

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

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2002 AND 2001**

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

C O N T E N T S

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
EXHIBIT "A" - Statements of Plan Net Assets as of June 30, 2002 and 2001	2
EXHIBIT "B" - Statements of Changes in Plan Net Assets for the Years Ended June 30, 2002 and 2001	3
NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2002 AND 2001	4-12
SUPPLEMENTAL SCHEDULES FOR THE SIX YEARS ENDED JUNE 30, 2002:	
SCHEDULE 1A - Supplemental Schedule of Funding Progress - Pension Plans	13
SCHEDULE 1B - Supplemental Schedule of Funding Progress - Health Subsidy Plans	13
SCHEDULE 2A - Supplemental Schedule of Employer Contributions - Pension Plans	14
SCHEDULE 2B - Supplemental Schedule of Employer Contributions - Health Subsidy Plans	14
NOTES TO SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS	15-16

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, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2002 and 2001, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

MILLER, KAPLAN, ARASE & CO., LLP

November 1, 2002

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

<u>ASSETS</u>	June 30, 2002	June 30, 2001
<u>CASH</u>	\$ 1,684,648	\$ 564,581
<u>RECEIVABLES</u>		
Accrued Interest and Dividends	\$ 51,710,932	\$ 60,185,204
Contributions	3,106,516	2,543,521
Due from Brokers	82,902,561	315,332,026
<u>TOTAL RECEIVABLES</u>	137,720,009	378,060,751
<u>INVESTMENTS AT FAIR VALUE</u>		
Temporary	\$ 736,949,485	\$ 652,417,831
U.S. Government Obligations	1,119,828,687	817,745,093
Domestic Corporate Bonds	1,572,999,419	1,838,340,681
Foreign Bonds	99,579,517	216,866,336
Domestic Stocks	3,977,530,486	4,745,994,018
Foreign Stocks	1,553,143,336	1,667,711,598
Real Estate	929,828,939	1,003,479,644
Alternative Investments	354,428,599	376,662,622
<u>TOTAL INVESTMENTS</u>	10,344,288,468	11,319,217,823
<u>SECURITIES LENDING COLLATERAL</u>	1,085,856,585	1,343,695,171
<u>TOTAL ASSETS</u>	\$ 11,569,549,710	\$ 13,041,538,326
<u>LIABILITIES</u>		
Accounts Payable and Accrued Expenses	\$ 6,957,728	\$ 9,456,357
Benefits in Process of Payment	272,317	407,571
Due to Brokers	199,536,891	169,427,620
Mortgage Payable	211,196,013	135,847,245
Securities Lending Collateral	1,085,856,585	1,343,695,171
<u>TOTAL LIABILITIES</u>	\$ 1,503,819,534	\$ 1,658,833,964
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT BENEFITS:</u>	\$ 10,065,730,176	\$ 11,382,704,362

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

	July 1, 2001 to June 30, 2002	July 1, 2000 to June 30, 2001
<u>ADDITIONS</u>		
Contributions:		
City Contributions	\$ 103,447,209	\$ 138,933,173
Member Contributions	63,445,503	58,182,993
<u>TOTAL CONTRIBUTIONS</u>	\$ 166,892,712	\$ 197,116,166
Miscellaneous	3,637,472	409,061
	\$ 170,530,184	\$ 197,525,227
<u>INVESTMENT INCOME</u>		
Net (Depreciation) in Fair Value of Plan Investments, Including Gains and Losses on Sales	\$ (1,360,013,911)	\$ (1,769,301,019)
Interest	226,168,227	259,082,273
Dividends	90,424,735	104,876,784
Net Real Estate Income	75,562,736	70,170,407
Income from Alternative Investments	5,999,293	6,638,327
Securities Lending Income	5,649,108	4,893,871
Other Income	363,840	1,258,538
<u>SUBTOTAL</u>	\$ (955,845,972)	\$ (1,322,380,819)
Less: Investment Manager Expense	(26,255,942)	(33,696,037)
<u>Net Investment (Loss)</u>	(982,101,914)	(1,356,076,856)
<u>TOTAL (REDUCTIONS)</u>	\$ (811,571,730)	\$ (1,158,551,629)
<u>DEDUCTIONS</u>		
Pension Benefits	\$ 464,163,812	\$ 443,006,115
Payment of Medicare Reimbursement	3,045,511	2,680,967
Payment of Health Subsidy	26,701,421	24,999,727
Refund of Contributions	3,512,028	5,749,455
Administrative Expenses	7,979,684	5,951,628
<u>TOTAL DEDUCTIONS</u>	\$ 505,402,456	\$ 482,387,892
<u>NET (DECREASE)</u>	\$ (1,316,974,186)	\$ (1,640,939,521)
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST- EMPLOYMENT BENEFITS:</u>		
Beginning of Year	11,382,704,362	13,023,643,883
End of Year	\$ 10,065,730,176	\$ 11,382,704,362

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 1 - DESCRIPTION OF THE PLANS

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

Pension Plan

In general, the System is a defined benefit single-employer pension plan covering all full-time active sworn firefighters and police officers of the City of Los Angeles. Benefits are based on members' final salary rate or any twelve-month average salary and years of service. In addition, the Plan provides for disability benefits under certain conditions and benefits to eligible survivors. At June 30, 2002, the System is composed of five tiers. Those members hired on or before January 28, 1967 participate in the first established Department of Fire and Police Pensions, Tier 1, unless they requested transfer to Tier 2, established for members hired on or after January 29, 1967. Members hired on or after December 8, 1980 participate in Tier 3, established at that time. Effective July 1, 1997, Tier 4 was established. Active members of Tier 3 hired prior to July 1, 1997 could elect to transfer to Tier 4, which has eligibility for service retirement requirements similar to Tier 2. Members hired on or after July 1, 1997 are automatically covered under the Tier 4, except Members hired between July 1, 1997 and December 31, 1997, who may elect to transfer to Tier 3. Effective January 1, 2002, Tier 5 was established for all members hired on or after January 1, 2002. Active Members of Tiers 2, 3, & 4 as of January 1, 2002 may elect to transfer to Tier 5 from January 1, 2002 through December 31, 2002.

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

Members with 20 or more years of service in Tiers 1 and 2 are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 66-2/3% in Tier 1 and 70% in Tier 2. 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 Tier 3 must be age 50, with 10 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 10 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 3 years. Members of Tier 4 with 20 or more years of service are entitled to benefits 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. 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. Members of Tier 5 with 20 or more years of service and age 50 are entitled to benefits equal to 50% of final average salary at age 50, increasing for each year of service over 20 years to a maximum of 90% for 33 years. Benefits are adjusted by the Cost-of-Living Index ("CPI") rate, at a maximum of 3% per year. Any increase in the CPI greater than 3% per year is placed into a Cost-of-Living-Adjustment ("COLA") bank for use in years in which the CPI is less than 3%.

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

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 1 - DESCRIPTION OF PLANS (Continued)

Health Subsidy Plan

Members of the System are entitled to post-retirement health subsidy benefits under sections 1330, 1428, 1518 and 1618 of the new City Charter, and by related ordinance. Members who retire from the System with ten years of service are eligible for health subsidy benefits. Prior to July 1, 1998, regular benefits began at age sixty. Temporary subsidies are available to certain groups at earlier stages. Effective July 1, 1998, regular benefits begin at age fifty-five.

The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the LACERS and active Safety Members. The City also reimburses Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage.

Health Subsidy benefits are available to Members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, surviving spouses/domestic partners are eligible for Health Subsidy benefits.

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

At June 30, 2002, of \$10,065,730,176 in total net assets available for benefits, \$444,038,567 was actuarially determined to be available for the Health Subsidy Plan.

Health Insurance Premium Reimbursement Program

Effective January 1, 2002, members of the System are entitled to postretirement health insurance premium reimbursements under City Ordinance No.174369.

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

The reimbursement paid is a percentage of the maximum subsidy amount paid under the Health Subsidy Plan, including those with Medicare A and B coverage. Non-Medicare eligible monthly reimbursements begin at 40% at 10 years of service and increase to 100% at 25 years of service. Medicare eligible monthly reimbursements begin at 75% at 10 years of service and increase to 100% at 25 years of service.

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to postretirement dental subsidy benefits under City Ordinance No. 174368.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 1 - DESCRIPTION OF PLANS (Continued)

Dental Subsidy Plan (Continued)

Members who retire from the System with 10 years of service, are at least 55 years old, and who are enrolled in a City approved dental plan; are eligible for dental subsidy benefits. Surviving spouses, domestic partners, and dependents are not covered by this subsidy.

The benefit paid is a percentage of a maximum subsidy for dental care based on an amount set annually by the Fire and Police Pension System Board of Commissioners. Effective January 1, 2002 the maximum subsidy amount is \$35.75 per month. In determining the dental subsidy, members receive 4% for each completed year of service.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the System have the option to enroll in the Deferred Retirement Option Plan ("DROP") under City Ordinance No. 174540.

Members of Tiers 2 and 4 and who have at least 25 years of service, and members of Tiers 3 and 5 who have at least 25 years of service and who are at least age 50 are eligible for the DROP.

Members who enroll continue to work and receive their active salary for a specified period of time, not to exceed 5 years. Enrolled members continue to make contributions to the System until they have completed the maximum number of years required for their particular Tiers but cease to earn additional retirement service and pay credits. Monthly pension benefits that would have been paid to enrolled members are credited into their DROP accounts. DROP account balances will earn interest at a rate of 5% annually, credited semiannually.

Once the DROP participation period ends, enrolled members must terminate active employment. They then receive a monthly benefit based on their service and salary at the beginning date of the DROP, as well as proceeds from the DROP account.

At June 30, 2002, 469 pensioners were enrolled in the DROP program, with a total estimated value of all DROP accounts of \$5,400,000.

Membership

The components of the System's membership were as follows at June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Active Nonvested -		
Tier 1	-	-
Tier 2	1	2
Tier 3	2,490	3,151
Tier 4	2,162	3,002
Tier 5	<u>2,243</u>	<u>-</u>
	<u>6,896</u>	<u>6,155</u>



CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 1 - DESCRIPTION OF PLANS (Continued)

<u>Membership (Continued)</u>	<u>2002</u>	<u>2001</u>
Active Vested -		
Tier 1	-	1
Tier 2	1,566	2,749
Tier 3	2,401	3,203
Tier 4	252	214
Tier 5	<u>1,191</u>	<u>-</u>
	<u>5,410</u>	<u>6,167</u>
Pensioners and beneficiaries -		
Tier 1	1,328	1,406
Tier 2	9,999	9,989
Tier 3	279	263
Tier 4	21	-
Tier 5	<u>133</u>	<u>-</u>
	<u>11,760</u>	<u>11,658</u>
	<u>24,066</u>	<u>23,980</u>

For the fiscal year ended June 30, 2001, certain members in Tier 3 were reclassified from active-vested to active-non-vested to conform to current year treatment.

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).

C. Cash

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

D. Investments

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

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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

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 pension plan 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.

Alternative investments are comprised of limited partnerships that invest in private equity companies. The fair values of alternative investments are estimated based on audited financial statements provided by the individual investment managers.

Real estate investments are recorded in the financial statements under the equity method and are carried at fair 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.

E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

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, 2002, 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. Tier 1 members are required by the City Charter to contribute 6% of salary. Tiers 3, 4 and 5 members are required to contribute 8% of salary.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 3 - FUNDING POLICY (Continued)

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

- A. An amount equal to the City's share of defined entry-age normal costs.
- B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4 and 5, any "unfunded liability" shall be amortized over a 30-year period, and actuarial experience gains and losses shall be amortized over a 15-year period.
- C. An amount to provide for health plan subsidies for retired members.

Accordingly, the actuary for the System has determined the contributions for items A, B, and C. above, for the year ended June 30, 2002 to be as follows:

	Percentage of Member's Salaries				
	(Tier 1)	(Tier 2)	(Tier 3)	(Tier 4)	(Tier 5)
Entry-Age Normal Cost Contribution	18.28%	22.73%	14.50%	6.17%	7.32%
Amortization of Unfunded Liability	\$27.6M	\$12.3M	\$44.2M	\$6.7M	\$7.9M
Health Plan Subsidy *	\$ 1.0M	\$18.0M	\$ 8.2M	\$1.5M	\$1.7M

\*Stated as required dollar amount.

The actuarially determined unfunded (surplus) liability of the System was (\$587,679,722) and (\$1,615,048,724) at June 30, 2002 and 2001, 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, 2002 is to be amortized over the next 35 years\*\* through contributions to be made by the City.

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

Contributions totaling \$166,892,712 (\$103,447,209 City and \$63,445,503 member) were made during the year ending June 30, 2002 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, 2002. These contributions consisted of approximately \$202,100,000 normal cost and (\$67,400,000) amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately \$21,700,000 normal cost and \$8,800,000 amortization of the unfunded actuarial accrued liability.

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.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 4 - SECURITIES LENDING (Continued)

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.

As required by GASB, cash received as collateral on securities lending transactions is reported as assets, and the liabilities from these transactions are reported in the statement of plan net assets. 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 \$1,051,617,730 and \$1,290,333,820 as of June 30, 2002 and 2001, respectively. The collateralized value of cash and securities was \$1,085,856,585 and \$1,343,695,171 as of June 30, 2002 and 2001, 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 \$907,956,409 and \$860,784,202 as of June 30, 2002 and 2001, respectively.

The Charter of the City of Los Angeles provides that member contributions earn interest at a rate based on return from investments, exclusive of gains and losses.

B. Investment Commitment

The System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately \$336,665,134 at June 30, 2002.

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

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

The System's investments in securities, which are held by Bankers Trust Company, the Custodian, are categorized below, in accordance with categories established by the GASB, to give an indication of relative custodial credit risk assumed at year end. Investments in real estate represent non-categorized investments under GASB guidelines. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, their trust departments or agents, but not in the System's name.

At June 30, 2002, the market value of categorized investments were as follows:

<u>Types of Investments</u>	<u>Category</u>			<u>Reported Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
<u>Investments - Categorized</u>				
<u>Securities Not on Securities Loan</u>				
Temporary Investments	\$ 324,408,094	\$ -	\$ 412,541,391	\$ 736,949,485
U.S. Government Obligations	704,251,855	-	-	704,251,855
Domestic Corporate Bonds	1,468,020,187	-	-	1,468,020,187
Foreign Bonds	99,579,517	-	-	99,579,517
Domestic Stocks	3,625,576,200	-	-	3,625,576,200
Foreign Stocks	1,374,035,955	-	-	1,374,035,955
Alternative Investments	354,428,599	-	-	354,428,599
<u>Total Securities Not on Loan</u>	<u>\$ 7,950,300,407</u>	<u>\$ -</u>	<u>\$ 412,541,391</u>	<u>\$ 8,362,841,798</u>
<u>Securities on Loan for Securities Collateral</u>				
U.S. Government Obligations	\$ 38,241,930	\$ -	\$ -	\$ 38,241,930
Domestic Stocks	505,478	-	-	505,478
<u>Total Securities on Loan for Securities Collateral</u>	<u>\$ 38,747,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,747,408</u>
<u>Total Categorized Investments</u>	<u>\$ 7,989,047,815</u>	<u>\$ -</u>	<u>\$ 412,541,391</u>	<u>\$ 8,401,589,206</u>
<u>Investments - Non-Categorized</u>				
<u>Securities Held by Broker/Dealer Under Securities Loans with Cash Collateral:</u>				
Domestic Stocks				\$ 351,448,808
Foreign Stocks				179,107,381
Domestic Corporate Bonds				104,979,232
U.S. Government Obligations				377,334,902
<u>Total Securities Held by Broker/Dealer Under Securities Loans with Cash Collateral:</u>				<u>\$ 1,012,870,323</u>
Securities Lending Short Term Investment Pool (Collateralized Value)				\$ 1,085,856,585
Real Estate				\$ 929,828,939
<u>Total</u>				<u>\$ 11,430,145,053</u>

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).

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002 AND 2001

NOTE 7 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2002:

Secured by real estate. Interest rate ranges from 1.84% to 8.26% per annum. Monthly Principal and interest payments range from \$41,047 to \$190,800. The notes mature July 2003 through July 2032.

\$211,196,013

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 21,511,219	\$ 11,032,308	\$ 32,543,527
2004	2,573,162	9,783,792	12,356,954
2005	58,435,556	9,671,399	68,106,955
2006	28,589,806	8,971,720	37,561,526
2007	1,921,581	7,072,454	8,994,035
2008 through 2012	61,970,600	18,283,577	80,254,177
2013 through 2017	5,408,338	12,398,838	17,807,176
2018 through 2022	7,792,657	10,014,516	17,807,173
2023 through 2027	11,229,300	6,577,876	17,807,176
2028 through 2032	11,763,794	1,953,768	13,717,562
	<u>\$ 211,196,013</u>	<u>\$ 95,760,248</u>	<u>\$ 306,956,261</u>

NOTE 8 - OPERATING LEASE

The System leased office space under an operating lease that expired on December 31, 2001. A new lease was agreed to and expires on December 31, 2011.

The future minimum lease commitments are as follows (including the new lease):

2003	\$ 982,868
2004	982,868
2005	982,868
2006	982,868
2007	982,868
2008 through 2011	<u>4,422,906</u>
	<u>\$ 9,337,246</u>

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - PENSION PLANS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1997	\$ 7,406,443,749	\$ 9,111,057,591	\$ 1,704,613,842	81.3%	\$ 749,505,571	227.4%
June 30, 1998	8,393,868,685	8,912,535,199	518,666,514	94.2%	808,807,269	64.1%
June 30, 1999	9,637,255,489	9,203,636,397	(433,619,092)	104.7%	819,740,647	-52.9%
June 30, 2000	10,985,936,206	9,604,173,677	(1,381,762,529)	114.4%	845,426,191	(163.4%)
June 30, 2001	11,835,548,939	9,954,056,461	(1,881,492,478)	118.9%	882,758,282	(213.1%)
June 30, 2002	11,491,922,362	10,606,825,276	(885,097,086)	108.3%	946,037,252	(93.6%)

## SCHEDULE 1B

**SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS - HEALTH SUBSIDY PLANS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Total System Payroll	UAAL as a % of Payroll
June 30, 1997	\$ 310,852,382	\$ 586,429,073	\$ 275,576,691	53.0%	\$ 749,505,571	36.8%
June 30, 1998	371,411,413	626,669,733	255,258,320	59.3%	808,807,269	31.6%
June 30, 1999	443,492,170	666,565,679	223,073,509	66.5%	819,740,647	27.2%
June 30, 2000	519,240,573	791,337,962	272,097,389	65.6%	845,426,191	32.2%
June 30, 2001	573,844,190	840,287,944	266,443,754	68.3%	882,758,282	30.2%
June 30, 2002	586,953,850	884,371,214	297,417,364	66.4%	946,037,252	31.4%

(See accompanying Independent Auditors' Report and notes to supplemental schedules of funding progress and employer contributions)

**CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM**  
**SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLANS**

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
1997	\$ 265,744,307	100%
1998	231,170,832	100%
1999	221,755,062	100%
2000	163,380,843	100%
2001	113,849,004	100%
2002	73,120,666	100%

## SCHEDULE 2B

**SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS - HEALTH SUBSIDY PLANS**

<u>Fiscal Years Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
1997	\$ 39,935,095	100%
1998	29,585,835	100%
1999	26,633,603	100%
2000	27,456,320	100%
2001	25,084,169	100%
2002	30,326,543	100%



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

**SUPPLEMENTAL SCHEDULES**

**FOR THE SIX YEARS ENDED JUNE 30, 2002**

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 Health Subsidy Plan was determined as part of the actuarial valuations as of June 30, 2002. Additional information as of June 30, 2001 follows:

PENSION PLAN

Funding Method - Entry Age Normal Actuarial 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%

Annual Cost-of-Living Increase:

Tiers 1 and 2:	
Accrued for All Subsequent Service) [Subject to Any Applicable Caps]	5.00%
Tiers 3,4 and 5	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.

HEALTH SUBSIDY PLAN

Funding Method - Entry Age Normal Actuarial 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

HEALTH SUBSIDY PLAN (Continued)

Investment Return	8.50%
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%
Graded Medical and Dental Cost Rate Increases:	
Pre-65 Premiums	7.25%*
Post-65 Premiums	7.00%*
Dental	7.25%*
Medicare Part B	6.50%

\*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.