29	853.39	0	542.51	1,662.65	542.51
Fire HMO	5	1,820.29	1,820.29	853.39	0	542.51	1,586.25	542.51
Fire Vivity Value*	0	1,820.29	1,820.29	853.39	0	542.51	1,657.28	542.51
Fire HDHP*	0	1,820.29	1,820.29	853.39	0	542.51	665.83	542.51
Police Blue Cross PPO	60	1,820.29	1,820.29	853.39	75	542.51	1,349.32	542.51
Police Blue Cross HMO	15	1,820.29	1,820.29	853.39	10	542.51	1,135.00	542.51
Police Kaiser	25	1,820.29	1,820.29	853.39	15	542.51	542.51	542.51
Dental	85	44.60	44.60	-	100	44.60	44.60	-
Medicare	N/A	-	-	-	100	135.50	135.50	-

\* Plans will no longer be offered as of January 1, 2020

Note: The System pays the lower of the member's subsidy or member's medical plan premium.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)**

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2020 and 2019, are as follows:

	2020	2019
Retired Members	9,596	9,387
Beneficiaries	1,693	1,690
Vested Terminated Members	875	886
Active Members	13,486	13,535
	25,650	25,498

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS**

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2020, cash and temporary investments consisted of \$2,046,114 cash held by the City Treasurer’s office and \$1,541,445,566 in collective short-term investment funds (STIF). At June 30, 2019, cash and temporary investments consisted of \$3,030,085 cash held by the City Treasurer’s office and \$1,792,112,335 in collective short-term investment funds (STIF). Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

The System measures and categorizes its investments using fair value measurements guidelines established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The levels of valuation inputs are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in an active market
- Level 2 – Observable inputs other than quoted market prices; and,
- Level 3 – Unobservable inputs.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

At June 30, 2020, the System has the following recurring fair value measurements (\$ in thousands):

<b>Investments by fair value level</b>	<b>June 30, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Debt Securities</b>				
U.S. Treasuries	\$ 1,852,774	\$ -	\$ 1,852,774	\$ -
U.S. Agencies	686,277	-	684,926	1,351
Municipal/Provincial Bonds	23,417	-	23,417	-
Collateralized Debt Obligations	239,829	-	239,663	166
Commercial Papers	20,613	-	20,613	-
Corporate Bonds	2,239,627	-	2,217,119	22,508
<b>Total Debt Securities</b>	<b>5,062,537</b>	<b>-</b>	<b>5,038,512</b>	<b>24,025</b>
<b>Equity securities</b>				
Common Stock	12,883,960	12,862,720	793	15,316
Preferred Stock	54,800	54,781	-	19
Other	1,089	871	-	218
<b>Total Equity Securities</b>	<b>12,934,718</b>	<b>12,918,372</b>	<b>793</b>	<b>15,553</b>
<b>Real estate</b>	<b>657,939</b>	<b>246,657</b>	<b>-</b>	<b>411,282</b>
<b>Derivatives</b>	<b>3,224</b>	<b>11</b>	<b>(349)</b>	<b>3,562</b>
<b>Total Investments by Fair Value</b>	<b>\$ 18,658,418</b>	<b>\$ 13,165,040</b>	<b>\$ 5,038,956</b>	<b>\$ 454,422</b>

**Investment measured at the net asset value (NAV)**

Private Equity Funds	\$ 2,816,952
Real Estate	780,298
Hedge Funds	102,750
Corporate Debt Securities	30,866
U.S. Agencies Debt Securities	370
<b>Total Investments measured at NAV</b>	<b>\$ 3,731,236</b>

*Note: Temporary investments of \$1,541 million are not included in the fair value hierarchy above.*

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities such as U.S. Treasuries, U.S. Agencies, municipal bonds, collateralized debt obligations, commercial paper, corporate bonds and other equity securities are classified in Level 2. They are valued using quoted prices for identical securities in markets that are not active. The value prices observed used market-based inputs.

Debt securities, namely collateralized debt obligations and corporate bonds, classified in Level 3 are valued using unobservable inputs which can be extrapolated data, proprietary models or indicative quotes. Other equity securities classified in Level 3 are valued using uncorroborated indicative quotes.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Fair Value of Investments (continued)

Real estate corporate accounts investments are valued based on an independent appraisal or other methods using various techniques including models. Real estate corporate accounts are scheduled for independent appraisal on a rolling 3-year period.

The System’s investments such as private equity partnerships, comingled real estate funds, hedge funds, asset/mortgage-backed security funds and commercial mortgages are valued using the net asset value (NAV). Real estate pooled investments are valued based on an independent appraisal or other methods using various techniques including models. Hedge funds generally do not have readily obtainable market values and take the form of limited partnerships. Valuation is either based on the partnerships audited financial statements or from the most recently available internal valuation.

Investments measured at the NAV (\$ in thousands):

<u>Investment Strategy</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently</u>	<u>Redemption Notice Period</u>
Private Equity Funds	\$ 2,816,952	\$ 1,827,800	N/A	-
Real Estate <sup>(1)</sup>	780,298	234,630	Quarterly	90 -179 days
Hedge Funds	102,750	-	Quarterly	90 days
Corporate Debt Securities	30,866	-	Anytime	-
U.S. Agencies Debt Securities	370	-	N/A	-
<b>Total Investments measured at NAV</b>	<b><u>\$ 3,731,236</u></b>			

<sup>(1)</sup> This type investment includes \$532 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Investment Policy

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 Board’s adopted allocation policy effective during fiscal years 2020 and 2019 were as follow:

<u>Asset Class</u>	<u>2020</u>	<u>2019</u>
Large Cap U.S. Equity	23.00%	23.00%
Small Cap U.S. Equity	6.00%	6.00%
Developed International Equity	16.00%	16.00%
Emerging Markets Equity	5.00%	5.00%
U.S. Core Fixed Income	13.00%	12.00%
High Yield Bonds	3.00%	3.00%
Real Estate	7.00%	10.00%
TIPS	4.00%	5.00%
Commodities	5.00%	5.00%
Cash	1.00%	1.00%
Unconstrained Fixed Income	2.00%	2.00%
Private Equity	12.00%	12.00%
Real Estate Investment Trusts (REITS)	3.00%	N/A
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>

Credit Risk

Credit risk is the risk that an issuer or a counterparty 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.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Credit Risk (continued)

As of June 30, 2020, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 1,883,785,686	43.13%
AA	110,021,876	2.52%
A	589,308,870	13.49%
BBB	835,240,280	19.12%
BB	371,501,626	8.50%
B	254,534,234	5.83%
CCC	72,481,622	1.66%
CC	8,760,485	0.20%
C	4,038,699	0.09%
Not Rated	238,123,140	5.45%
Subtotal	4,367,796,518	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	<u>725,975,803</u>	
Total Fixed Income Investments	<u>\$ 5,093,772,321</u>	

As of June 30, 2019, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,194,000,303	55.97%
AA	97,034,827	2.48%
A	380,177,719	9.70%
BBB	458,351,000	11.69%
BB	319,716,629	8.16%
B	255,044,156	6.51%
CCC	52,549,811	1.34%
CC	7,730,940	0.20%
C	3,426,456	0.09%
Not Rated	152,176,573	3.88%
Subtotal	3,920,208,415	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	<u>731,430,449</u>	
Total Fixed Income Investments	<u>\$ 4,651,638,864</u>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 – 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, 2020 and 2019, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$9,731,278 and \$12,447,295, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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 counterparty. As of June 30, 2020 and 2019, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2020 and 2019, the System's sole hedge fund investment of \$102,749,908 and \$102,350,808, private equity of \$2,820,179,036 and \$2,552,414,436, and commingled real estate funds of \$780,297,799 and \$805,565,111, were exposed to custodial credit risk, respectively.

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, 2020 and 2019, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System manages its exposure to interest rate risk by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Bloomberg Barclays US Aggregate Bond Index for core fixed income investments, (2) the Bloomberg Barclays US Government/Credit Long-Term Bond Index for long duration investments, and (3) the B of A ML High Yield Master II 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.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Interest Rate Risk (Continued)

Fiscal Year 2020

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 112,038,876	12.40
Bank Loans	20,612,742	4.95
Commercial Mortgage-Backed	62,833,755	22.49
Corporate Bonds	2,174,919,533	12.10
Corporate Convertible Bonds	6,795,713	17.76
Government Agencies Bonds	66,692,494	9.48
Government Bonds	677,022,512	13.92
Government Mortgage Backed Securities	626,170,088	23.67
Government Issued Commercial Mortgage-Backed	13,906,396	4.45
Index Linked Government Bonds	1,211,763,434	9.13
Municipal/Provincial Bonds	24,782,028	54.90
Non-Government Backed Collateralized Mortgage Obligations	64,676,607	20.36
Sukuk	411,968	1.75
Asset/Mortgage Backed Securities/Other Fixed Income Funds	31,146,175	N/A
<b>Total Fixed Income Investments</b>	<b>\$ 5,093,772,321</b>	

Fiscal Year 2019

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 77,304,821	13.41
Bank Loans	16,907,666	4.83
Commercial Mortgage-Backed	53,783,021	23.75
Corporate Bonds	1,505,970,785	10.04
Corporate Convertible Bonds	1,879,006	7.88
Government Agencies Bonds	69,632,607	10.84
Government Bonds	1,057,805,022	12.42
Government Mortgage Backed Securities	427,794,538	21.42
Government Issued Commercial Mortgage-Backed	15,360,486	5.23
Index Linked Government Bonds	1,093,820,498	8.84
Municipal/Provincial Bonds	22,423,487	54.15
Non-Government Backed Collateralized Mortgage Obligations	58,872,066	21.15
Sukuk	406,036	2.75
Asset/Mortgage Backed Securities/Other Fixed Income Funds	249,678,825	N/A
<b>Total Fixed Income Investments</b>	<b>\$ 4,651,638,864</b>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Interest Rate Risk (Continued)

Highly sensitive investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. The following are asset-backed investments by investment type:

Investment Type	2020 Fair Value	2019 Fair Value
Asset Backed Securities	\$ 112,038,876	\$ 77,304,821
Commercial Mortgage-Backed	62,833,755	53,783,021
Government Agencies Bonds	66,692,494	69,632,607
Government Mortgage Backed Securities	626,170,088	443,155,024
Index Linked Government Bonds	1,211,763,434	1,093,820,498
Non-Government Backed Collateralized Mortgage Obligations	64,676,607	58,872,066
	<u>\$ 2,144,175,254</u>	<u>\$ 1,796,568,037</u>

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 16% 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, 2020 and 2019 are as follows:

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Foreign Currency Risk (Continued)

Foreign Currency Type	2020	2019
United Arab Emirates Dirham	\$ -	\$ 1,366,293
Australian Dollar	162,908,588	179,842,002
Brazilian Real	71,917,571	98,209,474
British Pound Sterling	577,648,189	688,679,146
Canadian Dollar	122,363,463	147,032,400
Chilean Peso	2,639,801	5,683,485
Colombian Peso	1,128,539	2,257,236
Czech Koruna	3,390,443	5,859,091
Danish Krone	74,662,488	53,149,150
Euro	1,109,052,505	1,205,804,844
HK offshore Chinese Yuan Renminbi	19,473,978	15,827,525
Hong Kong Dollar	440,464,734	359,843,510
Hungarian Forint	1,461,144	2,167,202
Indian Rupee	98,465,315	111,478,108
Indonesian Rupiah	21,691,397	43,403,920
Japanese Yen	661,876,873	630,477,373
Kenyan Shilling	5,730,402	6,089,850
Malaysian Ringgit	10,456,144	14,902,506
Mexican Peso	36,335,396	62,218,842
New Israeli Shekel	9,375,530	9,987,037
New Taiwan Dollar	165,703,908	151,629,879
New Zealand Dollar	13,228,964	13,166,119
Norwegian Krone	22,456,573	28,900,178
Philippine Peso	5,021,418	8,097,348
Polish Zloty	4,643,313	8,891,147
Russian ruble	-	136,706
Singapore Dollar	40,590,016	42,473,573
South African Rand	46,622,587	80,987,635
South Korean Won	183,412,944	218,647,478
Swedish Krona	100,209,980	76,323,856
Swiss Franc	251,937,147	238,807,551
Thai Baht	17,889,348	33,036,175
Turkish Lira	4,039,132	5,326,920
	<u>4,286,797,830</u>	<u>4,550,703,559</u>

*Note: The foreign currency total comprises foreign stocks, foreign bonds, and currency holdings.*

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS (Continued)**

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on the investment of the Pension Plan and Health Subsidy Plan, gross of investment expense, for the years ended June 30, 2020 and 2019, was 3.04% and 6.21%, respectively. The source for the rate of return was the June 30, 2020 and 2019 Investment Hierarchy provided by the custodian bank, Northern Trust.

**NOTE 8 – 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.

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 the 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 Statements of Fiduciary Net Position.

As required by GASB, cash received as collateral on securities lending transactions is reported as an asset, and the liabilities from these transactions are reported in the Statements of Fiduciary Net Position. The System cannot pledge or sell non-cash collateral unless the borrower defaults.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 8 – SECURITIES LENDING (Continued)**

As of June 30, 2020 and 2019, the fair value of securities on loan was \$1,599,939,446 and \$1,255,869,344, respectively, and the fair value of collateral received was \$1,633,668,501 and \$1,279,294,007, respectively. Of the \$1,633,668,501 collateral received as of June 30, 2020, \$1,382,664,598 was cash collateral and \$251,003,903 represented the fair value of non-cash collateral; and of the \$1,279,294,007 collateral received as of June 30, 2019, \$436,070,942 was cash collateral and \$843,223,065 represented 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 Statements of Fiduciary Net Position.

The following represents the balances relating to the securities lending transactions as of June 30, 2020 and 2019:

Fair value of collateral received for loaned securities as of June 30, 2020:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 292,486,517	\$ 23,668,581	\$ 316,155,098
Domestic Corporate Fixed Income Securities	227,862,321	5,992,991	233,855,312
Domestic Equities	800,411,773	142,925,427	943,337,200
International Fixed Income Securities	2,920,259	-	2,920,259
International Equities	58,983,728	78,416,904	137,400,632
	<u>\$ 1,382,664,598</u>	<u>\$ 251,003,903</u>	<u>\$ 1,633,668,501</u>

Fair value of loaned securities as of June 30, 2020:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 285,087,010	\$ 23,119,919	\$ 308,206,929
Domestic Corporate Fixed Income Securities	224,097,011	5,873,598	229,970,609
Domestic Equities	788,735,862	140,927,314	929,663,176
International Fixed Income Securities	2,757,870	-	2,757,870
International Equities	55,658,437	73,682,425	129,340,862
	<u>\$ 1,356,336,190</u>	<u>\$ 243,603,256</u>	<u>\$ 1,599,939,446</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 8 – SECURITIES LENDING (Continued)**

Fair value of collateral received for loaned securities as of June 30, 2019:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 197,088,050	\$ 95,324,195	\$ 292,412,245
Domestic Corporate Fixed Income Securities	37,617,856	52,563,015	90,180,871
Domestic Equities	163,666,088	599,768,599	763,434,687
International Fixed Income Securities	597,057	-	597,057
International Equities	37,101,891	95,567,256	132,669,147
	<u>\$ 436,070,942</u>	<u>\$ 843,223,065</u>	<u>\$ 1,279,294,007</u>

Fair value of loaned securities as of June 30, 2019:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 193,374,935	\$ 93,576,274	\$ 286,951,209
Domestic Corporate Fixed Income Securities	36,920,674	51,955,959	88,876,633
Domestic Equities	161,142,892	592,079,718	753,222,610
International Fixed Income Securities	538,703	-	538,703
International Equities	35,313,503	90,966,686	126,280,189
	<u>\$ 427,290,707</u>	<u>\$ 828,578,637</u>	<u>\$ 1,255,869,344</u>

For the fiscal years ended June 30, 2020 and 2019, securities lending income amounted to \$6,722,798 and \$5,946,796, respectively, while securities lending expenses amounted to \$939,899 and \$831,930, respectively.

**NOTE 9 – DERIVATIVE INSTRUMENTS**

The System, through its outside investment managers, holds investments in swaps, options, rights, and warrants and 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.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 9 – DERIVATIVE INSTRUMENTS (Continued)**

The fair values of the futures that are traded on various exchanges are determined by the price on that exchange. Fair values for the currency forward contracts are determined by the exchange rate of the reference currency on the last day of the reporting period.

For options, swaps, rights, and warrants pricing would come from the exchange they are traded on if they are exchange traded securities.

They can also trade as over the counter securities and the market values would then be determined by the value of a reference security or value that would typically be publicly priced. For assets traded over the counter and held at the custodian bank an independent pricing service is involved in calculating the price of the derivative security using the value of the reference security or reference value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2020, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2020 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2020		Notional Amount
	Classification		Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$ (117,544,122)
Futures - Longs	Investment Loss	(19,089,808)	Investment	-	168,458,859
Forwards	Investment Revenue	93,960	Investment	(410,904)	-
Options	Investment Loss	(25,139)	Investment	(52,433)	-
Rights/Warrants	Investment Revenue	1,464,943	Investment	1,088,235	-
Swaps	Investment Loss	(50,163,699)	Investment	3,525,580	-

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2019, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2019 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2019		Notional Amount
	Classification		Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$ (87,079,908)
Futures - Longs	Investment Loss	(13,971,500)	Investment	-	159,084,888
Forwards	Investment Revenue	54,468	Investment	(106,081)	-
Options	Investment Loss	(516,789)	Investment	33,914	-
Rights/Warrants	Investment Revenue	1,766,361	Investment	354,057	-
Swaps	Investment Loss	(7,080,797)	Investment	1,925,201	-

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 10 – CAPITAL ASSETS**

The System’s capital assets include land, building, computer/software, and furniture and fixtures.

The following is a summary of the System’s capital assets at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Capital Assets Not Depreciated/Amortized		
Land	\$ 6,465,660	\$ 6,465,660
Total Capital Assets Not Depreciated/Amortized	<u>6,465,660</u>	<u>6,465,660</u>
Capital Assets Depreciated/Amortized		
Building	18,777,794	18,777,794
Computer/Software under Development	5,581,608	3,851,442
Furniture and fixtures	<u>1,297,014</u>	<u>1,297,014</u>
Total Capital Assets Depreciated/Amortized	<u>25,656,416</u>	<u>23,926,250</u>
Less: Accumulated Depreciation/Amortization		
Building	(3,989,638)	(3,048,176)
Computer/Software under Development	(524,648)	-
Furniture and fixtures	<u>(1,102,462)</u>	<u>(843,059)</u>
Total Accumulated Depreciation/Amortization	<u>(5,616,748)</u>	<u>(3,891,235)</u>
Total Capital Assets Depreciated/Amortized, Net	<u>20,039,668</u>	<u>20,035,015</u>
Total Capital Assets, Net	<u>\$ 26,505,328</u>	<u>\$ 26,500,675</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 11 – MORTGAGES PAYABLE**

Mortgages are secured by real estate. For fiscal year 2020, interest rates range from 2.90% to 4.30% per annum. The average monthly principal and interest payments range from \$52,890 to \$95,501. For fiscal year 2019, interest rates range from 2.90% to 7.50% per annum. The average monthly principal and interest payments range from \$52,890 to \$184,838.

The mortgages mature from January 2022 to October 2029. 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>
2021	\$ 1,062,448	\$ 6,529,808	\$ 7,592,256
2022	55,267,393	5,929,926	61,197,319
2023	553,869	4,799,524	5,353,393
2024	37,593,299	3,997,455	41,590,754
2025	29,050,000	2,796,890	31,846,890
2026-2030	<u>71,010,000</u>	<u>9,693,088</u>	<u>80,703,088</u>
	<u>\$ 194,537,009</u>	<u>\$ 33,746,691</u>	<u>\$ 228,283,700</u>

The mortgages are secured by real estate that was purchased with the funds.

The following is a summary of mortgage payable activities for the years ended June 30, 2020 and 2019:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Fair Value</u> <u>June 30, 2020</u>
Mortgage Payable	<u>\$ 179,749,386</u>	<u>\$ 34,250,000</u>	<u>\$ 19,462,377</u>	<u>\$ 194,537,009</u>	<u>\$ 194,370,013</u>
	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Fair Value</u> <u>June 30, 2019</u>
Mortgage Payable	<u>\$ 177,777,115</u>	<u>\$ 14,760,000</u>	<u>\$ 12,787,729</u>	<u>\$ 179,749,386</u>	<u>\$ 178,599,162</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 12 – COMMITMENTS AND 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 were \$2,090,045,997 and \$2,033,349,962 as of June 30, 2020 and 2019, respectively.

The City Charter and the Administrative Code 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 \$2,062,430,000 and \$1,733,891,000 at June 30, 2020 and 2019, respectively.

The Patient Protection and Affordable Care Act (PPACA) of 2010

The PPACA of 2010 contained a provision that would impose a forty percent excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2018; subsequent legislation postponed this provision until 2020 (subsequently deferred to 2022). On December 20, 2019, the President signed legislation repealing the excise tax.

Retiree Health Subsidy Freeze Litigation

In 2019-2020, there were two cases before the courts that involved the retiree health insurance premium subsidy program that LAFPP administers (“retiree medical subsidy”). Both pending actions were brought by the Los Angeles Police Protective League against the Board and the City.

The two cases (the “LAPPL I Action” and the “LAPPL II Action”) both seek to determine what retiree medical subsidy benefit the additional 2% salary contribution provides members who make the contribution under the unions’ and City’s 2011 Letter of Agreement (“LOA”). The union plaintiffs argue that the 2% contribution grants members the ceiling amount under LAAC § 4.1167, meaning either 7% or the medical trend rate for that year with no discretion reserved to the Board to grant anything lower. The City argues that the 2% contribution gives member only the right to get out from under the Freeze Ordinance and participate in the process that existed under LAAC § 4.1154(e) prior to the 2011 Freeze Ordinance. Under the pre-Freeze Ordinance process, the LAFPP Board may exercise its discretion in setting the annual subsidy rate and can set it up to the maximum amount of 7% or the medical trend rate, whichever is lower.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)**

Retiree Health Subsidy Freeze Litigation (Continued)

In the LAPPL I Action, on April 15, 2016, the plaintiffs agreed to dismiss LAFPP from the action in exchange for LAFPP's agreement to be bound by the final judgment rendered in the case. Until a court of competent jurisdiction renders a final judgement on the interpretation of the LOA, LAFPP has a fiduciary duty to follow LAAC § 4.1154(e) as written, and must continue to exercise its discretion in setting the retiree medical subsidy as it did before the 2011 Freeze Ordinance.

The LAPPL Action I proceeded to trial, and on November 1, 2016, the trial court ruled in favor of the plaintiffs, finding that the language of the LOA was unambiguous without weighing the conflicting evidence regarding the interpretation of the LOA and the parties' intent. The City appealed, and on October 30, 2018, the Second District Court of Appeal reversed and remanded the case for further proceedings consistent with the Court of Appeal's decision. In its decision, the Court of Appeal found that the provisions at issue in the LOA were ambiguous, which required the trial court to consider and weigh the evidence of the parties' intent in its interpretation of the provisions, which the trial court did not do. Upon remand back to the Superior Court, on February 15, 2019, the case was reassigned to Judge Holly Fujie for further trial proceedings.

While the LAPPL Action I was pending on appeal, on August 10, 2017, the unions filed a second action ("LAPPL Action II"). The LAPPL Action II raises the same issues as the LAPPL Action I regarding the 2% contribution, and also asserts a new breach of fiduciary duty claim, which preserves the unions' rights to challenge LAFPP's 2017 discretionary action to set the subsidy should the unions lose in the pending LAPPL Action I. On July 3, 2018, the LAPPL filed a First Amended Complaint, asserting the same claims based on LAFPP's 2018 discretionary action in setting the subsidy. The unions also sought to file a Second Amended Complaint to add LAFPP's 2019 and 2020 discretionary actions in setting the subsidy, and the parties agreed to stipulate to allow the unions to file the Second Amended Complaint. Although the unions have filed the stipulation, the Court has not approved the stipulation and therefore the unions have not yet filed their Second Amended Complaint.

Upon remand of the LAPPL I Action, the City filed a motion to consolidate the two actions before Judge Fujie, which the Court granted. Given the similarities between the two LAPPL Actions and the dispositive effect of the first action on the second, the trial court has stayed the LAPPL Action II pending of the outcome of LAPPL I. On September 20, 2019, Judge Fujie held a status conference following consolidation and ordered that the case be heard in phases. In Phase One, the LOA interpretation issues common to LAPPL I and LAPPL II are to be heard in a trial before Judge Fujie, and upon resolution of Phase One, the Court will then address the residual fiduciary duty claims against LAFPP unique to LAPPL II. Currently, the LAPPL Action I is set for trial on August 16, 2021, but the counsel for the City has asked the Court to move the trial date to September 20, 2021 due to an existing conflict. The City's request to the Court is currently pending.

**Current Status of the Retiree Medical Subsidy**

As a result of the outcome in the Fry Action, which concluded in the 2016-2017 fiscal year, LAFPP continues to provide a subsidy frozen at the 2011 levels to current and future retired members who chose not to "opt-in" and contribute an additional 2% of their salaries in order to avoid the consequences of the Freeze Ordinance.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)**

Retiree Health Subsidy Freeze Litigation (Continued)

With regard to the LAPPL Action I and LAPPL Action II, until a final judgment is rendered on the LOA issues, LAFPP will continue to abide by its fiduciary duty to follow LAAC § 4.1154(e) as written and to set and implement the retiree health insurance premium subsidy increases in the same manner as it did prior to the 2011 Freeze Ordinance for members who opted-in to pay the 2% contribution. This means that LAFPP continues to exercise its discretion provided under the Los Angeles Administrative Code to set the subsidy up to and including the medical trend rate or 7%, whichever is lower, until the courts render final judgment.

**NOTE 13 – 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, acknowledged 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 or when the stock is sold.

As previously reported in fiscal year ending June 30, 2005, 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 sold or returned the majority of donated 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; \$67,568 in 2008; \$50,676 in 2009; and no dividends in 2010, 2011, 2012, 2013, 2014, 2015 or 2016. The System sold the remaining donated stocks in February 2017 for a total of \$21,185,000 and received cash of \$10,299,250 and promissory notes of \$10,885,750. In 2019, the System received cash for the remaining balance.



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 14 – RISKS AND UNCERTAINTIES**

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 level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and contributed to the deterioration and instability in financial markets. As a result, the Plan's investment portfolio has experienced volatility in fair market value since June 30, 2020. However, because the values of the Plan's investments have and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. The value of the Plan's investments has a direct impact on its funded status. As a result of any declines in market value the Plan Sponsor may need to make greater cash contributions to fund the Plan in the future. However, the actual impact, if any, on future required contributions or Plan liquidity cannot be determined at this time.

**NOTE 15 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 23, 2020, which is the date the financial statements were available to be issued and, no events have occurred that require consideration or adjustments in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIO**  
(\$ in Thousands)  
(Unaudited)

	06/30/20	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
Total Pension Liability:							
Service Cost	\$ 410,559	\$ 402,708	\$ 390,743	\$ 367,600	\$ 365,956	\$ 368,700	\$ 368,018
Interest	1,654,964	1,572,220	1,502,656	1,436,068	1,399,576	1,384,527	1,392,552
Benefit Payments	(1,121,252)	(1,070,456)	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	-	-	-	-	-	-	-
Experience Losses (Gains)	(23,348)	81,465	21,700	(320,404)	(595,188)	(310,882)	(234,638)
Assumption Changes	48,286	357,369	-	695,450	-	-	(69,482)
Benefit Changes	-	(79,650)	-	-	-	-	-
Other <sup>1</sup>	-	-	2,505	-	-	-	-
Net Change	969,209	1,263,656	922,804	1,248,636	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	23,000,505	21,736,849	20,814,045	19,565,409	19,385,428	18,861,992	18,264,528
Total Pension Liability at End of Year (a)	<u>\$ 23,969,714</u>	<u>\$23,000,505</u>	<u>\$21,736,849</u>	<u>\$20,814,045</u>	<u>\$19,565,409</u>	<u>\$19,385,428</u>	<u>\$18,861,992</u>
Fiduciary Net Position:							
Employer Contributions	\$ 516,638	\$ 504,877	\$ 459,632	\$ 454,309	\$ 478,385	\$ 480,332	\$ 440,698
Member Contributions	153,787	147,753	145,112	128,900	129,734	126,771	124,395
Net Investment Income	606,244	1,218,138	1,892,870	2,260,130	159,313	686,470	2,617,090
Benefit Payments	(1,121,252)	(1,070,456)	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	(20,685)	(20,244)	(19,908)	(20,816)	(19,346)	(17,815)	(13,865)
Other <sup>1</sup>	-	-	2,505	-	-	-	-
Net Change (Gain)	134,732	780,068	1,485,411	1,892,445	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	21,262,201	20,482,133	18,996,722	17,104,277	17,346,554	16,989,705	14,680,373
Fiduciary Net Position at End of Year* (b) <sup>2</sup>	<u>\$ 21,396,933</u>	<u>\$21,262,201</u>	<u>\$20,482,133</u>	<u>\$18,996,722</u>	<u>\$17,104,277</u>	<u>\$17,346,554</u>	<u>\$16,989,705</u>
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 2,572,781</u>	<u>\$ 1,738,304</u>	<u>\$ 1,254,716</u>	<u>\$ 1,817,323</u>	<u>\$ 2,461,132</u>	<u>\$ 2,038,874</u>	<u>\$ 1,872,287</u>
Plan fiduciary net position as a percentage of the total pension liability	89.27%	92.44%	94.23%	91.27%	87.42%	89.48%	90.07%
Covered employee payroll	\$ 1,509,613	\$ 1,487,978	\$ 1,451,996	\$ 1,397,245	\$ 1,351,788	\$ 1,316,969	\$ 1,308,149
Plan net position liability as a percentage of covered employee payroll	170.43%	116.82%	86.41%	130.06%	182.06%	154.82%	143.12%

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIO**  
(\$ in Thousands)  
(Unaudited)

Notes to Schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

<sup>(1)</sup> Includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police Officers who elected to join the System in Tier 6.

<sup>(2)</sup> Excludes the transfer of employer and employee contributions referenced in footnote (1).

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(\$ in Thousands)  
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll <sup>(3)</sup>	Contribution as % of Payroll <sup>(1)</sup>
6/30/2020	\$ 516,638	\$ 516,638	-	\$ 1,509,613	34%
6/30/2019	504,877	504,877	-	1,487,978	34%
6/30/2018	459,632 <sup>(2)</sup>	459,632 <sup>(2)</sup>	-	1,451,996	32%
6/30/2017	454,309	454,309	-	1,397,245	33%
6/30/2016	478,385	478,385	-	1,351,788	35%
6/30/2015	480,332	480,332	-	1,316,969	36%
6/30/2014	440,698	440,698	-	1,308,149	34%
6/30/2013	375,448	375,448	-	1,277,031	29%
6/30/2012	321,593	321,593	-	1,213,396	27%
6/30/2011	277,092	277,092	-	1,289,857	21%

Notes to Schedule:

- <sup>(1)</sup> Contribution rate as a percentage of covered payroll reflects discount applied when the employer prepays its contributions. This rate has been “backed” into by dividing the actual contributions by the budgeted covered payroll.
- <sup>(2)</sup> Figures excluded amounts transferred from the Los Angeles City Employees’ Retirement System (LACERS) for the Airport Police members who elected to join the Pension Plan in Tier 6.
- <sup>(3)</sup> Covered payroll represents payroll in which contributions to the Pension Plan are based.

See accompanying independent auditor’s report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(Unaudited)

Methods and assumptions used to establish “actuarially determined contribution” (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2020 were based on the June 30, 2018 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Port Police, or Airport).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions: June 30, 2018 valuation	
<i>Investment rate of return</i>	7.25%, net of investment expenses
<i>Inflation rate</i>	3.00%
<i>Administrative Expenses:</i>	Out of the total 1.25% of payroll in administrative expense, 1.16% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 1.12% of payroll payable at beginning of the year.
<i>Real across-the-board salary</i>	0.50%
<i>Projected salary increases</i>	Ranges from 4.30% to 12.00% based on years of service
<i>Cost of living adjustments</i>	3.0% of retirement income for all Tiers.

See accompanying independent auditor’s report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF INVESTMENT RETURNS**  
(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, gross of investment expense	3.04%	6.21%	9.21%	13.27%	1.04%	4.15%	17.84%

Notes to schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2020, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN**  
**SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY**  
(\$ in Thousands)  
(Unaudited)

Date	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Funded Status (FNP/TPL)	Covered Payroll	NPL % Pay
6/30/2020	7.00%	\$ 23,969,714	\$ 21,396,933	\$ 2,572,781	89.3%	\$ 1,509,613	170%
6/30/2019	7.25%	23,000,505	21,262,200	1,738,304	92.4%	1,487,978	117%
6/30/2018	7.25%	21,736,849	20,482,133	1,254,716	94.2%	1,451,996	86%
6/30/2017	7.25%	20,814,045	18,996,721	1,817,323	91.3%	1,397,245	130%
6/30/2016	7.50%	19,565,409	17,104,276	2,461,132	87.4%	1,351,788	182%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.5%	1,316,969	155%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.1%	1,308,149	143%
6/30/2013	7.75%	16,989,705	14,680,373	3,584,155	86.4%	1,277,031	281%

Notes to schedule:

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report



**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS**  
**LIABILITY AND RELATED RATIO**  
(\$ in Thousands)  
(Unaudited)

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Total OPEB Liability:					
Service Cost	\$ 79,394	\$ 74,090	\$ 69,940	\$ 65,407	\$ 61,292
Interest	263,088	260,513	243,769	231,285	222,424
Benefit Payments	(143,600)	(137,874)	(130,722)	(122,561)	(116,678)
Experience Losses (Gains)	(190,525)	(249,568)	(16,532)	(144,022)	(50,071)
Assumption Changes	80,297	85,911	63,332	248,049	-
Other <sup>1</sup>	-	-	517	-	-
Net Change	88,654	33,072	230,304	278,158	116,967
Total OPEB Liability at Beginning of Year	3,621,204	3,588,132	3,357,828	3,079,670	2,962,703
Total OPEB Liability at End of Year (a)	\$ 3,709,858	\$ 3,621,204	\$ 3,588,132	\$ 3,357,828	\$ 3,079,670
Fiduciary Net Position:					
Employer Contributions	\$ 193,213	\$ 188,020	\$ 178,462	\$ 165,170	\$ 150,315
Member Contributions	-	-	-	-	-
Net Investment Income	58,101	111,188	166,040	189,420	12,771
Benefit Payments	(143,600)	(137,874)	(130,722)	(122,561)	(116,678)
Administrative Expenses	(1,982)	(1,856)	(1,745)	(1,747)	(1,551)
Other <sup>1</sup>	-	-	517	-	-
Net Change (Gain)	105,732	159,478	212,552	230,282	44,857
Fiduciary Net Position at Beginning of Year	2,037,716	1,878,238	1,665,686	1,435,404	1,390,547
Fiduciary Net Position at End of Year (b) <sup>2</sup>	\$ 2,143,448	\$ 2,037,716	\$ 1,878,238	\$ 1,665,686	\$ 1,435,404
Net OPEB Liability/(Asset) (a)-(b)	\$ 1,566,410	\$ 1,583,488	\$ 1,709,894	\$ 1,692,142	\$ 1,644,266
Plan fiduciary net position as a percentage of the total OPEB liability	57.78%	56.27%	52.35%	49.61%	46.61%
Covered employee payroll	\$ 1,509,613	\$ 1,487,978	\$ 1,451,996	\$ 1,397,245	\$ 1,351,788
Plan net position liability as a percentage of covered employee payroll	103.76%	106.42%	117.76%	121.11%	121.64%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

(1) Includes employer contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police members who elected to join the System in Tier 6.

(2) Excludes the transfer of employer contributions referenced in footnote 1.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTION**  
(\$ in Thousands)  
(Unaudited)

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll <sup>2</sup>	Contribution as % of Payroll
2020	\$ 193,213	\$ 193,213	-	\$ 1,509,613	13%
2019	188,020	188,020	-	1,487,978	13%
2018	178,462 <sup>1</sup>	178,462 <sup>1</sup>	-	1,451,996	12%
2017	165,170	165,170	-	1,397,245	12%
2016	150,315	150,315	-	1,351,788	11%
2015	148,477	148,477	-	1,316,969	11%
2014	138,107	138,107	-	1,308,149	11%
2013	132,939	132,939	-	1,277,031	10%
2012	122,972	122,972	-	1,213,396	10%
2011	111,681	111,681	-	1,289,857	9%

Notes to schedule:

- <sup>(1)</sup> Exclude the transfer of employer contributions for all new Airport Police members from the Los Angeles City Employees' Retirement System (LACERS) who elected to join the Pension Plan in Tier 6.
- <sup>(2)</sup> Covered payroll represents payroll in which contributions to the Pension Plan are based.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(Unaudited)

Methods and assumptions used to establish “actuarially determined contribution” (ADC) rates:

The assumptions used in establishing the ADC for the year ended June 30, 2020 were based on the June 30, 2018 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City or Harbor Port Police).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a seven-year period. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a period of six years from July 1, 2013. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions: June 30, 2018 valuation	
Investment rate of return	7.25%, net of investment expenses
Inflation rate	3.00%
Administrative Expenses:	Out of the total 1.25% of payroll in administrative expense, 0.09% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.09% of payroll payable at beginning of the year.
Real across-the-board salary	0.50%
Projected salary increases	Ranges from 4.30% to 12.00% based on years of service
Other assumptions	Same as those used in the June 30, 2018 funding actuarial valuations.

See accompanying independent auditor’s report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF INVESTMENT RETURNS**  
(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, gross of investment expense	3.04%	6.21%	9.21%	13.27%	1.04%	4.15%	17.84%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy provided by the custodian bank, Northern Trust. For the fiscal years 2016 through 2020, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense.

See accompanying independent auditor's report

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HEALTH SUBSIDY PLAN**  
**SCHEDULE OF EMPLOYER'S NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY**  
(\$ in Thousands)  
(Unaudited)

<u>Date</u>	<u>Discount Rate</u>	<u>Total OPEB Liability (TOL)</u>	<u>Fiduciary Net Position (FNP)</u>	<u>Net OPEB Liability (NOL)</u>	<u>Funded Status (FNP/TOL)</u>	<u>Covered Payroll</u>	<u>NOL % Pay</u>
6/30/2020	7.00%	\$ 3,709,858	\$ 2,143,448	\$ 1,566,410	57.8%	\$ 1,509,613	104%
6/30/2019	7.25%	3,621,204	2,037,716	1,583,488	56.3%	1,487,978	106%
6/30/2018	7.25%	3,588,132	1,878,237	1,709,895	52.3%	1,451,996	118%
6/30/2017	7.25%	3,357,828	1,665,686	1,692,142	49.6%	1,397,245	121%
6/30/2016	7.50%	3,079,670	1,435,404	1,644,266	46.6%	1,351,788	122%

Notes to schedule:

GASB Statement No. 74 requires this information be reported for 10 years. Additional years will be displayed as the information is available.

Fiduciary Net Position – The fiduciary net position is calculated based on financial information available to the actuary for the presentation of the actuarial valuation and does not include subsequent adjustments.

See accompanying independent auditor's report



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Fire and Police Pension Commissioners  
Los Angeles Fire and Police Pension System

We have audited, in accordance with the 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, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2020, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 23, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

*A deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California  
November 23, 2020