

CITY OF PASADENA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL
REPORT
YEAR ENDED JUNE 30, 2005



DEPARTMENT OF FINANCE

October 5, 2005

To the Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California

In accordance with Section 907.5 of the City Charter, the Department of Finance hereby submits the Comprehensive Annual Financial Report (CAFR) of the City of Pasadena, California (City) for the fiscal year ended June 30, 2005. This report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). GASB has the primary responsibility for determining accounting and financial reporting standards for state and local government entities.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. It is believed that the data, as presented, is accurate in all material respects, and is presented in a manner designed to fairly set forth the financial position and results of operations of the City and component units as measured by the financial activity of the various funds and account groups, and that it contains all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs and evaluate financial condition.

The City Charter requires an independent audit of the financial statements of all accounts of the City by an independent certified public accountant. Accordingly, this year's audit was undertaken by Conrad and Associates LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Pasadena for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor

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concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Pasadena's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to meeting the requirements set forth in the City Charter, the independent audit was also part of the broader, federally mandated Single Audit Act of 1984, as amended in 1996, and the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* to meet the needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Pasadena's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Pasadena's MD&A can be found immediately following the report of the independent auditor.

GOVERNMENTAL STRUCTURE

The City was incorporated in 1886 and became a charter City in 1901. The City operates under the powers granted by a City Charter which dictates the responsibilities of the City Council and City Manager. There are seven City Council members who are nominated and elected by district for overlapping four-year terms. In addition, there is a citywide elected Mayor who also serves for four years.

The City Council is responsible, among other things, for setting policies, passing ordinances, adopting the budget, appointing committees and hiring the City's manager, attorney, clerk and prosecutor. The City Manager is responsible for carrying out policies and ordinances of the City Council, appointing the heads of the City's departments and overseeing the day-to-day operations of the City.

The City covers an area of 23 square miles in the northwestern portion of the San Gabriel Valley and has a population of 144,000, according to the State Department of Finance. The City is bounded on the west by the cities of Los Angeles, Glendale and La Canada,

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on the south by South Pasadena and San Marino, on the east by Arcadia and Sierra Madre, and on the north by the unincorporated community of Altadena.

REPORTING ENTITY AND ITS SERVICES

This report includes all funds of the City, as well as all of its component units. Component units are legally separate entities for which the City is financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the City's operations and are included in this CAFR as part of the City. Accordingly, the Pasadena Parking Authority, the Pasadena Civic Improvement Corporation (PCIC), the Pasadena Fire and Police Retirement System (FPRS), the Pasadena Housing Authority and the Pasadena Community Development Commission (PCDC) are reported as part of the City. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City and to differentiate their financial position, results of operations and cash flows from those of the City. The Rose Bowl Operating Company (RBOC) and the Pasadena Center Operating Company (PCOC) are the discretely presented component units.

The City provides a full range of municipal services including: public safety (police and fire), street construction and maintenance, refuse collection, water and power utilities, sewer utilities, library, culture and recreation, public improvements, planning and zoning, health services, housing and community development, and general administrative and support services.

Budgetary Controls

The City adopts a comprehensive budget detailed by department and fund prior to the beginning of each fiscal year, July 1. From the effective date of the budget, funds become appropriated to the departments for the objects and purposes identified. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by a motion adopted by the affirmative vote of at least five members of the City Council. The accounts of the City are maintained by line item detail or object of expenditure. The legal level of budgetary control (the level at which management may not reassign resources or over spend appropriations) is at the departmental level within each fund. Revenues are estimated annually and monitored on an ongoing basis to ensure there are adequate resources to cover expenditures.

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MAJOR GOALS AND ACCOMPLISHMENTS

The City Council has outlined the following goals:

- Assure a Safe and Secure Community
- Foster Economic Prosperity
- Create Neighborhood Vitality and Livability
- Focus on Planning, Programming and Reinvesting in Our Parks and Parklands
- Make Water and Power Utilities Market-Competitive
- Create a More Effective, Cost Efficient Government
- Improve Our Public Schools

In recognition of these goals, the City continues to promote strong public safety, cohesive neighborhoods, aggressive economic development and effective government. Major and noteworthy accomplishments during fiscal year 2005 are as follows:

- In January 2005, the City Council added funding to the budget to address neighborhood impacts arising from a number of “nuisance” liquor stores for overtime, night and weekend code enforcement efforts and directed that a second Neighborhood Action Team, consisting of 5 Police Officers and 1 Sergeant be assembled.
- The Water and Power Department continues to offer customers market competitive rates for water and electricity. In order to help ensure Pasadena a source for reliable, cost-effective energy the City contracted for an approximate 20-megawatt share of the Magnolia Power Plant Project under construction in the City of Burbank.
- Completion of major new planning policies, including the revised Zoning Code, the Mobility Element and the Land Use Element, and the Central District Specific Plan.
- Initiation of a planning process relating to parks and open space with the intention of developing an Open Space Element and a master plan for parks.
- Continuation of the Cultural Nexus initiative to strengthen Pasadena’s participation in arts and culture.

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- In a national contest, the City was awarded the Accessible America Award, for the focus on disability issues and innovative programs, services and facilities that are accessible to disabled persons.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Pasadena operates.

Local Economy

Pasadena's economic base is very diversified. Some of the leading industries include health care, telephone utilities, engineering and construction, financial services, higher education, cosmetics and general retail merchandise. Thirty-five major companies provide over 37,500 jobs in the City. Pasadena has withstood many of the economic challenges faced by most cities throughout California and has experienced stable revenues and strong economic activities, especially in the area of housing construction. The growth the City has seen has come from a combination of economic recovery and business expansion through a resurgence of commercial, retail and residential development.

Long-term Financial Planning

The financial picture of the City is consistently being monitored. The local economy is expected to remain strong. Staff closely monitors budget decisions coming out of Sacramento and the City has positioned itself to withstand some loss in revenues due to actions taken by the State Legislature. Increasing labor costs, including benefits and workers' compensation payments, will present the biggest challenges in the coming fiscal year. The General Fund five-year forecast reveals a stable economic outlook, but suggests the growth in expenses will exceed growth in revenues. The City will continue to identify new revenue sources, restructure its debt, look for ways through legislation and/or lobbying efforts to establish guaranteed funding sources, revenue opportunities and streamline operations and/or determine which programs and services the City can no longer afford to provide.

Cash Management Policies and Practices

In order to maximize interest earnings, the City employs a pooled cash system managed by the City Treasurer. Pooled cash is maintained in an invested position providing for

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reasonable liquidity to meet maturing obligations. Interest revenue derived from pooled cash is allocated to participating funds on a monthly basis, based on the average monthly cash balance of each fund, except for investment earnings associated with funds not legally required to receive pooled investment income, and that has been assigned to and recorded as revenue of the general fund, as provided by California Government code Section §53647.

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

Note 3 (Cash and Investments) of the basic financial statements lists the types of City investments and their credit risk categories.

Risk Management

The City funds self-insurance with self-administered claim programs to provide for workers' compensation and liability risks. These activities are accounted for in Internal Services funds, which are a proprietary fund type. The fund revenues are primarily premium charges to other funds. The City purchased limits of \$20,000,000 in excess of its \$5,000,000 self-insurance program for liability claims through Great Lakes Insurance Company and Evanston Insurance Company in FY 2004. The City purchased \$25 million limits in excess of its \$7.5 million self-insurance limits for workers' compensation claims through Employer's Reinsurance Corporation (ERC), which was a change from the prior year when the City purchased Statutory Limits in excess of a \$500,000 self-insured retention. No self-insurance claim settlement exceeded the self-insurance retention in the past three years. It is possible that a trip and fall liability claim could exceed the \$5 million self-insured retention carried when the accident occurred, but it is not anticipated that any other reported claim will penetrate the Self-Insured Retention, although some old workers' compensation claims are nearing the exhaustion of the retention.

The Workers' Compensation Supervisor and staff administer the claims process, coordinate benefit delivery to injured workers, and ensure employees receive all benefits to which they are entitled, and are attempting to do so in the most expeditious, cost efficient manner within the context of the laws of the State of California. The Safety Officer and staff coordinate employee safety training and monitoring Citywide.

The Liability Claims Coordinator and staff administer the pre-litigation liability claims process, purchase property insurance or other insurance to protect City's assets, and manage risks of accidental loss to City resources other than workers compensation

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claims. The program includes the identification and measurement of risks of accidental loss, application of appropriate risk management techniques for minimizing or avoiding retained risk, the transfer of risk to others by the purchase of policies of insurance for specific, separately funded enterprise liabilities, and coordinating risk management and/or insurance requirements for persons dealing with the City, such as vendors, permittees, licensees, and contractors.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Operating Budget for fiscal year 2006 represents a continuing effort to maintain service levels despite challenges the City faces in addressing the threats from Sacramento. The last few years have been challenging ones for local governments throughout California. A prolonged state budget crisis, which has yet to be fully resolved, triggered a shift in local revenues to the state. As a consequence of these raids on local revenues and the threat of additional transfers, many local governments were forced to reduce expenses in some cases by reducing or eliminating public services, in order to maintain balanced budgets.

Pasadena lost approximately \$1.3 million in General Fund revenue and \$2.7 million in redevelopment funds to the state during this period. Moreover, an additional \$1.8 million in redevelopment funds will be lost in fiscal year 2006. Fortunately, with the guidance of the City Council, a balanced approach that included budget reductions, new revenues, the use of a budget stabilization reserve and shifts in expenses to other non-general funds where appropriate, the City successfully managed this difficult period without significant impacts on City services or the City's workforce.

The passage of Proposition 1A (Protection of Local Government Revenues) in the November 2004 general election ended the period of uncertainty as it relates to the state budget. The Proposition protects local funding for public safety, health, libraries, parks and other vital services and requires the state to fund legislative mandates on local governments or suspend their operation. Despite this major victory for local government and the citizens it serves, the loss of local redevelopment funds remains a continuing threat.

Locally, Pasadena's economy remains strong. The City's unemployment rate is consistently below county and state averages. The local real estate market is competitive, with home values typically above the median for California and office space vacancy rates half of the county average. Building activities are expected to remain largely unchanged from recent prior years and several large educational institutions in the city including the California Institute of Technology, Art Center College of Design and Fuller Theological Seminary, are in various stages of expansion. The City's debt levels remain

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moderate despite the issuance of \$53 million of bonds to support the seismic retrofit of historic Pasadena City Hall. These factors, coupled with a demonstrated commitment to sound fiscal policies and management, lead two of the major financial rating agencies to upgrade Pasadena's bond ratings, from AA to AA+, which is considerably higher than the State of California's rating and higher than 90% of other cities in California with bond ratings.

While Pasadena's financial outlook appears strong, the City still faces fiscal challenges as the cost of providing services to the public continues to rise. The General Fund five-year financial plan helps guide the development of the Operating Budget by tracking and trending current and anticipated revenues and expenses. The current five-year projection indicates that the City should finish fiscal year 2005 with positive net income. However, as in prior budgets, revenues are not expected to fully match expenses in fiscal year 2006, and the gap is projected to grow over the next few years. Although a cause for some concern, these projections tend to be conservative and there is every reason to believe that by continuing to monitor revenues and expenses closely, reducing costs through efficiencies, pursuing new revenues, and if necessary, making reasonable and balanced cost reductions, the overall financial health of the City will stay strong and City services will be maintained. The Operating Budget for fiscal year 2006 includes both modest reductions aimed at maintaining the City's fiscal discipline, and enhancements intended to further the goals of the City Council as discussed in greater detail below.

Additionally, as mentioned above, the Operating Budget includes funding to begin the restoration of the 8% General Fund Reserve. City policy calls for a reserve in the General Fund equal to 8% of the current year's appropriations. In fiscal year 2004, as part of the response to the loss of revenues to the state, the City capped the reserve at its then current level of \$13.25 million. This figure represents 7.17% of General Fund appropriations in the fiscal year 2006 Operating Budget. An additional \$626,000 is included in the Operating Budget in order to raise the reserve to 7.5% of appropriations. In subsequent fiscal years additional amounts will be added to reach the 8% target by fiscal year 2012.

Over the years, the City has encouraged investment in the community that has created employment opportunities particularly for residents. The budget supports efforts that provide healthy job growth and create affordable housing.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Pasadena for its Comprehensive Annual Financial Report for the fiscal year ended

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June 30, 2004. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

In addition, the City has been awarded the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) association for the fiscal year ended June 30, 2004.

Both certificates are valid for a period of one year only. Staff believes this current report continues to conform to the program requirements and will submit it to the CSMFO and GFOA award programs for consideration.

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Department of Finance staff.

The Mayor and City Council should also be acknowledged for their leadership, support and continuing efforts to maintain the City's strong fiscal health.

Respectfully submitted,

Cynthia J. Kurtz
City Manager

Jay M. Goldstone
Director of Finance

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Pasadena, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Pasadena. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Fire and Police Retirement System Pension Trust Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the fund, is based solely on the report of the other auditors.

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 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 audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, of the City of Pasadena, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pasadena's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Cornell and Associates, L.L.P.

October 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Pasadena, we offer readers of the City of Pasadena's financial statements this narrative overview and analysis of the financial activities of the City of Pasadena for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, which can be found on pages 1-9 of this report.

FINANCIAL HIGHLIGHTS

- The primary government assets of the City of Pasadena exceeded liabilities at the close of fiscal year 2005 by \$ 710,739,108 (*net assets*). Of this amount, \$192,725,141 (*unrestricted net assets*) is for unrestricted uses in accordance with finance-related legal requirements reflected in the City's fund structure.
- The primary government's total net assets increased by \$64,471,716. Approximately 22.1 percent of this increase is attributable to the increase of the Light and Power net assets.
- As of the close of fiscal year 2005, the City of Pasadena's governmental funds reported combined ending fund balances of \$251,386,030 an increase of \$20,020,750 in comparison with the prior year. Approximately 70.4 percent of the total amount, \$176,857,557 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of 2005, unreserved fund balance for the General Fund was \$61,996,252 or 33.7 percent of total general fund expenditures.
- The City of Pasadena's total debt had a net increase of \$1,957,029 or .3 percent during fiscal year 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Pasadena's basic financial statements. The City of Pasadena's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Pasadena's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Pasadena's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Pasadena is improving or deteriorating.

The *statement of activities* presents information to show how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues

and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Pasadena that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Pasadena include general government, public safety, transportation, sanitation, health, culture and leisure, and community development. The business-type activities of the City of Pasadena include electric, water, refuse, parking, and telecommunication operations.

The basic government-wide financial statements can be found on pages 32-35 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The City of Pasadena, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Pasadena can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Pasadena maintains thirty-eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Project Management Capital Project Fund, 2003 Variable Rate Demand Certificate of Participation Capital Project Fund and the Community Development Commission Debt Service Fund, all of which are considered to be major funds. Data from the other thirty-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Pasadena adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and Special Revenue Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 36-42 of this report.

Proprietary Funds

The City of Pasadena maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Pasadena uses enterprise funds to account for its electric, water, refuse, parking, and telecommunication operations. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City of Pasadena's various functions. The City of Pasadena uses internal service funds to account for its computing and communication, building maintenance, fleet maintenance, benefits, leasing of equipment, machinery, vehicles and the acquisition and construction of real property from the Pasadena Civic Improvement Corporation, workers' compensation, general liability, printing services, and mail services. Because each of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Light and Power, Water, Old Pasadena Parking, and Paseo Colorado Parking Funds, each of which are considered to be major funds of the City of Pasadena. Conversely, each of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report. Data from the other three proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 44-51 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Pasadena's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 52-53 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 59-138 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Pasadena's progress in funding its

obligation to provide pension benefits to its employees. Required supplementary information can be found on page 141-143 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 146-147 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pasadena, assets exceeded liabilities by \$ 710,739,108 at the close of the most recent fiscal year.

Approximately 45.4 percent of the City of Pasadena's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Pasadena uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Pasadena's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Pasadena's Net Assets

	Governmental Activities		Business Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 357,714,702	335,248,938	315,152,883	319,278,740	672,867,585	654,527,678
Capital assets	329,492,499	330,330,211	394,563,527	382,142,168	724,056,026	712,472,379
Total Assets	687,207,201	665,579,149	709,716,410	701,420,908	1,396,923,611	1,367,000,057
Long-term debt outstanding	360,370,767	338,771,725	249,570,388	261,580,027	609,941,155	600,351,752
Other liabilities	53,490,500	63,410,523	22,752,848	23,885,109	76,243,348	87,295,632
Total Liabilities	413,861,267	402,182,248	272,323,236	285,465,136	686,184,503	687,647,384
Net assets:						
Invested in capital assets, net of debt	177,709,746	178,072,918	144,993,139	120,562,141	322,702,885	298,635,059
Restricted	11,020,740	3,326,165	184,290,342	175,006,507	195,311,082	178,332,672
Unrestricted	84,615,448	81,997,818	108,109,693	120,387,124	192,725,141	202,384,942
Total net Assets	273,345,934	263,396,901	437,393,174	415,955,772	710,739,108	679,352,673

An additional portion of the City of Pasadena's net assets \$197,782,066 or 27.8 percent represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$190,254,157 or 26.8 percent is for unrestricted uses in accordance with finance-related legal requirements reflected in the City's fund structure.

At the end of the 2005 fiscal year, the City of Pasadena is able to report positive balances in all three categories of net assets for the government as a whole.

During the 2005 fiscal year, the primary government's net assets increased by \$64.5 million. Approximately 21.1 percent of this increase is attributable to profits from the Light and Power Fund wholesale power sales. Approximately sixty seven percent of this increase is represented in the City's Governmental Activities.

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City of Pasadena's Changes in Net Assets

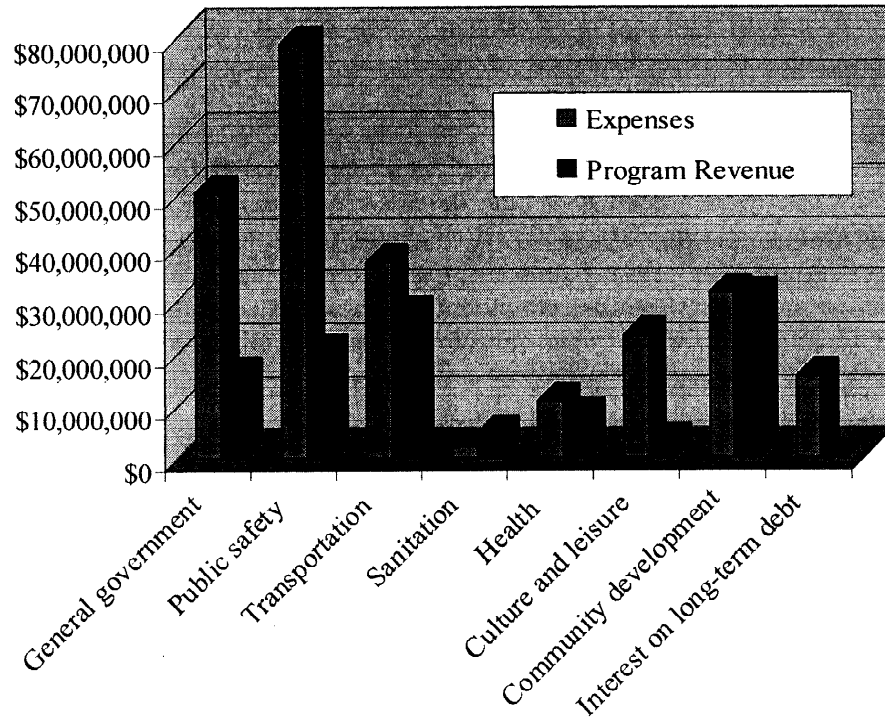
	Governmental Activities		Business Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$ 55,590,518	51,645,808	193,174,548	189,174,971	248,765,066	240,820,779
Operating grants and contributions	32,559,574	36,220,398	2,763,877	2,495,174	35,323,451	38,715,572
Capital grants and contributions	22,602,171	15,421,093	-	-	22,602,171	15,421,093
General revenues:						
Taxes:						
Property taxes, levied for general purpose	46,267,839	46,965,859	-	-	46,267,839	46,965,859
Sales taxes	34,025,536	32,471,997	-	-	34,025,536	32,471,997
Utility users' tax	26,638,754	25,927,767	-	-	26,638,754	25,927,767
Transient occupancy tax	7,444,810	7,021,531	1,438,821	1,173,840	8,883,631	8,195,371
Construction tax	3,974,255	4,473,984	-	-	3,974,255	4,473,984
Business license tax	4,147,408	4,783,633	-	-	4,147,408	4,783,633
Franchise taxes	2,078,654	2,026,257	1,109,812	791,599	3,188,466	2,817,856
Other taxes	5,475,612	5,440,154	-	-	5,475,612	5,440,154
Other intergovernmental	14,213,101	8,928,672	-	-	14,213,101	8,928,672
Investment earnings	10,090,949	7,254,268	9,895,187	9,094,504	19,986,136	16,348,772
Net change in fair value of investments	(311,536)	(1,882,666)	906,515	(5,260,269)	594,979	(7,142,935)
Gain on sale of assets	-	31,813	1,105,836	-	1,105,836	31,813
Miscellaneous revenues	12,094,100	4,732,630	4,244,406	2,302,397	16,338,506	7,035,027
Total revenues	276,891,745	251,463,198	214,639,002	199,772,216	491,530,747	451,235,414
Expenses:						
General government	50,247,744	27,947,335	-	-	50,247,744	27,947,335
Public safety	78,920,431	70,480,277	-	-	78,920,431	70,480,277
Transportation	37,322,322	30,918,324	-	-	37,322,322	30,918,324
Sanitation	2,408,961	2,739,236	-	-	2,408,961	2,739,236
Health	10,833,974	10,990,628	-	-	10,833,974	10,990,628
Culture and leisure	23,378,691	22,602,127	-	-	23,378,691	22,602,127
Community development	31,592,887	37,995,535	-	-	31,592,887	37,995,535
Interest and other fiscal charges	15,739,971	15,591,719	-	-	15,739,971	15,591,719
Electric	-	-	125,858,810	126,921,881	125,858,810	126,921,881
Water	-	-	30,281,320	29,131,693	30,281,320	29,131,693
Refuse	-	-	9,331,267	8,975,169	9,331,267	8,975,169
Parking	-	-	10,727,150	10,208,523	10,727,150	10,208,523
Telecommunication	-	-	415,503	-	415,503	-
Total expenses	250,444,981	219,265,181	176,614,050	175,237,266	427,059,031	394,502,447
Increase (decrease) in net assets, before transfers	26,446,764	32,198,017	38,024,952	24,534,950	64,471,716	56,732,967
Transfers	16,587,550	14,256,552	(16,587,550)	(14,256,552)	-	-
Increase (decrease) in net assets	43,034,314	46,454,569	21,437,402	10,278,398	64,471,716	56,732,967
Net assets at beginning of year	230,311,620	216,942,332	415,955,772	405,677,374	646,267,392	622,619,706
Net assets at end of year	\$ 273,345,934	263,396,901	437,393,174	415,955,772	710,739,108	679,352,673

Governmental Activities

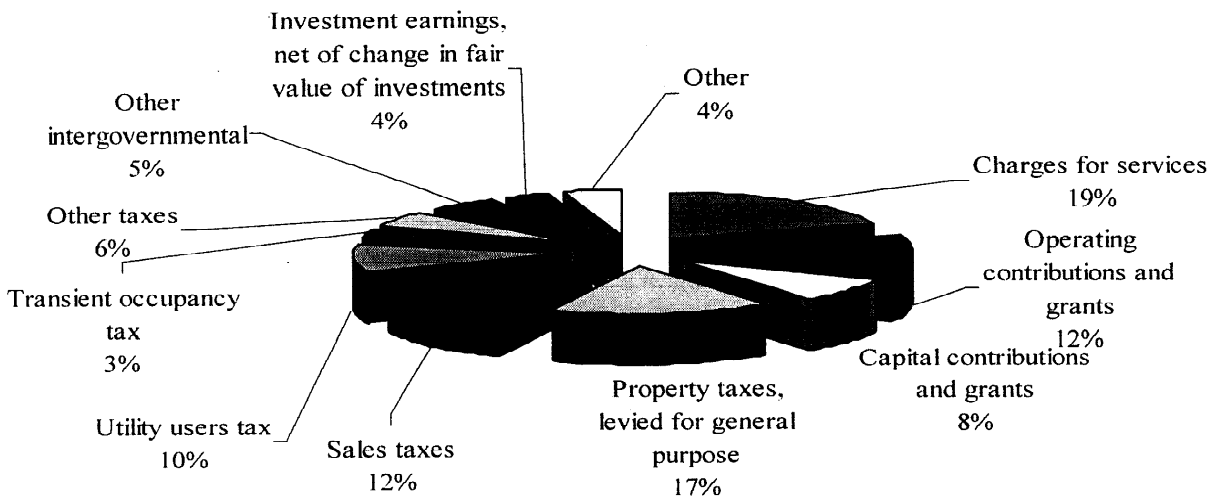
Governmental activities increased City of Pasadena's net assets by \$43.0 million thereby accounting for 66.7 percent of the total increase in the net assets. Key elements of this increase are as follows:

- Total Program Revenues (Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions) increased by \$7.5 million or 7.2 percent from the prior year. Charges for Services increased \$3.9 million or 7.6 percent. The largest percentage change in Program Revenues occurred in Capital Grants and Contributions, which increased 46.6 percent from the prior year. The primary reason for the increase was related to various Transportation Capital Grants and contributions, which increased \$10.8 million from the prior year or 165 percent. Operating Grants and Contributions decreased \$3.7 million or 10.1 percent from the prior year.
- Tax revenue increased by \$.9 million or .7 percent increase from fiscal year 2004. This change was due primarily to an increase in sales tax (\$1.6 million), utility user tax (\$.7 million), and transient occupancy tax (\$.4 million), offset by an aggregate decrease of 1.8 million in property tax, construction tax and business license tax.
- Investment earnings increased 5.4 percent from \$15.7 million to \$16.5 million. The main cause for the increase is that short term interest rates rose during FY05. From June 30, 2004 to June 30, 2005, the Federal Reserve raised the Federal Funds rate 9 times from a low of 1% rate to 3.25%.
- Total expenses increased from fiscal year 2004 by \$31.2 million or 14.2 percent. This is primarily driven by an increase of General Government expenses of \$22.3 million or 79.8 percent compared to the prior fiscal year, primarily related to the change in net pension obligations of \$19.0 million. Transportation increased by \$6.4 million or 20.7 percent. Also, Culture and Leisure increased \$.8 million or 3.4 percent. Sanitation expenses decreased \$.3 million or 12.1 percent from the prior year. Public Safety increased by \$8.4 million or 12.0 percent while Community Development decreased \$6.4 million or 16.9 percent.

Expenses and Program Revenues - Governmental Activities



Revenues by Sources - Governmental Activities



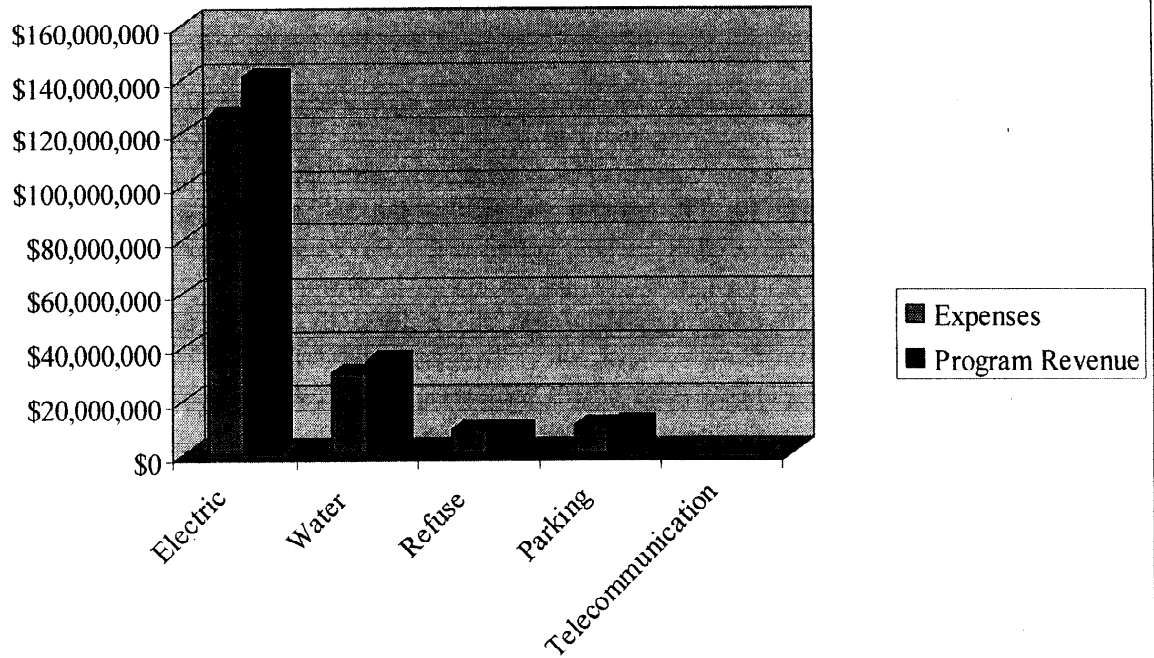
Business-Type Activities

Business-type activities increased the City of Pasadena's net assets by \$21.4 million accounting for 31.4 percent of the total growth in the primary government's net assets. Key elements of this increase are as follows:

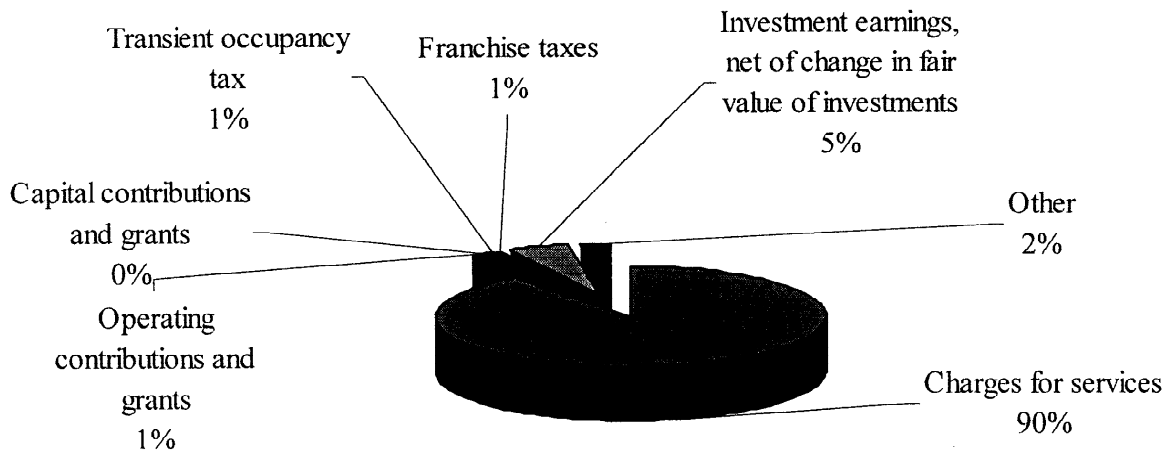
- Total Program Revenues increased from the prior year by \$4.3 million or 2.2 percent. Charges for services revenue increased by \$4 million or 2.1 percent compared to prior fiscal year. Of this total increase, Electric revenues increased \$.1 million or .1 percent. Water revenues increased \$2.4 million or 7.6 percent primarily due to the increase in rates charged to customers, resulting from higher costs of purchased water as well as completed capital projects, all of which have been passed on to customers in accordance with approved resolutions or agreements. Refuse revenue decreased by \$.7 million or 9.4 percent. Parking revenues increased by \$.7 million or 7.2 percent. The primary reason for the increase in parking revenues was the new parking rates which went into effect in January 2004.
- Investment earnings increased by \$.8 million or 8.8 percent from the prior year. In general, short term interest rates rose during fiscal year 2005. From fiscal year 2004 to 2005 the Federal Reserves raised the Fed Funds rate 9 times from the low of 1% rate to 3.25%.
- The Refuse Fund increase in Charge for Service Revenue was due to an increase of \$138,000 in Administrative Review Fee received by the City starting January 2004, an increase of \$297,000 in Curbside Recycling Revenue resulting from using City staff instead of using outside contractors for recycling starting January 2004 and an increase of \$318,000 in Refuse Collection Fees account due to an increase of refuse usage.

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Expenses and Program Revenues - Business-type Activities



Revenue by Sources - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Pasadena uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Pasadena's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Pasadena financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the 2005 fiscal year, the City of Pasadena's governmental funds reported combined ending fund balances of \$251,386,030 an increase of \$20.0 million or 8.7 percent in comparison with the prior year. Approximately 74.6 percent of this total amount, \$187,552,439 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. Of this unreserved fund balance, \$95,572,296 is future capital projects. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: 1) \$1,233,855 to liquidate contracts and purchase orders of the prior period, 2) \$36,951,516 to pay debt service, and 3) \$25,648,220 fund balance reserved for non-current assets, such as notes receivable, prepaid and other assets, advances to other funds, and property held for resale.

The General Fund is the chief operating fund of the City of Pasadena. At the end of the 2005 fiscal year, unreserved fund balance of the General Fund was \$61,996,252, while total fund balance reached \$69,081,426. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 33.7 percent of total General Fund expenditures, while total fund balance represents 37.5 percent of that same amount.

The fund balance of the City of Pasadena's General Fund increased by \$9.8 million or 16.5 percent, during 2005 fiscal year. Key factors in this gain are as follows:

- Intergovernmental Revenues increased \$4.6 million or 58.8 percent from the prior year. The largest increase in intergovernmental revenue was for the Motor Vehicle In Lieu Tax. The total amount received in fiscal year 2005 was \$11.5 million, an increase of \$5.3 million from the prior year.
- Charges for services increased \$6.9 million or 35.8 percent from the prior year.
- Fines and Forfeits Revenues increased by \$1.3 million or 24% from the prior year. This increase was in parking citation revenue which increased by \$1.3 million.
- The General Fund had a change in fund balance by about \$.9 million, up from \$8,848,394 for fiscal year 2004 to \$9,784,334 for fiscal 2005. The most significant increase in expenditures from the prior year occurred in Public Safety, which increased \$7.7 million or 11.4 percent, resulting from increased personnel costs.

The Project Management Capital Project Fund has a fund balance of \$6,898,034, which is an increase of \$4.8 million or 235.8 percent from the prior year. The primary reason for the increase was due to an increase in Intergovernmental Revenues received from the U.S. Department of Justice for the Indoor Police Range Project, Federal Traffic Mitigation Fund for various traffic and transportation projects and the Los Angeles to Pasadena Blue Line Construction Authority.

The 2003 Variable Rate Demand Certificate of Participation Capital Project Fund has a fund balance of \$59,271,930, a decrease of \$10.6 million or 15.1 percent from the prior year. Transfers in decreased by \$2.9 million or 86.4%, while transfers out increased \$9.6 million or 345.2% for the City Hall and Eaton Wash projects.

The Community Development Commission Debt Service Fund has a total fund deficit of \$24,786,221. The deficit exists since GAAP requires the debt service funds to record advances from other funds as a liability. At June 30, 2005, the balance in advances from other funds is \$32,068,262. The net change in fund balance during the current year in the debt service fund is \$1.5 million or 5.7 percent increase from the prior year deficit balance of \$26,282,438.

Proprietary Funds

The City of Pasadena's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Light and Power Fund at the end of the year amounted to \$90,577,697 and those for the Water, Old Pasadena Parking, and Paseo Colorado Parking Funds amounted to \$7,471,911, \$1,788,831 and \$1,029,207; respectively. The total net income for each fund was \$14,226,263, \$4,494,859, \$645,544, and \$230,198; respectively.

In the Light and Power Fund, \$2.8 million operating transfer in was reimbursed from the Surtax Fund to pay for all underground projects done by the Power Division. Also, \$1.5 million of the Light and Power Fund net income is from FEMA revenue. In fiscal year 2005, the Light and Power Fund recorded \$1.2 million for the gain on the disposal of assets.

Water Fund operating revenues increased 7.5 percent from the prior year due to the increase in rates charged to customers, resulting from higher costs of purchased water as well as completed capital projects, all of which have been passed on to customers in accordance with approved resolutions or agreements.

Old Pasadena Parking Fund net income decreased from the prior year by 20.8 percent. The reason for the increase was mainly due an increase in operating expenses.

Paseo Colorado Parking Funds net income increased .3 million or 296.2% from a net loss of \$.1 million to net income of \$.2 million. Net income increased due to an increase in parking revenues from Rose Parade parking, transient parking and monthly parking revenues as well as low interest expense on its outstanding debt.

Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Pasadena's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund final budgeted appropriations increased by \$43.5 million from the original budget or 30.7 percent. The primary reason for the increase from the original budget to the final budget came as a result of the City's payment of its pension obligation to the Fire and Police Retirement System of \$40 million. In addition, the Police Department budget had the largest increase of \$1.2 million or 2.6 percent, followed by the Fire Department budget which increased \$1.0 million or 3.5 percent. City Manager's Budget increased approximately \$.2 million or 10.5 percent. Overall, the differences between the original budget and the final amended budget were relatively minor.

The General Fund actual total expenditures did not exceed final budgeted appropriations. The variance between actual total expenditures and the final appropriation was \$895,082 or .6 percent. The largest unfavorable variance occurred in the Non-departmental expenditures which exceeded the final budget by \$4.2 million. Approximately \$3.5 million of the non-departmental expenditures is related to billable projects which do not typically have budgets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Pasadena's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$724,056,026, net of accumulated depreciation. This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The net increase in the City of Pasadena's investment in capital assets for the current fiscal year was 6.6 percent (a 10.9 percent increase for governmental activities and a 3.3 percent increase for business-type activities).

Major capital asset events during the 2005 fiscal year included the following:

- Various buildings and improvements were completed in the Water and Power Department at a cost of \$724,299.
- During the fiscal year 2005, the Water and Power Department spent \$1,260,995 on a retrofit project of Gas Turbine Unit 1 and Unit 2 (GT 1 & GT 2) with Selective Catalytic Reduction System at Glenarm Power Plant. The project-to-date cost of the project as of June 30, 2005 is \$7,000,299. The project was completed and started to operate in August 2005.
- Improvement and maintenance of city-owned facilities continues to be a priority. The preventive maintenance project provides funding that helps maintain the buildings in their current condition and aids in the prevention of further deterioration. During fiscal year 2005, \$884,681 was spent on this project. Work continues this year in the area of historic preservation, design services, preparation of construction and bidding documents and construction of three major projects: City Hall Seismic Retrofit and Exterior Restoration, Indoor Firing Range at Eaton Canyon, and Seismic Retrofit of Glenarm Power Plant. Approximately \$16,144,819 was spent on these projects during fiscal year 2005.
- A variety of street maintenance and construction, electrical system undergrounding, and traffic control projects continue Citywide. Some of the major projects in these categories this fiscal

year include: Raymond Avenue Pasadena Freeway Connector, Preventive Maintenance of Asphalt Streets, Avenue 64-La Loma Road Street Lighting and Undergrounding, and 710 Interim Traffic Improvements. Work on these projects during the 2005 fiscal year reached \$6,684,040. Construction in Progress as of the end of the current fiscal year is \$120,694,876.

City of Pasadena's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 54,229,664	54,229,664	5,236,929	5,277,653	59,466,593	59,507,317
Buildings and improvements	79,806,280	79,436,282	91,242,881	92,475,687	171,049,161	171,911,969
Machinery and equipment	15,088,203	16,050,105	265,126,776	253,247,787	280,214,979	269,297,892
Infrastructure	92,630,417	91,457,557	-	-	92,630,417	91,457,557
Construction in progress	87,737,935	56,071,322	32,956,941	31,141,041	120,694,876	87,212,363
Totals	<u>\$ 329,492,499</u>	<u>297,244,930</u>	<u>394,563,527</u>	<u>382,142,168</u>	<u>724,056,026</u>	<u>679,387,098</u>

Additional information on the City of Pasadena's capital assets can be found in note 8 on pages 92-95 of this report.

Long-Term Debt

At year-end, the City has a number of debt issues outstanding. These issues include \$135.6 million of taxable pension bonds, \$3.0 million of general obligation bonds, \$12.1 million of tax allocation bonds applicable to PCDC, \$210.5 million of revenue bonds, \$182.7 million of certificates of participation, \$9.9 million of notes payable and \$12.9 million of capitalized lease obligations. Long-term debt increased by a net amount of \$2.0 million as a result of normal scheduled principal maturities, decrease in net pension obligation, and \$62.1 in new debt, including \$40.7 million in new pension bonds and \$6.5 million in capitalized lease obligations. During the fiscal year, the City's general obligation credit rating was upgraded to AA+ by Standard and Poor's Corporation and Fitch Ratings Services.

City of Pasadena's Outstanding Debt

	Governmental Activities		Business Activities		Total	
	2005	2004	2005	2004	2005	2004
Compensated absences	\$ 7,202,577	7,632,374	-	-	7,202,577	7,632,374
Notes payable	7,811,133	10,088,812	2,119,416	2,216,898	9,930,549	12,305,710
Pension bonds	135,590,000	97,850,000	-	-	135,590,000	97,850,000
General obligation bonds	3,025,000	4,425,000	-	-	3,025,000	4,425,000
Tax allocation bonds	12,065,364	12,977,606	-	-	12,065,364	12,977,606
Revenue bonds	-	-	210,515,000	220,220,004	210,515,000	220,220,004
Certificates of participation	149,034,480	154,346,344	33,688,067	35,705,243	182,722,547	190,051,587
Capitalized lease obligations	9,618,935	4,051,253	3,247,905	3,437,882	12,866,840	7,489,135
Net pension obligation	36,023,278	55,032,710	-	-	36,023,278	55,032,710
Totals	<u>\$ 360,370,767</u>	<u>346,404,099</u>	<u>249,570,388</u>	<u>261,580,027</u>	<u>609,941,155</u>	<u>607,984,126</u>

Additional information on the City of Pasadena's long-term debt can be found in notes 10 through 17 on pages 98 to 116 of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Pasadena's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Director of Finance, 117 East Colorado Boulevard, 5th Floor, Pasadena, California, 91109.