

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(c) Major Funds, Internal Service Funds and Fiduciary Fund Types, (Continued)

Water Fund – Used to account for the operations of the City’s water utility; a self-supporting activity that renders services on a user charge basis to residents and businesses as prescribed by the City Charter.

Old Pasadena Parking Fund – Used to account for the operations of the Delacey Avenue and Schoolhouse Block parking facilities.

Paseo Colorado Parking Fund – Used to account for the operations of the parking structures on Los Robles Avenue and Green Street, Marengo Avenue and Green Street, and the Colorado Boulevard subterranean parking facility.

Additionally, the City reports the following fund types:

Internal Service Funds – Used to account for computing and communication services, building maintenance, fleet maintenance, employee benefits, worker’s compensation and general liability, equipment leasing, printing and mail services to other departments or agencies of the City.

Pension Trust Funds – Used to account for transactions of the Fire and Police Retirement System and the City’s Deferred Compensation Plan.

Agency Funds – These funds account for assets held by the City on behalf of assessment district bondholders, the Foothill Employment and Training Consortium, and assets held for certain joint powers organizations.

(d) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the Proprietary Fund’s share in the City’s cash and investment pool. Cash equivalents have an original maturity date of three months or less from the date of purchase.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(e) Cash and Investments

Investments are reported in the accompanying financial statements at fair value based on quoted market prices, except for certain certificates of deposit, money market investments that mature within one year of acquisition and investment contracts that are reported at cost because they are not transferable, they have terms that are not affected by changes in market interest rates, and provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Both realized and unrealized changes in fair value that occur during a fiscal year are recognized and recorded as *net changes in fair value of investments*. *Investment earnings* include interest earnings and all other investment income.

The City pools cash and investments of all funds, except for certain fund specific City held portfolios, deferred compensation assets, and assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment earnings associated with the following funds not legally required to receive pooled investment earnings that have been assigned to and recorded as revenue in the General Fund, as provided by the legal provisions of the California Government Code Section §53647: Health, Housing and Community Development, Project Management, Workers' Compensation, General Liability, Employment and Training, South Lake Business Improvement District and Old Pasadena Business Improvement District.

The City enters into interest rate swap agreements to modify rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements. As of June 30, 2007, the City entered into an interest rate swap agreement related to the Pension Bonds (see note 11).

(f) Due from Other Governments

The amounts recorded as a receivable, *due from other governments*, include grant revenues and other state subventions, collected or provided by Federal, State, County and City Governments and unremitted to the City as of June 30, 2007.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(g) Inventories

Inventories held for consumption by the Light and Power and Water Funds (Enterprise Funds) are carried at the lower of weighted average cost or market computed on a first-in/first-out basis. Inventories held by the Fleet Maintenance Fund (Internal Service Fund) are carried at average cost. Inventories held in the PCOC discretely presented component unit are stated at the lower of cost (first-in/first-out method) or market. In all cases, inventory items are accounted for as an expenditure or expense when consumed.

(h) Advances to Other Funds

Long-term interfund advances are recorded as a receivable and as reserved fund balance by the advancing governmental fund.

(i) Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets. The prepaid assets recorded in the Governmental Funds do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

(j) Restricted Cash and Investments

The City considers all cash and investments from bond proceeds in Proprietary Funds as restricted. The City is legally mandated under bond indentures to use these resources only for the purposes specified. Also included as restricted cash and investments are amounts accumulated in the Light and Power Fund for the purpose of meeting future contractual commitments, deferred compensation and all cash and investments belonging to Pension Trust and Agency Funds which are held by trustees.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(k) Property Held for Resale

Property held for resale represents land, structures, and their related improvements that were acquired for resale in accordance with the objective of the Pasadena Community Development Commission’s project area. These costs will be charged to current year project expenditures when the related land and structures are sold. Property held for resale is valued at the lower of cost or net realizable value. A portion of fund balance is reserved for property held for resale to indicate that a portion of fund balance is not available for future expenditures.

(l) Capital Assets

Capital assets (including infrastructure) greater than \$10,000 are capitalized and recorded at cost or at the estimated fair value of the assets at the time of acquisition where complete historical records have not been maintained. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets include public domain (infrastructure) general assets consisting of certain improvements including roads, streets, sidewalks, medians, sewer systems and storm drains.

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements and in the fund financial statements of the proprietary funds.

A summary of the estimated useful lives of capital assets is as follows:

<u>Light and Power Fund</u>		<u>Water Fund</u>	
Production Plant	20 to 40 years	Source of Supply	20 to 50 years
Transmission Plant	25 to 40 years	Pumping Plant	10 to 50 years
Distribution Plant	20 to 40 years	Treatment Plant	10 to 20 years
General Plant	10 to 40 years	Transmission and	
Equipment	4 to 10 years	Distribution Plant	10 to 80 years
		General Plant	6 to 50 years
		Equipment	4 to 10 years

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(l) Capital Assets, (Continued)

<u>Governmental Activities</u>		<u>All Other Business-Type Activities</u>	
Buildings and Improvements	20 to 50 years	Building and Improvements	20 to 45 years
Machinery and Equipment	4 to 10 years	Machinery and Equipment	4 to 10 years
Infrastructure	15 to 200 years		

(m) Insurance Claims Payable

The City records a liability for material litigation, judgments, and claims (including incurred but not reported losses) when it is probable that an asset has been significantly impaired or a material liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the City's Workers' Compensation and General Liability Internal Service Funds. These liabilities are only recorded on a case-by-case basis up to the workers' compensation and general liability self-insurance thresholds. As mentioned in more detail in note 22, excess liability insurance covers claims greater than the self-insurance thresholds.

(n) Compensated Absences

The City accounts for compensated absences including accumulated vacation, compensatory time-off, and certain sick leave in the Benefits Internal Service Fund. Upon separation, employees are paid for all of their unused vacation leave and compensatory time-off subject to maximums described below.

Eligible employees accumulate 5 to 20 days of vacation each year, depending on the employee's length of service, but may not carry over from one year to the next more than the equivalent of one year's vacation without prior approval of the respective department head and/or City Manager.

A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(n) Compensated Absences, (Continued)

Compensated absences are primarily liquidated by the General Fund, Light and Power Fund and Water Fund.

Sick pay benefits only accumulate. They do not vest and therefore cannot be cashed out at retirement or termination. Consistent with this policy, the City does not accrue sick pay benefits except for those benefits that were earned prior to 1970 for which the employee is paid at termination or retirement.

A liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payments, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) that is outside the control of the City and the employee.

The total outstanding vacation, compensatory time-off, and sick leave obligations that have been accrued as of June 30, 2007 are included under "Compensated Absences" in the Benefits Internal Service Fund.

(o) Net Pension Obligation

GASB Statement No. 27, *Accounting for Pensions of State and Local Governmental Employers*, was implemented during the fiscal year ending June 30, 1998. For each plan, the employer must expense the annual pension cost (APC). The APC equals the annual required contribution (ARC) plus one year's interest on the beginning of year net pension obligation (NPO). The NPO is the cumulative difference between the APC and the actual contributions made, minus an amortization of the NPO at the beginning of the year. See note 24.

(p) Bond Premiums/Discounts/Issuance Costs

For Governmental Fund financial statements, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of any applicable discount or premium.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(p) Bond Premiums/Discounts/Issuance Costs, (Continued)

Issuance costs, whether or not withheld from actual net proceeds received, are reported as current expenditures. For Government-Wide financial statements and Proprietary Fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

(q) Fund Equity

Reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

(r) Comparative Data/Reclassifications

The information included in the accompanying financial statements for the prior years has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(s) Property Taxes

The assessment, levy and collection of property taxes are the responsibility of the County of Los Angeles. The City records property taxes as revenue when received from the County, except at year-end, when property taxes received within 60 days are accrued as revenue. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien	January 1
Levy	July 1 to June 30
Due	November 1 - 1st installment March 1 - 2nd installment
Collection	December 10 - 1st installment April 10 - 2nd installment

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies, (Continued)

(s) Property Taxes, (Continued)

Property taxes on the secured roll are due in two installments; on November 1 and March 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Such delinquent property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 1% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of 1% per month begins to accrue. Collection of delinquent unsecured taxes is the responsibility of the County of Los Angeles using the several means legally available.

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CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments

Primary Government (excluding FPRS Cash and Investments)

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$313,522,804
Restricted cash and investments	184,763,018
Fiduciary funds:	
Cash and cash equivalents	<u>154,019,333</u>
Total cash and investments	<u>\$652,305,155</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 90,973
Deposits with financial institutions	(1,380,720)
Investments	<u>653,594,902</u>
Total cash and investments	<u>\$652,305,155</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

Investments Authorized by the California Government Code and the Entity's Investment Policy

The following table identifies the investment types that are authorized for the Entity by the California Government Code and the Entity's investment policy. The table also identifies certain provisions of the California Government Code (or the Entity's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Entity, rather than the general provisions of the California Government Code or the Entity's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	25%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	5%
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Entity's investment policy. The following table identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	360 days
Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	20-30 years
Pre-refunded Municipal Bonds	None
Repurchase Agreements	1 year
Local Agency Investment Fund (LAIF)	N/A
General Obligations Bonds	None

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Entity manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Entity's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Entity's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>	
Corporate Bonds	\$24,126,539	18,883,278	1,746,897	3,496,364	-
U.S. Treasury Notes	18,646,455	11,415,079	4,784,219	2,447,157	-
Federal agency securities	341,219,463	71,204,420	74,255,700	145,704,490	50,054,853
Municipal Bonds	1,329,732	-	-	1,329,732	-
Repurchase Agreements	80,982,331	80,982,331	-	-	-
Mortgage-backed securities	2,346	-	-	1,012	1,334
State investment pool	638,207	638,207	-	-	-
Held by bond trustee:					
Federal agency securities	12,767,833	2,643,469	4,862,597	5,261,767	-
Commercial paper	3,289,000	3,289,000	-	-	-
Money market funds	5,100,950	5,100,950	-	-	-
Investment contracts	14,267,558	-	-	-	14,267,558
Deferred compensation Plan:					
Mutual funds	<u>151,224,488</u>	<u>151,224,488</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$653,594,902</u>	<u>345,381,222</u>	<u>85,649,413</u>	<u>158,240,522</u>	<u>64,323,745</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Entity's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>			<u>Not Rated</u>
			<u>AAA</u>	<u>AA</u>	<u>A</u>	
Corporate Bonds	\$ 24,126,539	A	1,721,385	6,516,740	15,888,414	-
U.S. Treasury Notes	18,646,455*	N/A	-	-	-	-
Federal agency securities	341,219,463	N/A	341,219,463	-	-	-
Municipal Bond	1,329,732	N/A	-	-	-	1,329,732
Repurchase Agreements	80,982,331	N/A	-	-	-	80,982,331
Mortgage-backed securities	2,346	AA	2,346	-	-	-
State investment pool	638,207	N/A	-	-	-	638,207
Held by bond trustee:						
Federal agency securities	12,767,833	N/A	12,767,833	-	-	-
Commercial paper	3,289,000	A	-	3,289,000	-	-
Money market funds	5,100,950	A	-	5,100,950	-	-
Investment contracts	14,267,558	N/A	-	-	-	14,267,558
Deferred compensation Plan:						
Mutual funds	<u>151,224,488</u>	N/A	<u>-</u>	<u>151,224,488</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 653,594,902</u>		<u>355,711,027</u>	<u>166,131,178</u>	<u>15,888,414</u>	<u>97,217,828</u>

* Exempt From Disclosure
N/A Not applicable

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

Concentration of Credit Risk

The investment policy of the Entity contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Entity investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$ 167,158,651
Federal Home Loan Mortgage Corp	Federal agency securities	85,936,460
Federal National Mortgage Assoc	Federal agency securities	80,969,488
Merrill Lynch	Repurchase agreements	83,485,211
Hartford Life	Mutual funds	151,224,488

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, discretely presented component unit, governmental activities, major fund, non-major funds in the aggregate, etc.) are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Pasadena Community Development		
Commission Debt Service Fund		
Goldman Fin. Sq. Tr. Prime Oblig.	Money Market Fund	\$ 248,369
Federal Home Loan Mortgage Corp	Federal agency Securities	962,747
Light and Power Fund		
Federal Home Loan Bank	Federal agency securities	50,570,844
Federal Home Loan Mortgage Corp	Federal agency securities	27,675,208
Federal National Mortgage Assoc	Federal agency securities	32,445,896
Merrill Lynch	Repurchase Agreements	21,035,887

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Water Fund		
Federal Home Loan Mortgage Corp	Federal agency securities	2,243,700
Federal Home Loan Bank	Federal agency securities	4,212,130
Federal National Mortgage Corp	Federal agency securities	4,486,050
Merrill Lynch	Repurchase Agreements	2,237,498
U.S. Treasury	U.S. Treasury Notes	6,712,110
FSA Investment	Investment contracts	1,289,551
Bank of America Investment	Investment contracts	3,390,132
Old Pasadena Parking Fund		
Aegon General Investment Agreement	Investment contracts	2,225,313
Paseo Colorado Parking Fund		
Wells Fargo Government	Money Market Fund	129,991
Federal Home Loan Bank	Federal agency securities	1,339,875
Non-Major Governmental Fund		
Debit Service Fund		
Goldman Fin. Sq. Tr. Prime Oblig	Money Market Fund	4,580,823
AIGMFC Inv. Agreement	Investment contracts	4,836,374
Federal Home Loan Bank	Federal agency securities	7,017,886
Toyota Motor Credit Company	Commercial Paper	3,289,000
Pasadena Community Development Commission Fund		
Federal Home Loan Bank	Federal agency securities	10,696,875
Merrill Lynch	Repurchase Agreements	8,007,490
Charter Capital Projects Fund		
Federal Home Loan Bank	Federal agency securities	5,924,063

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Project Fund		
Federal Home Loan Bank	Federal agency securities	803,856
Non-Major Enterprise Funds		
Plaza Las Fuentes Parking Fund		
Federal Home Loan Bank	Federal agency securities	2,643,469

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, \$468,238 of the Entity's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Primary Government, (Continued)

Investment in State Investment Pool

The Entity is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Pasadena Fire and Police Retirement System (FPRS)

Investments are reported at fair market value. Fair value for investments of publicly traded stocks and bonds and issues of the U.S. Government and its agencies is based on the last reported sale price as of the fiscal year end. Fair value of securities denominated in a foreign currency reflects exchange rates in effect at fiscal year end. Fair value of investments in commingled funds in real estate is based on the fund share price provided by the fund manager which is based on net asset value.

Authorized Investments

In conformance with its Charter, the Retirement Board shall have the sole power and authority under such general ordinances as may be adopted by the legislative body to hear and determine all facts pertaining to applications for and awards of any benefits under the System, or any matters pertaining to the administration thereof. The Retirement Board shall have exclusive control of the administration and investment of such fund or funds as may be established and all investments shall be subject to the same terms, limitations and restrictions as are imposed by the Constitution and laws of the State upon the investment of the CalPERS Funds, as now enacted or hereafter amended.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

Pursuant to this authority, the Retirement Board has authorized investment in the following securities:

- Securities of the U.S. Government or its agencies
- Certificates of Deposit, or Time Deposits, placed with commercial banks and savings and loan associations
- Negotiable Certificates of Deposit
- Banker's acceptances
- Commercial paper (rated A-1/P-1 or better)
- Medium-Term Corporate Notes (up to five years maturity)
- Corporate and Municipal Bonds
- Preferred stock
- Common stock
- Fixed-income funds
- Foreign stock and corporate bonds
- Mutual funds
- Real Estate Investment Trust (REIT)

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

Deposit and Investment Risks

GASB Statement No. 40 requires the disclosure of the following specific risks that apply to the Plan's investments:

- Credit Risk and Market Value of Investments
- Custodial Credit Risk – Deposits and Investments
- Concentration of Credit Risk
- Interest Rate Risk
- Highly Sensitive Investments
- Foreign Currency Risk
- Cash and Investments

GASB Statement No. 40 also requires the disclosure of deposit or investment policies (or the lack thereof) that relate to the investment risks that are required to be disclosed.

Investment Policies

The Board has chosen to manage the investment risks described by GASB No. 40 by contractually requiring each portfolio investment manager to abide by the investment guidelines specifically tailored to that individual manager rather than adopting across-the-board investment policies with respect to these investment risks. The guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

Each manager is subject to a “manager standard of care” that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of the PFPRS.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

Credit Risk and Market Value of Investments

The Board has the exclusive control over the System's investment portfolio as prescribed by Article XV, Section 1502 of the City of Pasadena Charter. The Board has established the Investment Objectives, Guidelines and Standards of Performance in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of PFPRS's assets (the Plan) by setting policy which the Board executes through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

The Investment Guidelines encompasses the following asset classes and the asset allocation goals:

- Domestic Fixed Income – 30%
- Domestic Equity – 50% (25% Large Cap Value, 25% Large Cap Growth)
- International Equity – 10%
- Real Estate Investment Trust – 10%

The System requires \$1,350,000 monthly, withdrawn from the fund, to cover the benefit payments and administrative costs. When an asset class exceeds the allocation goals, the Board and Investment Consultant review the allocation and determine the appropriate asset class/classes from which to withdraw the monies. This also serves as an ongoing rebalancing of the fund to maintain the allocation goals.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

Credit Risk

Credit Risk is the risk that the issuer of a debt security or other counterparty to an investment will not fulfill its obligations. The individual investment guidelines for the fixed income investment manager describe applicable restrictions on credit risk. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization, the S & P, as of June 30, 2007 are as follows:

Credit Quality Ratings of Investments in Fixed Income Securities

<u>Quality Ratings – S & P</u>	<u>Fair Value</u>	<u>Percentage</u>
AAA	\$ 25,687,617	59.74%
A	1,779,862	4.14%
BBB	4,095,430	9.53%
BB	398,926	0.93%
B	156,876	0.36%
Not Rated/Rating NA**	4,354,147	10.13%
Rating Not Determined	6,522,364	15.17%
Total	<u>\$ 42,995,222</u>	<u>100.00%</u>

** Minus: Not rated: STIF of \$3,401,016

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure, the System will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2007, the System is not exposed to such risk on the fair value of total international investments. The System's policy requires the international investment managers to hold no more than 7% of their portfolios in the form of cash.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held and maintained with the master custodian in the name of the PFPRS. Investment securities are exposed to custodial credit risk if the securities are not insured, or are not registered in the System's name, and held by the counterparty. The System's investments are not exposed to custodial credit risk if they are insured or registered in the System's name. The System's investments are not exposed to custodial credit risk since all securities are held by the System's custodial bank in the System's name.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of PFPRS's investment in a single issuer of securities. The individual investment guidelines for each fixed income manager forbid concentrations greater than 5% in the securities of any one issuer (excepting issues issued by or explicitly guaranteed by the U.S. government). As of June 30, 2007, the PFPRS portfolio did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It uses the present values of cash flows, weighted for those cash flows as a percentage of the investment's full price. The longer the duration of a portfolio, the greater its price sensitivity is to changes in interest rates.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

One of the ways the System manages its exposure to interest rate risk is by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the Lehman U.S. Universal Bond Index, the Lehman Intermediate Government Credit Index, or the Lehman Aggregate Bond Index, depending on the Board's mandates. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes.

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is provided by the following table that shows the weighted average effective duration of the System's fixed income investments by investment type:

Fixed Income Securities As of June 30, 2007

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration</u>
U.S. Government and Agency Instruments		
Government Bonds	\$ 15,934,581	5.10
Government Agencies	122,114	11.93
Government Mortgage Backed Securities	6,722,079	5.78
Government Issued Commercial Mortgage Backed	414,596	10.25
Total	23,193,370	
Corporate Securities		
Corporate Bonds	7,520,112	4.88
Non-Government Backed C.M.O.'s	5,118,784	3.64
Asset Backed Securities	2,443,956	3.92
Commercial Mortgage Backed Securities	4,634,000	3.99
Total	19,716,852	
Other Fixed Income	85,000	8.83
Total Fixed Income Securities	\$ 42,995,222	

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

Highly Sensitive Investments

Highly Sensitive Investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. Terms include such information as embedded options, coupon multipliers, benchmark indexes, and reset dates. The System's asset-backed investments have embedded prepayment options that will typically cause prepayments by the obligees of the underlying investments when interest rates fall. Prepayments eliminate the stream of future interest payments and, therefore, diminish the fair value of the asset-backed investment. The following table shows the fair value of the System's asset-backed investments by investment type:

<u>Investment Type</u>	<u>Amount</u>
Government Mortgage Backed Securities	\$ 6,722,079
Government Issued Mortgage Backed Securities	414,596
Asset Backed Securities	2,443,956
Commercial Mortgage Backed Securities	4,634,000
Non-Government Backed Commercial Mortgage Obligations	<u>5,118,784</u>
Total	<u>\$ 19,333,415</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit. The System's asset allocation policy sets a target of 10% of the total portfolio for non-U.S. investments in equities. Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Pasadena Fire and Police Retirement System (FPRS), (Continued)

The System's non-U.S. investment holdings as of June 30, 2007 are as follows:

<u>Foreign Currency Type</u>	<u>Fair Value In USD</u>
Australian Dollar	\$ 133,881
Bermudian Dollar	157,669
United Kingdom Pounds	478,235
Mexican Peso	<u>245,530</u>
 Total International Investments	 <u>\$ 1,015,315</u>

Cash and Investments

Cash and investments as of June 30 were held as follows:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
	<u>(In Thousands)</u>	
Unrestricted Pooled Cash	\$ 409	\$ 1,084
Restricted Pooled Cash	1,350	-
Cash with Fiscal Agent	2,325	-
Investments -- Held by Trustee	<u>142,901</u>	<u>135,145</u>
	<u>\$ 146,985</u>	<u>\$ 136,229</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Discretely Presented Component Units

Rose Bowl Operating Company (RBOC)

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 6,641,041
Restricted cash and investments	<u>4,891,162</u>
Total cash and investments	<u>\$ 11,532,203</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 1,500
Deposits with financial institutions	2,673,814
Investments:	
Investment in City of Pasadena investment pool	3,965,727
Investments held by fiscal agents	<u>4,891,162</u>
Total cash and investments	<u>\$ 11,532,203</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2007

(2) Cash and Investments, (Continued)

Discretely Presented Component Units, (Continued)

Rose Bowl Operating Company (RBOC), (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Company manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Company's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Company's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13-60 Months</u>	<u>More Than 60 Months</u>
City of Pasadena Pool	\$ 3,965,727	3,965,727	-	-
Repurchase agreement	1,996,696	1,996,696	-	-
Federal agency securities	2,868,394	-	2,868,394	-
Money market funds	<u>26,072</u>	<u>26,072</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,856,889</u>	<u>5,988,495</u>	<u>2,868,394</u>	<u>-</u>