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

REPORT AND AUDITED FINANCIAL STATEMENTS
WITH REQUIRED SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
TABLE OF CONTENTS

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE
SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of plan net assets of the Pasadena Fire and Police Retirement System (the "System") as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Pasadena Fire and Police Retirement System as of June 30, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the 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.

The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the System. The Other Supplementary information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 13, 2012

The Pasadena Fire and Police Retirement System ("System" or "Plan") is a defined benefit Plan governed by a Retirement Board ("Board") under the provisions of the City of Pasadena ("City") Charter. Its operations have been reported as a Pension Trust Fund in the City's financial statements. The System is a closed, single employer, defined benefit pension plan that continues to provide retirement, disability and survivor benefits for eligible sworn safety employees of the City. 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 Retirement System elected under the supervision of the Retirement 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, 2012. This discussion and analysis should be read in conjunction with and is qualified in its entirety by the accompanying audited financial statements and footnotes which begin following this Management Discussion and Analysis. The financial statements, footnotes, and this discussion and analysis were prepared by management and are the responsibility of management.

Financial Highlights

The Change in Plan Net Assets Held in Trust for Pension Benefits increased by $34,201,683 for fiscal year 2012, which compares to an increase of $13,018,063 in fiscal year 2011. This was driven by the issuance of $46,600,000 in Pension Obligation Bonds by the City, pursuant to Amended and Restated Contribution Agreement No. 20,823.

Although the financial markets in the second half of the fiscal year were strong, due to the challenging first half of the fiscal year, net investment income for the Plan was $2,036,348, as compared to the net investment income of $19,605,223 in the prior fiscal year. The current fiscal year investment income was consistent with overall market conditions.

The asset allocation is frequently reviewed by the Board and the investment consultant. The Board adopted its revised Statement of Investment Policy on June 16, 2011. The June 2011 policy revision adjusted the strategic allocation ranges for equities and fixed income following the adoption of a new asset allocation mix on May 19, 2011. The June 2011 policy revision added allocations to Treasury Inflation Protected Securities and Private Real Estate and deleted the allocation to the Real Estate Investment Trust.

In anticipation of receipt of the net bond proceeds, the Board reviewed the asset allocation policy with its Investment Advisor at the March 15, 2012 Board meeting, and reaffirmed the Asset Allocation Policy with no changes. The Board also developed and approved an investment strategy for the bond proceeds, with input from City Treasury, to dollar-cost average the investments over five months (March – August, 2012). Upon each investment of bond proceeds, the portfolio was rebalanced. Rebalancing 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.

A cash reserve within pooled cash at the City was maintained to meet the required monthly cost of benefits and administration. For fiscal year 2012, no withdrawals were made from the Northern Trust Collective Government Short-Term Investment Fund (cash account) to transfer to the City's pooled cash account. Rather, a total of $8 million was liquidated from other portfolio assets and transferred to the City's pooled cash account to pay for benefits and administration during the first three quarters. Following the issuance of pension obligation bonds, net bond proceeds were retained in the City's pooled cash account to pay the balance of the required monthly costs for benefits and administration for the fourth quarter of the fiscal year.

Over the summer and fall of 2011, the Board negotiated an amended and restated contribution agreement between the City and the System to address a significant anticipated funding deficiency, expiration of the revenue source for the debt service on the 1999 and 2004 pension obligation bonds, and unrealistic investment earnings and inflation rate assumptions in Agreement No. 16,900. As a result of the negotiations, Amended and Restated Contribution Agreement No. 20,823 was approved by the Board on October 20, 2011, and by the City Council on October 24, 2011. In addition to the issuance of $46,600,000 in pension obligations, Agreement No. 20,823 removed references to other pension systems operating under the County Employees Act of 1937 (to which the annual Plan investment earnings and inflation rate assumptions were tied), and provided for the annual earnings and inflation rate assumptions to be set by mutual agreement between the City and the Board following evaluation and recommendation by the System's actuary. Agreement No. 20,823 set the investment earnings rate at 6.0% and the inflation rate for 3.0% for the June 30, 2011 actuarial analysis. The change in the actuarial assumptions enhanced funding prudence, and will minimize long-term volatility and the risk of creating future unfunded liabilities.

Contributions for fiscal year 2012 were $46,600,000, which consisted of the contribution of net bond proceeds received from the City under Amended and Restated Contribution Agreement No. 20,823 (Agreement No. 20,823). The contribution was deposited in the City's Pooled Cash account on March 29, 2012, and then was invested per the Board-approved investment strategy to dollar-cost average the net proceeds over five months. Through June 30, 2012, a total of $32,200,000 of the bond proceeds were transferred to Northern Trust and invested. The final investment of net proceeds was scheduled for August 1, 2012 in the amount of $5,800,000.

Deductions from the Plan Net Assets primarily consisted of the payment of benefits to retired members and their beneficiaries and the costs of administering the Plan. Deductions for benefits decreased to $14,147,887 in the current fiscal year, which represented a decrease of $233,638 compared to the prior year and was primarily due to decreased benefits to participants resulting from deaths. Deductions for plan administration increased over the previous year by $45,143, from $241,635 in 2011 to $286,778 in 2012 and were attributed to hiring a new full-time System Administrator, and expenses for fiduciary counsel and actuary services related to the negotiation of Agreement No. 20,823.

The System engaged Bartel Associates on July 22, 2010, to serve as its independent actuary. The most recent actuarial valuation was prepared as of June 30, 2012, and determined the funded percentage, calculated in accordance with Agreement No. 20,823 and Contribution Agreement No. 16,900, to be 78.2% as compared to 59.0% in the prior year. The increase of 19.2% was attributed to the following: the effect of recognizing a portion of the current and prior years' investment gains and losses which decreased the funded position by 4.5%; the normal operation of the Plan which increased the funded percentage by 2.0%; demographic losses which decreased the funded percentage by 0.3%; a change in the mortality assumption which increased the funded percentage by 0.9%, and; the issuance of pension obligation bonds and contribution of $46.6 million which increased the contribution percentage by 21.1%. The Plan had an approximate market value asset rate of return of 1.6%, net of expenses, which was below the assumed rate of return of 6.0%.

As of June 30, 2012 and 2011, the funded percentage of the System, calculated in accordance with Agreement No. 20,823 and Agreement No. 16,900, was 78.2% and 59.0%, respectively. As provided by Contribution Agreement No. 16,900, if the funded percentage is below the minimum funding percentage of 76.0% for fiscal year 2012, the City will reimburse the System in the following fiscal year subject to certain reimbursement limits. Based on the June 30, 2012, actuarial valuation, the funding deficiency was $0, or 0% below the funding requirement of 76.0% as of June 30, 2012. This compared to a minimum funding deficit of $29,546,000, or 16.48%, to meet the minimum funding requirement of 75.5% as of June 30, 2011.

Agreement No. 20,823 provided for the issuance of pension obligation bonds by the City that would yield $46,600,000 in net proceeds to the System. To allow the City time to issue such bonds and complete the validation proceeding, the January 3, 2012, due date for the supplemental contribution was extended until March 31, 2012. Pursuant to Agreement No. 20,823, as long as the net proceeds were provided to the System by that date, the proceeds would be treated as assets of the System as of June 30, 2011, and therefore as of that date there would be no funding deficit in the minimum funding requirement, and consequently, no Supplemental Contribution owed to the System by the City for the fiscal year ending June 30, 2011. Net bond proceeds in the amount of $46,600,000 were received by the System on March 29, 2012, thus, no Supplemental Contribution was due to the System.

Financial Statement Overview

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

- Statement of Plan Net Assets
- Statement of Changes in the Plan Net Assets
- Notes to Financial Statements

In addition to the financial statements, this report also contains required supplemental information and supporting schedules of actuarial information.

The *Statement of Plan Net Assets* 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 Plan Net Assets,* in contrast, provides a summary view of the additions to and the deductions from the plan net assets that occurred over the course of the year.

Together these two statements report the System's net assets – the difference between assets and liabilities – as one way to measure the System's financial position. Over time, increases and decreases in net assets 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 Governmental Accounting Standards Board, using the accrual basis of accounting. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized.

The *Notes to Financial Statements* provide additional information and explanations that are essential to a full understanding of the data provided in the financial statements. The Notes to Financial Statements appear on pages 9 to 22.

The Required Supplemental Information follows the notes showing the Plan's funding progress with obligations to provide pension benefits to members, as well as historical trend information reflecting how much the City has contributed in relation to its annual required contributions.

Condensed Statement of Plan Net Assets

	June 30, 2012	June 30, 2011	June 30, 2010	Increase (Decrease) 2012/2011	Increase (Decrease) 2011/2010
	(In Thousands)				
Current Assets	$ 14,318	$ 2,922	$ 9,464	$ 11,396	$ (6,542)
Investments	124,843	102,078	85,113	22,765	16,965
Total Assets	139,161	105,000	94,577	34,161	10,423
Total Liabilities	25	66	2,660	(41)	(2,594)
Total Plan Net Assets	$ 139,136	$ 104,934	$ 91,917	$ 34,202	$ 13,017

As of June 30, 2012, the System had $139,136,080 in Plan Net Assets. The Net Assets represent funds held in trust for future benefit payments. However, public pension funds are not required to disclose the future obligations owed to retirees. Only current liabilities are reported on the Statement of Plan Net Assets.

Condensed Statement of Changes in Plan Net Assets

	June 30, 2012	June 30, 2011	June 30, 2010	Increase (Decrease) 2012/2011	Increase (Decrease) 2011/2010
	(In Thousands)				
Employer Contributions	$ 46,600	$ 8,036	$ 4,982	$ 38,564	$ 3,054
Plan Member Contributions	-	-	-	-	-
Net Investment Income	2,036	19,605	14,947	(17,569)	4,658
Total Additions	48,636	27,641	19,929	20,995	7,712
Benefit Payments	14,148	14,382	14,975	(234)	(593)
Administrative Expenses	287	241	246	46	(5)
Total Deductions	14,435	14,623	15,221	(188)	(598)
Net Increase	$ 34,201	$ 13,018	$ 4,708	$ 21,183	$ 8,310

During the year ended June 30, 2012, the Plan Net Assets increased by $34,201,683, principally as a result of the $46,600,000 in net bond proceeds that were contributed to the System.

Fiduciary Responsibilities

The System is a fiduciary for the 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 the 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,

Jill Fosselman
Retirement Administrator

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 14,061,635	$ 2,721,065
Receivables:		
Interest	256,443	200,421
Total receivables	256,443	200,421
Investments, at fair value:		
Government and agencies	31,855,588	22,206,282
Domestic corporate obligations	18,015,458	15,235,215
International corporate obligations	1,049,700	1,283,168
Real Estate (REITS)	11,185,142	9,660,250
Domestic corporate stocks	50,182,408	33,204,990
International corporate stocks	12,555,203	20,488,520
Total investments	124,843,499	102,078,425
Total assets	139,161,577	104,999,911
Liabilities		
Accounts payable and accrued liabilities	25,497	65,514
Total liabilities	25,497	65,514
Net assets held in trust for employees' pension benefits	$ 139,136,080	$ 104,934,397

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

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Additions:		
Contributions:		
Employer	$ 46,600,000	$ 8,036,000
Net investment income:		
Net changes in fair value of investments	(343,922)	17,567,082
Interest	1,556,037	1,504,834
Dividends	1,066,961	898,571
Gross investment income	2,279,076	19,970,487
Less investment expenses	(242,728)	(365,264)
Net investment income	2,036,348	19,605,223
Total additions	48,636,348	27,641,223
Deductions:		
Benefits paid to participants	14,147,887	14,381,525
Administrative expenses	286,778	241,635
Total deductions	14,434,665	14,623,160
Net increase	34,201,683	13,018,063
Net assets held in trust for employees' pension benefits:		
Beginning of year	104,934,397	91,916,334
End of year	$ 139,136,080	$ 104,934,397

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

NOTE 1 – PENSION PLAN DESCRIPTION

General

The Pasadena Fire and Police Retirement System ("System") is a defined benefit plan governed by a Retirement Board ("Board") under provisions of the City of Pasadena ("City") Charter. The Retirement 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 Pasadena City Charter. The Board consists of five members, and members as of June 30, 2012, were as follows:

Keith Jones, Chair
John Tennant, Vice Chair
Peter Boyle, Board Member
John Brinsley, Board Member
Terry Tornek, Board Member

The System covers all 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. Once transferred to CalPERS, retirement benefits for all fire and police personnel employed thereafter are provided under CalPERS.

The System is a single-employer public employees' retirement system which 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, 2012, the System membership consisted of 262 retirees and beneficiaries who currently receive benefits. There are no longer any active employees participating in the System. As of June 30, 2011, there were 269 retirees and beneficiaries. 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.

Disability Benefits

Generally, active members who become totally disabled receive annual disability benefits that are equal to 50% of final compensation.

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.

NOTE 1 – PENSION PLAN DESCRIPTION (Continued)

Survivor Benefits

Upon the death of a retiree, the qualified beneficiary 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 retiree 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, CA 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 2012 was an increase of 3%, and the COLA for 2011 was an increase of 1%.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The System follows the accounting principles and reporting guidelines as set forth in Statement No. 25 of the Governmental Accounting Standards Board ("GASB"). 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 and when the City has made a formal commitment to provide the contributions. Benefits are recognized when 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 requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reporting Entity

The System's annual audited financial statements are included in the City of Pasadena's financial reports as a pension trust fund.

Cash and Cash Equivalents

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

City Treasury

Cash necessary for the System's daily operations is pooled with other City funds for short-term investment by the City Treasurer. The City is responsible for the control and safekeeping of all instruments of title and for all investment of the pooled funds.

The System has designated $1,230,000 in cash reserves to be invested by the City Treasurer in pooled cash. The funds equal one month of benefits and administrative expenses and are restricted for use in the event of a major emergency or disaster.

Reclassifications

Comparative data for the prior year has been presented in the selected sections of the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. Also, certain accounts presented in the prior year's data may have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards

In June 2012, GASB, which sets accounting principles generally accepted in the United States of America (GAAP) for governments, including the System, approved major changes to the pension accounting and reporting framework. The new pension accounting and financial reporting standards, GASB Statements No. 67 and No. 68 represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. GASB Statement No. 67 provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and GASB Statement No. 68 for plan sponsors, are effective for fiscal years beginning after June 15, 2014. The System's Board and management, working with professional consultants will evaluate and implement these new requirements as prescribed.

On September 12, 2012, the California Public Employees' Pension Reform Act of 2013 became law and it will be effective January 1, 2013. The System is in the process of reviewing the impact of the statutory changes to the benefits of current and future members of the System's retirement system as well as impacts to the required contributions of its members and employers.

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. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 414, and the California Revenue and Taxation Code, Section 23701, respectively.

NOTE 3 – INVESTMENTS

Investments are reported at fair market value. Fair market 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 market value of securities denominated in a foreign currency reflects exchange rates in effect at fiscal year-end. Fair market value of investments in commingled funds in real estate is based on the fund share price provided by the fund manager which is based on net asset value.

Authorized Investments

The City of Pasadena Charter confers the authority and fiduciary responsibility for investing the System's funds on the Retirement Board. In addition, 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. This prudent expert rule permits the Board to make investment allocation decisions and diversify investment holdings to reduce overall risk and increase returns. The prudent expert rule also permits the Board to establish an investment policy based on professional advice and counsel, and allows for the delegation of investment authority to professional investment managers. 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 bound to carry out their responsibilities in accordance with the Board's investment policy and to follow specific contractual guidelines.

NOTE 3 – INVESTMENTS (Continued)

Authorized Investments (Continued)

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
- Certificates of Deposit, or Time Deposits, placed with commercial banks and savings and loan associations
- Negotiable Certificates of Deposit
- Banker's Acceptances
- Commercial Paper (rated A-1/P-1 or better)
- Medium-Term Corporate Notes
- Corporate and Municipal Bonds
- Preferred Stock
- Common Stock
- Fixed-Income Funds
- Foreign Stock and Corporate Bonds
- Mutual Funds
- Real Estate Investment Trust (REIT)
- Private Real Estate
- Treasury Inflation Protected Securities

Deposit and Investment Risks

The System adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3*, effective July 1, 2004. 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 Market Value of Investments
- Custodial Credit Risk – Deposits and Investments
- Concentration of Credit Risk
- Interest Rate Risk
- Highly Sensitive Investments
- Foreign Currency Risk
- Cash and Investments

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

NOTE 3 – INVESTMENTS (Continued)

Statement of Investment Policy

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 Statement of Investment Policy, specifically tailored to that individual manager, rather than adopting across-the-board investment policies with respect to these investment risks. The Board adopted its revised Statement of Investment Policy on June 16, 2011, and reaffirmed the Asset Allocation Policy within the Statement of Investment Policy on March 15, 2012. The revision adjusted the strategic allocation ranges for equities and fixed income following the adoption of a new asset allocation mix on May 19, 2011. The June 2011 policy revision added allocations to Treasury Inflation Protected Securities and Private Real Estate and deleted the allocation to the Real Estate Investment Trust. At the end of June 30, 2012, the System had seven external investment managers, and approved an eighth external investment manager for Private Real Estate (pending the capital call). The fixed income policy stipulates the strategy and investments, investment process, quality constraints, duration constraints, diversification, cash reserves, derivatives, and rate of return expectation.

Credit Risk and Market Value of Investments

The Board has the exclusive control over the System's investment portfolio as prescribed by Article XV, Section 1502 of the City of Pasadena Charter. The Board has established the Statement of Investment Policy, effective May 21, 2009, with revisions on September 17, 2009, May 20, 2010, and June 16, 2011, in accordance with applicable local, State, and Federal laws. The Board members exercise 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.

The Statement of Investment Policy encompasses the following asset classes and the asset allocation goals:

Domestic Core Fixed Income – 30%
Large Cap Domestic Equity – 27% (13.5% Large Cap Value, 13.5% Large Cap Growth - Passive)
Small-Mid Cap Core Equity – 5%
International Equity – 20%
Private Real Estate – 10%
TIPS (Treasury Inflation Protected Securities) – 5%
Cash – STIF – 3%

At the February 16, 2012 Board meeting, the Board directed Wurts to sell 50% of the Dodge & Cox International Stock Fund and purchase Capital Group American Funds EuroPacific Growth Funds to further diversify the international asset space. Although the asset is in U.S. dollars, the investments within the fund are non-U.S. holdings.

The System requires approximately $1,230,000 monthly to cover the benefit payments and administrative costs. When an asset class exceeds the allocation goal, the Board and the Investment Consultant review the allocation and determine the appropriate asset class/classes from which to withdraw the cash. This also serves as an ongoing rebalancing of the fund to maintain the allocation goals.

NOTE 3 – INVESTMENTS (Continued)

Credit Risk

Credit Risk is the risk that the issuer of a debt security or other counterparty to an investment will not fulfill its obligations. The individual investment guidelines for the fixed income investment manager describe applicable restrictions on credit risk. The System seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization, Standard and Poor's ("S & P"), as of June 30, 2012, are as follows:

Credit Quality Ratings of Investments in Fixed Income Securities

Quality Ratings - S & P	Market Value	Percentage
AAA	$ 30,585,509	60.06%
AA	4,370,161	8.58%
A	5,485,247	10.77%
BBB	4,651,625	9.14%
BB	296,052	0.58%
B	714,045	1.40%
CCC	432,248	0.85%
CC	7,856	0.02%
D	71,573	0.14%
Not Rated/Quality Rating N/A*	1,611,650	3.17%
Rating Not Determined **	2,694,780	5.29%
Total	$ 50,920,746	100.00%

* Minus: Not rated: STIF of $ 2,694,780.

** Minus: Not rated: N/A.

** These ratings are implicitly or explicitly guaranteed by the U.S. Government and currently a rating is not provided by the nationally recognized statistical rating organization. The rating agencies normally do not rate government agency and treasury debt and therefore they have an implied AAA rating.

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, 2012, the System is not exposed to such risk on the fair value of total international investments. The System does not have a formal policy for custodial credit risk.

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.

NOTE 3 – INVESTMENTS (Continued)

Concentration of Credit Risk

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 individual investment guidelines for the fixed income manager forbid concentrations greater than 5% in the securities of any one issuer (excepting issues issued by or explicitly guaranteed by the U.S. government). 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. As of June 30, 2012, the System held investments in two federal agencies, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, that are approaching the 5% threshold (as of June 30, 2011, both of these investments exceeded the 5% threshold). However, these issuers have an implicit guarantee from the federal government.

Fixed Income Securities
As of June 30, 2012

Issuer	Market Value	% of Total Market Value
Federal National Mortgage Association	$ 5,881,504	4.6%
Federal Home Loan Mortgage Corporation	6,313,931	4.9%

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 their portfolio effective duration within +/- 20% of the benchmark, the Barclays Capital U.S. Aggregate Bond Index. The effective duration is a measure, in years, of interest-rate sensitivity in debt investments. The longer the effective duration, the greater the sensitivity to interest rate changes.

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

NOTE 3 – INVESTMENTS (Continued)

Highly Sensitive Investments

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

Investment Type	2012
Government Mortgage-Backed Securities	$ 14,254,590
Government Issued Commercial-Mortgage Backed Securities	371,574
Asset-Backed Securities	3,037,146
Commercial Mortgage-Backed Securities	3,345,503
Non-Government-Backed Commercial Mortgage Obligations	3,159,442
Total	$ 24,168,255

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 investment holdings as of June 30, 2012, are as follows:

Foreign Currency Type - Corporate Bonds	**Market Value in USD**	**% of Total Market Value**
United Kingdom	$ 573,327	0.45%
Switzerland	308,746	0.24%
New Zealand	167,627	0.13%
Total Foreign Currency	$ 1,049,700	0.82%
Foreign Currency Type - Equities		
International Region	$ 12,555,203	9.82%
Total Foreign Currency	$ 12,555,203	9.82%

At the February 16, 2012 Board meeting, the Board directed Wurts to sell 50% of the Dodge & Cox International Stock Fund and purchase American Funds EuroPacific Growth Fund with the proceeds to further diversify the international asset space. Although the EuroPacific mutual fund asset is in U.S. dollars, all holdings are outside the U.S., and normally, at least 80% of assets must be invested in securities of issuers in Europe or the Pacific Basin. Since the asset is held in dollars, it is not recognized in the above chart, under Foreign Currency Type - Equities, which highlights foreign currency holdings.

As of June 30, 2012, the total amount of funds held in the International Equity space (Dodge & Cox International Fund and EuroPacific Growth Fund) totaled $25,139,878, or 19.7% of the allocation target of 20.0% in International Equity.

NOTE 3 – INVESTMENTS (Continued)

Cash and Investments

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

	June 30, 2012	June 30, 2011
	(In Thousands)	
Unrestricted Pooled Cash	$ 9,792	$ 1,711
Restricted Pooled Cash	1,230	1,350
Cash with Fiscal Agent	3,040	2,173
Investments - Held by Trustee	124,843	102,078
	$ 138,905	$ 107,312

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, 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 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 requires members' contributions to be credited to the individual account of the member from whose compensation the contribution was deducted. Such contributions accrue interest at a rate determined by the Retirement Board and are either to be refunded to members or their beneficiaries upon separation from City service for reasons other than retirement, or to be 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 at June 30, 2012 and 2011, were $0 and $0, respectively, with no interest credited for 2012 and 2011.

City Contributions

The funding system was updated on March 18, 1999, when the System entered into Contribution Agreement No. 16,900 (Agreement No. 16,900) with the City of Pasadena. As a result of this agreement, the City made a contribution of $100,000,000 to the System on August 5, 1999. Per Agreement No. 16,900, the System is considered to meet minimum funding requirements for the year ended June 30, 2001, if the funded percentage exceeded 70%. The minimum funded percentage will increase 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.

NOTE 4 – CONTRIBUTION INFORMATION (Continued)

City Contributions (Continued)

On October 20, 2011, the Retirement Board approved Amended and Restated Contribution Agreement No. 20,823 (Agreement No. 20,823), that was subsequently approved by the City Council on October 24, 2011. Agreement No. 20,823 provided for the issuance of pension obligation bonds by the City that yielded $46,600,000 in net proceeds to the System. To allow the City time to issue such bonds and complete the validation proceeding, the January 3, 2012 due date for the supplemental contribution was extended until March 31, 2012. Pursuant to Agreement No. 20,823, as long as the net proceeds were provided to the System by that date, they would be treated as assets of the System as of June 30, 2011, and therefore as of that date there would be no funding deficit in the minimum funding requirement, and consequently, no Supplemental Contribution owed to the System by the City for the fiscal year ending June 30, 2011. Net bond proceeds in the amount of $46,600,000 were received by the System on March 29, 2012.

NOTE 5 – ADMINISTRATIVE COSTS

The costs to administer the System are paid by the System. Administrative expenses were $286,778 and $241,635, respectively, for 2012 and 2011. Administrative expenses increased by a net amount of $45,143 in 2012, and were attributed to 1) hiring a full-time administrator, and 2) legal and actuarial expenses related to the negotiation of Amended and Restated Contribution Agreement No. 20,823.

NOTE 6 – SUPPLEMENTAL FUNDING PLAN

The System engages an independent actuary to perform an annual actuarial valuation. The results of the valuation as of June 30, 2012, are presented in the Schedule of Funding Progress. This includes historical trend information about the actuarially determined funded status of the System from a long-term ongoing System perspective; the progress made in accumulating sufficient assets to pay benefits when due; and the Schedule of Employer Contributions.

To fund the unfunded actuarial accrued liability, on November 21, 1989, the Board of Directors of the City of Pasadena approved in concept the assignment of assets to the System. On June 12, 1990, the Board of Directors adopted Resolution No. 6379, which formally assigned the recommended assets to the System in a formal “Contribution Agreement.” The funding plan is evaluated annually based on economic conditions and actuarial assumptions. The funding plan was updated on March 18, 1999, when the System entered into Agreement No. 16,900 with the City of Pasadena. As a result of this agreement, the City of Pasadena 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.

On October 20, 2011, the Retirement Board approved Amended and Restated Contribution Agreement No. 20,823 (Agreement No. 20,823), that was subsequently approved by the City Council on October 24, 2011. Under Agreement No. 20,823, which is applicable to the June 30, 2011 actuarial valuation, the City’s supplemental payment is completed by carrying forward the minimum funding percentage schedule and reimbursement cap in Agreement No. 16,900; however, it is computed using an interest assumption of 6% and an inflation rate of 3%. Pursuant to Agreement 20,823, future annual valuations after June 30, 2011, 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. Upon analysis provided by the System actuary this past June 2012, the Board adopted the following recommended assumptions and studies (that were concurred with by City Treasury and the System’s Investment Advisor) for the July 1, 2011 actuarial valuation for the fiscal year ending June 30, 2012:

- An interest rate of 6%,
- An inflation rate of 3%, and
- The CalPERS 1997-2007 Experience Study mortality tables with projection Scale AA for the June 30, 2012 actuarial valuation.

NOTE 6 – SUPPLEMENTAL FUNDING PLAN (Continued)

As of June 30, 2012, the funded percentage of the System, calculated in accordance with Agreement No. 20,823, was 78.2%. Thus, the funded percentage for 2012 was above the required minimum funding percentage of 76.0%.

Supplemental contributions in each year are subject to certain limitations as provided by the Amended and Restated Contribution Agreement. The minimum funding deficit was $0 as of June 30, 2012. Agreements No. 16,900 and No. 20,823 state that if this minimum funding deficit is greater than $3,000,000, the City will pay $3,000,000 to the System. Any remaining amount necessary to reach the minimum funding percentage is to be phased in over a five-year period, but no annual supplemental payment may exceed a reimbursement cap measured by the prior year's payments for benefits other than the funded basic benefits. The required supplemental contribution by the City as of June 30, 2012, was $0.

The information displayed below presents the funded status as of the most recent actuarial valuations. The Schedule of Funding Progress – Pension Plan in the Required Supplemental Information section immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Funded Status as of the Most Recent Actuarial Valuation Date
(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2012	$ 136,272	$ 174,249	$ 37,977	78.2%	$ -	N/A

Actuarial Methods and Significant Assumptions

Valuation date	June 30, 2012	
Actuarial cost method	Actuarial Accrued Liability for retirees	
Amortization method	Level dollar open	
Remaining amortization period	5 years	
Asset valuation method	5-year smoothed market	
Actuarial assumptions	Interest	6.0%
	Salary scale	No active employees
	Cost of living	3.0%
Mortality Tables	CalPERS 1997-2007 Experience Study, projection Scale AA	

NOTE 7 – SETTLEMENT AGREEMENT

In October 2002, the Retirement Board accepted the Actuarial Valuation Report, dated June 30, 2002, including the adoption of a 20% corridor concept in the asset smoothing method. The corridor concept set a 20% corridor around the market value of the assets, which the actuarial value of assets was required to stay within, to ensure that the actuarial value of the assets did not vary significantly from the market value. This method resulted in a minimum funding deficit of $11,828,000 and a City contribution under the Contribution Agreement of $4,766,000 that would be due in the subsequent fiscal year. However, the City disputed the use of the corridor concept and in January 2003 engaged an actuary to provide an opinion as to the appropriateness of the corridor concept. Excluding the use of the corridor concept, the City calculated the minimum funding deficit to be $80,000. The City contributed this amount to the System in January 2003.

During 2003, the System filed a claim against the City for payment of the larger amount of the above contribution. This claim was deemed denied by the non-response of the City. In November 2003, the Retirement Board accepted the Actuarial Valuation Report, dated June 30, 2003, which utilized the 20% corridor concept in the asset smoothing method. This method resulted in a minimum funding deficit of $20,296,000 and a City contribution under the Contribution Agreement of $8,143,000 that would be due in January 2004.

In June 2004 the City and the System entered into Settlement and Release Agreement No. 18,550 ("Settlement Agreement") to settle the disputed use of the corridor method and the payment of the supplemental contributions. Under the terms of the Settlement Agreement, the City made contributions of $15,000,000, $15,000,000, and $10,000,000 in August 2004, October 2004, and December 2004, respectively. In addition, a debenture was issued by the City in June 2004 for $13,736,000 and the debenture was to be funded by the contributions provided for by the Settlement Agreement. Contribution amounts in excess of the debenture were applied to the supplemental contribution that was due to the System in January 2005. In consideration, the System agreed to eliminate the use of the corridor concept methodology in all actuarial valuations on or subsequent to June 30, 2005, subject to certain exceptions if actuarial standards or practices were changed, or the City failed to make any required contribution. As of June 30, 2005, $40,000,000 was collected by the System.

In October 2005, the Retirement Board accepted the Actuarial Valuation Report dated June 30, 2005. The valuation included the $40,000,000 of contributions received by the System under the Settlement Agreement, and allocated the $13,736,000 used to repay the debenture issued in June 2004 as a contribution and asset as of June 30, 2004, based upon the provisions of the Settlement Agreement. The debenture of $13,736,000 replaced earlier debentures issued by the City for Supplemental Contributions under Agreement No. 16,900. The payments under the Settlement Agreement in excess of the amount allocated to the debenture and included in the System assets in the prior year were included in System assets as of June 30, 2005.

NOTE 8 – TRANSFER OF MEMBERS TO CALPERS

In June 2004, active members were provided a one-time opportunity to transfer from the System to CalPERS, as provided by an agreement between the City and CalPERS. Ten members elected to transfer to CalPERS, and in July 2004 assets of $4,687,000 attributable to these members was transferred to CalPERS. These were recognized as payables in fiscal year 2004.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The City of Pasadena Board of Directors adopted Resolution 6179 at its July 18, 1989, meeting assigning a 93% beneficial interest in the Concord property at 275 E. Cordova, Pasadena, to the Pasadena Fire and Police Retirement 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 is subject to federal restrictions on its use through August 2016. Resolution 6179 also declared the City's formal intent to continue to utilize the property for federally subsidized housing through 2031.

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Given the significant uncertainties surrounding the property, including the value of the assignment of “beneficial interest,” 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.

In June 2012, the City informed the System of the Concord property operator’s desire to renegotiate the lease and extend the federal covenants for federally subsidized housing for an additional 50 years beyond the current term expiration in 2016. In addition, it was disclosed that a ground lease rent payment had been provided to the City, but that the City was under the impression that it was not allowable and would need to be returned to the operator of the property. Discussions are currently ongoing regarding the potential lease extension and its impact on the System’s beneficial interest in the property and financial interest in ground lease rent.

NOTE 10 – REQUIRED SUPPLEMENTARY INFORMATION

The schedule of the System’s funding progress against the actuarial accrued liability and the schedule of required employer Annual Required Contribution (ARC) and the percentage of the ARC recognized by the System are presented, where available, on the following pages as Required Supplementary Information.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 13, 2012, which is the date the financial statements were issued.

As noted under the Financial Highlights section of the Management’s Discussion and Analysis, the final investment of the net bond proceeds was invested on August 1, 2012, in the amount of $5.8 million. Total proceeds invested between March and August 2012 were $38 million of the $46.6 million contribution. The balance of the proceeds, or $8.6 million, was used to fund payments for benefits and administration from April 2012 through September 2012.

In August 2012, the System was notified by the City that three payments of ground lease rent had been received by the City in the total amount of $520,000 for fiscal years 2009-2012 from Retirement Housing Foundation (RHF), which is the operator of the Concord property. The System is currently working with the U.S. Department of Housing and Urban Development (HUD) and the City’s Housing Department to assess whether the rent payments were approved by HUD. If approved, the rent payments will be transferred to the System. Going forward, based on the regulatory agreement between HUD and RHF, as well as the ground lease agreement between the City and RHF, the System is entitled to receive up to $130,000 annually from the operator of the Concord property for ground lease rent, payable only through residual receipts, through 2031. In addition, unpaid rent is to accrue as a liability, and interest on the unpaid rent is to accrue as a liability at 8.5% as defined in the lease agreement between the City and RHF. As of the July 31, 2012audited financial statements for the Concord property, a total of $2,033,334 has been booked as a liability for past due rent, and a total of $2,202,461 has been booked as a liability for interest on the past due rent. The System is working with City Treasury and the City’s Housing Department to assess the ability to collect past rent and interest, and future rent from the Concord property.

On September 13, 2012, Invesco Core Real Estate – U.S.A., L.P. (Invesco) issued a capital call for $10 million and requested funding on October 1. Based on the June 11, 2011 revised Investment Policy, the System liquidated the RREEF investment and entered into the Private Real Estate asset class on October 2. As additional capital calls are received, the System will rebalance the portfolio to purchase additional shares in Invesco to meet the policy target of 10%.

REQUIRED SUPPLEMENTAL INFORMATION

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(AMOUNTS IN THOUSANDS)
JUNE 30, 2012

Actuarial Valuation Date	(a) Actuarial Value of Plan Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAAL as a % of Covered Payroll
June 30, 2012	$ 136,272	$ 174,249	$ 37,977	78%	$ -	N/A
June 30, 2011	105,811	179,284	73,473	59%	-	N/A
June 30, 2010	109,740	166,096	56,356	66%	-	N/A
June 30, 2009	119,551	177,803	58,252	67%	-	N/A
June 30, 2008	131,321	178,748	47,427	73%	179	26,506 %
June 30, 2007	131,137	183,046	51,909	72%	146	35,607 %
June 30, 2006	127,841	184,852	57,011	69%	141	40,416 %
June 30, 2005	132,730	185,181	52,451	72%	277	18,902 %

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(AMOUNTS IN THOUSANDS)
JUNE 30, 2012

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Recognized as Contribution
June 30, 2012	$ 46,600	$ 46,600	100%
June 30, 2011	8,036	8,036	100%
June 30, 2010	4,981	4,981	100%
June 30, 2009	11,447	956	8%
June 30, 2008	12,525	3,194	25%
June 30, 2007	13,755	3,839	28%
June 30, 2006	12,674	1,427	11%
June 30, 2005	16,665	26,293	158%
June 30, 2004	24,425	13,863	57%
June 30, 2003	16,972	212	1%
June 30, 2002	8,688	148	2%
June 30, 2001	5,326	148	3%

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2012

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012	
Actuarial cost method	Actuarial Accrued Liability for retirees	
Amortization method	Level dollar open	
Remaining amortization period	5 years	
Asset valuation method	5-year smoothed market	
Actuarial assumptions	Interest	6.0%
	Salary scale	No active employees
	Cost of living	3.0%
	CalPERS 1997-2007 Experience Study, projection Scale AA	

OTHER SUPPLEMENTAL INFORMATION

PASADENA FIRE AND POLICE RETIREMENT SYSTEM
OTHER SUPPLEMENTAL INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE
(AMOUNTS IN THOUSANDS)

REVENUES BY SOURCE

Fiscal Year	Employee Contributions	Employer Contributions	Gross Investment Income (Loss)	Total
2012	$ -	$ 46,600	$ 2,279	$ 48,879
2011	-	8,036	19,970	28,006
2010	-	4,982	15,278	20,260
2009	24	956	(23,160)	(22,180)
2008	24	3,194	(9,992)	(6,774)
2007	20	3,839	22,343	26,202
2006	57	1,427	14,398	15,882
2005	82	26,293	13,635	40,010
2004	355	13,863	15,519	29,737
2003	371	212	2,772	3,355
2002	412	148	(8,945)	(8,385)
2001	664	148	(1,664)	(852)

Note: Employer contributions listed under actuarial valuation data for 2004 differ from employer contributions listed under financial statement data due to exclusion for actuarial valuation purposes of contributions receivable due under the Settlement Agreement and inclusion of a receivable from the June 2004 debenture (see Note 7).

EXPENSES BY TYPE

Fiscal Year	Benefits	Administrative Expenses	Investment Expenses	Total
2012	$ 14,148	$ 287	$ 243	$ 14,678
2011	14,382	242	365	14,989
2010	14,975	246	332	15,553
2009	14,898	211	466	15,575
2008	14,864	301	407	15,572
2007	14,572	257	492	15,321
2006	14,190	234	561	14,985
2005	13,969	229	457	14,655
2004	12,879	302	524	13,705
2003	12,751	225	542	13,518
2002	12,343	225	591	13,159
2001	12,019	254	532	12,805