

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

JUNE 30, 2000 AND 1999

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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Independent Auditors' Report

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

Members of the Board:

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2000 and 1999, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such general purpose financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2000 and 1999, and changes therein for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic 2000 and 1999 general purpose financial statements taken as a whole. The supplemental schedules of funding progress, employer contributions, actuarial methods and assumptions, revenues by source and expenses by type, and administrative expenses are presented for the purpose of additional analysis and are not a required part of the basic general purpose financial statements. These schedules are the responsibility of the System's management. Such schedules for the years ended June 30, 2000 and 1999 have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

MILLER, KAPLAN, ARASE & CO., LLP

October 20, 2000

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

June 30, 2000

	<u>Old Pension & New Pension System</u>	<u>Old Pension & New Pension Post Employment Health Plan Subsidy</u>	<u>Safety Members Pension Plan</u>	<u>Safety Members Post Employment Health Plan Subsidy</u>	<u>Total</u>
<u>ASSETS</u>					
CASH	\$ 1,333,616	\$ -	\$ 1,791,689	\$ -	\$ 3,125,305
<u>RECEIVABLES</u>					
Accrued Interest & Dividend Income	\$ 55,905,302	\$ -	\$ 8,225,001	\$ -	\$ 64,130,303
Contributions	-	-	299,312	-	299,312
Due from Old Pension & New Pension System	-	290,901,618	-	-	290,901,618
Due from Safety Members Pension Plan	-	-	-	230,862,511	230,862,511
Due from Brokers	79,868,446	-	5,361,441	-	85,229,887
TOTAL RECEIVABLES	\$ 135,773,748	\$ 290,901,618	\$ 13,885,754	\$ 230,862,511	\$ 671,423,631
<u>INVESTMENTS AT FAIR VALUE</u>					
Temporary	\$ 581,943,103	\$ -	\$ 91,161,037	\$ -	\$ 673,104,140
U.S. Government Obligations	663,611,559	-	192,832,299	-	856,443,858
Municipal Bonds	-	-	-	-	-
Domestic Corporate Bonds	1,644,000,373	-	281,390,822	-	1,925,391,195
International Bonds	117,099,089	-	35,896,384	-	152,995,473
Domestic Stocks	5,380,082,709	-	866,263,689	-	6,246,346,398
International Stocks	2,030,293,358	-	117,482,150	-	2,147,775,508
Real Estate	161,746,995	-	561,016,654	-	722,763,649
Alternative Investments	266,070,867	-	78,581,688	-	344,652,555
TOTAL INVESTMENTS	\$ 10,844,848,053	\$ -	\$ 2,224,624,723	\$ -	\$ 13,069,472,776
<u>SECURITIES LENDING</u>					
COLLATERAL	\$ 1,091,546,695	\$ -	\$ 174,478,907	\$ -	\$ 1,266,025,602
TOTAL ASSETS	\$ 12,073,502,112	\$ 290,901,618	\$ 2,414,781,073	\$ 230,862,511	\$ 15,010,047,314
<u>LIABILITIES</u>					
Accounts Payable and Accrued Expenses	\$ 7,443,642	\$ -	\$ 300,107	\$ -	\$ 7,743,749
Benefits in Process of Payment	294,181	-	378,130	-	672,311
Due to Brokers	93,901,439	-	6,409,401	-	100,310,840
Mortgage Payable	15,629,695	-	74,257,105	-	89,886,800
Due to Health Plan Subsidy	290,901,618	-	230,862,511	-	521,764,129
Securities Lending Collateral	1,266,025,602	-	-	-	1,266,025,602
TOTAL LIABILITIES	\$ 1,674,196,177	\$ -	\$ 312,207,254	\$ -	\$ 1,986,403,431
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST- EMPLOYMENT HEALTHCARE BENEFITS</u>					
(A schedule of funding progress is presented on pages 13 and 14)					
TOTAL PLAN NET ASSETS	\$ 10,399,305,935	\$ 290,901,618	\$ 2,102,573,819	\$ 230,862,511	\$ 13,023,643,883

June 30, 1999				
Old Pension & New Pension System	Old Pension & New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
\$ 1,595,929	\$ -	\$ 215,156	\$ -	\$ 1,811,085
\$ 53,840,328	\$ -	\$ 7,608,933	\$ -	\$ 61,449,261
461,388	-	1,587,863	-	2,049,251
-	252,968,619	-	-	252,968,619
-	-	-	192,928,739	192,928,739
62,152,790	-	5,979,241	-	68,132,031
<u>\$ 116,454,506</u>	<u>\$ 252,968,619</u>	<u>\$ 15,176,037</u>	<u>\$ 192,928,739</u>	<u>\$ 577,527,901</u>
\$ 521,886,165	\$ -	\$ 221,632,595	\$ -	\$ 743,518,760
703,479,833	-	221,994,963	-	925,474,796
28,436,640	-	7,274,000	-	35,710,640
1,637,260,793	-	222,994,363	-	1,860,255,156
41,217,728	-	10,256,768	-	51,474,496
4,958,397,694	-	756,029,579	-	5,714,427,273
1,463,184,383	-	11,265,777	-	1,474,450,160
143,968,316	-	364,537,698	-	508,506,014
153,258,022	-	25,877,204	-	179,135,226
<u>\$ 9,651,089,574</u>	<u>\$ -</u>	<u>\$ 1,841,862,947</u>	<u>\$ -</u>	<u>\$ 11,492,952,521</u>
<u>\$ 863,928,858</u>	<u>\$ -</u>	<u>\$ 124,230,646</u>	<u>\$ -</u>	<u>\$ 988,159,504</u>
<u>\$ 10,633,068,867</u>	<u>\$ 252,968,619</u>	<u>\$ 1,981,484,786</u>	<u>\$ 192,928,739</u>	<u>\$ 13,060,451,011</u>
\$ 9,309,935	\$ -	\$ 848,145	\$ -	\$ 10,158,080
187,300	-	34,843	-	222,143
54,698,698	-	27,553,687	-	82,252,385
-	-	28,244,041	-	28,244,041
252,968,619	-	192,928,739	-	445,897,358
863,928,858	-	124,230,646	-	988,159,504
<u>\$ 1,181,093,410</u>	<u>\$ -</u>	<u>\$ 373,840,101</u>	<u>\$ -</u>	<u>\$ 1,554,933,511</u>
<u>\$ 9,451,975,457</u>	<u>\$ 252,968,619</u>	<u>\$ 1,607,644,685</u>	<u>\$ 192,928,739</u>	<u>\$ 11,505,517,500</u>

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

June 30, 2000

	Old Pension & New Pension System	Old Pension & New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
ADDITIONS					
Contributions:					
City Contributions	\$ 104,592,612	\$ 16,915,233	\$ 58,788,231	\$ 10,541,087	\$ 190,837,163
Member Contributions	14,249,541	-	43,318,948	-	57,568,489
TOTAL CONTRIBUTIONS	\$ 118,842,153	\$ 16,915,233	\$ 102,107,179	\$ 10,541,087	\$ 248,405,652
Miscellaneous	547,038	-	52,017	-	599,055
	<u>\$ 119,389,191</u>	<u>\$ 16,915,233</u>	<u>\$ 102,159,196</u>	<u>\$ 10,541,087</u>	<u>\$ 249,004,707</u>
INVESTMENT INCOME					
Net Appreciation in Fair Value of Plan Investments, Including Gain on Sales	\$ 957,632,907	\$ 30,103,248	\$ 324,192,125	\$ 24,148,039	\$ 1,336,076,319
Interest	203,641,384	8,176,157	37,915,493	1,522,299	251,255,333
Dividends	96,344,609	3,868,215	6,883,739	276,381	107,372,944
Net Real Estate Income	10,161,849	407,996	35,778,568	1,436,502	47,784,915
Securities Lending Income	3,563,461	143,072	296,813	11,917	4,015,263
Other Income	1,644,196	66,014	111	4	1,710,325
SUBTOTAL	\$ 1,272,988,406	\$ 42,764,702	\$ 405,066,849	\$ 27,395,142	\$ 1,748,215,099
Less: Investment Manager Expense	(25,129,798)	-	(1,341,137)	-	(26,470,935)
Net Investment Income	<u>\$ 1,247,858,608</u>	<u>\$ 42,764,702</u>	<u>\$ 403,725,712</u>	<u>\$ 27,395,142</u>	<u>\$ 1,721,744,164</u>
TOTAL ADDITIONS	\$ 1,367,247,799	\$ 59,679,935	\$ 505,884,908	\$ 37,936,229	\$ 1,970,748,871
DEDUCTIONS					
Pension Benefits	\$ 414,642,009	\$ -	\$ 7,290,391	\$ -	\$ 421,932,400
Payment of Medicare Reimbursement	-	1,882,578	-	2,457	1,885,035
Payment of Health Subsidy	-	19,864,358	-	-	19,864,358
Refund of Contributions	209,950	-	3,665,383	-	3,875,333
Administrative Expenses	5,065,362	-	-	-	5,065,362
	<u>\$ 419,917,321</u>	<u>\$ 21,746,936</u>	<u>\$ 10,955,774</u>	<u>\$ 2,457</u>	<u>\$ 452,622,488</u>
NET INCREASE	\$ 947,330,478	\$ 37,932,999	\$ 494,929,134	\$ 37,933,772	\$ 1,518,126,383
NET ASSETS HELD IN TRUST FOR PENSION					
BENEFITS AND POST EMPLOYMENT HEALTHCARE BENEFITS					
Beginning of Year	9,451,975,457	252,968,619	1,607,644,685	192,928,739	11,505,517,500
End of Year	<u>\$ 10,399,305,935</u>	<u>\$ 290,901,618</u>	<u>\$ 2,102,573,819</u>	<u>\$ 230,862,511</u>	<u>\$ 13,023,643,883</u>

(Attached notes are an integral part of this statement)

June 30, 1999				
Old Pension & New Pension System	Old Pension & New Pension Post Employment Health Plan Subsidy	Safety Members Pension Plan	Safety Members Post Employment Health Plan Subsidy	Total
\$ 164,112,320	\$ 16,878,608	\$ 57,642,742	\$ 9,754,995	\$ 248,388,665
15,680,628	-	40,124,448	-	55,805,076
\$ 179,792,948	\$ 16,878,608	\$ 97,767,190	\$ 9,754,995	\$ 304,193,741
669,638	-	55,441	-	725,079
<u>\$ 180,462,586</u>	<u>\$ 16,878,608</u>	<u>\$ 97,822,631</u>	<u>\$ 9,754,995</u>	<u>\$ 304,918,820</u>
\$ 1,153,280,656	\$ 16,436,314	\$ 12,750,719	\$ 10,118,961	\$ 1,192,586,650
177,812,123	14,230,347	39,321,128	3,146,879	234,510,477
74,866,717	5,991,601	6,083,625	486,874	87,428,817
18,635,572	1,491,409	27,307,526	2,185,428	49,619,935
6,485,830	519,063	355,485	28,450	7,388,828
5,357,043	428,725	65,220	5,220	5,856,208
\$ 1,436,437,941	\$ 39,097,459	\$ 85,883,703	\$ 15,971,812	\$ 1,577,390,915
(26,045,505)	-	(563,838)	-	(26,609,343)
<u>\$ 1,410,392,436</u>	<u>\$ 39,097,459</u>	<u>\$ 85,319,865</u>	<u>\$ 15,971,812</u>	<u>\$ 1,550,781,572</u>
<u>\$ 1,590,855,022</u>	<u>\$ 55,976,067</u>	<u>\$ 183,142,496</u>	<u>\$ 25,726,807</u>	<u>\$ 1,855,700,392</u>
\$ 392,673,293	\$ -	\$ 5,841,600	\$ -	\$ 398,514,893
-	1,866,091	-	2,143	1,868,234
-	16,960,662	-	2,905	16,963,567
231,267	-	4,043,405	-	4,274,672
4,829,885	-	-	-	4,829,885
<u>\$ 397,734,445</u>	<u>\$ 18,826,753</u>	<u>\$ 9,885,005</u>	<u>\$ 5,048</u>	<u>\$ 426,451,251</u>
\$ 1,193,120,577	\$ 37,149,314	\$ 173,257,491	\$ 25,721,759	\$ 1,429,249,141
8,258,854,880	215,819,305	1,434,387,194	167,206,980	10,076,268,359
<u>\$ 9,451,975,457</u>	<u>\$ 252,968,619</u>	<u>\$ 1,607,644,685</u>	<u>\$ 192,928,739</u>	<u>\$ 11,505,517,500</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 1 - DESCRIPTION OF PLANS

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

Pension System

In general, the System is a defined benefit single-employer pension plan covering all fire fighters and police officers of the City of Los Angeles. Benefits are based on members' final compensation and terms of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. The System is composed of three groups. Those members hired prior to January 29, 1967 participate in the first established Department of Pensions (Old System under Article XVII) unless they requested transfer to the New Pension System (New System under Article XVIII) established for members hired on or after January 28, 1967. Members hired on or after December 8, 1980 participate in the Safety Members Pension Plan (under Article XXXV) which was established at that time.

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

Effective July 1, 1998, a new tier was established for Article XXXV. Active Members hired prior to July 1, 1997 could elect to join the new tier, which has eligibility for service retirement requirements similar to Article XVIII, as of July 1, 1998. Members hired after July 1, 1997 will automatically be covered under the new tier, except Members hired between July 1, 1997 and December 31, 1997 who can elect to transfer to the old tier. This valuation is based upon both tiers of Article XXXV, with costs based upon the individual Member's actual tier election.

Members with 20 or more years of service in the Old System and New System are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 66-2/3% in the Old System and 70% in the New System. There is no minimum age requirement. The Plans provide for unlimited cost-of-living adjustments in benefits. Members who terminate their employment after July 1, 1982 are entitled to a refund of contributions if they do not qualify for a pension or if they waive their pension entitlements. Members of the Safety Members Pension Plan must be age 50, with ten years of service, to be entitled to a pension. Benefits are equal to 20% of their one-year average compensation, increasing for each year of service over ten years, to a maximum of 70% for 30 years. Benefits are adjusted by the cost-of-living rate, at a maximum of 3% per year. These benefits can be adjusted by the City Council once every three years.

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

Health Subsidy Plan

Members of the System are entitled to post-retirement health subsidy benefits under sections 189, 190.50 and 536 of the City Charter, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. Regular benefits begin at age sixty. Temporary subsidies are available to certain groups at earlier stages.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 1 - DESCRIPTION OF PLANS (Continued)

Health Subsidy Plan (Continued)

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the City Employees' Retirement System (CERS) and active Safety Members. The City also pays Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Health Subsidy benefits are available to Members and their spouses/domestic partners on disability and service retirement. Effective December 1999, surviving spouses/domestic partners are eligible for Health Subsidy benefits.

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

Membership

The components of the System's membership were as follows at June 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Active nonvested - Old & New Pension System	210	403
Active nonvested - Safety Members Pension Plan	5,512	5,921
Active vested - Old & New Pension System	2,770	2,963
Active vested - Safety Members Pension Plan	3,886	3,308
Pensioners and beneficiaries - Old & New Pension System	11,377	11,170
Pensioners and beneficiaries - Safety Members Pension Plan	<u>235</u>	<u>200</u>
	<u>23,990</u>	<u>23,965</u>

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

B. Financial Reporting

The financial statements have been prepared in accordance with generally accepted accounting principles, as outlined in the Governmental Accounting Standards Board (GASB). In fiscal 1997, the System adopted the GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension*

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Financial Reporting (Continued)

Plans; and GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. GASB No. 25 establishes financial reporting standards for defined benefit pension plans and requires that System investments be reported at fair value at the reporting date. GASB No. 26 establishes financial reporting standards for defined benefit pension plans in reporting healthcare assets and benefits. GASB No. 28 establishes accounting and financial reporting standards for securities lending transactions.

GASB No. 25, *Financial Reporting for Defined Benefit Plans and Notes Disclosures for Defined Contribution Plans*, was adopted by the System on July 1, 1996. GASB 25 supercedes all previous financial reporting standards allowed for governmental defined benefit pension plans included GASB No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers, Accounting and Reporting by Defined Benefit Pension Plans*, previously relied upon by the System. GASB No. 25 requires a statement of plan net assets, a statement of changes in plan net assets, investments be carried at fair value with unrealized gains and losses included in the statement of changes in plan net assets, and certain note disclosures regarding actuarial methods, contribution requirements and funding progress of the System.

GASB No. 26 was adopted by the System on July 1, 1996. GASB No. 26 establishes financial reporting standards for postemployment healthcare plans administered by state and local governmental defined benefit pension plans. It is an interim statement pending completion of the GASB's project on accounting and financial reporting of other postemployment benefits by plans and employers.

In addition to the reporting standards, the statement also establishes certain requirements for plans that elect to provide historical trend information about the funded status of the postemployment health plan subsidy and the employer's required contribution to the Plan, either as supplementary information or an additional financial statement or note.

GASB No. 28 was adopted on July 1, 1996. GASB No. 28 establishes accounting and financial reporting standards for securities lending transactions and requires the System to record cash and certain securities received as collateral under securities lending transactions as assets, and liabilities resulting from these transactions in the statement of plan net assets. Revenues from and costs of securities lending transactions, such as borrowing rebates and agent fees, are reported as investment income and expenditures, respectively, in the statement of changes in plan net assets. Securities lending activity had previously been disclosed in the footnotes to the financial statements.

C. Cash

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

D. Investments

The System is authorized to make temporary investments in instruments rated A1 by Standard & Poor's Corporation and P-1 by Moody's Commercial Paper Record or the equivalent as determined by the Custodian, Bankers Trust Company, a subsidiary of Deutsche Bank.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

Short-term investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, Treasury bills and repurchase agreements along with bonds, stocks and alternative investments are reported at fair value in accordance with GASB No. 25.

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 A-1 or P-1, or equivalent quality as determined by the Custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year end. Resulting gains or losses are included in the combined pension plan and postemployment health subsidy statement of changes in plan net assets, if material.

The stated market value of securities investments is generally based on published market prices or quotations from major investment dealers. Real estate market values are taken from recent appraisals, when available, and from the reports of investment advisors. Market values reflected by reports of advisors are based on recent purchase prices, appraisals and on advisor estimates.

Real estate investments are recorded in the financial statements under the equity method and are carried at lower of cost or market value. The fair values of real estate investment funds are provided by the individual real estate fund managers and are evaluated by the System's real estate consultant.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on the accrual basis. The corresponding proceeds due from sales are reported on the statement of plan net assets as receivables and labeled due from brokers, and amounts payable for purchases are reported as liabilities and labeled due to brokers. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned.

The fair values of venture capital and alternative investments are estimated based on audited financial statements provided by the individual fund managers.

E. Income from Investments

The Charter of the City of Los Angeles provides that the rate of return from investments, exclusive of gains and losses, shall be credited to member contribution accounts.

F. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 3 - FUNDING POLICY

As a condition of participation, members are required to contribute a percentage of their salaries to the System. The System's actuaries, in their reports as of June 30, 2000 and 1999, recommended that New System members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Old System members are required by the City Charter to contribute 6% of salary. Safety Members Pension Plan members are required to contribute 8% of salary.

The Charter of the City of Los Angeles specifies that the City will make the following contributions each year:

- A. An amount equal to the City's share of defined entry-age normal costs.
- B. For New System members and Old System members, 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 the Safety Members Pension Plan, any "unfunded liability" of that System shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.
- C. An amount to provide for health plan subsidies for retired members.
- D. An amount to provide for administrative expenses.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C. above, for the year ended June 30, 2000 to be as follows:

	<u>Percentage of Member's Salaries</u>		
	<u>Old System (Article XVII)</u>	<u>New System (Article XVIII)</u>	<u>Safety Members Pension Plan (Article XXXV)</u>
Entry-Age Normal Cost Contribution	20.33%	21.77%	14.28%
Amortization of Unfunded Liability	\$30.3M	\$78.6M	\$61.5M
Health Plan Subsidy	\$.5M*	\$17.1M*	\$11.0M*

*Stated as required dollar amount.

The actuarially determined unfunded (surplus) liability of the System was (\$1,109,665,140) and (\$210,545,583) at June 30, 2000 and 1999, respectively, (which takes into account the present values of future normal cost contributions by both the members and the City). In accordance with the City charter, the amount at June 30, 2000 is to be amortized over the next 37 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

Contributions totaling \$248,405,652 (\$190,837,163 City and \$57,568,489 member) were made during the year ending June 30, 2000 with respect to the pension plan and health plan subsidy, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2000. These contributions consisted of approximately \$185,100,000 normal cost and \$34,500,000 amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately \$19,600,000 normal cost and \$9,000,000 amortization of the unfunded actuarial accrued liability.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 4 - SECURITIES LENDING

The System has entered into various short-term arrangements with its custodian, whereby investments are loaned to various brokers, as selected by the Custodian. The lending arrangements are collateralized by cash, letters of credit and marketable securities, held on the System's behalf by the Custodian. These agreements provide for the return of the investments and for a payment of: a) a fee when the collateral is marketable securities or letters of credit, or b) interest earned when the collateral is cash on deposit.

The City Charter permits the System to use investments of the System to enter into securities lending transactions - loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Upon direction of the Board, the Custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their market value plus any accrued interest for U.S. securities lending and 105 percent of the market value plus any accrued interest for non U.S. securities lending. At year end, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a reasoned 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 market value on the Systems' plan net assets.

The System adopted the provisions of Statement No. 28 of the Governmental Accounting Standards Board, *Accounting And Financial Reporting for Securities Lending Transactions*, in fiscal 1997. This Statement requires that cash received as collateral on securities lending transactions be reported as assets, and that liabilities from these transactions be reported in the statement of plan net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees are netted against securities lending income.

The market value of total securities lent was \$1,222,861,713 and \$953,482,842 as of June 30, 2000 and 1999, respectively. The collateralized value of cash and securities was \$1,266,025,602 and \$988,159,504 as of June 30, 2000 and 1999, respectively.

NOTE 5 - CONTINGENCIES

A. 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. The dollar amount of the contributions and interest subject to this right was \$811,781,737 and \$787,499,626 as of June 30, 2000 and 1999, respectively.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000 AND 1999

NOTE 6 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) INVESTMENT CATEGORIES
(Continued)

Investments presented in Category 3 represent the System's investment in a pooled short term investment fund managed by the Custodian, which also performs safekeeping of the pool's securities (Note 2-D).

NOTE 7 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2000:

Secured by real estate. Interest rate ranges from 6.89% to 9.0% per annum.
Monthly Principal and interest payments range from \$36,140 to \$190,800.
The notes mature July 2002 through October 2008.

\$89,886,800

Principal payments due under such notes are as follows for the years ended June 30:

2001	\$ 1,652,313
2002	1,778,378
2003	24,592,403
2004	1,383,989
2005	1,501,563
Thereafter	<u>58,978,154</u>
	<u>\$89,886,800</u>

NOTE 8 - OPERATING LEASE

The System leases building facilities under a noncancelable operating lease that expires in 2001, at which time a five-year renewal option is available.

The future minimum lease commitments are as follows as of June 30, 2000:

2001	\$339,989
2002	<u>169,995</u>
	<u>\$509,984</u>

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

SUPPLEMENTAL SCHEDULES

FOR THE SIX YEARS ENDED JUNE 30, 2000

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules for the Pension and Healthcare Plans was determined as part of the actuarial valuations as of June 30, 2000. Additional information as of June 30, 1999 follows:

PENSION PLANS

Funding Method - Entry Age Normal Funding Method

Asset Valuation Method - The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

Investment Return: 8.5%

Annual Salary Scale Increase:

Individually	(Varies by age)
Age:	
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and Over	5.50%
Aggregate	5.00%

Annual Cost-of-Living Increase:

Old System and New System Members:	
Accrued for All Subsequent	
Service (Subject to Any	
Applicable Caps)	5.00%
Safety Members Pension Plan	
Members	3.00%

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1984 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Table.

Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.

HEALTHCARE PLANS

Funding Method – Entry Age Normal Funding Method

Asset Valuation Method – The actuarial value of assets is determined by phasing in, over five years, the difference between the actual and expected realized and unrealized appreciation. The expected appreciation is based on the assumed rate of return. The actuarial value of assets can be no less than 80% and no greater than 120% of the market value of assets.

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

HEALTHCARE PLANS (Continued)

Investment Return	8.5%
Annual Salary Scale Increase:	
Individually	(Varies by age)
Age:	
Under 25	10.00%
25-29	9.00%
30-34	8.00%
35-39	7.00%
40-44	6.00%
45-49	5.75%
50 and Over	5.50%
Aggregate	5.00%
Graded Medical Cost Rate Increases:	
Pre-65 Premiums	7.75%*
Post-65 Premiums	7.50%*

*Decreasing gradually to 6.5% in 2005 and beyond

Mortality among retirees - The valuation for those on service retirement is based upon the 1994 Group Annuity Mortality Table. The valuation for those on disability retirement is based upon the 1984 Pension Benefits Guarantee Corporation's Disabled Life Mortality Table for males not receiving Social Security.

Mortality among spouses - The valuation is based upon the 1994 Group Annuity Mortality Table.

Remarriage among spouses - Expected rates of remarriage were developed during the last actuarial investigation based upon actual experience of the System.