

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

JUNE 30, 2003 AND 2002

CITY OF LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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Independent Auditors' Report

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

Members of the Board:

We have audited the accompanying statements of plan net assets of the City of Los Angeles Fire and Police Pension System (the System) as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, information regarding the System's plan net assets as of June 30, 2003 and 2002, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

MILLER, KAPLAN, ARASE & CO., LLP

October 24, 2003

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

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

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

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

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

NOTE 1 - DESCRIPTION OF THE PLANS

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

Pension Plan

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

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

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

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

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

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

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

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

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

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

Health Subsidy Plan

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

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

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

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

At June 30, 2003, of \$10,198,820,346 in total net assets available for benefits, \$442,986,622 was actuarially determined to be available for the Health Subsidy Plan.

Health Insurance Premium Reimbursement Program

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

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

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

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

Health Insurance Premium Reimbursement Program (Continued)

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

Dental Subsidy Plan

Effective January 1, 2002, members of the System are entitled to post-retirement dental subsidy benefits under Section 4.1164 of the Administrative Code.

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

The benefit paid is a percentage of a maximum subsidy for dental care based on the lesser of the health subsidy in effect for LACERS (civilian retirees) and active Safety Members. Effective January 1, 2003 the maximum subsidy amount is \$38.38 per month. In determining the dental subsidy, members receive 4% for each completed year of service, up to 100% of the subsidy.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the System have the option to enroll in the Deferred Retirement Option Plan ("DROP") under Section 4.2100 of the Administrative Code.

Members of Tiers 2 and 4 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 up to 5 years. Enrolled members continue to contribute to the System until they have completed the maximum number of years required for their Tier but cease to earn additional retirement service and pay credits. Monthly pension benefits that would have been paid to enrolled members are credited into their DROP accounts. DROP account balances will earn interest at an annual rate of 5%.

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

At June 30, 2003, 882 pensioners were enrolled in the DROP program, with a total estimated value of all DROP accounts of \$63,000,000.

Membership

The components of the System's membership were as follows at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Active Nonvested:		
Tier 1	-	-
Tier 2	1	1
Tier 3	802	2,490
Tier 4	479	2,162
Tier 5	<u>7,687</u>	<u>2,243</u>
	<u>8,969</u>	<u>6,896</u>

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

NOTE 1 - DESCRIPTION OF THE PLANS (Continued)

<u>Membership (Continued)</u>	<u>2003</u>	<u>2002</u>
Active Vested:		
Tier 1	-	-
Tier 2	326	1,566
Tier 3	434	2,401
Tier 4	93	252
Tier 5	<u>2,836</u>	<u>1,191</u>
	<u>3,689</u>	<u>5,410</u>
 Pensioners and beneficiaries:		
Tier 1	1,261	1,328
Tier 2	9,943	9,999
Tier 3	293	279
Tier 4	37	21
Tier 5	<u>280</u>	<u>133</u>
	<u>11,814</u>	<u>11,760</u>
	<u>24,472</u>	<u>24,066</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 accounting principles generally accepted in the United States of America, as outlined in the Governmental Accounting Standards Board (GASB).

C. Cash

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

D. Investments

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

Temporary 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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments (Continued)

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.

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

Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by an annual external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers 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 System has been the recipient of donations in the form of private equity. These securities are carried at a zero cost value and zero market value until they are redeemed for cash at a later date. The proceeds are then recorded as a donation under miscellaneous income. Income from donated stocks was \$2,918,066 and \$2,685,000 for the years ended June 30, 2003, and 2002, respectively.

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 report as of June 30, 2003, 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 were 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, 2003 AND 2002

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.

	Percentage of Member's Salaries				
	(Tier 1)	(Tier 2)**	(Tier 3)**	(Tier 4)**	(Tier 5)
Entry-Age Normal Cost Contribution	N/A	22.43%	15.42%	12.45%	16.73%
Amortization of Unfunded Liability	\$26.5M	\$(83.1)M	\$ -	\$ -	\$117.3M
Health Plan Subsidy *	\$1.0M	\$16.2M	\$ -	\$ -	\$12.8M

Accordingly, the actuary for the System has determined the contributions for items A, B, and C above for the year ended June 30, 2003 to be as follows:

*Stated as required dollar amount. **Actuarial assumption stipulates that 83% of Tier 2 members and 100% of Tier 3 and 4 members will convert to Tier 5.

The actuarially determined unfunded (surplus) liability of the System was (\$152,969,989) and (\$587,679,722) at June 30, 2003 and 2002, 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, 2003 is to be amortized over the next 34 years** through contributions to be made by the City.

**Amortization to be completed by year 2037.

Contributions totaling \$169,482,503 (\$98,529,049 City and \$70,953,454 member) were made during the year ending June 30, 2003 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, 2003. These contributions consisted of approximately \$215,200,000 normal cost and (\$86,800,000) amortization of the unfunded actuarial accrued liability for the aggregate pension plans. For the health plan subsidy, they consisted of approximately \$22,400,000 normal cost and \$7,600,000 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, 2003 AND 2002

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 System's plan net assets.

As required by GASB, cash received as collateral on securities lending transactions is reported as assets, and the liabilities from these transactions are reported in the statement of plan net assets. 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 \$14,847,809 and \$1,051,617,730 as of June 30, 2003 and 2002, respectively. The collateralized value of cash and securities was \$15,591,862 and \$1,085,856,585 as of June 30, 2003 and 2002, 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, except Tier 4 members. The dollar amount of the contributions and interest subject to this right was \$975,852,484 and \$907,956,409 as of June 30, 2003 and 2002, 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 \$330,600,000 at June 30, 2003.

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

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

The System's investments in securities, which are held by State Street Bank, 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.

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).

At June 30, 2003, the market value of categorized investments were as follows:

	Category			AMOUNT
	1	2	3	
<u>Investments - Categorized</u>				
<u>Securities Not on Securities Loan</u>				
Temporary Investments	\$ 126,530,817	\$ -	\$ 323,998,440	\$ 450,529,257
U.S. Government Obligations	1,350,230,087	-	-	1,350,230,087
Domestic Corporate Bonds	1,698,057,711	-	-	1,698,057,711
Foreign Bonds	156,550,523	-	-	156,550,523
Domestic Stocks	4,077,003,290	-	-	4,077,003,290
Foreign Stocks	1,421,692,092	-	-	1,421,692,092
<u>Total Securities Not on Loan</u>	<u>\$ 8,830,064,520</u>	<u>\$ -</u>	<u>\$ 323,998,440</u>	<u>\$ 9,154,062,960</u>
<u>Total Categorized Investments</u>	<u>\$ 8,830,064,520</u>	<u>\$ -</u>	<u>\$ 323,998,440</u>	<u>\$ 9,154,062,960</u>
<u>Investments - Non-Categorized</u>				
<u>Securities Held by Broker/Dealer Under</u>				
<u>Securities Loans with Cash Collateral</u>				
Foreign Stocks				\$ 14,847,809
Securities Lending Short Term Investment Pool				15,591,862
Alternative Investments				362,078,659
Real Estate				912,541,642
<u>Total Non-Categorized Investments</u>				<u>\$ 1,305,059,972</u>
<u>TOTAL</u>				<u>\$ 10,459,122,932</u>

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

NOTE 7 - NOTES PAYABLE

Notes payable consists of the following at June 30, 2003:

Secured by real estate. Interest rate ranges from 2.82% to 8.26% per annum. Monthly Principal and interest payments range from \$21,963 to \$190,800. The notes mature June 2005 through June 2032.

\$209,317,727

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

	Principal	Interest	Total
2004	\$ 2,571,006	\$ 9,785,948	\$ 12,356,954
2005	58,433,214	9,573,741	68,006,955
2006	15,554,542	9,039,141	24,593,683
2007	14,951,644	7,164,854	22,116,498
2008	15,772,962	6,605,517	22,378,479
2009 through 2013	66,770,416	14,457,517	81,227,933
2014 through 2018	5,818,094	11,989,081	17,807,175
2019 through 2023	8,383,221	9,423,955	17,807,176
2024 through 2028	13,536,651	5,717,928	19,254,579
2029 through 2032	7,525,977	1,182,745	8,708,722
	\$ 209,317,727	\$ 84,940,427	\$ 294,258,154

NOTE 8 - OPERATING LEASE

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

The annual lease payments during fiscal year ending June 30, 2003 were \$721,219 and the future minimum lease commitments are as follows:

2004	\$ 808,588
2005	820,298
2006	834,317
2007	955,824
2008	976,273
2009 through 2011	3,101,589
	\$ 7,496,889