

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE CITY OF
PASADENA, CALIFORNIA**

**INDEPENDENT AUDITOR'S REPORT AND
BASIC FINANCIAL STATEMENTS
WITH REQUIRED SUPPLEMENTARY INFORMATION AND
OTHER SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

PASADENA
FIRE &
POLICE
RETIREMENT
SYSTEM

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

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Independent Auditor's Report

To the Board of Retirement
Pasadena Fire and Police Retirement System
Pasadena, California

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Pasadena Fire and Police Retirement System (System) as of June 30, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to basic financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System, as of June 30, 2018, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the fiscal year ended June 30, 2017, from which such partial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in employer's net pension liability, schedule of employer's net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 auditing standards generally accepted in the United States of America, 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 audit 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedules of additions by source and deductions by type and comparative information from prior fiscal years: interest rate risk, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of additions by source and deductions by type are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules of additions by source and deductions by type are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The comparative information from prior fiscal years: interest rate risk has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018 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 solely 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 the effectiveness of the System's 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.

Macias Gini & O'Connell LLP

Los Angeles, California
December 11, 2018

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Pasadena Fire & Police Retirement System

Management's Discussion and Analysis (MD&A)

(Unaudited)

The Pasadena Fire and Police Retirement System ("System" or "Plan") is a closed, single-employer defined benefit pension plan governed by a Board of Retirement ("Board") under the provisions of the City of Pasadena ("City") Charter that provides retirement, disability, and survivor benefits for eligible sworn safety employees of the City. Its operations have been reported as a Pension Trust Fund in the City's financial statements. The System was established on July 1, 1935 by a vote of the people to formalize retirement benefits for the City's Fire and Police members, and is governed by the authority in Article XV of the City Charter, and by Chapter 2.250 of the City's Municipal Code.

The System serves the City's sworn employees hired prior to July 1, 1977, except those who elected to transfer to the California Public Employees' Retirement System ("CalPERS") either when the System was closed to new members, or in June 2004. The System is governed by a Board of five members; one member of the City Council, two Pasadena residents appointed by the City Council, and two members of the System elected under the supervision of the System. Board members are elected to terms of four years with no restriction on reappointment. Board members receive no compensation.

The discussion and analysis of the System's financial performance provides an overview of the financial activities for the fiscal year ending June 30, 2018. This discussion and analysis should be read in conjunction with and is qualified in its entirety by the accompanying audited financial statements and notes which begin following this Management's Discussion and Analysis. The financial statements, notes, and this discussion and analysis were prepared by management and are the responsibility of management.

Financial and Valuation Highlights

The Plan ended fiscal year 2018 with \$118,932,079 in fiduciary net position compared to \$125,364,758 in fiduciary net position as of June 30, 2017. The decrease in net position by \$6,432,679 from the prior period was attributed to expenses for benefits and administration outpacing net portfolio earnings. Earnings in the portfolio were 5.4% net of fees (compared to 10.7% net of fees for the prior fiscal year), and resulted in \$6,656,468 in net investment income. Investment earnings were offset by \$13,089,148 in deductions from the portfolio for benefits and administrative expenses. Investment earnings of 5.4% (net of fees) were consistent with overall market conditions and the portfolio's benchmark earnings rate of 5.6%.

A cash reserve within pooled cash at the City was maintained to meet the required monthly cost of benefits and administration. Rebalancing of investments serves as an ongoing process to maintain balance with the Board's asset allocation goals, and when necessary, to fund the Plan's benefit and administrative costs. During fiscal year 2018, a total of \$13,400,000 was withdrawn from the portfolio with the custodian and transferred to the City's pooled cash account for payment of pension benefits and administration.

The June 30, 2018 actuarial valuation determined that the Actuarial Value of Assets ("AVA") decreased to \$118 million, and the Actuarial Accrued Liability ("AAL") decreased to \$147.8 million. Accordingly, the AVA Funded Percentage (which is the actuarially determined funding level used to calculate the City's required minimum contribution) decreased to 79.9% on June 30, 2018. The minimum required AVA Funded Percentage on June 30, 2018 is 79%. Thus, the required contribution from the City for fiscal year 2019 (due January 1, 2019) is \$0 based on the June 30, 2018 actuarial valuation and Amended and Restated Contribution Agreement No. 20,823 ("Agreement No. 20,823").

The City's Net Pension Liability ("NPL") for the Plan increased from \$16,905,000 on June 30, 2017 to \$22,805,000 on June 30, 2018 primarily due to decreases in the Plan's Fiduciary Net Position ("FNP"). The FNP decreased by more than six million primarily due to lower investment returns. As a result, the Plan's FNP as a percentage of the Total Pension Liability decreased from 88.1% on June 30, 2017 to 83.9% on June 30, 2018.

Pasadena Fire & Police Retirement System

Management's Discussion and Analysis (MD&A) (Continued)

(Unaudited)

Investment Performance

The Board reviews the asset allocation in the Investment Policy Statement ("IPS") on an annual basis, including a 10-year return forecast (both geometric and arithmetic) analysis by asset class. The forecasts per asset class are discussed within the context of their individual standard deviation forecasts, the amount of risk each asset assumes for the forecasted returns, and the relationship of that asset/risk within the overall portfolio. Portfolio mix options are discussed given the expected returns in comparison to the current allocations, and the investment advisor provides recommendations to the Board regarding potential changes in the asset allocation mix and for prospective new managers. In addition, fund and asset benchmarks are added and/or changed in the IPS to more accurately evaluate the portfolio and each asset's performance or when a new asset is acquired.

The System's IPS has evolved since the hiring of investment advisor, Verus Investments, in 2011. The June 2011 policy revision adjusted the strategic allocation ranges for equities and fixed income, added allocations to Treasury Inflation Protected Securities ("TIPS") and Real Estate, and deleted the allocation to Real Estate Investment Trust ("REIT"). In June 2013, the policy was revised to add an allocation for Liquid Alternative Investments through adjusting the strategic allocation ranges in equities. The IPS was revised in May 2014 to create a new fixed income asset class for Senior Bank Loans towards the goal of reducing risk. The IPS was revised in February 2015 to eliminate the allocation to Cash, and to move the assets held in Small/Mid Cap Domestic Equities to Small Cap Domestic Equities. Following the 10-year performance assessment in March 2016, the Board reallocated 2.0% from Domestic Core Equities (decreasing the allocation from 22.0% to 20.0%) to Domestic Core Fixed Income (increasing the allocation from 33.0% to 35.0%) through adoption of the revised IPS on April 20, 2016. During the fiscal year ending June 30, 2017, the IPS was further revised to add a new asset class for Index-Linked Investment-Grade Government Bonds to further prepare for and protect the portfolio from expected inflation.

Portfolio Changes as of June 30, 2018

During the fiscal year ending June 30, 2018, large cap space was restructured, moving large cap growth to actively managed, and adding a large cap core to be passively managed. The allocation for both large cap growth and large cap value was reduced from 8% to 4% to accommodate an 8% allocation to large cap core. This provides satellite exposures in growth and value. The Investment Policy Statement was revised to reflect the latest changes to the asset allocation which were approved by the Board.

Fiduciary Net Position and Total Pension Liability

Funds are accumulated to meet future obligations in the net position restricted for members' pension benefits in the Statement of Fiduciary Net Position. Total Pension Liability is not reported in the basic financial statements, but is disclosed in Note 5 to the basic financial statements and in the required supplementary information. The Total Pension Liability is determined by the actuary and is a measure of the present value of actuarial accrued liabilities estimated to be payable in the future to current retirees and beneficiaries. The Net Pension Liability is measured as the Total Pension Liability ("TPL") less the amount of the pension plan's Fiduciary Net Position ("FNP"). The System has engaged Bartel Associates, LLC since July 2010 to serve as its independent actuary and to prepare the annual actuarial valuation. The most recent actuarial valuation was prepared as of June 30, 2018, and incorporated the requirements to comply with Governmental Accounting Standards Board ("GASB") Statement No. 67.

Actuarial Valuation and City Contributions

The System's funding objective is to meet long-term benefit promises by maintaining a well-funded plan and obtaining optimum returns consistent with the assumptions of prudent risk.

Pasadena Fire & Police Retirement System
Management's Discussion and Analysis (MD&A) (Continued)
(Unaudited)

| Valuation Summary | | |
|--|---------------------------|------------------|
| (In Thousands) | | |
| | Fiscal Year Ending | |
| | 6/30/2018 | 6/30/2017 |
| Funding Discount Rate | 5.25% | 6.00% |
| Actuarial Accrued Liability (AAL) | \$ 147,816 | \$ 148,454 |
| Actuarial Value of Assets (AVA) | 118,034 | 122,433 |
| AVA Unfunded Actuarial Accrued Liability | 29,782 | 26,021 |
| AVA Funded Percentage | 79.9% | 82.5% |
| Minimum Funding Percentage* | 79.0% | 78.5% |
| Contribution Due at 1/1 | 0 | 0 |

Source is the June 30, 2018 actuarial valuation prepared by System Actuary, Bartel Associates.

** Minimum Funding Percentage is calculated in accordance with Agreements No. 20,823 and No. 16,900 between the City and System.*

The June 30, 2018 actuarial valuation determined the AVA Funded Percentage, calculated in accordance with Agreement No. 20,823 and Contribution Agreement No. 16,900, to be 79.9% as compared to 82.5% in the prior year. The AVA Funded Percentage decreased by 2.1% under what was originally projected for 2018 in the June 30, 2017 valuation (82%), and was primarily attributed to the following actuarial changes: 0.7% demographic losses (less deaths than actuarially estimated), 0.1% investment losses, and 0.1% benefit payment losses (more payments than anticipated). As required by Contribution Agreement No. 16,900, if the AVA Funded Percentage was below the minimum funding percentage of 79% for fiscal year 2018, the City would have been required to reimburse the System in the following fiscal year subject to certain reimbursement limits. Based on the June 30, 2018 actuarial valuation, the funding deficiency was \$0, or 0.0%, below the funding requirement of 79%. A required supplemental contribution is not owed to the System for the fiscal year ended June 30, 2018.

For funding purposes, the Plan had an approximate market value asset rate of return of 5.4% net of investment and administrative expenses for the year ended June 30, 2018, compared to 10.2% in the previous year. The assumed rate of return for actuarial purposes is 5.25%. The rate of return as estimated by the actuary is net of investment and administrative expenses, and is different than the long-term expected rate of return used to determine the discount rate in accordance with GASB Statement No. 67.

Financial Statement Overview

This discussion and analysis serves as an introduction to the System's basic financial statements. These include the following three components:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to Basic Financial Statements

In addition to the financial statements, this report also contains required supplementary information and other supplementary information that offers comparative data on prior years.

Pasadena Fire & Police Retirement System Management's Discussion and Analysis (MD&A) (Continued) (Unaudited)

The *Statement of Fiduciary Net Position* provides a snapshot of account balances at year-end. It also indicates the assets available for future benefit payments and administration of the Plan as well as current liabilities outstanding at year-end. The assets less liabilities give the reader a clear picture of what funds are available for future payments.

The *Statement of Changes in Fiduciary Net Position*, in contrast, provides a summary view of the additions to and the deductions from the plan net position that occurred over the course of the year.

Together these two statements report the System's plan net position – the difference between assets and liabilities – as one way to measure the System's financial position. Over time, increases and decreases in plan net position are one indicator of whether the System's financial situation is improving or deteriorating. Additional factors, such as market conditions, also need to be considered in assessing the System's overall financial situation.

The financial statements and required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the GASB, using the accrual basis of accounting. Investments are reported at fair value. Both realized and unrealized investment gains and losses are recognized using trade date accounting.

The *Notes to Basic Financial Statements* (Notes) provide additional information and explanations that are essential to a full understanding of the data provided in the financial statements.

The *Required Supplementary Information* (RSI) that follows the Notes shows the City's net pension liability, as well as information reflecting how much the City has contributed in relation to its annual required contributions and other information to comply with GASB Statement No. 67.

The *Other Supplementary Information* (OSI) that follows the RSI provides additional comparative information from prior years.

GASB Statement No. 67

The System's basic financial statements, notes to the basic financial statements, required supplementary information, and notes to the required supplementary information were prepared in accordance with the reporting requirements of GASB Statement No. 67. The most recent actuarial valuation as of June 30, 2018 was used to determine the total pension liability.

| Schedule of Net Pension Liability | | | |
|--|---------------------------|------------------|--|
| (In Thousands) | | | |
| Net Pension Liability | Fiscal Year Ending | | |
| | 6/30/2018 | 6/30/2017 | |
| Total Pension Liability | \$ 141,737 | \$ 142,270 | |
| Plan Fiduciary Net Position | 118,932 | 125,365 | |
| Net Pension Liability | 22,805 | 16,905 | |
| Net Pension Liability Funded % | 83.9% | 88.1% | |

Source for pension liability is the June 30, 2018 GASBS 67 plan actuarial information prepared by System Actuary, Bartel Associates.

Pasadena Fire & Police Retirement System Management’s Discussion and Analysis (MD&A) (Continued) (Unaudited)

Total Pension Liability (“TPL”) for the Plan decreased from \$142.3 million at June 30, 2017 to \$141.7 million at June 30, 2018. Similarly, the Fiduciary Net Position (“FNP”) at June 30, 2017 decreased from \$125.4 million to \$118.9 million at June 30, 2018. The decreases in both TPL and FNP resulted in a net increase of NPL from \$16.9 million at June 30, 2017 to \$22.8 million at June 30, 2018.

The Notes to Basic Financial Statements provide additional disclosures to comply with GASB Statement No. 67 Implementation, as follows:

- Plan Membership,
- Investments (allocation by asset class, expected long-term rate of return by asset class, and the annual money-weighted rate of return),
- Investments greater than 5% of the Plan’s Fiduciary Net Position,
- Net Pension Liability (and the components of Net Pension Liability), and
- Significant actuarial assumptions used to measure Total Pension Liability.

The information reported in the Required Supplementary Information (RSI) section is required to be reported for 10 years; additional years will be reported as they become available:

- Schedule of Changes in Employer’s Net Pension Liability,
- Schedule of Employer’s Net Pension Liability and Related Ratios,
- Schedule of Employer Contributions,
- Schedule of Investment Returns, and
- Notes to the Required Supplementary Information, which includes additional information regarding total pension liability.

The Other Supplementary Information section includes the following two schedules:

- Additions by Source and Deductions by Type, and
- Comparative Information from Prior Fiscal Years for Interest Rate Risk.

GASB Statement No. 72

The System adopted GASB Statement No. 72, entitled, Fair Value Measurement and Application (“GASB Statement No. 72”) beginning with the June 30, 2016 financial statements. GASB Statement No. 72 requires the System to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. All required disclosures can be found in Note 3 in the notes to the basic financial statements.

Condensed Statement of Fiduciary Net Position

| Condensed Statement of Fiduciary Net Position | | | | |
|--|-------------------|-------------------|-------------------|-----------------|
| | June 30, | | \$ Change | % Change |
| | 2018 | 2017 | | |
| | (In Thousands) | | | |
| Current Assets | \$ 4,350 | \$ 4,325 | \$ 25 | 0.6% |
| Investments | 118,116 | 125,812 | (7,696) | -6.1% |
| Total Assets | <u>122,466</u> | <u>130,137</u> | <u>(7,671)</u> | <u>-5.9%</u> |
| Total Liabilities | <u>3,534</u> | <u>4,772</u> | <u>(1,238)</u> | <u>-25.9%</u> |
| Total Fiduciary Net Position | <u>\$ 118,932</u> | <u>\$ 125,365</u> | <u>\$ (6,433)</u> | <u>-5.1%</u> |

Pasadena Fire & Police Retirement System
Management's Discussion and Analysis (MD&A) (Continued)
(Unaudited)

As of June 30, 2018 and 2017, the System had \$118,932,079 and \$125,364,758, respectively, in net position. The net position represents funds restricted for members' pension benefits. The total pension liability is not reported in the basic financial statements, but is disclosed in the Notes and in the RSI.

Condensed Statement of Changes in Fiduciary Net Position

During the year ended June 30, 2018, the Plan's net position decreased by \$6,432,679. Earnings for the year in the portfolio were 5.4% net of fees, compared to 10.7% net of fees in the prior year, and all asset categories returned positive earnings.

| Condensed Statement of Changes in Fiduciary Net Position | | | | |
|---|-------------------|-----------------|-------------------|-----------------|
| | <u>June 30,</u> | | <u>\$ Change</u> | <u>% Change</u> |
| | <u>2018</u> | <u>2017</u> | | |
| | (In Thousands) | | | |
| Employer Contributions | \$ - | \$ - | \$ - | n/a |
| Net Investment Income | 6,656 | 12,514 | (5,858) | -47% |
| Total Additions | 6,656 | 12,514 | (5,858) | -47% |
| Benefit Payments | 12,815 | 13,118 | (303) | -2.3% |
| Administrative Expenses | 274 | 300 | (26) | -8.7% |
| Total Deductions | 13,089 | 13,418 | (329) | -2.5% |
| Net Decrease | \$ (6,433) | \$ (904) | \$ (5,529) | -611.6% |

Earnings for the year in International Equity (4.9% net of fees), Domestic Equity (15.3% net of fees), Real Estate (5.4% net of fees) and Alternatives (4.2% net of fees) were muted by the minimal earnings in Domestic Fixed Income (1.2% net of fees on 45.2% of the total portfolio). There was a significant decrease of \$5,857,083 in investment earnings from 2017. This is reflective of the decline in equity performance year after year with 22.5% in 2017 vs. 15.3% in 2018 for Domestic Equities and 26.2% in 2017 vs. 4.9% in 2018 for International Equities.

Deductions from plan net position consisted of benefits payments to beneficiaries and the plan's administration costs. Total deductions were \$13,089,148 and \$13,417,353 in fiscal year 2018 and 2017, respectively. Total deductions at June 30, 2018 reflect a decrease of \$328,205 compared to the prior year, which was primarily due to deaths of plan members and beneficiaries.

Pasadena Fire & Police Retirement System

Management's Discussion and Analysis (MD&A) (Continued)

(Unaudited)

Fiduciary Responsibilities

The System is a fiduciary for the public safety pension plan of the City of Pasadena. Accordingly, the System is responsible for ensuring that the assets reported in the statements are used for the intended purpose of paying expenses and providing retirement benefits to retirees and beneficiaries of the System.

Requests for Information

This financial report is designed to provide a general overview of the System's finances and to account for the money the System receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Pasadena Fire & Police Retirement System
100 N. Garfield Avenue, N204
Pasadena, CA 91101

Respectfully submitted,



Bernadette Jazmines
Retirement Administrator

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)**

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 4,218,042 | \$ 2,616,941 |
| Receivables: | | |
| Pending trade sales | - | 1,585,224 |
| Interest | 132,169 | 122,475 |
| | 132,169 | 1,707,699 |
| Total receivables | | |
| Investments, at fair value: | | |
| Government and agencies | 15,223,407 | 15,872,832 |
| Fixed income mutual funds | 16,354,631 | 16,593,296 |
| Domestic corporate obligations | 27,507,533 | 27,783,556 |
| International corporate obligations | 169,806 | 382,944 |
| Real estate | 13,408,597 | 15,952,321 |
| Equity - Domestic | 23,261,000 | 24,143,681 |
| Equity - International | 22,190,575 | 25,083,175 |
| | 118,115,549 | 125,811,805 |
| Total investments | | |
| Total assets | 122,465,761 | 130,136,445 |
| <u>Liabilities</u> | | |
| Accounts payable and accrued liabilities | 46,860 | 54,147 |
| Pending trades purchases | 3,486,823 | 4,717,540 |
| | 3,533,683 | 4,771,687 |
| Total liabilities | | |
| Net position restricted for pensions | \$ 118,932,079 | \$ 125,364,758 |

The notes to the basic financial statements are an integral part of this statement.

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

**FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ - | \$ - |
| Net investment income: | | |
| Net increase in fair value of investments | 4,477,313 | 10,159,284 |
| Interest | 816,278 | 1,104,673 |
| Dividends | 1,839,180 | 1,759,095 |
| | <u>7,132,771</u> | <u>13,023,052</u> |
| Investment income | | |
| Less investment expenses | <u>(476,303)</u> | <u>(509,501)</u> |
| Net investment income | <u>6,656,468</u> | <u>12,513,551</u> |
| Total additions | <u>6,656,468</u> | <u>12,513,551</u> |
| Deductions: | | |
| Benefits paid to participants | 12,815,159 | 13,117,723 |
| Administrative expenses | 273,989 | 299,630 |
| Total deductions | <u>13,089,148</u> | <u>13,417,353</u> |
| Net decrease in net position | (6,432,679) | (903,802) |
| Net position restricted for pensions: | | |
| Beginning of year | <u>125,364,758</u> | <u>126,268,560</u> |
| End of year | <u>\$ 118,932,079</u> | <u>\$ 125,364,758</u> |

The notes to the basic financial statements are an integral part of this statement.

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – PENSION PLAN DESCRIPTION

General

The Pasadena Fire & Police Retirement System (“System”) is a single-employer defined benefit pension plan governed by a Board of Retirement (“Board”) under provisions of the City of Pasadena (“City”) Charter. The Board has sole and exclusive responsibility over the assets of the System and the responsibility to administer the System to assure prompt delivery of benefits and related services as provided in Article XV of the City Charter.

The System is governed by a Board of five members; one member of the City Council, two Pasadena residents appointed by the City Council, and two members of the System elected under the supervision of the System. Board members are elected to terms of four years with no restriction on reappointment. Board members receive no compensation. The Board consists of five members, whom on June 30, 2018, were as follows:

Keith Jones, Chair
Peter Boyle, Vice Chair
John H. Brinsley, Board Member
Joe Milligan, Board Member
Terry Tornek, Board Member

The System covers all sworn fire and police personnel who were employed by the City prior to July 1, 1977, except for those who elected to transfer to the California Public Employees’ Retirement System (“CalPERS”) when the System closed to new members in June 2004. In June 2004, active members were provided a one-time opportunity to transfer from the System to CalPERS as provided by an agreement with the City. CalPERS administers the retirement benefits for all fire and police members that elected to be transferred to CalPERS.

The System is included as a pension trust fund in the financial statements of the City of Pasadena, California. The System provides basic lifetime retirement, disability, and death benefits to members who meet the minimum age and length-of-service requirements.

As of June 30, 2018, System membership consisted of 212 retirees and beneficiaries who receive benefits. The average age was 79.4 years and the average monthly benefit was \$5,131. Since June 30, 2017, the plan experienced 5 deaths: 5 deaths without a beneficiary for a net reduction of 5 participants. On June 30, 2018, total membership in the plan consisted of:

- 79 Service Retirees (average age 78.4, average monthly benefit \$6,385)
- 75 Disability Retirees (average age 77.1, average monthly benefit \$4,875)
- 58 Beneficiaries (average age 83.9, average monthly benefit \$3,756)

There are no longer any active employees participating in the System, and the System is closed to new entrants. Benefit provisions are established and, subject to any constitutional limitations, may be amended by the City Charter.

Pension Plan Benefits

Members are entitled to annual pension benefits beginning at normal retirement age (50) equal to 1/50 of final compensation, times the member’s number of years of service, times an actuarial equivalent based on the actual retirement age. The System permits service retirement at age 50, provided at least 15 years of service have been rendered, or retirement after 25 years of service, regardless of age.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

Disability Benefits

Generally, active members who become totally disabled receive annual disability benefits that are equal to 50% of final compensation. Members who receive a service disability retirement receive a portion of their benefit tax-free (as determined by the percent disabled at retirement), and 100% lifetime continuance of all benefits to their surviving spouse. In contrast, members who receive a non-service disability retirement receive a 60% lifetime continuance of the benefits payable to their surviving spouse, and the member does not receive tax-free benefits.

Death Benefits

In the case of a death before a member is eligible to retire, there is a refund of the employee contributions, with interest, plus six months' salary. If the member is eligible to retire, 60% of the earned benefit is payable to the eligible surviving spouse for their lifetime.

Survivor Benefits

Upon the death of a retiree, the qualified surviving spouse is entitled to receive retirement benefits equal to 60% continuance for a service retirement and 100% continuance for a service-connected disability retirement.

Cost of Living Adjustment (“COLA”)

Monthly pension benefits are eligible for an annual cost of living adjustment based on the increase/decrease of the annual average in the Consumer Price Index (“CPI”) for the Los Angeles-Riverside-Orange County, California area for the previous year, January to December, and the change is rounded to the nearest whole percentage. The adjustments are calculated by the actuary, adopted by the Board, and become effective on July 1 of each year. The COLA for 2018 was an increase of 3%.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The System follows the accounting principles and reporting guidelines as set forth in Governmental Accounting Standards Board (“GASB”) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The financial statements are prepared and presented using the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due pursuant to legal requirements. Benefits are recognized when currently due and payable, in accordance with the terms of the System.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The System's cash and short-term investments are managed by the City Treasurer and U.S. Bank (master custodian for investment securities).

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

Investments with City Treasury

Cash necessary for the System's daily operations is pooled with other City funds for short-term investment by the City Treasurer in the City's Investment Pool ("Pool"). The City is responsible for the control and safekeeping of all instruments of title and for all investments in the Pool. The Pool is an the fund manager which is based on net asset value. Fair value of investments in commingled funds in bank loans is the fund share price provided by the fund manager which is based on the market value of the fund. The real property asset manager (Invesco) has 100% of the properties appraised on a quarterly basis by independent third-party appraisers. Use of discounted cash flow models and comparable sales analysis are the primary means of valuing real estate assets with the preponderance of weight given to the discounted cash flow method. Additionally, all valuations are consistent with Uniform Standards of Professional Appraisal Practice (USPAP), the Appraisal Standards Board and the Appraisal Foundation.

Investment transactions are accounted for on the date the securities are purchased or sold (trade date). Unsettled investment trades as of fiscal year-end are reported in the financial statements on an accrual basis. The corresponding proceeds due from sales are reported on the Statement of Fiduciary Net Position under receivables and labeled as pending trade sales, and amounts payable for purchases are reported under liabilities and labeled as pending trade purchases. Dividend income is recorded on ex-dividend date, and interest income is accrued as earned. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of System's investments. Changes in fair value include both realized and unrealized gains and losses on investments.

Income Taxes

The Internal Revenue Service has ruled that plans such as the System qualify under Section 414(d) of the Internal Revenue Code and are not subject to tax under present income tax laws. On May 11, 2012, the Internal Revenue Service issued a favorable Tax Determination Letter to the System. Working in conjunction with the City Attorney to fulfill the conditions of the favorable determination letter, the System revised the Pasadena Municipal Code and the changes became effective December 6, 2012. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the System is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 414(d), and the California Revenue and Taxation Code, Section 23701, respectively. As allowed, the System filed to renew its tax determination status on October 23, 2015. Upon completing an analysis of the Plan document relative to the current external investment pool and is not registered with the Securities and Exchange Commission. At June 30, 2018, the Pool had a weighted average maturity of 1.72 years. The Pool is not rated. For further information regarding the Pool, refer to the City's Comprehensive Annual Financial Report.

The System has designated \$1,250,000 in cash reserves to be invested by the City Treasurer in the Pool. The funds equal one month of benefits and administrative expenses and are reserved for use in the event of a major emergency or disaster.

Method Used to Value Investments

Investments are reported at fair 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 Internal Revenue Code, the IRS found that the Plan is in compliance with the provisions of the Internal Revenue Code (no Plan document failures exist). The System received a favorable determination letter on September 30, 2016.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

The financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NOTE 3 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments on June 30, 2018, were held as follows:

| Cash and Investments | |
|-------------------------------|--------------------------|
| | June 30, 2018 |
| Unrestricted Pooled Cash | \$ 318,721 |
| Restricted Pooled Cash | 1,250,000 |
| Cash held by Trustee | 2,649,321 |
| Cash and Cash Equivalents | 4,218,042 |
| Investments - Held by Trustee | 118,115,549 |
| | \$ 122,333,591 |

Authorized Investments

The City Charter, Article XV Section 1502, confers the authority and fiduciary responsibility for investing the System's funds on the Board. As set forth below, Board members are subject to carry out their duties in the manner of a prudent person familiar with such retirement and investment matters acting under similar circumstances. 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.

The Board is required by statute to use care, skill, prudence and diligence to 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 not prudent to do so. The Board also has the authority to establish an investment policy based on professional advice and counsel, and allows for the delegation of investment authority to professional investment managers.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investments (Continued)

The System's investment policy outlines the responsibility for the investment of the funds and the degree of risk deemed appropriate for the System's investments. Investment managers are contractually required to carry out their responsibilities in accordance with the Board's investment policy and to follow specific contractual guidelines.

The Board oversees and guides the System 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 System 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.

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

- | | |
|---|---|
| • Securities of the U.S. Government or its agencies | • Preferred Stock |
| • Certificates of Deposit, or Time Deposits, placed with commercial banks and savings and loan associations | • Common Stock |
| • Negotiable Certificates of Deposit | • Fixed-Income Funds |
| • Bankers' Acceptances | • Senior Bank Loans |
| • Commercial Paper (rated A-1/P-1 or better) | • Foreign Stock and Corporate Bonds |
| • Medium-Term Corporate Notes | • Mutual Funds |
| • Corporate and Municipal Bonds | • Liquid Alternative Investments |
| | • Real Estate Investment Trust ("REIT") |
| | • Real Estate |
| | • Treasury Inflation Protected Securities |
| | • Short-Term Investment-Grade Bonds |

The Board established an Investment Performance Statement ("IPS") in accordance with applicable local, state, and federal laws. The Board exercises authority and control over the management of the System's assets by setting policy which the Board executes through the use of external prudent experts. During the fiscal year ending June 30, 2018, large cap space was restructured, moving large cap growth to actively managed, and adding a large cap core to be passively managed. The allocation for both large cap growth and large cap value was reduced from 8% to 4% to accommodate an 8% allocation to large cap core. This provides satellite exposures in growth and value. The Investment Policy Statement was revised to reflect the latest changes to the asset allocation which were approved by the Board.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investments (Continued)

The IPS encompasses the following asset classes and asset allocation targets:

| Investment Performance Statement | |
|--|--------------------------------|
| Asset Classes and Targets | |
| As of June 30, 2018 | |
| Asset Class | Target Asset Allocation |
| Domestic Equity | |
| Large Cap Value | 4% |
| Large Cap Growth | 4% |
| Large Cap Core | 8% |
| Small Cap Core | 4% |
| Total Domestic Equity | 20% |
| Foreign Equity | 20% |
| Real Estate | 10% |
| Fixed Income | |
| Domestic Core Fixed Income | 20% |
| Short-Term Investment-Grade Bonds | 10% |
| Senior Bank Loans | 10% |
| Treasury Inflation Protected Securities (TIPS) | 5% |
| Total Fixed Income | 45% |
| Hedge Funds / Liquid Alternative Investments | 5% |
| Total Portfolio | 100% |

The System requires approximately \$1,250,000 per month to cover benefit payments and administrative costs. On a quarterly basis, the Board and the investment consultant evaluate the assets against their allocation targets and determine the appropriate asset class/classes from which to withdraw for payment of benefits and administration. This process also serves as a regular rebalance process to ensure that the portfolio stays within the Board's adopted allocation goals.

Fair Value and Fair Value Hierarchy of Investments

Investments are reported in the Statement of Fiduciary Net Position at fair value. The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets. Level 2 inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived from valuation techniques in which all significant inputs are observable. Level 3 inputs are significant unobservable inputs.

The following table presents a summary of the fair value hierarchy of the recurring fair value measurements of the System as of June 30, 2018:

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Fair Value and Fair Value Hierarchy of Investments (Continued)

| Investments by fair value level | June 30, 2018 | Fair Value Measurement Using | | | Net Asset Value (NAV) |
|--|-----------------------|--|---|--|--------------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Debt Securities | | | | | |
| U.S. Treasury Securities (Government Bonds) | \$ 7,429,459 | \$ - | \$ 7,429,459 | \$ - | \$ - |
| Government Mortgage Backed Securities | 6,977,219 | - | 6,977,219 | - | - |
| Commercial Mortgage-Backed Securities | 327,217 | - | 327,217 | - | - |
| Gov't Issued Commercial Mortgage-Backed Securities | 270,084 | - | 270,084 | - | - |
| Asset Backed Securities | 1,473,102 | - | 1,473,102 | - | - |
| Non-Government Backed CMOs | 1,976,020 | - | 1,976,020 | - | - |
| Index Linked Government Bonds | 63,000 | 63,000 | - | - | - |
| Corporate Bonds | 5,581,517 | - | 5,581,517 | - | - |
| Municipal Bonds | 483,645 | - | 483,645 | - | - |
| Mutual Funds Balanced | 5,771,839 | - | 5,771,839 | - | - |
| Mutual Funds Fixed Income | 16,354,631 | - | 16,354,631 | - | - |
| Total Debt Securities | 46,707,733 | 63,000 | 46,644,733 | - | - |
| Equity Securities | | | | | |
| Consumer Discretionary | 941,353 | 941,353 | - | - | - |
| Consumer Staples | 377,578 | 377,578 | - | - | - |
| Energy | 49,344 | 49,344 | - | - | - |
| Financial Services | 704,833 | 704,833 | - | - | - |
| Health Care Services | 299,123 | 299,123 | - | - | - |
| Industrial Services | 870,366 | 870,366 | - | - | - |
| Information Technology Services | 1,013,383 | 1,013,383 | - | - | - |
| Materials | 274,270 | 274,270 | - | - | - |
| Real Estate | 48,048 | 48,048 | - | - | - |
| Mutual Funds Equity | 40,873,277 | - | 40,873,277 | - | - |
| Total Equity Securities | 45,451,575 | 4,578,297 | 40,873,277 | - | - |
| Investments Measured at NAV | | | | | |
| Senior Bank Loans Secured Subscription Agreement | 12,547,644 | - | - | - | 12,547,644 |
| Real Estate Funds | 13,408,597 | - | - | - | 13,408,597 |
| Total Measured at NAV | 25,956,241 | - | - | - | 25,956,241 |
| Total Investments Measured at Fair Value | \$ 118,115,549 | \$ 4,641,297 | \$ 87,518,010 | \$ - | \$ 25,956,241 |

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy are valued using a matrix pricing technique or based on quoted prices that are not in active markets. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Real estate funds include investment in the Invesco Core Real Estate – U.S.A Limited Partnership ("Fund"). The fair value of the investment in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. The System may request redemption of some or all of its interest by delivering a redemption notice at least 45 days in advance to the Fund. Redemption requests are honored pro-rata based on the ratio of the ownership interest held by each individual investor making a redemption request to the total ownership of interest held by all investors requesting redemptions. The Fund will use best efforts to honor redemption requests as quickly as possible; however, capital availability will dictate the ultimate redemption date and amount. The Fund's portfolio manager is not required to liquidate, encumber assets, or defer investments in order to pay any redemption.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Fair Value and Fair Value Hierarchy of Investments (Continued)

The System’s investment in the Senior Bank Loans Secured Subscription Agreement (“Trust Fund”) is also valued using the NAV per share (or its equivalent) of the System’s ownership interest in the Trust Fund. The Trust Fund has imposed restrictions on the amount and timing of withdrawals. Withdrawals of participation shall be permitted only on a withdrawal date, which is 15th of each month. A written notice of withdrawal request is required to be provided to the Trust Fund no later than the 15th of the month preceding the requested withdrawal date. If withdrawal requests for any given withdrawal date exceed limitations set forth in the Trust Fund’s agreement, all such withdrawal requests shall be processed pro rata. Withdrawal amounts requested but not paid on any given withdrawal date will not be carried over to the following withdrawal date and a new withdrawal request must be timely submitted.

Asset Allocation Policy and Expected Long-term Rate of Return by Asset Class

The investments of the System are allocated by the IPS as approved by the Board and noted in the following table. The long-term geometric expected real rates of return are reported by asset class, and are based on CalPERS’ Capital Markets Assumptions studies.

| Expected Long-Term Rates of Return | | |
|---|--------------------------------|--|
| Asset Class | 6/30/2018 | |
| | Target Asset Allocation | Expected Geometric Real Return* |
| Domestic Equity - Large Cap | 16% | 4.36% |
| Domestic Equity - Small Cap | 4% | 5.18% |
| Foreign Equity | 20% | 4.60% |
| Domestic Core Fixed Income | 20% | 1.47% |
| TIPS | 5% | 1.29% |
| Short-Term Investment-Grade Bonds | 10% | 1.26% |
| Senior Bank Loans | 10% | 3.10% |
| Hedge Funds (Liquid Alternatives) | 5% | 2.79% |
| Real Estate | 10% | 3.04% |
| | 100% | |
| Inflation | | 2.75% |

Source is the June 30, 2018 GASB 67 actuarial information prepared by System Actuary, Bartel Associates, LLC. The rate for Hedge Funds is used for Liquid Alternative Investments.

** 10-year geometric expected real rates of return from CalPERS' 2013 Capital Market Assumptions study.*

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on the System's investments, net of investment expenses, was 5.6%. The money-weighted rate of return expresses investment performance, net of investment fees, adjusted for the changing amounts actually invested.

Deposit and Investment Risks

The System follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3* ("GASB Statement No. 40"). GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the ability to provide services and meet obligations as they become due. The disclosures required by this statement provide information to assess common risks inherent in deposit and investment transactions.

Deposit and investment resources represent considerable assets of the System, and these resources are necessary to carry out fiduciary responsibilities. GASB Statement No. 40 requires the disclosure of the following specific risks that apply to the System's investments:

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

GASB Statement No. 40 also requires the disclosure of deposit or investment policies (or the lack thereof) that relate to the investment and custodial risks that are required to be disclosed. The Board has chosen to manage the investment risks described by GASB Statement No. 40 by contractually requiring each portfolio investment manager to abide by the IPS, specifically tailored to that individual manager, rather than adopting across-the-board investment policies with respect to these investment risks. The fixed income policy stipulates the strategy and investments, investment process, quality constraints, duration constraints, diversification, cash reserves, derivatives, and rate of return expectation. At June 30, 2018, the System had nine (9) external investment managers.

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, Standard and Poor's Rating Services ("S&P"), as of June 30, 2018, are as follows:

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

| Credit Quality Ratings of Investments in Fixed Income Securities | | |
|---|----------------------|-------------------|
| Quality Ratings - S & P | Fair Value | Percentage |
| AAA | \$ 526,254 | 0.89% |
| AA (AA-,AA,AA+) | 1,186,283 | 2.00% |
| A (A-,A,A+) | 2,978,003 | 5.03% |
| BBB (BBB-,BBB,BBB+) | 3,109,273 | 5.25% |
| BB (BB+) | 47,765 | 0.08% |
| B (B-) | 816 | 0.00% |
| CCC | 800,837 | 1.35% |
| Total Securities with S&P Ratings | \$ 8,649,231 | 14.60% |
| Not Rated/Quality Rating N/A* | \$ 35,866,386 | 60.53% |
| Not Rated/U.S. Government Guaranteed Securities** | 7,247,303 | 12.23% |
| Not Rated/U.S. Government Bonds*** | 7,492,459 | 12.64% |
| Total Securities Not Rated/Quality Rating N/A | \$ 50,606,147 | 85.40% |
| TOTAL Fixed Income Securities | \$ 59,255,378 | 100.00% |

* Includes Corporate MBS's rated "N/A" totaling \$1,192,269.45. This category also includes securities held in the TIPS, Liquid Alternatives, Senior Bank Loans, and Short-Term Investment-Grade Bonds asset classes.

** U.S. Government Guaranteed Securities are Government Mortgage-Backed Securities and Government-issued Commercial Mortgage-Backed Securities. These U.S. Government Guaranteed Securities issued by Government Sponsored Enterprises (GSEs) are not rated by the rating agencies, but they are implicitly guaranteed by the U.S. Government.

*** U.S. Government Bonds, more commonly disclosed as U.S. Treasury Bonds and Notes, are assets held in Treasury Bonds and Index Linked Government Bonds. These U.S. Government Guaranteed Securities issued are not rated by the rating agencies, but they are explicitly guaranteed by the U.S. Government.

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 the value of 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, 2018, the System was not exposed to such risk. The System does not have a formal policy for custodial credit risk.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (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 System. Investment securities are exposed to custodial credit risk if the securities are uninsured, 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 because all securities are held by the System's custodial bank in the System's name.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of potential loss attributed to the magnitude of the System's investment in a single issuer of securities. The Board's investment policies and guidelines permit investments in numerous specified asset classes to take advantage of professional investment management advice and a well-diversified portfolio. The active core fixed income asset manager develops and applies diversification standards as deemed prudent, and is expected to maintain diversification by sector and issue. Allocations to any one issuer in fixed income (excluding issues issued by or explicitly guaranteed by the U.S. government) should not exceed 5% of the total portfolio fair market value.

Fiduciary Net Position ("FNP") on June 30, 2018 was \$118,932,079. The System did not have any fixed income investment holdings that represent 5% or more of FNP, or more than 5% of total investments as of June 30, 2018.

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.

While no specific ranges are required, one of the ways the System manages its exposure to interest rate risk is by requiring the fixed income investment manager to maintain its portfolio effective duration within +/- 20% of the benchmark, the Barclays Capital U.S. Aggregate Bond Index. See Other Supplementary Information, page 40, for the Core Fixed Income asset manager's historic effective duration. 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 in the table on the following page that reports the average effective duration of the System's fixed income investments by investment type as of June 30, 2018:

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk (Continued)

| Fixed Income | | |
|--|----------------------|-----------------------------------|
| Effective Duration by Asset Type | | |
| As of June 30, 2018 | | |
| Asset Type | Fair Value | Effective Duration (years) |
| Government Bonds | \$ 7,429,459 | 7.04 |
| Municipal Bonds | 483,645 | 7.81 |
| Corporate Bonds | 5,581,517 | 6.66 |
| Government Mortgage-Backed Securities | 6,977,219 | 5.04 |
| Government Issued Commercial Mortgage Backed | 270,084 | 7.19 |
| Commercial Mortgage Backed | 327,217 | 2.05 |
| Asset Backed Securities | 1,473,102 | 0.99 |
| Non-Government Backed CMOs | 1,976,020 | 1.83 |
| Index Linked Government Bonds | 63,000 | 25.59 |
| Mutual Funds Fixed Income | 16,354,631 | 5.15 |
| Mutual Funds Balanced | 5,771,839 | N/A |
| Other Fixed Income* | 12,547,645 | N/A |
| Total Fixed Income | \$ 59,255,378 | |

* Other Fixed Income includes assets held in Senior Bank Loans for which effective duration is unavailable.

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 reports the fair value of the System's investments that are highly sensitive to changes in interest rates:

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

Highly Sensitive Investments (Continued)

| Highly Sensitive Investments | |
|---|-----------------------------|
| As of June 30, 2018 | |
| <u>Investment Type</u> | <u>Fair Value</u> |
| Government Mortgage Backed Securities | \$ 6,977,219 |
| Government Issued Commercial Mortgage Backed Securities | 270,084 |
| Asset Backed Securities | 1,473,102 |
| Commercial Mortgage-Backed Securities | 327,217 |
| Non-Government Backed Commercial Mortgage Obligations | 1,976,020 |
| Total Highly Sensitive Investments | <u>\$ 11,023,642</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 authorized investment managers are permitted to invest in approved countries or regions, as stated in their respective investment guidelines. Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.

The System's foreign investment holdings on June 30, 2018, are as follows (note that all foreign assets are held in US Dollars):

| Foreign Currency Risk | | |
|--|--------------------------|--------------------------|
| As of June 30, 2018 | | |
| <u>Corporate Obligations</u> | <u>Fair Value</u> | <u>% of Total</u> |
| | <u>in USD</u> | <u>Fair Value</u> |
| Ireland | \$ 49,215 | 0.04% |
| Luxembourg | 24,148 | 0.02% |
| United Kingdom | 24,703 | 0.02% |
| Netherlands | 71,742 | 0.06% |
| Total Foreign Currency (US Dollars) | <u>\$ 169,808</u> | <u>0.14%</u> |

Although these investments are denominated in US dollars, they are exposed to foreign currency risk due to the underlying fund investments.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 4 – CONTRIBUTION INFORMATION

Contribution requirements are established by the City Charter and by contract, and, subject to any constitutional limitations, may be amended by the City Charter or further agreement between the City and the System.

General

Historically, the City has made monthly contributions to the System based on actuarially determined employer contribution rates which, together with employee contributions, were expected to provide sufficient assets to pay funded basic benefits when due. However, the City Charter did not require actuarially determined funding for unfunded basic, 1919 benefits, and COLA benefits, which are funded under Contribution Agreement No. 16,900, dated March 18, 1999, between the City and the System. Per the terms negotiated through their respective recognized Associations, employee contributions of 9% for both Fire and Police Department personnel base earnings were made by the City on behalf of the employees and credited to their individual accounts.

Member Contributions

As a condition of participation, members were required to contribute a percentage of their annual salary to the System. Currently there are no active members in the System, and hence no further member contributions are due to the System.

The City Charter required members' contributions to be credited to the individual account of the member from whose compensation the contribution was deducted. Such contributions accrued interest at a rate determined by the Board and were either to be refunded to members or their beneficiaries upon separation from City service for reasons other than retirement, or applied towards providing members' retirement or death allowances. Amendments to the City Charter cannot prevent the refund of such contributions plus accrued interest. Because there were no active members, accumulated contributions for 2018 were \$0 with no interest credited.

City Contributions

The System's funding mechanism was updated on March 18, 1999, when the System entered into Contribution Agreement No. 16,900 ("Agreement No. 16,900") with the City. As a result of this agreement, the City made a contribution of \$100,000,000 to the System on August 5, 1999 and agreed to make supplemental contributions to the System when needed. Per Agreement No. 16,900, the System was considered to meet minimum funding requirements for the year ended June 30, 2001, if the funded percentage exceeded 70%. As per the agreement, the required minimum funded percentage increases by 1/2% each year until it reaches 80% in the year ending June 30, 2020. Thereafter it may, but need not, be changed by the System.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 4 – CONTRIBUTION INFORMATION (Continued)

City Contributions (Continued)

On October 20, 2011, the Board approved Amended and Restated Agreement No. 20,823 (“Agreement No. 20,823”). Under this new agreement, the City’s minimum funding percentage schedule and reimbursement cap in Agreement No. 16,900 carried forward, and the City agreed to provide a contribution of \$46,600,000 to the System through the issuance of pension obligation bonds. Agreement No. 20,823 provided that the annual required supplemental contribution would be actuarially calculated using an interest assumption of 6% and an inflation rate of 3% beginning with the June 30, 2012 valuation. Pursuant to this agreement, future annual valuations after June 30, 2012, shall adopt an assumed interest rate and inflation assumption based on analysis performed by the System’s actuary and after seeking input from the City and System’s professional consultant. Agreements No. 16,900 and No. 20,823 state that if the minimum funding deficit is greater than \$3,000,000 in a year, the City will pay \$3,000,000 to the System. Any remaining amount necessary to reach the minimum funding percentage will be phased in over a five-year period; however, no annual supplemental payment may exceed a reimbursement cap measured by the prior year’s payments for benefits other than the funded basic benefits.

As of June 30, 2018, the funded percentage of the System, calculated in accordance with Agreement No. 20,823 and Agreement No. 16,900, was 79.9%. As provided by Contribution Agreement No. 16,900, if the funded percentage is below the minimum funding percentage of 79% for fiscal year 2018, the City will reimburse the System in the following fiscal year subject to certain reimbursement limits. Based on the June 30, 2018 actuarial valuation, the funding deficiency was \$0, or 0%, below the funding requirement of 79% as of June 30, 2018. Thus, no required supplemental contribution is owed to the System by the City for the fiscal year ended June 30, 2018.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 5 – NET PENSION LIABILITY

Net Pension Liability

The City’s Net Pension Liability (“NPL”) at June 30, 2018 was \$22,805,000. Fiduciary Net Position (“FNP”) as a percentage of total pension liability is 83.9%. At June 30, 2018, the components of the NPL were as follows:

| Net Pension Liability | |
|--|------------------|
| (In Thousands) | |
| Net Pension Liability | 6/30/2018 |
| Discount Rate | 5.75% |
| Total Pension Liability (TPL)* | \$ 141,737 |
| Fiduciary Net Position (FNP) | 118,932 |
| Net Pension Liability (NPL) | <u>22,805</u> |
| FNP as a Percentage of TPL | <u>83.9%</u> |
| <i>*Source for the TPL is the June 30, 2018 GASBS 67 plan actuarial information report prepared by System Actuary, Bartel Associates, LLC.</i> | |

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. Following the recommendation provided by the System’s Actuary on March 21, 2018, the Board later accepted the recommended assumptions for use in the preparation of the actuarial valuation for the fiscal year ended June 30, 2018. The Total Pension Liability (“TPL”) was determined by the actuarial valuation performed as of June 30, 2018, using the following actuarial assumptions:

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 5 – NET PENSION LIABILITY (Continued)

Key Methods and Assumptions Used in Valuation of Total Pension Liability (Continued)

| Key Methods and Assumptions Used in Valuation of Total Pension Liability | | |
|--|--|------------|
| Valuation Date/Measurement Date | June 30, 2018 | |
| Geometric Real Rate of Return | | |
| | Domestic Equity - Large Cap | 4.36% |
| | Domestic Equity - Small Cap | 5.18% |
| | Foreign Equity | 4.60% |
| | Domestic Core Fixed Income | 1.47% |
| | Senior Bank Loans | 3.10% |
| | Short-Term I-G Bonds | 1.26% |
| | TIPS | 1.29% |
| | Hedge Funds (Liquid Alts) | 2.79% |
| | Real Estate | 3.04% |
| Number of Participants | | |
| | Retirees & Beneficiaries | 212 |
| | Vested Terminations | 0 |
| | Actives | 0 |
| | Total Participants | 212 |
| Actuarial Assumptions | *Discount Rate: 5.75% Salary Scale: No active employees Cost of Living: 2.75% Inflation Rate: 2.75% | |
| Mortality | CalPERS 1997-2015 Experience Study, Modified MP-2017 | |
| <hr style="width: 30%; margin-left: 0;"/> <i>Source is the June 30, 2018 GASBS 67 plan actuarial information prepared by System Actuary, Bartel Associates, LLC.</i> | | |
| <i>*Discount Rate reflects assumed investment</i> | | |

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 5 – NET PENSION LIABILITY (Continued)

Discount Rate

The discount rate of 5.75% was selected by the System actuary and approved by the Board to measure the June 30, 2018 TPL for accounting purposes. The discount rate is the expected real long-term rate of return, plus the inflation assumption of 2.75%, less assumed investment expenses of 40 basis points. Based on the assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments. The discount rate used as of June 30, 2018 reflects a 0.75% decrease as compared to the discount rate used as of June 30, 2017.

Sensitivity of the NPL to Changes in the Discount Rate

Examining the sensitivity of the NPL to changes in the discount rate by a 1% decrease, from 5.75% to 4.75%, revealed an increase in the NPL by \$12,640,000 to a total NPL of \$35,445,000. Conversely, increasing the discount rate by 1%, from 5.75% to 6.75%, revealed a corresponding decrease in the NPL of \$10,888,000 to total NPL of \$11,917,000 as of June 30, 2018.

| Sensitivity of Net Pension Liability (NPL) to Changes in the Discount Rate | |
|---|------------------|
| (In Thousands) | |
| | 6/30/2018 |
| Discount Rate | 5.75% |
| Net Pension Liability (NPL) | \$ 22,805 |
| | |
| Discount Rate (-1%) | 4.75% |
| Net Pension Liability (NPL) | 35,445 |
| Net Increase in NPL | 12,640 |
| | |
| Discount Rate (+1%) | 6.75% |
| Net Pension Liability (NPL) | 11,917 |
| Net Decrease in NPL | (10,888) |

NOTE 6 – ADMINISTRATIVE COSTS

The costs to administer the System are paid by the System. Administrative expenses were \$273,989 for the year ended June 30, 2018. Administrative expenses decreased by a net amount of \$25,641 in 2018 over the June 30, 2017 amount of \$299,630. There was a decrease in personnel costs as the Administrator position was vacant for the last part of the year.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

NOTE 7 – CONCORD SENIOR HOUSING

The City Board of Directors adopted Resolution No. 6179 at its July 18, 1989 meeting assigning a 93% beneficial interest in the Concord property at 275 E. Cordova, Pasadena, to the System, and 100% of the cash flow received by the City from the property for ground lease rent payments through 2031. The property is currently used for federally subsidized housing and was subject to federal restrictions on its use through August 2016. Resolution No. 6179 also declared the City's formal intent to continue to utilize the property for federally subsidized housing through 2031.

Given the significant uncertainties surrounding the property, including the value of the assignment of "beneficial interest," the ability of the City to collect ground lease rent from residual receipts, and permitted future use of the property by the City, the System's interest in this asset has historically been carried at a zero value.

Going forward, based on the regulatory agreement between HUD and Retirement Housing Foundation ("RHF") who is the operator of the Concord, as well as the ground lease agreement between the City and RHF, the System is entitled to receive up to \$130,000 annually from RHF for ground lease rent, payable only through residual receipts, through 2031. In addition, unpaid rent and interest on the unpaid rent (which accrues at 8.5%) accrues as a liability on the project's financial statements as defined in the lease agreement between the City and RHF.

Discussions are currently ongoing between the City and a prospective buyer regarding the potential sale of the property, which may impact the System's beneficial interest in the property and financial interest in ground lease rent. Current rent due for the year ending July 31, 2018 is \$130,000. As of the July 31, 2018 audited financial statements for the Concord property, a total of \$2,813,336 was recorded as a liability for past due rent, and \$3,491,780 was recorded as a liability for interest on the past due rent. As of this date, the total outstanding due to the City for current rent, past due rent and interest on the past due rent is \$6,435,116. However, given the uncertainties surrounding this property, potential proceeds will be treated as a gain contingency and recorded as revenue when received.

REQUIRED SUPPLEMENTARY INFORMATION

PASADENA
FIRE &
POLICE
RETIREMENT
S Y S T E M

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY

| Changes in Total Pension Liability | | | | | |
|--|---------------------------|-------------------|-------------------|-------------------|-------------------|
| (In Thousands) | | | | | |
| | Fiscal Year Ending | | | | |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Discount Rate | 5.75% | 6.50% | 6.50% | 6.50% | 6.00% |
| Total Pension Liability (TPL): | | | | | |
| Service Cost | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 8,832 | 9,272 | 9,644 | 9,162 | 10,185 |
| Benefit Payments | (12,815) | (13,118) | (13,448) | (13,645) | (14,140) |
| Experience Losses (Gains) | 1,261 | (3,081) | (2,098) | (3,075) | (5,310) |
| Assumption Changes* | 2,189 | - | - | 3,141 | - |
| Benefit Changes | - | - | - | - | - |
| Net Change | (533) | (6,927) | (5,902) | (4,417) | (9,265) |
| Total Pension Liability at Beginning of Year | 142,270 | 149,197 | 155,099 | 159,516 | 168,781 |
| Total Pension Liability at End of Year (a) | <u>\$ 141,737</u> | <u>\$ 142,270</u> | <u>\$ 149,197</u> | <u>\$ 155,099</u> | <u>\$ 159,516</u> |
| Changes in Fiduciary Net Position | | | | | |
| (In Thousands) | | | | | |
| | Fiscal Year Ending | | | | |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Fiduciary Net Position: | | | | | |
| Employer contributions | \$ - | \$ - | \$ - | \$ - | \$ 1,164 |
| Member Contributions | - | - | - | - | - |
| Net Investment Income | 6,656 | 12,514 | 49 | 5,683 | 21,303 |
| Benefit Payments | (12,815) | (13,118) | (13,448) | (13,645) | (14,140) |
| Administrative Expenses | (274) | (300) | (301) | (273) | (296) |
| Net Change | (6,433) | (904) | (13,700) | (8,235) | 8,031 |
| Fiduciary Net Position at Beginning of Year | 125,365 | 126,269 | 139,969 | 148,204 | 140,173 |
| Fiduciary Net Position at End of Year (b) | <u>\$ 118,932</u> | <u>\$ 125,365</u> | <u>\$ 126,269</u> | <u>\$ 139,969</u> | <u>\$ 148,204</u> |
| Net Pension Liability (a) - (b) | <u>\$ 22,805</u> | <u>\$ 16,905</u> | <u>\$ 22,928</u> | <u>\$ 15,130</u> | <u>\$ 11,312</u> |
| <p><i>Source for pension liability is the June 30, 2018 GASBS 67 plan actuarial information prepared by System Actuary, Bartel Associates, LLC. GASB Statement No. 67 requires this information be reported for 10 years, or as many years as are available upon implementation.</i></p> <p><i>* June 30, 2015 Assumption Changes of \$1,895,000 for change in base mortality rates, \$8,301,000 for change in mortality improvement scale, and (\$7,055,000) for change in the discount rate.</i></p> | | | | | |

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)**

SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

| Net Pension Liability (In Thousands) | | | | | | | |
|--|--------------------------|--|---|--|---|----------------------------|-----------------|
| Date | Discount Rate | Total Pension Liability (TPL) | Fiduciary Net Position (FNP) | Net Pension Liability (NPL) | FNP as a Percentage of TPL (FNP/TPL) | Covered Payroll | NPL %Pay |
| 6/30/2018 | 5.75% | \$ 141,737 | \$ 118,932 | \$ 22,805 | 83.9% | n/a | n/a |
| 6/30/2017 | 6.50% | \$ 142,270 | \$ 125,365 | \$ 16,905 | 88.1% | n/a | n/a |
| 6/30/2016 | 6.50% | 149,197 | 126,269 | 22,928 | 84.6% | n/a | n/a |
| 6/30/2015 | 6.50% | 155,099 | 139,969 | 15,130 | 90.2% | n/a | n/a |
| 6/30/2014 | 6.00% | 159,516 | 148,204 | 11,312 | 92.9% | n/a | n/a |
| 6/30/2013 | 6.00% | 168,781 | 140,173 | 28,608 | 83.1% | n/a | n/a |

Source for pension liability is the June 30, 2018 GASBS 67 plan actuarial information prepared by System Actuary, Bartel Associates, LLC. GASB Statement No. 67 requires this information be reported for 10 years or as many years as are available upon implementation.

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Employer Contributions (In Thousands) | | | | | | |
|---|---|--|--------------------------------|----------------------------|---|--|
| Fiscal Year Ending | Actuarially Determined Contribution* | Actual Fiscal Year Contribution | Deficiency (Excess) | Covered Payroll | Contribution as % of Payroll | |
| 6/30/2018 | \$ - | \$ - | - | n/a | n/a | |
| 6/30/2017 | - | - | - | n/a | n/a | |
| 6/30/2016 | - | - | - | n/a | n/a | |
| 6/30/2015 | - | - | - | n/a | n/a | |
| 6/30/2014 | 1,164 | 1,164 | - | n/a | n/a | |
| 6/30/2013 | - | - | - | n/a | n/a | |
| 6/30/2012 | 9,079 | 46,600 | (37,521) | n/a | n/a | |
| 6/30/2011 | 8,036 | 8,036 | - | n/a | n/a | |
| 6/30/2010 | 4,982 | 4,982 | - | n/a | n/a | |
| 6/30/2009 | 956 | 956 | - | n/a | n/a | |

Source is the June 30, 2018 GASBS 67 plan actuarial information prepared by System Actuary, Bartel Associates, LLC. GASB Statement No. 67 requires this information be reported for 10 years.

** Actuarially determined contribution based on Board-adopted assumptions for use in preparing the valuation, and as required by applicable Contribution Agreements with the City.*

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)**

SCHEDULE OF INVESTMENT RETURNS

| Money-Weighted Rate of Return | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Annual money-weighted rate of return, net of investment expense | 5.60% | 10.70% | 0.40% | 3.70% | 15.40% |

Source is the June 30, 2018 Investment Performance Review provided by System investment advisor, Verus Investments.

GASB Statement No. 67 requires this information be reported for 10 years. Additional years will be displayed as information becomes available.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

NOTE 1 – SCHEDULE OF CHANGES IN THE EMPLOYER NET PENSION LIABILITY

The total pension liability contained in this section was provided by the System's actuary, Bartel Associates, LLC. The Net Pension Liability is measured as the Total Pension Liability less the amount of the Fiduciary Net Position of the System.

NOTE 2 – SCHEDULE OF EMPLOYER CONTRIBUTIONS

The required employer contribution and percent of those contributions actually made are presented in this section.

The System's funding mechanism was updated on March 18, 1999, when the System entered into Contribution Agreement No. 16,900 ("Agreement No. 16,900") with the City. As a result of this agreement, the City made a contribution of \$100,000,000 to the System on August 5, 1999 and agreed to make supplemental contributions to the System when needed. Per Agreement No. 16,900, the System was considered to meet minimum funding requirements for the year ended June 30, 2001, if the funded percentage exceeded 70%. As per the agreement, the required minimum funded percentage increases by 1/2% each year until it reaches 80% in the year ending June 30, 2020. Thereafter it may, but need not, be changed by the System.

On October 20, 2011, the Board approved Amended and Restated Agreement No. 20,823 ("Agreement No. 20,823"). Under this new agreement, the City's minimum funding percentage schedule and reimbursement cap in Agreement No. 16,900 carried forward, and the City agreed to provide a contribution of \$46,600,000 to the System through the issuance of pension obligation bonds. Agreement No. 20,823 provided that the annual required supplemental contribution would be actuarially calculated using an interest assumption of 6% and an inflation rate of 3% beginning with the June 30, 2012 valuation. Pursuant to this agreement, future annual valuations after June 30, 2012, shall adopt an assumed interest rate and inflation assumption based on analysis performed by the System's actuary and after seeking input from the City and System's professional consultant. Agreements No. 16,900 and No. 20,823 state that if the minimum funding deficit is greater than \$3,000,000 in a year, the City will pay \$3,000,000 to the System. Any remaining amount necessary to reach the minimum funding percentage will be phased in over a five-year period; however, no annual supplemental payment may exceed a reimbursement cap measured by the prior year's payments for benefits other than the funded basic benefits.

NOTE 3 – ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was used in the June 30, 2018 actuarial valuation for purposes of determining the Actuarially Determined Contribution ("ADC"). The assumptions and methods used for the June 30, 2018, and all prior actuarial valuations were recommended by the System's actuary and adopted by the Board. Consistent with the requirements of GASB Statement No. 67, the factors impacting the ADC and any changes to the factors that significantly affect trends in the reported schedules must be disclosed for 10 years.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)

NOTE 3 – ACTUARIAL ASSUMPTIONS (Continued)

Actuarial Demographic Assumptions

| Schedule of Changes to Actuarial Demographic Assumptions For the Years Ended June 30, 2009 - 2018 | | |
|--|---|---|
| Year Ended June 30 | Mortality | Mortality Improvement |
| 2018 | CalPERS 1997-2015 Experience Study | Scale MP-2017 |
| 2015-2017 | CalPERS 1997-2011 Experience Study | Modified MP-2014, to converge to ultimate mortality improvement rates in 2022 |
| 2012-2014 | CalPERS 1997-2007 Experience Study | Scale AA |
| 2009-2011 | Service Retirement & Spouses 1983 GAM set back 2 years; Disability Retirement 1981 Safety Disability set back 6 years | N/A |

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)

NOTE 3 – ACTUARIAL ASSUMPTIONS (Continued)

Actuarial Demographic Assumptions

| Schedule of Changes to Actuarial Demographic Assumptions For the Years Ended June 30, 2009 - 2018 | | | | | | |
|--|-------------------------------------|-------------------|----------------------|--|---------------------------|--------------------------|
| Year Ended June 30 | Retirees & Beneficiaries | | | Subtotal Retirees & Beneficiaries | Active Members | Total Members |
| | Service | Disability | Beneficiaries | | | |
| 2018 | 79 | 75 | 58 | 212 | 0 | 212 |
| 2017 | 82 | 79 | 56 | 217 | 0 | 217 |
| 2016 | 90 | 84 | 59 | 233 | 0 | 233 |
| 2015 | 96 | 86 | 55 | 237 | 0 | 237 |
| 2014 | 98 | 90 | 59 | 247 | 0 | 247 |
| 2013 | 106 | 92 | 59 | 257 | 0 | 257 |
| 2012 | 109 | 98 | 55 | 262 | 0 | 262 |
| 2011 | 116 | 101 | 52 | 269 | 0 | 269 |
| 2010 | 118 | 105 | 52 | 275 | 0 | 275 |
| 2009 | 123 | 111 | 56 | 290 | 0 | 290 |

*The last active member retired during the year ended June 30, 2008.
2008-2009 included one beneficiary with "1919" COLA benefits, which was 33.3% of the salary increase given to active members at employment level at which the member retired.*

Actuarial Methods

| Schedule of Actuarial Cost and Amortization Methods For the Years Ended June 30, 2009 - 2018 | | | | |
|---|----------------------------------|--------------------------------|--|---|
| Year Ended June 30 | Actuarial Cost Method | Amortization Method | Remaining Amortization Period | Asset Valuation Method |
| 2009-2018 | Entry Age Normal Cost | Level Dollar Open Period | 5-year | Investment gains and losses smoothed over 5-year fixed period |

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)

NOTE 3 – ACTUARIAL ASSUMPTIONS (Continued)

Actuarial Economic Assumptions

| Schedule of Changes to Actuarial Economic Assumptions For the Years Ended June 30, 2009 - 2018 | | | | | | | | |
|---|---------------|------------------|-----------------|-----------|----------------|-----------------|------------------------|---|
| Year Ended June 30 | Discount Rate | Invest. Expenses | Admin. Expenses | Inflation | Cost of Living | Salary Increase | Employee Contrib. Rate | Notes |
| 2018 | 5.3% | 40 bp | 50 bp | 2.8% | 3% | N/A | N/A | The funding discount rate was decreased to 5.25%, inflation to 2.75% and expected rate of return to 5.75%. The expected return changed due to change in Capital Market Assumptions. The model predicts that the Expected Long-Term Nominal Net Rate of Return (Rate of Return before factoring in inflation but after subtracting investment fees) is only estimated to be between 5.61% and 5.83%. |
| 2017 | 6.0% | 40 bp | 50 bp | 3.0% | 2% | N/A | N/A | No changes made from 6-30-15 assumptions |
| 2016 | 6.0% | 40 bp | 50 bp | 3.0% | 1% | N/A | N/A | No changes made from 6-30-15 assumptions |
| 2015 | 6.0% | 40 bp | 50 bp | 3.0% | 1% | N/A | N/A | Discount rate assumes no cash reserve and is net of Investment Expenses; Administrative Expenses are included in the City's contribution |
| 2014 | 6.0% | 40 bp | 60 bp | 3.0% | 1% | N/A | N/A | The Discount Rate of 6.0% was evaluated and recommended by the actuary using the 6-30-14 target asset allocation, future asset allocation rebalanced to maintain cash reserve equal to expected benefits plus Admin Expenses less City Contribution, CalPERS investment advisors' 2013 capital market assumptions, and Investment Expenses of 40 bps (Admin Expenses are excluded from the Discount Rate) |
| 2013 | 6.0% | 40 bp | 60 bp | 3.0% | 2% | N/A | N/A | The discount rate assumed the Trust would maintain a cash reserve equal to one year's benefit payments; Investment and Administrative Expenses are included in the Discount Rate |
| 2012 | 6.0% | 40 bp | 60 bp | 3.0% | 3% | N/A | N/A | The discount rate assumed the Trust would maintain a cash reserve equal to one year's benefit payments; Investment and Administrative Expenses are included in the Discount Rate |
| 2011 | 6.0% | 40 bp | 60 bp | 3.0% | 1% | N/A | N/A | Contribution Agreement No. 20,823 Established the Discount Rate of 6.0% and Inflation of 3.0% for the 6-30-11 valuation; Discount Rate was developed using the 6-30-11 target asset allocation, CalPERS investment advisors' 2010 capital market assumptions, investment expenses of 40 bp, and average long-term admin expenses of 60 bps |
| 2010 | 8.0% | | | 3.8% | -1% | N/A | N/A | |
| 2009 | 8.0% | | | 3.8% | 4% | N/A | N/A | |

Sources are the Board-approved valuations, as prepared by Public Pension Professionals (June 30, 2009) and by Bartel Associates, LLC (June 30, 2010-2018).

For the June 30, 2008 and 2009 valuations, the Discount and Inflation Rates were the averages of the '37 Act Counties.

Beginning with the June 30, 2009 valuation, all members were retired; salary increase rates and employee contribution rates were N/A.

PASADENA FIRE & POLICE RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)

NOTE 3 – ACTUARIAL ASSUMPTIONS (Continued)

Actuarial Economic Assumptions

| Schedule of Changes to Actuarial Economic Assumptions | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Target Asset Allocation & Expected Long-Term Geometric Real Rates of Return | | | | | | | | | | |
| For the Years Ended June 30, 2009 - 2018 | | | | | | | | | | |
| Target Asset Allocation, Year Ended June 30 | | | | | | | | | | |
| Asset Class | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Domestic Equity | 40% | 40% | 32% | 32% | 27% | 22% | 22% | 20% | 20% | 20% |
| Foreign Equity | 12% | 12% | 20% | 20% | 20% | 20% | 20% | 20% | 20% | 20% |
| Fixed Income | 30% | 30% | 30% | 30% | 30% | 30% | 33% | 35% | 20% | 20% |
| TIPS | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| Short-Term Investment-Grade Bond | N/A | 10% | 10% |
| Bank Loans | N/A | N/A | N/A | N/A | N/A | 5% | 5% | 5% | 10% | 10% |
| Hedge Funds (Liquid Alternatives) | N/A | N/A | N/A | N/A | 5% | 5% | 5% | 5% | 5% | 5% |
| Real Estate | 8% | 8% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| Cash Equivalents | 5% | 5% | 3% | 3% | 3% | 3% | 0% | 0% | 0% | 0% |
| Total Portfolio | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Expected Long-Term Geometric Real Rates of Return | | | | | | | | | | |
| Asset Class | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Domestic Equity | | 7.30% | 5.50% | 5.50% | 5.35% | 5.00% | 5.00% | 5.00% | 5.00% | 9.54% |
| Foreign Equity | | 7.80% | 5.50% | 5.50% | 5.35% | 5.00% | 5.00% | 5.00% | 5.00% | 4.60% |
| Fixed Income | | 2.00% | 1.60% | 1.60% | 1.55% | 0.74% | 0.74% | 0.74% | 0.74% | 1.47% |
| TIPS | | 2.00% | 1.60% | 1.60% | 1.53% | 0.20% | 0.20% | 0.20% | 0.20% | 1.29% |
| Short-Term Investment-Grade Bonds | | N/A | 0.74% | 1.26% |
| Bank Loans | | N/A | N/A | N/A | N/A | 0.74% | 0.74% | 0.74% | 0.74% | 3.10% |
| Hedge Funds (Liquid Alternatives) | | 9.40% | 5.50% | 5.50% | 5.35% | 3.14% | 3.14% | 3.14% | 3.14% | 2.79% |
| Real Estate | | 5.90% | 4.10% | 4.10% | 3.83% | 4.25% | 4.25% | 4.25% | 4.25% | 3.04% |
| Cash Equivalents | | 0.70% | 0.50% | 0.50% | 0.45% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Inflation | 3.80% | 3.80% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 2.75% |
| Discount Rate | 8.0% | 8.0% | 6.00% | 6.00% | 6.00% | 6.00% | 6.50% | 6.50% | 6.50% | 5.75% |

Sources are the Board-approved actuarial valuations, as prepared by Public Pension Professionals (June 30, 2009) and by Bartel Associates, LLC (June 30, 2010-2018).

For the June 30, 2009 valuation, the Discount and Inflation Rates were the averages of the '37 Act Counties.

For the June 30, 2010 valuation, Expected Real Rates of Return are nominal rates less an inflation assumption of 2.6% (as provided by FPRS' investment consultant).

For the June 30, 2011 valuation, Consistent with Agreement No. 20,823, the Discount and Inflation Rates were set at 6.0% and 3.0%, respectively; in future valuations, these rates could be changed annually upon the recommendation of the actuary, and after consultation with the investment advisor and City.

For the June 30, 2013 valuation, Expected Rates of Return are adjusted capital market assumptions from CalPERS investment advisors' 2010 capital market assumptions study.

For the June 30, 2015-2018 valuations, Discount Rate assumes no cash reserve and is net of investment expenses; the expected rates of return are based on CalPERS investment advisors' 2013 capital market assumptions.

OTHER SUPPLEMENTARY INFORMATION

PASADENA
FIRE &
POLICE
RETIREMENT
SYSTEM

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
OTHER SUPPLEMENTARY INFORMATION**

ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

| ADDITIONS BY SOURCE | | | | |
|----------------------------|-----------------------------------|-----------------------------------|---|--------------|
| (In Thousands) | | | | |
| Fiscal Year | Employee Contributions | Employer Contributions | Net Investment Income (Loss) | Total |
| 2018 | \$ - | \$ - | \$ 6,656 | \$ 6,656 |
| 2017 | - | - | 12,514 | 12,514 |
| 2016 | - | - | 49 | 49 |
| 2015 | - | - | 5,683 | 5,683 |
| 2014 | - | 1,164 | 21,303 | 22,467 |
| 2013 | - | - | 15,630 | 15,630 |
| 2012 | - | 46,600 | 2,036 | 48,636 |
| 2011 | - | 8,036 | 19,605 | 27,641 |
| 2010 | - | 4,982 | 14,946 | 19,928 |
| 2009 | 24 | 956 | (23,626) | (22,646) |

| DEDUCTIONS BY TYPE | | | |
|---------------------------|-----------------|------------------------------------|--------------|
| (In Thousands) | | | |
| Fiscal Year | Benefits | Administrative Expenses | Total |
| 2018 | \$ 12,815 | \$ 274 | \$ 13,089 |
| 2017 | 13,118 | 300 | 13,418 |
| 2016 | 13,448 | 301 | 13,749 |
| 2015 | 13,645 | 273 | 13,918 |
| 2014 | 14,140 | 296 | 14,436 |
| 2013 | 14,322 | 271 | 14,593 |
| 2012 | 14,148 | 287 | 14,435 |
| 2011 | 14,382 | 242 | 14,624 |
| 2010 | 14,975 | 246 | 15,221 |
| 2009 | 14,898 | 211 | 15,109 |

**PASADENA FIRE & POLICE RETIREMENT SYSTEM
OTHER SUPPLEMENTARY INFORMATION (Continued)**

COMPARATIVE INFORMATION FROM PRIOR FISCAL YEARS

**INTEREST RATE RISK
EFFECTIVE DURATION BY ASSET MANAGER
(UNAUDITED)**

| MetWest Fixed Income Asset Manager | | | |
|--|-----------------|------------------|---------------------|
| Effective Duration | | | |
| June 30, 2018 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$23,701,251 | 6.12 Years | 6.01 Years | 2% |
| June 30, 2017 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$24,131,769 | 5.62 Years | 6.01 Years | -6% |
| June 30, 2016 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$43,100,920 | 4.82 Years | 5.47 Years | -12% |
| June 30, 2015 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$45,285,057 | 4.99 Years | 5.63 Years | -11% |
| June 30, 2014 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$45,858,083 | 4.63 Years | 5.60 Years | -17% |
| June 30, 2013 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$43,690,404 | 4.57 Years | 5.49 Years | -17% |
| June 30, 2012 | | | |
| <u>Market Value</u> | <u>Duration</u> | <u>Benchmark</u> | <u>% Under/Over</u> |
| \$47,991,530 | 4.16 Years | 5.07 Years | -18% |
| <i>Source is the June 30, 2012-2018 Investment Performance Reviews by asset manager MetWest.</i> | | | |