

**LOS ANGELES FIRE AND
POLICE PENSION SYSTEM**

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

LOS ANGELES FIRE AND POLICE PENSION SYSTEM

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2023 and 2022, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the basic financial statements for each plan as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the Pension Plan and Health Subsidy Plan, as of June 30, 2023 and 2022, and the respective changes in fiduciary net position for the years then ended in accordance with accounting standards generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standard* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2023, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
November 27, 2023

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

This Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Fire and Police Pension System (the System or LAFPP) is an overview of its fiscal operations for the year ended June 30, 2023. Readers are encouraged to consider the information presented here in conjunction with the Financial Statements and the Notes to the Financial Statements. Amounts contained in this discussion have been rounded to facilitate readability.

FINANCIAL HIGHLIGHTS

- Net position at the close of the fiscal year ended June 30, 2023, was \$26.44 billion and \$2.97 billion for the Pension Plan and Health Subsidy Plan, respectively. All of the net position was available to meet the System's obligations to members and their beneficiaries.
- Net position increased by \$1.18 billion, or 4.7%, and increased by \$244.69 million, or 9.0%, for the Pension Plan and Health Subsidy Plan, respectively.
- As of June 30, 2023, the date of the most recent funding actuarial valuations, the funding ratios of the Pension Plan and Health Subsidy Plan were 99.5% and 77.7%, respectively.
- Additions to the Pension Plan's net position increased by \$3.89 billion or 291.1% from \$(1.34) billion to \$2.55 billion, due primarily to the net appreciation in the fair value of investments in fiscal year 2023 relative to fiscal year 2022.
- Deductions from the Pension Plan's net position increased by \$108.58 million, or 8.6%, over fiscal year 2022 from \$1.27 billion to \$1.38 billion in fiscal year 2023.
- Additions to the Health Subsidy Plan's net position increased by \$417.61 million, or 2542.5%, from \$(16.43) million to \$401.18 million, due to the net appreciation in the fair value of investments in fiscal year 2023 relative to fiscal year 2022. Effective July 1, 2022, employer contributions and other funding of the Health Subsidy Plan are accepted into the newly established 115 Trust fund.
- Deductions from the Health Subsidy Plan's net position increased by \$6.73 million, or 4.5%, over fiscal year 2022 from \$149.76 million to \$156.49 million in fiscal year 2023.
- The total pension liability for the Pension Plan at June 30, 2023, was \$26.80 billion, and the fiduciary net position was \$26.44 billion. Thus, the net pension liability for the Pension Plan was \$363.62 million, and the fiduciary net position as a percentage of the total pension liability was 98.64%
- The total Other Post-Employment Benefits (OPEB) liability for the Health Subsidy Plan at June 30, 2023, was \$3.82 billion, and the fiduciary net position was \$2.97 billion. Thus, the net OPEB liability for the Health Subsidy Plan was \$848.21 million, and the fiduciary net position as a percentage of the total OPEB liability was 77.77%.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *Statements of Fiduciary Net Position* is a snapshot of account balances at year-end. It indicates the amount of assets available for payment to retirees, beneficiaries, and any current liabilities owed at year-end.

The *Statements of Changes in Fiduciary Net Position* reports additions to and deductions from the fiduciary net position during the year.

The above statements are being prepared on an accrual basis of accounting. Investment gains and losses are shown at trade date, and account balances are based on fair values recognizing both realized and unrealized gains and losses on investments.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. These notes are presented on pages 17 to 56 of this report.

The *Required Supplementary Information* (RSI) section includes the following five schedules with respect to the Pension Plan and Health Subsidy Plan:

Pension Plan:

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

Health Subsidy Plan:

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

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

FINANCIAL ANALYSIS

Pension Plan

Fiduciary Net Position

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

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2023	2022	Change	% Change
		As restated		
Cash	\$ 7,166	\$ 6,107	\$ 1,059	17.3%
Receivables/Prepayments ⁽¹⁾	650,503	508,299	142,204	28.0%
Investments	27,793,237	26,587,118	1,206,119	4.5%
Capital Assets	19,727	20,853	(1,126)	-5.4%
Total Assets	28,470,633	27,122,377	1,348,256	5.0%
Liabilities	2,032,867	1,863,350	169,517	9.1%
Deferred Inflows of Resources ⁽¹⁾	466	489	(23)	-4.7%
Net Position	\$ 26,437,300	\$25,258,538	\$ 1,178,762	4.7%

(1) Receivables and deferred inflows of resources were restated in the fiscal year 2022 as a result of GASB Statement No. 87-*Leases* implementation (see Note 2 for details).

Net position increased by \$1.18 billion, or 4.7%, to \$26.44 billion from fiscal year 2022. Total assets increased in value by \$1.35 billion, or 5.0%, when compared with the prior fiscal year 2022, attributable to appreciation of investments due to favorable market conditions.

Condensed Statement of Fiduciary Net Position				
(\$ in Thousands)				
	2022	2021	Change	% Change
Cash	\$ 6,107	\$ 6,442	\$ (335)	-5.2%
Receivables/Prepayments	507,808	175,836	331,972	188.8%
Investments	26,587,118	28,914,759	(2,327,641)	-8.1%
Capital Assets	20,853	22,048	(1,195)	-5.4%
Total Assets	27,121,886	29,119,085	(1,997,199)	-6.9%
Liabilities	1,863,350	1,256,778	606,572	48.3%
Net Position	\$ 25,258,536	\$ 27,862,307	\$ (2,603,771)	-9.3%

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

Pension Plan (Continued)

Fiduciary Net Position (Continued)

Net position decreased by \$2.60 billion, or 9.3%, to \$25.26 billion from fiscal year 2021. Total assets decreased in value by \$2.0 billion, or 6.9%, when compared with the prior fiscal year 2021, attributable to depreciation of investments due to unfavorable market conditions.

Changes in Fiduciary Net Position

	Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)			
	2023	2022	Change	% Change
Additions		As restated		
Employer Contributions	\$ 481,824	\$ 535,450	\$ (53,626)	-10.0%
Member Contributions	151,935	149,243	2,692	1.8%
Net Investment Income	1,920,048	(2,021,951)	3,941,999	195.0%
Other Income	414	369	45	12.2%
Total Additions	2,554,221	(1,336,889)	3,891,110	291.1%
Deductions				
Pension Benefits	1,342,885	1,237,262	105,623	8.5%
Refund of Contributions	9,580	7,474	2,106	28.2%
Administrative Expenses	22,994	22,146	848	3.8%
Total Deductions	1,375,459	1,266,882	108,577	8.6%
Net Increase	1,178,762	(2,603,771)	3,782,533	145.3%
Net Position, Beginning of Year, As Restated	25,258,538	27,862,309	(2,603,771)	-9.3%
Net Position, End of Year	<u>\$26,437,300</u>	<u>\$ 25,258,538</u>	<u>\$ 1,178,760</u>	4.7%

Additions to Fiduciary Net Position

Additions needed to fund benefit payments are accumulated through employer and member contributions, and from income generated from the Plan's investing activities.

Contributions for fiscal year 2023 totaled \$633.76 million, a decrease of \$50.93 million, or 7.44%, over fiscal year 2022. The employer's contribution for fiscal year 2023 was \$481.82 million compared to \$535.45 million for fiscal year 2022. The decrease in employer's contributions was due to the decrease in

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

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

required contribution. The increase in member contributions was due to an overall increase in active member salaries.

Net investment income amounted to \$1.92 billion, an increase in net investment income of \$3.94 billion, or 195.0%, when compared with \$(2.02) billion from fiscal year 2022. Investment income increased in fiscal year 2023 due to the net appreciation in the fair value of investments in fiscal year 2023 relative to fiscal year 2022.

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2023, totaled \$1.38 billion, an increase of \$108.58 million, or 8.6%, over fiscal year 2022. The increase was due primarily to the up to 7.4% cost of living adjustments made to eligible pensions and an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits, compared to fiscal year 2022.

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

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

	Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)			
	2022	2021	Change	% Change
Additions				
Employer Contributions	\$ 535,450	\$ 543,819	\$ (8,369)	-1.5%
Member Contributions	149,243	157,786	(8,543)	-5.4%
Net Investment Income	(2,021,951)	6,971,432	(8,993,383)	-129.0%
Other Income	369	673	(304)	-45.2%
Total Additions	(1,336,889)	7,673,710	(9,010,599)	-117.4%
Deductions				
Pension Benefits	1,237,262	1,182,407	54,855	4.6%
Refund of Contributions	7,474	4,556	2,918	64.0%
Administrative Expenses	22,146	21,372	774	3.6%
Total Deductions	1,266,882	1,208,335	58,547	4.8%
Net Increase	(2,603,771)	6,465,375	(9,069,146)	-140.3%
Net Position, Beginning of Year	27,862,307	21,396,932	6,465,375	30.2%
Net Position, End of Year	\$25,258,536	\$ 27,862,307	\$ (2,603,771)	-9.3%

Additions to Fiduciary Net Position

Additions needed to fund benefit payments are accumulated through employer and member contributions, and from income generated from the Plan's investing activities.

Contributions for fiscal year 2022 totaled \$684.69 million, decreased by \$16.91 million, or 2.4%, over fiscal year 2021. The employer's contribution for fiscal year 2022 was \$535.45 million compared to \$543.82 million for fiscal year 2021. The decrease in employer's contributions was due to the decrease in required contribution. The decrease in members' contribution was due to a decline in the number of active members.

Net investment loss amounted to \$2.02 billion, a decrease in net investment income of \$8.99 billion, or 129.0%, when compared with \$6.97 billion from fiscal year 2021. Investment income decreased in fiscal year 2022 due to the net depreciation in the fair value of investments in fiscal year 2022 relative to fiscal year 2021.

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

Pension Plan (Continued)

Changes in Fiduciary Net Position (Continued)

Deductions from Fiduciary Net Position

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

Deductions for the fiscal year ended June 30, 2022, totaled \$1.27 billion, up by \$58.55 million, or 4.8%, over fiscal year 2021. The increase was due primarily to the increase in retiree benefit payments resulting from an increase in the number of service retirements and Deferred Retirement Option Plan (DROP) exits compared to fiscal year 2021.

Health Subsidy Plan

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

Fiduciary Net Position

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2023	2022	Change	% Change
		As restated		
Cash	\$ 800	\$ 654	\$ 146	22.3%
Receivables/Prepayments ⁽¹⁾	85,111	66,490	18,621	28.0%
Investments	3,103,806	2,849,404	254,402	8.9%
Capital Assets	2,203	2,235	(32)	-1.4%
Total Assets	3,191,920	2,918,783	273,137	9.4%
Liabilities	225,053	196,606	28,447	14.5%
Deferred Inflows of Resources ⁽¹⁾	52	55	(3)	-5.5%
Net Position	\$ 2,966,815	\$ 2,722,122	\$ 244,693	9.0%

(1) Receivables and deferred inflows of resources were restated in the fiscal year 2022 as a result of GASB Statement No. 87-*Leases* implementation (see Note 2 for details).

Net position increased by \$244.69 million, or 9.0%, to \$2.97 billion from fiscal year 2022. Total assets increased in value by \$273.14 million, or 9.4%, when compared with the prior fiscal year 2022, attributable to appreciation of investments due to favorable market conditions.

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

Health Subsidy Plan (Continued)

Fiduciary Net Position (Continued)

	Condensed Statement of Fiduciary Net Position (\$ in Thousands)			
	2022	2021	Change	% Change
Cash	\$ 654	\$ 665	\$ (11)	-1.7%
Receivables/Prepayments	66,435	29,899	36,536	122.2%
Investments	2,849,404	2,984,117	(134,713)	-4.5%
Capital Assets	2,235	2,275	(40)	-1.8%
Total Assets	2,918,728	3,016,956	(98,228)	-3.3%
Liabilities	196,606	128,646	67,960	52.8%
Net Position	\$ 2,722,122	\$ 2,888,310	\$ (166,188)	-5.8%

Net position decreased by \$166.19 million, or 5.8%, to \$2.72 billion from fiscal year 2021. Total assets decreased in value by \$98.23 million, or 3.3%, when compared with the prior fiscal year 2021, attributable to depreciation of investments due to unfavorable market conditions.

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

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

	Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)			
	2023	2022	Change	% Change
Additions				
Contributions	\$ 186,418	\$ 193,140	\$ (6,722)	-3.5%
Net Investment Income	214,718	(209,603)	424,321	202.4%
Other	46	38	8	21.1%
Total Additions	401,182	(16,425)	417,607	2542.5%
Deductions				
Benefits Payment	153,918	147,467	6,451	4.4%
Administrative Expenses	2,572	2,296	276	12.0%
Total Deductions	156,490	149,763	6,727	4.5%
Net Increase	244,692	(166,188)	410,880	247.2%
Net Position, Beginning of Year	2,722,123	2,888,310	(166,187)	-5.8%
Net Position, End of Year	\$ 2,966,815	\$ 2,722,122	\$ 244,693	9.0%

Additions to Fiduciary Net Position

Total additions to net position increased by \$417.61 million compared to fiscal year 2022. This is due primarily to the net appreciation in the fair value of investments which increased by \$424.32 million or 202.4% over fiscal year 2022. For fiscal year 2023, net investment income was \$401.18 million compared to \$(16.43) million in fiscal year 2022.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$156.49 million, \$6.73 million or 4.5% more than the total deductions of fiscal year 2022. This is due primarily to an increase in the number of pensioners receiving subsidy benefits and the increase in the maximum retiree health subsidy in fiscal year 2023.

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

Health Subsidy Plan (Continued)

Changes in Fiduciary Net Position (Continued)

	Condensed Statement of Changes in Fiduciary Net Position (\$ in Thousands)			
	2022	2021	Change	% Change
Additions				
Contributions	\$ 193,140	\$ 200,424	\$ (7,284)	-3.6%
Net Investment Income	(209,603)	698,367	(907,970)	-130.0%
Other	38	67	(29)	-43.3%
Total Additions	(16,425)	898,858	(915,283)	-101.8%
Deductions				
Benefits Payment	147,467	151,855	(4,388)	-2.9%
Administrative Expenses	2,296	2,141	155	7.2%
Total Deductions	149,763	153,996	(4,233)	-2.7%
Net Increase	(166,188)	744,862	(911,050)	-122.3%
Net Position, Beginning of Year	2,888,310	2,143,448	744,862	34.8%
Net Position, End of Year	\$ 2,722,122	\$ 2,888,310	\$ (166,188)	-5.8%

Additions to Fiduciary Net Position

Total additions to net position decreased by \$915.28 million compared to fiscal year 2021. This is due primarily to the net depreciation in the fair value of investments which decreased by \$907.97 million or 130.0% over fiscal year 2021. For fiscal year 2022, net investment loss was \$(209.60) million compared to \$698.37 million in fiscal year 2021.

Deductions from Fiduciary Net Position

Deductions represent medical and dental insurance subsidies paid for pensioners and their beneficiaries and administrative expenses. Current year deductions were \$149.76 million, \$4.23 million or 2.7% less than the total deductions of fiscal year 2021. This is due primarily to a decrease in premiums for some of the most popular health insurance options in fiscal year 2022 and a decrease in the Medicare health subsidy as of January 1, 2022.

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

REQUEST FOR INFORMATION

This financial report is designed to provide the Board of Fire and Police Pension Commissioners, members, investment managers, and creditors with a general overview of LAFPP's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Joseph D. Salazar, General Manager
Los Angeles Fire and Police Pension System
701 E. Third Street, Suite 200
Los Angeles, CA 90013

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2023 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2022)

	Pension Total	401(h)	Health Subsidy 115 Trust	Total	2023 Combined	2022 Combined As restated
ASSETS						
Cash	\$ 7,166,191	\$ 746,101	\$ 54,182	\$ 800,283	\$ 7,966,474	\$ 6,761,031
Receivables						
Accrued Interest and Dividends	96,036,322	9,998,728	726,116	10,724,844	106,761,166	90,118,841
Contributions	5,869,834	-	-	-	5,869,834	5,007,452
Due from Brokers	548,112,303	57,066,176	4,144,191	61,210,367	609,322,670	466,567,607
Others	482,947	50,282	3,651	53,933	536,880	545,540
Total Receivables	650,501,406	67,115,186	4,873,958	71,989,144	722,490,550	562,239,440
Prepaid benefits	992	13,122,256	-	13,122,256	13,123,248	12,550,199
Investments at Fair Value						
Temporary	698,991,049	72,774,769	5,284,962	78,059,731	777,050,780	910,755,097
U.S. Government Obligations	2,645,966,422	275,482,206	20,005,738	295,487,944	2,941,454,366	3,071,349,307
Domestic Corporate Bonds	2,753,588,592	286,687,184	20,819,452	307,506,636	3,061,095,228	2,415,502,728
Foreign Bonds	114,639,285	11,935,557	866,770	12,802,327	127,441,612	53,528,345
Domestic Stocks	9,257,100,458	963,793,962	69,991,487	1,033,785,449	10,290,885,907	9,665,383,884
Foreign Stocks	4,846,293,807	504,567,141	36,642,069	541,209,210	5,387,503,017	4,809,476,237
Real Estate	1,558,523,815	162,264,183	11,783,754	174,047,937	1,732,571,752	2,154,013,712
Alternative Investments	5,023,902,203	523,058,665	37,984,938	561,043,603	5,584,945,806	5,001,632,608
Total Investments	26,899,005,631	2,800,563,667	203,379,170	3,003,942,837	29,902,948,468	28,081,641,918
Capital Assets	19,726,883	2,053,845	149,152	2,202,997	21,929,880	23,087,803
Securities Lending Collateral	894,231,179	93,102,005	6,761,142	99,863,147	994,094,326	1,354,880,227
TOTAL ASSETS	28,470,632,282	2,976,703,060	215,217,604	3,191,920,664	31,662,552,946	30,041,160,618
LIABILITIES						
Accounts Payable and Accrued Expenses	20,106,756	2,093,395	152,024	2,245,419	22,352,175	30,570,884
Benefits in Process of Payment	28,396,616	1,204,589	-	1,204,589	29,601,205	41,158,166
Due to Brokers	921,901,679	95,982,892	6,970,354	102,953,246	1,024,854,925	420,810,040
Mortgage Payable	168,206,811	17,512,688	1,271,785	18,784,473	186,991,284	212,500,008
Security Deposit	24,015	2,500	182	2,682	26,697	37,104
Securities Lending Collateral	894,231,179	93,102,005	6,761,142	99,863,147	994,094,326	1,354,880,227
TOTAL LIABILITIES	2,032,867,056	209,898,069	15,155,487	225,053,556	2,257,920,612	2,059,956,429
DEFERRED INFLOWS OF RESOURCES	465,659	48,481	3,521	52,002	517,661	543,570
NET POSITION IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS	\$ 26,437,299,567	\$ 2,766,756,510	\$ 200,058,596	\$ 2,966,815,106	\$ 29,404,114,673	\$ 27,980,660,619

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Pension		Health Subsidy		2023 Combined	2022 Combined As restated
	Total	401(h)	115 Trust	Total		
ADDITIONS						
Contributions						
Employer Contributions	\$ 481,824,295	\$ -	\$ 186,418,480	\$ 186,418,480	\$ 668,242,775	\$ 728,589,957
Member Contributions	151,934,789	-	-	-	151,934,789	149,243,422
Total Contributions	633,759,084	-	186,418,480	186,418,480	820,177,564	877,833,379
Investment Income (Loss)						
Net (Depreciation) Appreciation in Fair Value of Investments, Including Gain and Loss on Sales	1,423,682,163	149,097,176	10,111,729	159,208,905	1,582,891,068	(2,725,757,057)
Interest	205,884,646	21,561,568	1,462,299	23,023,867	228,908,513	145,566,587
Dividends	330,439,496	34,605,755	2,346,953	36,952,708	367,392,204	378,399,927
Net Real Estate Income	43,986,663	4,606,567	312,416	4,918,983	48,905,646	65,322,729
Income from Alternative Investments	31,057,348	3,252,526	220,585	3,473,111	34,530,459	36,879,481
Securities Lending Income	5,468,539	572,701	38,840	611,541	6,080,080	4,738,355
Less: Securities Lending Expense	(764,530)	(80,067)	(5,430)	(85,497)	(850,027)	(661,973)
Other Income	574,802	60,197	4,083	64,280	639,082	(1,413,699)
Subtotal	2,040,329,127	213,676,423	14,491,475	228,167,898	2,268,497,025	(2,096,925,650)
Less: Investment Manager Expense	(120,280,637)	(12,596,564)	(854,295)	(13,450,859)	(133,731,496)	(134,628,549)
Net Investment Income	1,920,048,490	201,079,859	13,637,180	214,717,039	2,134,765,529	(2,231,554,199)
Other Income						
Miscellaneous	413,428	43,297	2,936	46,233	459,661	406,915
Total Other Income	413,428	43,297	2,936	46,233	459,661	406,915
TOTAL ADDITIONS	2,554,221,002	201,123,156	200,058,596	401,181,752	2,955,402,754	(1,353,313,905)
DEDUCTIONS						
Pension Benefits	1,342,885,283	-	-	-	1,342,885,283	1,237,262,247
Payment of Health Subsidy	-	138,785,074	-	138,785,074	138,785,074	134,266,616
Payment of Medicare Reimbursement	-	15,132,846	-	15,132,846	15,132,846	13,200,319
Refund of Contributions	9,579,884	-	-	-	9,579,884	7,473,946
Administrative Expenses	22,994,196	2,571,417	-	2,571,417	25,565,613	24,441,834
TOTAL DEDUCTIONS	1,375,459,363	156,489,337	-	156,489,337	1,531,948,700	1,416,644,962
NET (DECREASE) INCREASE	1,178,761,639	44,633,819	200,058,596	244,692,415	1,423,454,054	(2,769,958,867)
NET POSITION HELD IN TRUST FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS						
Beginning of Year, As Restated	25,258,537,928	2,722,122,691	-	2,722,122,691	27,980,660,619	30,750,619,486
End of Year	\$ 26,437,299,567	\$ 2,766,756,510	\$ 200,058,596	\$ 2,966,815,106	\$ 29,404,114,673	\$ 27,980,660,619

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 – DESCRIPTION OF THE PLANS

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

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

Pension Plan

The System's Pension Plan is a defined benefit single-employer pension plan covering all full-time active sworn firefighters, police officers, and certain Harbor Port Police and Airport police officers of the City of Los Angeles. The System also covers those certified paramedics and civilian ambulance employees who transferred from the Los Angeles City Employees' Retirement System (LACERS) during the year ended June 30, 1983 or have since been hired. The System is composed of six tiers. Benefits are based on the member's pension tier, pension salary base, and years of service. In addition, the System provides for disability benefits under certain conditions and benefits to eligible survivors.

Tier 1 includes members hired on or before January 28, 1967. Tier 2 includes members hired from January 29, 1967 through December 7, 1980, and those Tier 1 members who transferred to Tier 2 during the enrollment period of January 29, 1967 to January 29, 1968. Tier 3 includes members hired from December 8, 1980 through June 30, 1997, and those Tier 4 members hired during the period of July 1, 1997 through December 31, 1997 who elected to transfer to Tier 3 by the enrollment deadline of August 6, 1999. Tier 4 includes members hired from July 1, 1997 through December 31, 2001, and those Tier 3 members who elected to transfer to Tier 4 by the enrollment deadline of June 30, 1998. Tier 5 includes members hired from January 1, 2002 through June 30, 2011, and those Active members of Tiers 2, 3, and 4 who elected to transfer to Tier 5 during the enrollment period of January 2, 2002 through December 31, 2002. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2011. Harbor Port Police officers hired before January 8, 2006, who were members of LACERS, were allowed to transfer to Tier 5 during the enrollment period of January 8, 2006 to January 5, 2007.

Tier 6 was established for all firefighters, police and Harbor Port Police officers hired on or after July 1, 2011. Tier 6 includes sworn officers from the Department of General Services who transferred to Los Angeles Police Department (LAPD) classifications and elected to opt out of LACERS by the December 12, 2014 deadline. Effective January 7, 2018, Tier 6 also includes all new Airport police officers, as well as any Airport police officers hired prior to January 7, 2018 who elected to transfer to Tier 6 from LACERS at their own expense.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

Tier 1 members hired prior to January 17, 1927, with 20 years of service are entitled to annual pension benefits equal to 50%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 members hired on or after January 17, 1927, with 20 or more years of service are entitled to annual pension benefits equal to 40%, increasing for each year of service over 20 years, to a maximum of 66-2/3% of the average monthly rate of salary assigned to the ranks or positions held by the member during the three years immediately preceding the date of retirement. Tier 1 has no minimum age requirement and provides for unlimited post-employment cost-of-living adjustments (COLA) based on the Consumer Price Index (CPI). Tier 1 members who were active as of July 1, 1982, and who terminated their employment after July 1, 1982, were entitled to a refund of contributions plus Board-approved interest if they did not qualify for a pension or if they waived their pension entitlements.

Tier 2 members with 20 or more years of service are entitled to annual pension benefits equal to 40% of their final compensation, increasing for each year of service over 20 years, to a maximum of 70% for 30 years. Tier 2 has no minimum age requirement and provides for unlimited post-employment COLAs based on the CPI. Tier 2 members who were active as of July 1, 1982, and who terminate their employment after July 1, 1982, are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 3 members must be at least age 50 with 10 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 20% of the monthly average of a member's salary during any 12 consecutive months of service as a Plan member (one-year average compensation), increasing for each year of service over 10 years, to a maximum of 70% for 30 years. Tier 3 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. The Los Angeles City Council (City Council) may grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

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

Tier 5 members must be at least age 50 with 20 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan (Continued)

Tier 6 members must be at least age 50 with 20 or more years of service to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for post-employment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant an ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Health Subsidy Plan

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

Administrative Code Section 4.1154 (e) provides that, on an annual basis beginning in 2006, the Board is authorized to make discretionary changes to the maximum monthly subsidy, so long as no increase exceeds the lesser of a 7% increase or the actuarial assumed rate for medical inflation for pre-65 health benefits established by the Board for the applicable fiscal year. The maximum monthly subsidy for fiscal years 2023 and 2022 was \$2,046.97 and \$1,958.82, respectively. The System also reimburses the basic Medicare Part B premium for any pensioner enrolled in Medicare Parts A and B, and eligible to receive a subsidy.

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

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

On January 11, 2022, the City Council passed Ordinance No. 187351 to amend Chapter 11.5 of Division 4 of the Los Angeles Administrative Code to establish the Los Angeles Fire and Police Pensions Retiree Health Care Fund (LAFPP Health Care Fund) for the sole purpose of funding retiree health care benefits for eligible retirees and beneficiaries of the System.

The City and the Board of Los Angeles Fire and Police Pensions entered into a trust agreement, providing the LAFPP Health Care Fund as an alternative funding mechanism to the pre-existing LAFPP Health Care Coverage Account (401(h) account). This measure was aimed to ensure the long-term viability and sustainability of retiree health care benefits for Fire and Police Pension Plans.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Health Subsidy Plan (Continued)

The LAFPP Health Care Fund is intended to qualify for federal tax exemption under Section 115 of the Internal Revenue Code. Effective July 1, 2022, the LAFPP Health Care Fund began receiving contributions from the City designated for retiree health benefits. The existing 401(h) account continues to operate, disbursing funds for health insurance and other benefits provided under Chapter 11.5 of Division 4 of the Los Angeles Administrative Code, until it is fully depleted.

Health Insurance Premium Reimbursement (HIPR) Program

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

Eligibility requirements for pensioners and qualified surviving spouses/domestic partners are as follows: The pensioner (whether living or deceased) must meet minimum age and service requirements for a health subsidy and may not be enrolled in a Board-approved HMO health plan. Prior to April 6, 2017, the pensioner or qualified surviving spouse/domestic partner were required to reside either outside California or in the State of California but not within a Board-approved health plan zip code service area to participate in the HIPR program. Effective April 6, 2017, this residency restriction was removed allowing eligible pensioners and qualified surviving spouses/domestic partners to reside anywhere and still be eligible to participate in this program.

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

Dental Subsidy Plan

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

The benefit paid is a percentage of a maximum subsidy for dental insurance based on the lower of the dental subsidy in effect for LACERS or active Safety Members. The maximum monthly subsidy was \$43.81 and \$44.60 for calendar years 2023 and 2022, respectively. In determining the dental subsidy, members receive 4% for each whole year of service, up to 100% of the maximum.

Deferred Retirement Option Plan

Effective May 1, 2002, members of the System have the option to enroll in the Deferred Retirement Option Plan (DROP) under Section 4.2100 of the Administrative Code. Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3, 5, and 6 who have at least 25 years of service and who are at least age 50 are eligible for DROP.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Deferred Retirement Option Plan (Continued)

Members who enroll continue to work and receive their active salary for up to five years. Enrolled members continue to contribute to the System until they have completed the maximum number of years required for their tier but cease to earn additional retirement service and salary credits. Monthly pension benefits that would have been paid to enrolled members are credited to their DROP accounts. DROP account balances earn interest at an annual rate of 5%.

Effective February 1, 2019, for members who enroll on or after this date, participation in DROP will be suspended for any calendar month in which a participant does not spend at least 112 hours on “active duty” status. However, if a participant sustains a serious injury on duty and is admitted to the hospital for at least three consecutive days as a result of the injury, their participation will not be suspended during the first 12 calendar months following the date of injury. If a member’s DROP participation is suspended, he/she is eligible to participate in DROP for a maximum of 30 additional months beyond his/her original five-year participation period. The participation period can only be extended for as many months as the member’s participation was suspended, and no interest is credited to the member’s DROP account following the initial five-year participation period.

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

At June 30, 2023 and 2022, 1,496 and 1,415 pensioners, respectively, were enrolled in the DROP program, with total estimated values of the DROP accounts of approximately \$361,085,473 and \$386,872,708, respectively.

Two Percent Opt-In

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 – DESCRIPTION OF THE PLANS (Continued)

Pension Plan Membership

The components of the System’s Pension Plan membership at June 30, 2023 and 2022, are as follows:

	2023	2022
Active Nonvested:		
Tier 1	-	-
Tier 2	-	-
Tier 3	-	-
Tier 4	2	6
Tier 5	3,493	4,062
Tier 6	4,862	4,402
	8,357	8,470
Active Vested:		
Tier 1	-	-
Tier 2	3	4
Tier 3	390	472
Tier 4	154	168
Tier 5	3,661	3,653
Tier 6	6	4
	4,214	4,301
Pensioners and Beneficiaries:		
Tier 1	171	190
Tier 2	6,052	6,334
Tier 3	1,000	910
Tier 4	404	389
Tier 5	6,497	5,995
Tier 6	7	3
	14,131	13,821
Vested Terminated		
Tier 3	23	33
Tier 5	250	257
Tier 6	503	433
	776	723
	27,478	27,315

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Financial Reporting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as outlined by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include information from the prior year summarized for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the System's financial statements for the fiscal year ended June 30, 2022, from which such information was derived.

Restatement of Prior Period Financial Statements for Fiscal Year ended June 30, 2022

In the subsequent fiscal year, the System formalized two lease agreements in November 2022 and January 2023 with tenants previously engaged on a month-to-month basis. The commencement dates of these leases were retroactive, beginning in April and May of 2022, respectively.

To align with GASB Statement No. 87 requirements, the System has retroactively adjusted and restated the financial statements for the fiscal year ended June 30, 2022. This restatement increased the Fiduciary Net Position as of that date by a total of \$1,970.

Investments and Method Used to Value Investments

Temporary investments, consisting primarily of bankers' acceptances, commercial paper, certificates of deposit, pooled temporary investments, U.S. Treasury bills, and repurchase agreements along with bonds, stocks, and alternative investments, are reported at fair value. Pooled temporary investments represent funds invested in a custodian-managed discretionary short-term investment fund. This fund invests in a variety of U.S. and foreign securities rated A1 or P-1 by Moody's Investors Service and Standard & Poor's, respectively, or equivalent quality as determined by the custodian.

Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the System's year-end. Resulting gains or losses are included in the System's Statements of Changes in Fiduciary Net Position.

The category of alternative investments includes private equity. Private equity investments are composed predominantly of limited partnerships that invest mainly in privately-owned companies.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of the fiscal year-end are reported in the financial statements on the accrual basis of accounting. The corresponding proceeds due from sales are reported on the Statements of Fiduciary Net Position as receivables and labeled due from brokers and amounts payable for purchases are reported as

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Method Used to Value Investments (Continued)

liabilities and labeled due to brokers. Dividend income is recorded on ex-dividend date and interest income is accrued as earned.

Investments are carried at fair value. The fair value of securities investments is generally based on published market prices or quotations from major investment dealers. Investments for which market quotations are not readily available are valued at their estimated fair value. The fair values of private equity investments are estimated by the investment managers based on consideration of various factors, including current net position valuations of underlying investments in limited partnerships, the financial statements of investee limited partnerships prepared in accordance with accounting principles generally accepted in the United States of America, and other financial information provided by the investment managers of investee limited partnerships.

Real estate investments are recorded in the financial statements under the equity method and are carried at fair value as determined by a periodic external appraisal. The fair values of real estate investment funds are provided by the individual real estate fund managers with periodic external valuations.

Cash

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

Capital Assets

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

The System implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, as of July 1, 2022. Under this guidance, the SBITAs are accounted for as intangible right-to-use subscription assets, and the associated subscription expenses are recognized over the subscription term.

Mortgage Payable

Mortgage payable is stated at fair value. The fair value of mortgage loans payable is presented at the amount at which the liability could be transferred to a market participant, exclusive of direct transaction costs such as prepayment penalties. The fair value of mortgage loans payable have been determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates and/or interest rate spreads for loans of comparable quality and maturity, (ii) the value of the underlying collateral, (iii) the credit risk of the borrower based on key elements of the real estate investment's valuation, (iv) market

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Payable (Continued)

based loan-to-value and debt-service-coverage ratios relative to each mortgage loan payable valuation, and (v) key terms such as assumability, recourse provisions and guaranties. These inputs are considered within a discounted cash flow model used to determine the estimated fair value of mortgage loans payable.

Use of Estimates

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

NOTE 3 – NEW ACCOUNTING STANDARDS

Implementation of the following GASB statements effective beginning fiscal year 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. This Statement defines the subscription-based information technology arrangements (SBITAs) and requires the government to recognize a right-to-use subscription asset and a corresponding subscription liability when the SBITAs meet the requirements. The System implemented the requirement of this statement for the fiscal year ended June 30, 2023.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*, effective upon issuance, except for the requirements related to leases, PPP's, and SBITAs that are effective for fiscal years beginning after June 15, 2022 and for the requirements related to financial guarantees and classification and reporting of derivative instruments that are effective for fiscal years beginning after June 15, 2023. The objective of this Statement is to improve the consistency of authoritative literature and enhance the comparability in accounting and financial reporting. The variety of topics covered include the requirements related to the extension of the use of LIBOR, disclosures of nonmonetary transactions, pledges of future revenues by the pledging governments, clarification of provisions in Statement No. 34, and terminology used in Statement No. 53 and 63. There are no applicable reporting requirements for the System related to this Statement.

Recent GASB Pronouncements for Future Adoption

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This is an amendment of GASB Statement No. 62. This new statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and change to or within the accounting and financial reporting for each type of accounting changes and error corrections in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 101, *Compensated absences*. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 – NEW ACCOUNTING STANDARDS (Continued)

the financial statements. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

In June 2023, the GASB issued Implementation Guide No. 2023-1, Implementation Guidance Update - 2023. This Implementation Guide amends Implementation Guide No. 2019-3 Leases and Implementation Guide No. 2021-1, Implementation Guidance Update -2021. The requirements of this Implementation Guide are effective for fiscal years beginning after June 15, 2023.

NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION

As a condition of participation, members are required to contribute a percentage of their salaries to the System. Tier 1 members were required by the City Charter to contribute 6% of salary. The System's actuary recommended that Tier 2 members contribute 1% in addition to the 6% rate provided in the City Charter, for a total of 7% of salary. Tiers 3 and 4 members are required to contribute 8% of salary. Tier 5 members are required to contribute 9% of salary. However, the City shall pay 1% of the Tier 5 required contribution rate contingent on the System remaining at least 100% actuarially funded for pension benefits. Since July 1, 2006, Tier 5 members have been required to contribute 9% of salary because the System has remained less than 100% actuarially funded for pension benefits as determined by the System's actuary. Tier 6 members are required to contribute 9% of salary for regular pension contributions. Tier 6 members are also required to make an additional pension contribution of 2% of salary to support the City's ability to fund retiree health benefits. Airport police officers who transferred to Tier 6 from LACERS are required to contribute to the System at their same LACERS contribution rates until they retire.

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

- A. An amount equal to the City's share of defined entry age normal costs.
- B. For members of Tiers 1 and 2, a dollar amount or percentage necessary to amortize the "unfunded liability" of the System over a 70-year period, beginning with the fiscal year commencing July 1, 1967. Under Tiers 3, 4, and 5, any "unfunded liability" resulting from plan amendments shall be amortized over a 25-year period, and actuarial experience gains and losses shall be amortized over a 20-year period. For Tier 6, the unfunded liabilities shall be funded in accordance with the actuarial funding method adopted by the Board upon the advice of the consulting actuary. Charter Amendment G, effective April 8, 2011, now provides that with the advice of the consulting actuary, the Board shall establish amortization policies for unfunded actuarial accrued liabilities and surpluses for all Tiers.
- C. An amount to provide for the Health Subsidy Plan.

Accordingly, the City's contributions as determined by the System's actuary for items A, B, and C above, net of early payment discount, for the fiscal years ended June 30, 2023 and 2022, were as follows (\$ in thousands):

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

Fiscal Year Ended June 30, 2023

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 155	\$13,870	\$ 5,409	\$232,043	\$ 66,468	\$ 2,874	\$ 601	\$ 2,339
Pension Unfunded Supplemental Present Value Amount	13,716	(10,573)	(7,575)	3,314	102,888	35,191	712	190	100
Pension Administrative Expense	-	8	923	335	13,755	4,705	167	45	165
Health subsidy entry age Normal cost	-	20	3,264	1,191	45,777	24,314	746	201	983
Health subsidy unfunded actuarial accrued liability annual amount	1,253	59,179	4,419	2,683	30,151	10,313	76	20	58
Health Administrative Expenses	-	1	81	29	1,211	414	15	4	14
Total	\$14,969	\$48,790	\$14,982	\$12,961	\$425,825	\$141,405	\$ 4,590	\$ 1,061	\$ 3,659

During fiscal year 2023, total contributions of \$668.24 million from the employer and \$151.93 million from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at June 30, 2021. For the Pension Plan, fiscal year 2023 employer contributions included \$323.76 million for entry age normal cost, \$137.96 million for the unfunded actuarial accrued liability annual amount, and \$20.10 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2023 employer contributions consisted of \$76.50 million for entry age normal cost, \$108.15 million for the unfunded actuarial accrued liability annual amount, and \$1.77 million for health administrative expense.

Fiscal Year Ended June 30, 2022

	Fire and Police						Harbor Port Police		LAWA
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 5	Tier 6	Tier 6
Pension Entry Age Normal Cost	\$ -	\$ 155	\$ 15,193	\$ 5,985	\$ 233,043	\$ 61,729	\$ 2,859	\$ 556	\$ 1,766
Pension Unfunded Supplemental Present Value Amount	13,745	3,930	(2,044)	5,817	130,352	41,012	981	245	143
Pension Administrative Expense	-	8	1,002	363	13,903	4,374	166	41	126
Health subsidy entry age Normal cost	-	22	3,688	1,318	47,380	23,236	733	189	747
Health subsidy unfunded actuarial accrued liability annual amount	1,304	60,366	5,188	3,144	33,367	10,498	123	31	47
Health Administrative Expenses	-	1	88	32	1,223	385	15	4	11
Total	\$ 15,049	\$ 64,482	\$ 23,115	\$ 16,659	\$ 459,268	\$ 141,234	\$ 4,877	\$ 1,066	\$ 2,840

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 4 – FUNDING POLICY AND CONTRIBUTION INFORMATION (Continued)

During fiscal year 2022, total contributions of \$728.59 million from the employer and \$149.24 million from the members were made, with respect to the Pension Plan and Health Subsidy Plan, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed on June 30, 2020. For the Pension Plan, fiscal year 2022 employer contributions included \$321.29 million for entry age normal cost, \$194.18 million for the unfunded actuarial accrued liability annual amount, and \$19.98 million for pension administrative expense. For the Health Subsidy Plan, fiscal year 2022 employer contributions consisted of \$77.31 million for entry age normal cost, \$114.07 million for the unfunded actuarial accrued liability annual amount, and \$1.76 million for health administrative expense.

NOTE 5 – NET PENSION LIABILITY

The components of the System’s net pension liability (NPL) at June 30, 2023 and 2022, were as follows:

	2023	2022
Total Pension Liability	\$ 26,800,919,509	\$ 25,907,293,994
Less: Fiduciary Net Position	26,437,299,567	25,258,536,156
Net Pension Liability	\$ 363,619,942	\$ 648,757,838
Fiduciary Net Position as a Percentage of the Total Pension Liability	98.64%	97.50%

The NPL was measured as of June 30, 2023 and June 30, 2022 and determined based upon plan assets as of each measurement date and upon rolling forward to each measurement date the total pension liability (TPL) from the actuarial valuation as of June 30, 2022 and 2021, respectively.

Actuarial Assumptions

The TPL as of June 30, 2023, was determined by the actuarial valuation as of June 30, 2022. The actuarial assumptions used in the June 30, 2023 measurement were based on the July 1, 2019 through June 30, 2022 Experience Study Report dated May 10, 2023, and were applied to all periods included in the measurement as of June 30, 2023:

Inflation Rate	2.50%
Projected Salary Increase	Ranges from 3.90% to 12.00% based on years of service, including inflation.
Investment Return Rate	7.00%, including inflation but net of pension plan investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	2.75% of Tiers 1 - 6 retirement income.
Mortality	Healthy: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table increased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5 – NET PENSION LIABILITY (Continued)

Actuarial Assumptions (Continued)

Disabled:
Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2021.

Beneficiary:
Not in Pay Status as of Valuation: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table increased by 5% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

In Pay Status as of Valuation: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table increased by 5% for males and 10% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.

The TPL as of June 30, 2022, was determined by the actuarial valuation as of June 30, 2021. The actuarial assumptions used in the June 30, 2022 measurement were based on the July 1, 2016 through June 30, 2019 Experience Study Report dated May 13, 2020, and were applied to all periods included in the measurement as of June 30, 2022:

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 5 – NET PENSION LIABILITY (Continued)

Investment Return Rate

The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation and, beginning with June 30, 2023, any applicable investment management expenses) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, as shown in the following table. These values for 2023 are after deducting applicable investment management expenses while the values for 2022 are before reduction of all investment expenses including manager’s fees. These values were used in the derivation of the long-term expected investment rate of return assumption for June 30, 2023 and 2022. This information may change every three years based on the actuarial experience study.

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2023	2022	2023	2022
Large Cap U.S. Equity	23.00%	23.00%	6.00%	5.40%
Small Cap U.S. Equity	6.00%	6.00%	6.65%	6.20%
Developed International Equity	16.00%	16.00%	7.01%	6.54%
Emerging Markets Equity	5.00%	5.00%	8.80%	8.78%
U.S. Core Fixed Income	9.90%	13.00%	1.97%	1.07%
High Yield Bonds	2.75%	3.00%	4.63%	3.31%
Global Credit	2.75%	N/A	0.89%	N/A
Real Estate	7.00%	7.00%	3.86%	4.65%
Treasury Inflation Protected Securities (TIPS)	4.40%	4.00%	1.77%	0.62%
Commodities	1.00%	5.00%	4.21%	3.05%
Cash	1.00%	1.00%	0.63%	0.01%
Private Credit	2.00%	N/A	6.48%	N/A
Unconstrained Fixed Income	2.20%	2.00%	2.50%	1.37%
Private Equity	14.00%	12.00%	9.84%	8.25%
Real Estate Investment Trusts (REITS)	3.00%	3.00%	5.25%	4.40%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>	<u>5.80%</u>	<u>4.99%</u>

Discount Rate

The discount rate used to measure the TPL was 7.00% as of June 30, 2023 and June 30, 2022. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates for each tier and that employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2023 and 2022.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5 – NET PENSION LIABILITY (Continued)

Sensitivity Analysis

The following presents the NPL of the System as of June 30, 2023 and 2022, calculated using the discount rate of 7.00% for 2023 and 2022, as well as what the System’s NPL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
NPL as of June 30, 2023	\$ 4,021,274,936	\$ 363,619,942	\$ (2,615,987,109)
NPL as of June 30, 2022	\$ 4,269,849,343	\$ 648,757,838	\$ (2,290,019,010)

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY

The components of the System’s net Other Postemployment Benefits (OPEB) liability at June 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Total OPEB Liability	\$ 3,815,026,871	\$ 3,649,332,287
Less: Fiduciary Net Position	<u>2,966,815,106</u>	<u>2,722,122,493</u>
Net OPEB Liability	<u>\$ 848,211,765</u>	<u>\$ 927,209,794</u>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	77.77%	74.59%

The Net OPEB Liability (NOL) was measured as of June 30, 2023 and June 30, 2022. The Health Subsidy’s Net Position was valued as of the measurement date, while the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuations as of June 30, 2023 and 2022.

Actuarial Assumptions

The TOL as of June 30, 2023, was determined by the actuarial valuation as of June 30, 2023. The actuarial assumptions were based on the results of an experience study for the period from July 1, 2019 through June 30, 2022 and the health assumptions letter dated August 29, 2023. They are the same as the assumptions used in the June 30, 2023 funding actuarial valuation.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)

Actuarial Assumptions (Continued)

The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2023:

Inflation Rate	2.50%
Projected Salary Increase	Ranges from 3.90% to 12.00% based on years of service, including inflation
Investment Return Rate	7.00%, including inflation but net of investment expenses.
Real Across-the-Board Salary Increase	0.50%
Cost of Living Adjustments (COLAs)	2.75% of Tiers 1-6 retirement income.
Mortality	<p>Healthy: Pub-2010 Safety Healthy Retiree Headcount-Weighted Above-Median Mortality Table increased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.</p> <p>Disabled: Pub-2010 Safety Disabled Retiree Headcount-Weighted Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2021.</p> <p>Beneficiary: Not in Pay Status as of Valuation: Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table increased by 5% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2021.</p> <p>In Pay Status as of Valuation: Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table increased by 5% for males and 10% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.</p>

The TOL as of June 30, 2022, was determined by the actuarial valuation as of June 30, 2022. The actuarial assumptions were based on the results of an experience study for the period from July 1, 2016 through June 30, 2019 with the exception of the mortality assumption where the Board adopted the updated Pub-2010 mortality tables proposed in a separate letter dated December 12, 2019 and the health assumptions letter dated September 8, 2022. They are the same as the assumptions used in the June 30, 2022 funding actuarial valuation.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)

Actuarial Assumptions (Continued)

The following actuarial assumptions were applied to all periods included in the measurements as of June 30, 2022:

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

Investment Return Rate

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation and, beginning with June 30, 2023, any applicable investment management expenses) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses (beginning with June 30, 2023 including only investment consulting fees, custodian fees and other miscellaneous investment expenses) and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, are shown in the following table. These values for 2023 are after deducting applicable investment management expenses while the values for 2022 are before reduction for investment expenses. These values were used in the derivation of the long-term expected investment rate of return assumption for June 30, 2023 and 2022. This information will change every three years based on the actuarial experience study.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)

Investment Return Rate (Continued)

Asset Class	Target Allocation Percentage		Long Term Expected Real Rate of Return	
	2023	2022	2023	2022
Large Cap U.S. Equity	23.00%	23.00%	6.00%	5.40%
Small Cap U.S. Equity	6.00%	6.00%	6.65%	6.20%
Developed International Equity	16.00%	16.00%	7.01%	6.54%
Emerging Markets Equity	5.00%	5.00%	8.80%	8.78%
U.S. Core Fixed Income	9.90%	13.00%	1.97%	1.07%
High Yield Bonds	2.75%	3.00%	4.63%	3.31%
Global Credit	2.75%	N/A	0.89%	N/A
Real Estate	7.00%	7.00%	3.86%	4.65%
Treasury Inflation Protected Securities (TIPS)	4.40%	4.00%	1.77%	0.62%
Commodities	1.00%	5.00%	4.21%	3.05%
Cash	1.00%	1.00%	0.63%	0.01%
Private Credit	2.00%	N/A	6.48%	N/A
Unconstrained Fixed Income	2.20%	2.00%	2.50%	1.37%
Private Equity	14.00%	12.00%	9.84%	8.25%
Real Estate Investment Trusts (REITS)	3.00%	3.00%	5.25%	4.40%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>	<u>5.80%</u>	<u>4.99%</u>

Discount Rate

The discount rate used to measure the TOL was 7.00% as of June 30, 2023 and June 30, 2022. The projection of cash flows used to determine the discount rate assumed employer contributions will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future members and their beneficiaries are not included. Based on those assumptions, the Plan Fiduciary Net Position was projected to be available to make all projected future benefits payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL as of both June 30, 2023 and June 30, 2022.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 6 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY (Continued)

Sensitivity Analysis

The following presents the NOL of the System as of June 30, 2023 and 2022, calculated using the discount rate of 7.00%, as well as what the System’s NOL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
NOL as of June 30, 2023	\$ 1,412,582,167	\$ 848,211,765	\$ 391,584,766
NOL as of June 30, 2022	\$ 1,469,980,422	\$ 927,209,794	\$ 488,482,606

Sensitivity Analysis to Changes in Trend Rate

The following presents the NOL of the Health Subsidy Plan of the System as of June 30, 2023 and 2022, as well as what the System’s NOL would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
NOL as of June 30, 2023	\$ 374,973,758	\$ 848,211,765	\$ 1,443,519,710
NOL as of June 30, 2022	\$ 470,992,806	\$ 927,209,794	\$ 1,503,027,800

Additional information from the actuarial valuations as of June 30, 2023 and 2022 are as follows:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Non-Medicare Medical Plan	7.25%, then graded down to an ultimate of 4.50% over 11 years	7.25%, then graded down to an ultimate of 4.50% over 11 years
Medicare Medical Plan	6.50%, then graded down to an ultimate of 4.50% over 8 years	6.50%, then graded down to an ultimate of 4.50% over 8 years
Dental	3.00%	3.00%
Medicare Part B	4.50%	4.50%
Medical Subsidy Trend	<p>For employees not subject to subsidy freeze.</p> <p>For all non-Medicare retirees, increase at lesser of 7.00% or non-Medicare medical trend.</p> <p>For Medicare retirees with single party premium, increase with medical trend.</p> <p>For Medicare retirees with 2-party premium less than or equal to the maximum subsidy as of July 1, 2023 and 2022 (e.g., Fire Kaiser), increase with medical trend.</p> <p>For Medicare retirees with 2-party premium greater than the maximum subsidy as of July 1, 2023 and 2022 (e.g., Police Blue Cross PPO), increase with lesser of 7.00% or medical trend.</p>	

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)

Sensitivity Analysis to Changes in Trend Rate (Continued)

The following assumptions were adopted by the Board based on two actuarial experience studies: the study from July 1, 2019 through June 30, 2022 for the June 30, 2023 actuarial valuation, and the study from July 1, 2016 through June 30, 2019 for the June 30, 2022 actuarial valuation:

Actuarial Cost Method	Entry age normal, level percent of pay.			
Administrative Expenses	For 2023, out of the total 1.45% of payroll in administrative expense, 0.13% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.13% of payroll payable at beginning of the year. For 2022, out of the total 1.40% of payroll in administrative expense, 0.11% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.11% of payroll payable at beginning of the year.			
Spouse Age Difference	Males are assumed to be 3 years older than a female spouse.			
Participation	Service Range (Years)	Participation for Future Retirees Under 65 (Percentage)	Participation for Future Retirees Over 65 (Percentage)	Participation for Current Retiree Age 55-64 Without Subsidy Upon Attaining Age 65 (Percentage)
		2023 Participation		
	10-14	35%	55%	30.77%
	15-19	60%	80%	50.00%
	20-24	80%	85%	25.00%
	25 and over	95%	97%	40.00%
		2022 Participation		
	10-14	45%	80%	63.64%
	15-19	65%	85%	57.14%
	20-24	80%	85%	25.00%
	25 and over	95%	95%	0.00%
Medicare Coverage	100% of future retirees are assumed to elect Medicare Parts A and B.			
Dental Coverage	90% and 85% of future retirees are assumed to elect dental coverage, in 2023 and 2022 respectively.			
Spousal Coverage	Of future retirees receiving a medical subsidy, 80% in 2023, and 75% in 2022 are assumed to elect coverage for married and surviving spouse or domestic partners. For those retired on valuation date with a subsidy, spousal/domestic partner coverage is based on census data			
Implicit Subsidy	Based on information provided by the health consultant retained by Los Angeles Firemen’s Relief Association (LAFRA), we understand that retirees under age 65 enrolled in the Fire Kaiser Medical Plan are presently underwritten with the actives enrolled in that plan. LAFPP has made a decision to include the implicit subsidy in the employer’s contribution rate starting with the June 30, 2019 funding valuation. No implicit subsidy needs to be valued for the other medical plans.			

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)

Sensitivity Analysis to Changes in Trend Rate (Continued)

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

For fiscal year 2023:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse
Fire Medical	87%	\$ 2,169.79	\$ 2,169.79	\$ 939.09	85%	\$ 494.67	\$ 811.97	\$ 494.67
Fire Kaiser	7%	2,169.76	2,169.79	939.09	11.0%	494.67	454.06	494.67
UFLAC Select HMO	3%	2,169.76	2,169.79	939.09	1%	494.67	732.97	494.67
UFLAC HDHP	3%	2,169.76	2,169.79	939.09	3.0%	494.67	984.54	494.67
Police Blue Cross PPO	65%	2,169.76	2,169.79	939.09	76%	494.67	1,130.56	494.67
Police Blue Cross HMO	12%	2,169.76	2,169.79	939.09	7%	494.67	1,167.56	494.67
Police Kaiser	23%	2,169.76	2,169.79	939.09	17%	494.67	341.34	494.67
Dental	90%	43.81	43.81	-	90%	43.81	43.81	-
Medicare	N/A	-	-	-	100%	164.90	164.90	-

For fiscal year 2022:

Plan	Maximum Subsidies							
	For Participants under 65				For Participants 65 and Over			
	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse	Assumed Election %	Single	Married/with Domestic Partner	Surviving Spouse
Fire Medical	85%	\$ 2,046.97	\$ 2,046.97	\$ 900.24	85%	\$ 494.67	\$ 793.46	\$ 494.67
Fire Kaiser	10%	2,046.97	2,046.97	900.24	12.5%	494.67	484.14	494.67
UFLAC Select HMO	2.5%	2,046.97	2,046.97	900.24	0%	494.67	732.97	494.67
UFLAC HDHP	2.5%	2,046.97	2,046.97	900.24	2.5%	494.67	984.54	494.67
Police Blue Cross PPO	65%	2,046.97	2,046.97	900.24	75%	494.67	1,133.81	494.67
Police Blue Cross HMO	10%	2,046.97	2,046.97	900.24	10%	494.67	1,096.31	494.67
Police Kaiser	25%	2,046.97	2,046.97	900.24	15%	494.67	361.98	494.67
Dental	85%	44.60	44.60	-	85%	44.60	44.60	-
Medicare	N/A	-	-	-	100%	170.10	170.10	-

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY (Continued)

Health Subsidy Plan Membership

The component of the Health Subsidy Plan membership at June 30, 2023 and 2022, are as follows:

	2023	2022
Retired Members	10,260	9,966
Beneficiaries	1,712	1,703
Vested Terminated Members	1,017	1,011
Active Members	12,571	12,771
	25,560	25,451

NOTE 7 – CASH, TEMPORARY INVESTMENTS, AND OTHER INVESTMENTS

Cash and Temporary Investments

The System considers investments purchased with a maturity of 12 months or less to be temporary investments. At June 30, 2023, cash and temporary investments consisted of \$7,966,474 cash held by the City Treasurer’s office and \$777,050,780 in collective short-term investment funds (STIF). At June 30, 2022, cash and temporary investments consisted of \$6,761,031 cash held by the City Treasurer’s office and \$910,755,097 in collective short-term investment funds (STIF). Cash held by the City Treasurer’s office is pooled with funds of other City agencies and is not individually identifiable. The temporary investments are not leveled and not included in the following fair value measurements hierarchy table.

Fair Value of Investments

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

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

At June 30, 2023, the System has the following recurring fair value measurements (\$ in thousands):

	<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt Securities				
U.S. Treasuries	\$ 2,241,681	\$ -	\$ 2,241,681	\$ -
U.S. Agencies	680,304	-	679,806	498
Municipal/Provincial Bonds	13,242	-	13,242	-
Collateralized Debt Obligations	595,227	-	593,887	1,340
Commercial Paper	153,755	-	153,755	-
Corporate Bonds	2,398,652	-	2,397,564	1,088
Total Debt Securities	<u>6,082,861</u>	<u>-</u>	<u>6,079,935</u>	<u>2,926</u>
Equity Securities				
Common Stock	15,580,963	15,566,235	1,768	12,960
Preferred Stock	97,389	93,116	-	4,273
Other	37	1	-	36
Total Equity Securities	<u>15,678,389</u>	<u>15,659,352</u>	<u>1,768</u>	<u>17,269</u>
Real Estate	<u>630,011</u>	<u>151,854</u>	<u>-</u>	<u>478,157</u>
Derivatives	<u>10,906</u>	<u>-</u>	<u>10,906</u>	<u>-</u>
Total Investments by Fair Value	<u>\$ 22,402,167</u>	<u>\$ 15,811,206</u>	<u>\$ 6,092,609</u>	<u>\$ 498,352</u>
Investment measured at the net asset value (NAV)				
Private Equity Partnerships	\$ 5,574,040			
Real Estate	1,102,561			
Corporate Debt Securities	47,130			
Total Investments Measured at NAV	<u>\$ 6,723,731</u>			

Note: Temporary investments of \$777 million are not included in the fair value hierarchy above.

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

Fair Value of Investments (continued)

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

The System’s investments such as private equity partnerships, comingled real estate funds, asset/mortgage-backed security funds and commercial mortgages are valued using the net asset value (NAV). Real estate pooled investments are valued based on an independent appraisal or other methods using various techniques including models.

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

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private Equity funds and Partnerships	\$ 5,574,040	\$ 2,536,216	N/A	-
Real Estate ⁽¹⁾	1,102,561	561,528	Quarterly	90 -179 days
Corporate Debt Securities	<u>47,130</u>	-	Anytime	-
Total Investments measured at NAV	<u>\$ 6,723,731</u>			

⁽¹⁾ This type investment includes \$713.3 million of comingled real estate committed and funded that can be redeemed quarterly with 90 to 179 days redemption notice period.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

Investment Policy

The Board is responsible for adopting an investment policy using the “prudent person standard” per Article XI, Section 1106 (c) of the City Charter. Investments are made with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

The Board’s adopted allocation policy effective during fiscal years 2023 and 2022 were as follow:

<u>Asset Class</u>	<u>2023</u>	<u>2022</u>
Large Cap U.S. Equity	23.00%	23.00%
Small Cap U.S. Equity	6.00%	6.00%
Developed International Equity	16.00%	16.00%
Emerging Markets Equity	5.00%	5.00%
U.S. Core Fixed Income	9.90%	12.00%
High Yield Bonds	2.75%	3.00%
Global Credit	2.75%	0.00%
Real Estate	7.00%	7.00%
Treasury Inflation Protected Securities (TIPS)	4.40%	5.00%
Commodities	1.00%	1.00%
Cash	1.00%	1.00%
Private Credit	2.00%	2.00%
Unconstrained Fixed Income	2.20%	2.00%
Private Equity	14.00%	14.00%
Real Estate Investment Trusts (REITS)	3.00%	3.00%
Total Portfolio	<u>100.00%</u>	<u>100.00%</u>

Credit Risk

Credit risk is the risk that an issuer or a counterparty to an investment will not fulfill its obligations. The System seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class.

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

Credit Risk (Continued)

As of June 30, 2023, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,500,754,064	46.41%
AA	91,149,151	1.69%
A	598,715,566	11.11%
BBB	769,624,286	14.28%
BB	442,739,685	8.21%
B	430,787,218	8.00%
CCC	67,137,206	1.25%
CC	490,474	0.01%
C	562,097	0.01%
Not Rated	486,167,679	9.02%
Subtotal	5,388,127,426	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	741,863,780	
Total Fixed Income Investments	<u>\$ 6,129,991,206</u>	

As of June 30, 2022, the quality ratings of the System’s fixed income investments in U.S. Government obligations and domestic corporate and foreign bonds are as follows:

<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 2,566,540,497	51.75%
AA	75,175,787	1.52%
A	506,417,149	10.21%
BBB	703,673,286	14.19%
BB	372,461,496	7.50%
B	252,744,776	5.10%
CCC	44,268,310	0.89%
CC	617,696	0.01%
C	581,514	0.01%
Not Rated	436,862,036	8.81%
Subtotal	4,959,342,547	<u>100.00%</u>
U.S. Government Issued or Guaranteed Securities	581,037,833	
Total Fixed Income Investments	<u>\$ 5,540,380,380</u>	

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the System's deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2023 and 2022, the System's exposure to custodial credit risk comprised of foreign currencies held outside the custodial bank amounted to \$14,071,365 and \$15,875,021, respectively.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the System's name, and held by the counterparty. As of June 30, 2023 and 2022, the System's investments in publicly traded stocks and bonds were not exposed to custodial risk since they are all held by the custodian and are registered in the System's name. As of June 30, 2023 and 2022, the private equity of \$5,584,945,807 and \$4,926,476,889, and commingled real estate funds of \$1,102,561,238 and \$1,359,314,896, were exposed to custodial credit risk, respectively. As of June 30, 2022, the System's sole hedge fund investment amounted to \$75,155,719 and was subject to custodial credit risk. However, as of June 30, 2023, the System no longer maintains any hedge fund investments, in accordance with the Board's decision to terminate the hedge fund program. Consequently, custodial credit risk associated with hedge fund investments has been eliminated.

Concentration of Credit Risk

Concentration of credit risk exists when the System has investments in a single issuer totaling 5% or more of the total investment portfolio. As of June 30, 2023 and 2022, the System's investment portfolio contained no such concentrations. Securities issued or guaranteed by the U.S. Government are exempt from this limitation.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System manages its exposure to interest rate risk by requiring a fixed income investment manager to maintain the effective duration of their portfolio within a specified range of (1) the Bloomberg US Aggregate Bond Index for core fixed income investments, (2) the Bloomberg US Mortgage Backed Securities Index for mortgage backed investments, (3) the Bloomberg US Government/Credit Long-Term Bond Index for long duration investments, (4) the B of A ML High Yield Master II Index for high yield investments (5) the Bloomberg US Government Inflation-Linked Bond Index for inflation-linked investments, and (6) a blend of the Bloomberg Global Aggregate Credit Index USD, ICE B of A ML Developed Markets High Yield Index USD, JP Morgan Emerging Markets Bond Index Global Diversified USD and Credit Suisse Leveraged Loan Index for global credit investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of the System's investments to interest rate fluctuations is provided in the following table that shows the weighted average maturity of the System's fixed income investments by investment type.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Interest Rate Risk (Continued)

Fiscal Year 2023		
Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 337,188,760	7.59
Bank Loans	154,751,256	4.45
Commercial Mortgage-Backed	117,156,293	22.27
Corporate Bonds	2,157,612,691	9.47
Corporate Convertible Bonds	24,430,712	4.33
Government Agencies Bonds	90,242,534	8.03
Government Bonds	1,108,658,089	11.76
Government Mortgage Backed Securities	647,405,731	24.55
Government Issued Commercial Mortgage-Backed	1,598,764	32.84
Index Linked Government Bonds	1,287,275,844	7.85
Municipal/Provincial Bonds	14,082,304	32.89
Non-Government Backed Collateralized Mortgage Obligations	140,882,261	29.96
Sukuk	1,575,920	9.16
Asset/Mortgage Backed Securities/Other Fixed Income Funds	47,130,047	N/A
Total Fixed Income Investments	<u>\$ 6,129,991,206</u>	
Fiscal Year 2022		
Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	\$ 241,431,855	10.86
Bank Loans	36,919,080	4.88
Commercial Mortgage-Backed	173,293,013	21.13
Corporate Bonds	1,863,157,461	10.27
Corporate Convertible Bonds	8,154,100	10.9
Government Agencies Bonds	61,151,462	7.02
Government Bonds	1,298,560,108	9.92
Government Mortgage Backed Securities	497,879,139	23.48
Government Issued Commercial Mortgage-Backed	3,076,808	2.93
Index Linked Government Bonds	1,243,779,939	8.23
Municipal/Provincial Bonds	15,121,625	33.63
Non-Government Backed Collateralized Mortgage Obligations	50,265,844	21.94
Sukuk	992,500	4.94
Asset/Mortgage Backed Securities/Other Fixed Income Funds	46,597,446	N/A
Total Fixed Income Investments	<u>\$ 5,540,380,380</u>	

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Interest Rate Risk (Continued)

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

<u>Investment Type</u>	<u>2023 Fair Value</u>	<u>2022 Fair Value</u>
Asset Backed Securities	\$ 337,188,760	\$ 241,431,855
Commercial Mortgage-Backed	117,156,293	173,293,013
Government Agencies Bonds	90,242,534	61,151,462
Government Mortgage Backed Securities	647,405,731	497,879,139
Non-Government Backed Collateralized Mortgage Obligations	140,882,261	50,265,844
	<u>\$ 1,332,875,579</u>	<u>\$ 1,024,021,313</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of deposits or investments. The System's asset allocation policy sets a target of 21% of the total portfolio for non-U.S. investments in equities for fiscal years 2023 and 2022. The majority of the System's currency exposure comes from its holdings of foreign stocks. In addition, fixed income, real estate, and private equity managers may hold non-U.S. investments depending on their individual investment strategies. The System's foreign investment holdings, including foreign currencies in temporary investments as of June 30, 2023 and 2022 are as follows:

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Foreign Currency Risk (Continued)

Foreign Currency Type	2023	2022
United Arab Emirates Dirham	\$ 22,813,617	\$ 10,880,417
Australian Dollar	140,633,576	150,071,863
Brazilian Real	141,355,685	146,378,522
British Pound Sterling	593,844,243	537,496,996
Canadian Dollar	109,380,114	115,816,092
Chilean Peso	10,132,864	2,865,143
Chinese Yuan Renminbi	75,938	65,065
Colombian Peso	8,016,428	1,230,297
Czech Koruna	3,242,606	4,662,176
Danish Krone	102,297,323	83,102,429
Euro	1,589,591,280	1,234,022,381
HK offshore Chinese Yuan Renminbi	85,310,762	75,769,687
Hong Kong Dollar	423,917,683	520,902,656
Hungarian Forint	1,593,470	1,407,082
Indian Rupee	230,250,867	178,706,642
Indonesian Rupiah	42,591,702	30,933,577
Japanese Yen	800,203,952	704,017,214
Kenyan Shilling	2,241,095	3,810,345
Kuwaiti Dinar	852,763	-
Malaysian Ringgit	11,667,106	11,832,131
Mexican Peso	71,642,605	80,621,057
New Israeli Shekel	6,380,617	9,229,812
New Taiwan Dollar	256,386,908	207,826,496
New Zealand Dollar	3,340,250	3,283,434
Norwegian Krone	15,887,629	21,690,555
Philippine Peso	6,479,992	6,370,727
Polish Zloty	16,559,187	8,887,744
Saudi Riyal	25,912,980	-
Singapore Dollar	37,092,380	37,688,070
South African Rand	49,010,992	52,195,002
South Korean Won	240,750,660	196,833,863
Swedish Krona	107,373,616	96,557,151
Swiss Franc	322,443,558	331,868,162
Thai Baht	17,691,026	24,988,710
Turkish Lira	6,561,886	4,604,226
	<u>\$ 5,511,400,822</u>	<u>\$ 4,906,741,640</u>

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on the investment of the Pension Plan and Health Subsidy Plan, gross of investment expense, for the years ended June 30, 2023 and 2022, was 7.78% and (7.23)%, respectively. The source for the rate of return was the June 30, 2023 and 2022 Monthly Returns Analysis provided by the custodian bank, Northern Trust.

NOTE 8 – SECURITIES LENDING

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

Upon direction of the Board, the custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. Collateral for the securities on loan will be maintained at a level of at least 102 percent of their fair value plus any accrued interest for U.S. securities lending and 105 percent of the fair value plus any accrued interest for non-U.S. securities lending. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

The borrower has all incidents of ownership with respect to the borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. The System is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, the custodian will indemnify the System as a result of the custodian's failure to: (1) make a reasonable determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition of bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examinations Council Supervisory Policy on Securities Lending.

These agreements provide the return of the securities and revenue determined by the type of collateral received (from which the custodian's fee is deducted). The securities on loan to brokers are shown at their fair value on the System's Statements of Fiduciary Net Position.

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

As of June 30, 2023 and 2022, the fair value of securities on loan was \$1,647,214,090 and \$1,599,550,397, respectively, and the fair value of collateral received was \$1,681,198,731 and \$1,660,438,274, respectively. Of the \$1,681,198,731 collateral received as of June 30, 2023, \$994,094,326 was cash collateral and \$687,104,405 represented the fair value of non-cash collateral; and of the \$1,660,438,274 collateral received as of June 30, 2022, \$1,354,880,227 was cash collateral and \$305,558,047 represented the fair value of non-cash collateral. Non-cash collateral, which the System does not have the ability to pledge or sell unless the borrower defaults, is not reported in the Statements of Fiduciary Net Position.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 – SECURITIES LENDING (Continued)

The following represents the balances relating to the securities lending transactions as of June 30, 2023 and 2022:

Fair value of collateral received for loaned securities as of June 30, 2023:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 332,585,399	\$ 20,633,886	\$ 353,219,285
Domestic Corporate Fixed Income Securities	242,663,095	49,018,743	291,681,838
Domestic Equities	366,645,869	542,012,667	908,658,536
International Fixed Income Securities	580,706	2,496,178	3,076,884
International Equities	51,619,257	72,942,931	124,562,188
	<u>\$ 994,094,326</u>	<u>\$ 687,104,405</u>	<u>\$ 1,681,198,731</u>

Fair value of loaned securities as of June 30, 2023:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 326,945,505	\$ 20,201,731	\$ 347,147,236
Domestic Corporate Fixed Income Securities	238,554,251	48,000,874	286,555,125
Domestic Equities	359,679,944	533,233,744	892,913,688
International Fixed Income Securities	545,446	2,312,889.00	2,858,335
International Equities	48,907,157	68,832,548	117,739,705
	<u>\$ 974,632,303</u>	<u>\$ 672,581,786</u>	<u>\$ 1,647,214,089</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 – SECURITIES LENDING (Continued)

Fair value of collateral received for loaned securities as of June 30, 2022:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency Securities	\$ 341,949,422	\$ 20,605,443	\$ 362,554,865
Domestic Corporate Fixed Income Securities	333,799,335	42,406,953	376,206,288
Domestic Equities	584,665,304	153,146,801	737,812,105
International Fixed Income Securities	8,039,120	-	8,039,120
International Equities	86,427,046	89,398,850	175,825,896
	<u>\$ 1,354,880,227</u>	<u>\$ 305,558,047</u>	<u>\$ 1,660,438,274</u>

Fair value of loaned securities as of June 30, 2022:

Securities Lent	Cash	Non-Cash	Total Collateral Securities
U.S. Government and Agency	\$ 334,637,691	\$ 20,082,756	\$ 354,720,447
Domestic Corporate Fixed Income Securities	324,739,112	41,134,810	365,873,922
Domestic Equities	564,702,886	149,053,075	713,755,961
International Fixed Income Securities	7,565,775	-	7,565,775
International Equities	77,269,724	80,364,568	157,634,292
	<u>\$ 1,308,915,188</u>	<u>\$ 290,635,209</u>	<u>\$ 1,599,550,397</u>

For the fiscal years ended June 30, 2023 and 2022, securities lending income amounted to \$6,080,080 and \$4,738,355, respectively, while securities lending expenses amounted to \$850,027 and \$661,973, respectively.

NOTE 9 – DERIVATIVE INSTRUMENTS

The System, through its outside investment managers, holds investments in swaps, options, rights, and warrants and enters into futures and forward foreign currency contracts to manage portfolio risk or use them as substitutes for owning securities. Forward contracts are subject to credit risk if the counterparties to the contracts are unable to meet the terms of the contract. Futures contracts have little credit risk, as organized exchanges are the guarantors. Due to the level of risk associated with derivative investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amount reported in the financial statements.

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 9 – DERIVATIVE INSTRUMENTS (Continued)

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2023, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2023 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2023		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$(134,595,398)
Futures - Longs	Investment Revenue	7,688,368	Investment	-	452,854,702
Forwards	Investment Loss	(5,157,648)	Investment	(2,595,928)	-
Options	Investment Loss	(447,615)	Investment	(1,897)	-
Rights/Warrants	Investment Loss	(338,041)	Investment	37,050	-
Swaps	Investment Revenue	21,184,008	Investment	10,908,101	-

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2022, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2022 financial statements are as follows:

Type	Changes in Fair Value		Fair Value at June 30, 2022		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivatives:					
Futures - Shorts	N/A	\$ -	Investment	\$ -	\$(280,769,372)
Futures - Longs	Investment Loss	(5,810,631)	Investment	-	130,114,162
Forwards	Investment Revenue	3,488,032	Investment	5,777,602	-
Options	Investment Loss	(243,874)	Investment	334,460	-
Rights/Warrants	Investment Loss	(115,236)	Investment	229,529	-
Swaps	Investment Loss	(50,859,880)	Investment	(18,721,369)	-

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10 – CAPITAL ASSETS

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

The following is a summary of the System’s capital assets at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Capital Assets Not Depreciated/Amortized		
Land	\$ 6,465,660	\$ 6,465,660
Total Capital Assets Not Depreciated/Amortized	<u>6,465,660</u>	<u>6,465,660</u>
Capital Assets Depreciated/Amortized		
Building	18,777,794	18,777,794
Computer/Software under Development	5,302,524	5,302,524
Furniture and Fixtures	1,297,014	1,297,014
Intangible Asset - SBITA	311,219	-
Total Capital Assets Depreciated/Amortized	<u>25,688,551</u>	<u>25,377,332</u>
Less: Accumulated Depreciation/Amortization		
Building	(6,806,307)	(5,867,418)
Computer/Software under Development	(2,121,010)	(1,590,757)
Furniture and Fixtures	(1,297,014)	(1,297,014)
Total Accumulated Depreciation/Amortization	<u>(10,224,331)</u>	<u>(8,755,189)</u>
Total Capital Assets Depreciated/Amortized, Net	<u>15,464,220</u>	<u>16,622,143</u>
Total Capital Assets, Net	<u>\$ 21,929,880</u>	<u>\$ 23,087,803</u>

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 11 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT (SBITA)

The System has entered into a three-year subscription arrangement for the right to use a document storage management system. The agreement is effective from July 2023 to June 2026. A fixed payment of \$27,630 is due on the first day of each quarter during the term.

As of June 30, 2023, the System has recognized an intangible asset – SBITA, valued at \$311,219. This valuation is based on the present value of the future payments required under the arrangement. A corresponding liability of the same amount has been also recorded. No amortization expenses have been recognized for the fiscal year ending June 30, 2023, as the subscription services will become active starting in the next fiscal year. Amortization of the SBITA will commence in fiscal year 2024 and will be recognized over the three-year term of the arrangement.

The future minimum subscription payments under this agreement, as of June 30, 2023, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 101,403	\$ 9,117	\$ 110,520
2025	102,465	8,055	110,520
2026	107,351	3,169	110,520
	<u>\$ 311,219</u>	<u>\$ 20,341</u>	<u>\$ 331,560</u>

NOTE 12 – LEASES

LAFPP as a Lessee

The System has evaluated its existing lease agreements as a lessee and determined that the amounts associated do not have a material effect on the System’s financial statements under GASB Statement No. 87, *Leases*.

LAFPP as a Lessor

The System entered into three lease agreements to provide office and retail space in the headquarters building to external parties. These leases meet the criteria for recognition as a lessor under GASB Statement No. 87. These leases have a term of three years, with no option for renewal. Per lease agreements, there are predetermined fixed-rate annual increases in lease payments.

As a lessor, the System measures the lease receivable at the lease commencement date as the present value of payments expected to be received from tenants during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Interest is also recognized on the lease receivable earned during the current fiscal year as interest revenue.

The System has recognized \$219,116 in lease revenue during the current fiscal year ended to these leases. As of June 30, 2023, the System has lease receivables in the amount of \$536,880. Also, the System has a deferred inflow of resources associated with these leases that will be recognized as revenue over the lease terms. As of June 30, 2023, the balance of the deferred inflow of resources is \$517,661.

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 12 – LEASES (Continued)

LAFPP as a Lessor (Continued)

Future annual receipts for these leases as of June 30, 2023 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 265,414	\$ 19,568	\$ 284,982
2025	238,775	6,802	245,577
2026	32,691	385	33,076
	<u>\$ 536,880</u>	<u>\$ 26,755</u>	<u>\$ 563,635</u>

NOTE 13 – MORTGAGES PAYABLE

Mortgages are secured by real estate. For fiscal year 2023, interest rates range from 1.81% to 4.30% per annum. The average monthly principal and interest payments range from \$10,893 to \$88,479. For fiscal year 2022, interest rates ranged from 1.81% to 4.30% per annum. The average monthly principal and interest payments ranged from \$37,708 to \$88,479.

The mortgages mature from October 2023 to November 2032. Principal and interest payments due under such mortgages are as follows for the years ending June 30:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 13,593,299	\$ 5,704,315	\$ 19,297,614
2025	29,050,000	4,752,566	33,802,566
2026	-	4,536,506	4,536,506
2027	25,000,000	4,197,131	29,197,131
2028	-	4,084,006	4,084,006
2029-2033	128,970,000	6,228,020	135,198,020
	<u>\$ 196,613,299</u>	<u>\$ 29,502,544</u>	<u>\$ 226,115,843</u>

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

The following is a summary of mortgage payable activities for the years ended June 30, 2023 and 2022:

	<u>Balance</u> <u>June 30, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Fair Value</u> <u>June 30, 2023</u>
Mortgage Payable	\$ 221,167,168	\$ -	\$ 24,553,869	\$ 196,613,299	\$ 186,991,284

	<u>Balance</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Fair Value</u> <u>June 30, 2022</u>
Mortgage Payable	\$ 217,434,561	\$ 4,270,664	\$ 538,057	\$ 221,167,168	\$ 212,500,008

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Termination Rights

All members who were active on or after July 1, 1982, have a vested right to their past contributions and accrued interest in the event of their termination prior to retirement, except Tier 4 members. The dollar amount of contributions and interest subject to this right were \$2,102,036,289 and \$2,123,853,131 as of June 30, 2023 and 2022, respectively.

The City Charter and the Administrative Code provide that member contributions as of June 30 and December 31 of each year earn interest at a rate based on investment earnings, exclusive of gains and losses on principal resulting from sales of securities.

Investment Commitment

The System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$3,097,744,000 and \$3,175,652,000 at June 30, 2023 and 2022, respectively.

Retiree Health Subsidy Litigation

In fiscal year 2022-2023, there were two cases before the courts that involved the retiree health insurance premium subsidy program that LAFPP administers (“retiree medical subsidy”). Both pending actions were brought by the Los Angeles Police Protective League against the Board and the City.

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

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

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

**LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Retiree Health Subsidy Litigation (Continued)

While the LAPPL Action I was pending on appeal, on August 10, 2017, the union filed LAPPL Action II. The LAPPL Action II raises the same issues as the LAPPL Action I regarding the 2% contribution and the interpretation of the LOA, but also asserts a new breach of fiduciary duty claim against LAFPP, which preserves the union’s rights to challenge LAFPP’s 2017 discretionary action to set the subsidy should the union lose in the pending LAPPL Action I. On July 3, 2018, the LAPPL filed a First Amended Complaint, asserting the same claims based on LAFPP’s 2018 discretionary action in setting the subsidy. The union filed a Second Amended Complaint to add LAFPP’s 2019 and 2020 discretionary actions in setting the subsidy. The union later sought to file a Third Amended Complaint to add LAFPP’s 2021 discretionary actions in setting the subsidy, and on or around August 11, 2021, the parties stipulated to permit the union to file its Third Amended Complaint. The union has not filed any further amended pleadings for LAFPP’s 2022 and 2023 discretionary actions.

On February 15, 2019, upon remand of the LAPPL I Action back to the Superior Court, the case was reassigned to Judge Holly Fujie for further trial proceedings. The City filed a motion to consolidate the two actions before Judge Fujie, which the Court granted. On September 30, 2019, Judge Fujie ordered that the case be heard in phases. In Phase One, the LOA interpretation issues common to LAPPL I and LAPPL II are to be heard in a bench trial. Upon resolution of Phase One, the Court will then address the residual fiduciary duty claims against LAFPP unique to LAPPL II.

On September 20 and 21, and October 28, 2021, Judge Fujie held a bench trial began in Phase One of the consolidated action. On May 2, 2022, Judge Fujie issued the trial court’s Final Statement of Decision for Phase One in favor of the City on the LOA interpretation issues. On June 23, 2022 the union plaintiff appealed the trial court’s Final Statement of Decision for Phase One. As of October 10, 2023, Phase One of the consolidated action is pending on appeal and Phase Two continues to be stayed pending the final resolution of Phase One.

Current Status of the Retiree Medical Subsidy

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

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

LOS ANGELES FIRE AND POLICE PENSION SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 15 – RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

As of the date of this report, investment markets continue to experience increased volatility due to high inflation rates globally, actions by central banks to control inflation via higher interest rates, geopolitical tensions, and investor concerns over a looming recession in the U.S. As a result, the Plan's investment portfolio has experienced volatility in fair market value. However, because the values of the Plan's investments have and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. The value of the Plan's investments has a direct impact on its funded status. As a result of any declines in market value the Plan Sponsor may need to make greater cash contributions to fund the Plan in the future. However, the actual impact, if any, on future required contributions or Plan liquidity cannot be determined at this time.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 27, 2023, which is the date the financial statements were available to be issued and, no events have occurred that require consideration or adjustments in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

	06/30/23	06/30/22	06/30/21	06/30/20	06/30/19
Total Pension Liability:					
Service Cost	\$ 452,190	\$ 456,446	\$ 455,362	\$ 410,559	\$ 402,708
Interest	1,797,828	1,749,640	1,668,212	1,654,964	1,572,220
Benefit Payments	(1,352,465)	(1,244,736)	(1,186,963)	(1,121,252)	(1,070,456)
Experience Losses (Gains)	258,373	(214,833)	254,452	(23,348)	81,465
Assumption Changes	(262,300)	-	-	48,286	357,369
Benefit Changes	-	-	-	-	(79,650)
Other ⁽¹⁾	-	-	-	-	-
Net Change	893,626	746,517	1,191,063	969,209	1,263,656
Total Pension Liability at Beginning of Year	25,907,294	25,160,777	23,969,714	23,000,505	21,736,849
Total Pension Liability at End of Year (a)	<u>\$ 26,800,920</u>	<u>\$ 25,907,294</u>	<u>\$ 25,160,777</u>	<u>\$ 23,969,714</u>	<u>\$ 23,000,505</u>
Fiduciary Net Position:					
Employer Contributions	\$ 481,824	\$ 535,450	\$ 543,819	\$ 516,638	\$ 504,877
Member Contributions	151,935	149,243	157,786	153,787	147,753
Net Investment Income ⁽³⁾	1,920,464	(2,021,582)	6,972,104	606,244	1,218,138
Benefit Payments	(1,352,465)	(1,244,736)	(1,186,963)	(1,121,252)	(1,070,456)
Administrative Expenses	(22,994)	(22,146)	(21,372)	(20,685)	(20,244)
Other ⁽¹⁾	-	-	-	-	-
Net Change (Gain)	1,178,764	(2,603,771)	6,465,374	134,732	780,068
Fiduciary Net Position at Beginning of Year	25,258,536	27,862,307	21,396,933	21,262,201	20,482,133
Fiduciary Net Position at End of Year (b) ⁽²⁾	<u>\$ 26,437,300</u>	<u>\$ 25,258,536</u>	<u>\$ 27,862,307</u>	<u>\$ 21,396,933</u>	<u>\$ 21,262,201</u>
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 363,620</u>	<u>\$ 648,758</u>	<u>\$ (2,701,530)</u>	<u>\$ 2,572,781</u>	<u>\$ 1,738,304</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.64%	97.50%	110.74%	89.27%	92.44%
Covered Employee Payroll	\$ 1,608,133	\$ 1,598,685	\$ 1,603,349	\$ 1,509,613	\$ 1,487,978
Plan Net Position Liability as a Percentage of Covered Employee Payroll	22.61%	40.58%	-168.49%	170.43%	116.82%

Notes to Schedule:

GASB Statement No.67 requires this information to be reported for 10 years.

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

- (1) Includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police Officers who elected to join the System in Tier 6.
- (2) Excludes the transfer of employer and employee contributions referenced in footnote. ⁽¹⁾
- (3) Includes a prior year adjustment resulting from recognizing lease revenue according to GASB Statement No. 87, Leases.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
Total Pension Liability:					
Service Cost	\$ 390,743	\$ 367,600	\$ 365,956	\$ 368,700	\$ 368,018
Interest	1,502,656	1,436,068	1,399,576	1,384,527	1,392,552
Benefit Payments	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Experience Losses (Gains)	21,700	(320,404)	(595,188)	(310,882)	(234,638)
Assumption Changes	-	695,450	-	-	(69,482)
Other ⁽¹⁾	2,505	-	-	-	-
Net Change	922,804	1,248,636	179,981	523,436	597,464
Total Pension Liability at Beginning of Year	20,814,045	19,565,409	19,385,428	18,861,992	18,264,528
Total Pension Liability at End of Year (a)	<u>\$ 21,736,849</u>	<u>\$ 20,814,045</u>	<u>\$ 19,565,409</u>	<u>\$ 19,385,428</u>	<u>\$ 18,861,992</u>
Fiduciary Net Position:					
Employer Contributions	\$ 459,632	\$ 454,309	\$ 478,385	\$ 480,332	\$ 440,698
Member Contributions	145,112	128,900	129,734	126,771	124,395
Net Investment Income	1,892,870	2,260,130	159,313	686,470	2,617,090
Benefit Payments	(994,800)	(930,078)	(990,363)	(918,909)	(858,986)
Administrative Expenses	(19,908)	(20,816)	(19,346)	(17,815)	(13,865)
Other ⁽¹⁾	2,505	-	-	-	-
Net Change (Gain)	1,485,411	1,892,445	(242,277)	356,849	2,309,332
Fiduciary Net Position at Beginning of Year	18,996,722	17,104,277	17,346,554	16,989,705	14,680,373
Fiduciary Net Position at End of Year (b) ⁽²⁾	<u>\$ 20,482,133</u>	<u>\$ 18,996,722</u>	<u>\$ 17,104,277</u>	<u>\$ 17,346,554</u>	<u>\$ 16,989,705</u>
Net Pension Liability/(Asset) (a)-(b)	<u>\$ 1,254,716</u>	<u>\$ 1,817,323</u>	<u>\$ 2,461,132</u>	<u>\$ 2,038,874</u>	<u>\$ 1,872,287</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.23%	91.27%	87.42%	89.48%	90.07%
Covered Employee Payroll	\$ 1,451,996	\$ 1,397,245	\$ 1,351,788	\$ 1,316,969	\$ 1,308,149
Plan Net Position Liability as a Percentage of Covered Employee Payroll	86.41%	130.06%	182.06%	154.82%	143.12%

Notes to Schedule:

GASB Statement No.67 requires this information to be reported for 10 years.

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

⁽¹⁾ In the fiscal year 2018, includes employer and employee contributions transferred from the Los Angeles City Employees' Retirement System (LACERS) for the Airport Police Officers who elected to join the System in Tier 6.

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

See accompanying notes to required schedule and accompanying independent auditor's report.

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

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll ⁽³⁾	Contribution as % of Payroll ⁽¹⁾
6/30/2023	\$ 481,824	\$ 481,824	-	\$ 1,608,133	30%
6/30/2022	535,450	535,450	-	1,598,685	33%
6/30/2021	543,819	543,819	-	1,603,349	34%
6/30/2020	516,638	516,638	-	1,509,613	34%
6/30/2019	504,877	504,877	-	1,487,978	34%
6/30/2018	459,632 ⁽²⁾	459,632 ⁽²⁾	-	1,451,996	32%
6/30/2017	454,309	454,309	-	1,397,245	33%
6/30/2016	478,385	478,385	-	1,351,788	35%
6/30/2015	480,332	480,332	-	1,316,969	36%
6/30/2014	440,698	440,698	-	1,308,149	34%

Notes to Schedule:

GASB Statement No.67 requires this information to be reported for 10 years.

⁽¹⁾ Contribution rate as a percentage of covered payroll reflects discount applied when the employer prepays its contributions. This rate has been “backed” into by dividing the actual contributions by the budgeted covered payroll.

⁽²⁾ Amount excluded \$1.3 million transferred from the Los Angeles City Employees’ Retirement System (LACERS) for the Airport Police members who elected to join the Pension Plan in Tier 6.

⁽³⁾ Covered payroll represents payroll on which contributions to the Pension Plan are based.

See accompanying notes to required schedule and accompanying independent auditor’s report.

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

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

The assumptions used in establishing the ADC for the year ended June 30, 2023 were based on the June 30, 2021 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method	Entry Age Actuarial Cost Method.
Amortization Method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Department, or Airport Department).
Remaining Amortization Period	Any Surplus is amortized over an open (non-decreasing) 30-year period. Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset Valuation Method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a seven-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial Assumptions:	
June 30, 2021 Valuation	
Investment Rate of Return	7.00%, net of investment expenses
Inflation Rate	2.75%
Administrative Expenses:	Out of the total 1.40% of payroll in administrative expense, 1.29% of payroll payable biweekly is allocated to the Pension Plan. This is equal to 1.25% of payroll payable at beginning of the year.
Real Across-the-Board Salary	0.50%
Projected Salary Increases	Ranges from 4.15% to 12.25% based on years of service
Cost of Living Adjustments	2.75% of retirement income for all Tiers. For Tier 5 and Tier 6 members who have COLA banks, we assume they receive 3.0% COLA increases until their COLA banks are exhausted and 2.75% thereafter.

See accompanying notes to required schedule and accompanying independent auditor’s report.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Annual money-weighted rate of return, gross of investment expense	7.78%	-7.23%	32.56%	3.04%	6.21%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, gross of investment expense	9.21%	13.27%	1.04%	4.15%	17.84%

Notes to Schedule:

GASB Statement No.67 requires this information to be reported for 10 years.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy and Monthly Returns Analysis provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2023, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense. In fiscal year 2022, rates for the fiscal years 2014, 2016 and 2018 were updated from preliminary rates to final rates.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

Date	Discount Rate	Total Pension Liability (TPL)	Fiduciary Net Position (FNP)	Net Pension Liability (NPL)	Funded Status (FNP/TPL)	Covered Payroll	NPL %Pay
6/30/2023	7.00%	26,800,920	26,437,300	363,620	98.6%	1,608,133	23%
6/30/2022	7.00%	25,907,294	25,258,536	648,758	97.5%	1,598,685	41%
6/30/2021	7.00%	25,160,777	27,862,307	(2,701,530)	110.7%	1,603,349	-168%
6/30/2020	7.00%	23,969,714	21,396,933	2,572,781	89.3%	1,509,613	170%
6/30/2019	7.25%	23,000,505	21,262,200	1,738,304	92.4%	1,487,978	117%
6/30/2018	7.25%	21,736,849	20,482,133	1,254,716	94.2%	1,451,996	86%
6/30/2017	7.25%	20,814,045	18,996,721	1,817,323	91.3%	1,397,245	130%
6/30/2016	7.50%	19,565,409	17,104,276	2,461,132	87.4%	1,351,788	182%
6/30/2015	7.50%	19,385,428	17,346,554	2,038,874	89.5%	1,316,969	155%
6/30/2014	7.50%	18,861,992	16,989,705	1,872,287	90.1%	1,308,149	143%

Notes to Schedule:

GASB Statement No.67 requires this information to be reported for 10 years.

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

See accompanying notes to required schedule and accompanying independent auditor's report.

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

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020
Total OPEB Liability:				
Service Cost	\$ 77,653	\$ 79,825	\$ 80,618	\$ 79,394
Interest	255,593	266,036	260,018	263,088
Benefit Payments	(153,918)	(147,467)	(151,855)	(143,600)
Experience Losses (Gains)	18,082	(8,923)	8,191	(190,525)
Assumption Changes	(31,715)	(333,313)	(113,656)	80,297
Other ¹	-	-	-	-
Net Change	165,695	(143,842)	83,316	88,654
Total OPEB Liability at Beginning of Year	<u>3,649,332</u>	<u>3,793,174</u>	<u>3,709,858</u>	<u>3,621,204</u>
Total OPEB Liability at End of Year (a)	<u>\$ 3,815,027</u>	<u>\$ 3,649,332</u>	<u>\$ 3,793,174</u>	<u>\$ 3,709,858</u>
Fiduciary Net Position:				
Employer Contributions	\$ 186,418	\$ 193,140	\$ 200,425	\$ 193,213
Net Investment Income	214,764	(209,565)	698,434	58,101
Benefit Payments	(153,918)	(147,467)	(151,856)	(143,600)
Administrative Expenses	(2,571)	(2,296)	(2,141)	(1,982)
Other ¹	-	-	-	-
Net Change (Gain)	244,693	(166,188)	744,862	105,732
Fiduciary Net Position at Beginning of Year	<u>2,722,122</u>	<u>2,888,310</u>	<u>2,143,448</u>	<u>2,037,716</u>
Fiduciary Net Position at End of Year (b) ²	<u>\$ 2,966,815</u>	<u>\$ 2,722,122</u>	<u>\$ 2,888,310</u>	<u>\$ 2,143,448</u>
Net OPEB Liability/(Asset) (a)-(b)	<u>\$ 848,212</u>	<u>\$ 927,210</u>	<u>\$ 904,864</u>	<u>\$ 1,566,410</u>
Plan fiduciary net position as a percentage of the total OPEB liability	77.77%	74.59%	76.14%	57.78%
Covered employee payroll	\$ 1,608,133	\$ 1,598,685	\$ 1,603,349	\$ 1,509,613
Plan net position liability as a percentage of covered employee payroll	52.75%	58.00%	56.44%	103.76%

Notes to Schedule:

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

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

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

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

See accompanying notes to required schedule and accompanying independent auditor's report.

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

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

Notes to Schedule:

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

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

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

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

See accompanying notes to required schedule and accompanying independent auditor's report.

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

Fiscal Year Ending	Actuarially Determined Contribution	Actual Fiscal Year Contribution	Deficiency (Excess)	Covered Payroll ⁽²⁾	Contribution as % of Payroll
2023	\$ 186,418	\$ 186,418	-	\$ 1,608,133	12%
2022	193,140	193,140	-	1,598,685	12%
2021	200,425	200,425	-	1,603,349	13%
2020	193,213	193,213	-	1,509,613	13%
2019	188,020	188,020	-	1,487,978	13%
2018	178,462 ⁽¹⁾	178,462 ⁽¹⁾	-	1,451,996	12%
2017	165,170	165,170	-	1,397,245	12%
2016	150,315	150,315	-	1,351,788	11%
2015	148,477	148,477	-	1,316,969	11%
2014	138,107	138,107	-	1,308,149	11%

Notes to Schedule:

GASB Statement No. 74 requires this information to be reported for 10 years.

⁽¹⁾ Exclude the transfer of employer contributions for all new Airport Police members from the Los Angeles City Employees' Retirement System (LACERS) who elected to join the Pension Plan in Tier 6.

⁽²⁾ Covered payroll represents payroll on which contributions to the Health Subsidy Plan are based.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

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

The assumptions used in establishing the ADC for the year ended June 30, 2023 were based on the June 30, 2021 funding valuation.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method.
Amortization method	For Tier 1, level dollar amortization is used with last period ending on June 30, 2037. For Tiers 2, 3 and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer (i.e., City, Harbor Department or Airport Department).
Remaining amortization period	Actuarial gains/losses are amortized over 20 years. Assumption changes are amortized over 20 years. Plan changes are amortized over 15 years.
Asset valuation method	The market value of assets less unrecognized returns. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a seven-year period. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets.
Actuarial assumptions:	
June 30, 2021 valuation	
Investment rate of return	7.00%, net of investment expenses
Inflation rate	2.75%
Administrative Expenses:	Out of the total 1.40% of payroll in administrative expense, 0.11% of payroll payable biweekly is allocated to the Retiree Health Plan. This is equal to 0.11% of payroll payable at beginning of the year.
Real across-the-board salary	0.50%
Projected salary increases	Ranges from 4.15% to 12.25% based on years of service
Other assumptions	Same as those used in the June 30, 2021 funding actuarial valuations.

See accompanying notes to required schedule and accompanying independent auditor’s report.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Annual money-weighted rate of return, gross of investment expense	7.78%	-7.23%	32.56%	3.04%	6.21%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, gross of investment expense	9.21%	13.27%	1.04%	4.15%	17.84%

Notes to Schedule:

GASB Statement No. 74 requires this information to be reported for 10 years.

The money-weighted rate of return expresses investment performance, gross of investment expense, adjusted for the changing amounts actually invested. The source for the rate of return was the June 30 Investment Hierarchy and Monthly Returns Analysis provided by the custodian bank, Northern Trust. For the fiscal years 2014 through 2023, the custodian bank did not have all information related to investment expense to calculate the money-weighted rate of return net of investment expense. In fiscal year 2022, rates for the fiscal years 2014, 2016 and 2018 were updated from preliminary rates to final rates.

See accompanying notes to required schedule and accompanying independent auditor's report.

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

<u>Date</u>	<u>Discount Rate</u>	<u>Total OPEB Liability (TOL)</u>	<u>Fiduciary Net Position (FNP)</u>	<u>Net OPEB Liability (NOL)</u>	<u>Funded Status (FNP/TOL)</u>	<u>Covered Payroll</u>	<u>NOL %Pay</u>
6/30/2023	7.00%	\$ 3,815,027	\$ 2,966,815	\$ 848,212	77.8%	\$ 1,608,133	53%
6/30/2022	7.00%	3,649,332	2,722,122	927,210	74.6%	1,598,685	58%
6/30/2021	7.00%	3,793,174	2,888,310	904,864	76.1%	1,603,349	56%
6/30/2020	7.00%	3,709,858	2,143,448	1,566,410	57.8%	1,509,613	104%
6/30/2019	7.25%	3,621,204	2,037,716	1,583,488	56.3%	1,487,978	106%
6/30/2018	7.25%	3,588,132	1,878,237	1,709,895	52.3%	1,451,996	118%
6/30/2017	7.25%	3,357,828	1,665,686	1,692,142	49.6%	1,397,245	121%
6/30/2016	7.50%	3,079,670	1,435,404	1,644,266	46.6%	1,351,788	122%

Notes to Schedule:

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

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

See accompanying notes to required schedule and accompanying independent auditor's report.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, financial statements of the Pension Plan and Health Subsidy Plan, administered by the Los Angeles Fire and Police Pension System (the System), which comprise the statements of fiduciary net position as of June 30, 2023, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements for each plan, and have issued our report thereon dated November 27, 2023.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Los Angeles, California
November 27, 2023