

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(b) Basis of Accounting and Measurement Focus, (Continued)

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB Pronouncements issued after November 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general governmental expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all economic resources and obligations of the reporting government (both current and long-term) are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Taxes and other items not included among program revenues are reported instead as *general revenues*.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(b) Basis of Accounting and Measurement Focus, (Continued)

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses a sixty-day availability period. The City accrues the following revenue types: taxes, licenses, fines and forfeits, and miscellaneous revenues.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction on which they are based takes place. *Imposed non-exchange*

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(b) Basis of Accounting and Measurement Focus, (Continued)

transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(b) Basis of Accounting and Measurement Focus, (Continued)

Proprietary Funds

The City's Enterprise and Internal Service funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Light and Power Fund, Water Fund, Old Pasadena Parking Fund, Paseo Colorado Parking Fund, and of the government's Internal Service Funds are charges to customers for sales and services. Operating expenses for the Proprietary Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expenditure.

Fiduciary Funds

The City's fiduciary funds include Pension Trust Funds and Agency Funds. Agency funds are custodial in nature. Assets equal liabilities. Agency funds use the accrual basis of accounting. Pension Trust Funds are used to account for resources that are required to be held in trust for the members and beneficiaries of benefit and contribution plans.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

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

The City reports the following major governmental funds:

General Fund – The primary fund of the City is used to account for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City.

Project Management Fund – Used to account for all capital improvement projects, except for those involving the utilities, and special assessment districts, where revenues are received from grants by other governments, private parties, and through transfer from other City funds.

2003 Variable Rate Demand Certificates of Participation Capital Projects Fund – Used to account for the financing of major renovation to certain municipal buildings and park facilities.

PCDC Debt Service Fund – Used to account for tax increment and investment revenue, and for the payment of interest and principal on the tax allocation bonds, loans payable, notes payable, and other debt of the PCDC.

The City reports the following major proprietary funds:

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

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

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

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

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

Additionally, the City reports the following fund types:

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

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

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

(d) Cash Equivalents

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

(e) Cash and Investments

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

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(e) Cash and Investments, (Continued)

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

The City enters into interest rate swap agreements to modify rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements. As of June 30, 2005, the City entered into an interest rate swap agreement related to the Pension Bonds and the 1998 Electric Revenue/Refunding Bonds (see notes 12 and 15).

(f) Due from Other Governments

The amounts recorded as a receivable, *due from other governments*, include grant revenues and other state subventions, collected or provided by Federal, State, County and City Governments and unremitted to the City as of June 30, 2005.

(g) Inventories

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

(h) Advances to Other Funds

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(i) Prepays

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

(j) Restricted Cash and Investments

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

(k) Property Held for Resale

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

(l) Capital Assets

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

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(l) Capital Assets, (Continued)

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

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

<u>Light and Power Fund</u>		<u>Water Fund</u>	
Production Plant	20 to 40 years	Source of Supply	20 to 50 years
Transmission Plant	25 to 40 years	Pumping Plant	10 to 50 years
Distribution Plant	20 to 40 years	Treatment Plant	10 to 20 years
General Plant	10 to 40 years	Transmission and	
Equipment	4 to 10 years	Distribution Plant	10 to 80 years
		General Plant	6 to 50 years
		Equipment	4 to 10 years
<u>Governmental Activities</u>		<u>All Other Business-Type Activities</u>	
Buildings and		Building and	
Improvements	20 to 50 years	Improvements	20 to 45 years
Machinery and		Machinery and	
Equipment	4 to 10 years	Equipment	4 to 10 years
Infrastructure	15 to 200 years		

(m) Insurance Claims Payable

The City records a liability for material litigation, judgments, and claims (including incurred but not reported losses) when it is probable that an asset has been significantly impaired or a material liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the City's Workers' Compensation and General Liability Internal Service Funds. These liabilities are only recorded on a case-by-case basis up to the workers' compensation and general liability self-insurance thresholds. As mentioned in more detail in note 23, excess liability insurance covers claims greater than the self-insurance thresholds.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(n) Compensated Absences

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

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

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

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

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

The total outstanding vacation, compensatory time-off, and sick leave obligations that have been accrued as of June 30, 2005 are included under "Compensated Absences" in the Benefits Internal Service Fund.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(o) Net Pension Obligation

GASB Statement No. 27, *Accounting for Pensions of State and Local Governmental Employers*, was implemented during the fiscal year ending June 30, 1998. For each plan, the employer must expense the annual pension cost (APC). The APC equals the annual required contribution (ARC) plus one year's interest on the beginning of year net pension obligation (NPO). The NPO is the cumulative difference between the APC and the actual contributions made, minus an amortization of the NPO at the beginning of the year. See note 25.

(p) Bond Premiums/Discounts/Issuance Costs

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

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

(q) Fund Equity

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

(r) Comparative Data/Reclassifications

Total data for the prior year have been presented for comparative purposes only. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(s) Property Taxes

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

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

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

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

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

(t) Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities

	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
The "net changes in fund balances" for governmental funds of \$20,020,750 differs from the "changes in net assets" for the governmental activities of \$23,921,607 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effects of the differences are illustrated below.	-	-	\$20,020,750

Capital Related Items

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, in the statement of net activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance increases by the amount of financial resources expended, whereas net assets decrease by the amounts of depreciation expense charged for the year.

Infrastructure	3,736,025	-	
Capital outlay	36,426,085	-	
Depreciation expense	-	(8,429,651)	
Gain (loss) on disposal of assets	-	(301,881)	
	<u>40,162,110</u>	<u>(8,731,532)</u>	

Long-Term Liabilities

Repayment of bond principal and other long-term liabilities are reported as an expenditure in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal payments made	13,054,450	-	
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Proceeds from the issuance of bonds are reported as other financing sources in governmental funds. Additionally, payments to refunded bond escrow agent are reported as expenditures and other financing uses. However, the issuance and repayment of bonds increases or decreases liabilities in the statement of net assets and do not result in an increase in net assets in the statement of activities.

Proceeds of bonds	-	(42,931,479)	
Payment of pension obligation	40,000,000	-	
	<u>53,054,450</u>	<u>(42,931,479)</u>	

CITY OF PASADENA
Notes to the Basic Financial Statements, (Continued)
Year Ended June 30, 2005

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

(t) Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities, (Continued)

	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<u>Long-term liabilities, (Continued)</u>			
Changes in unamortized premium (discount) and changes in net pension obligations have been reflected as an adjustment to general government expense.		- (39,589,705)	
<u>Accrued Interest</u>			
Changes in interest payable on long-term debt have been reflected as and adjustment to interest expense.	47,703	-	
<u>Deferred Revenue</u>			
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in governmental funds, and thus are not included as revenues.	2,148,431	-	
<u>Internal Service Fund</u>			
Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The adjustments for internal service funds "closes" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.		- (259,121)	
Net change	<u>\$95,412,694</u>	<u>(91,511,837)</u>	<u>3,900,857</u>
Net change in net assets of governmental activities			<u>\$ 23,921,607</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(2) Restatement of Beginning Net Assets

The accompanying financial statements reflect adjustments that resulted in the restatement of beginning net assets of the Governmental Funds. During the City's analysis of system computed depreciation calculations for the year ended June 30, 2005, a query error was detected in the Peoplesoft depreciation module that had misstated the amounts of depreciation recorded in prior fiscal years. Although annual amounts were not materially misstated, the accumulated effect of these errors is noted below. The following schedule summarizes the effect of the prior period adjustments to the beginning net assets as of July 1, 2004:

Governmental Activities:

Net assets at June 30, 2004, as previously reported	\$ 263,396,901
Adjustment of accumulated depreciation	<u>(33,085,281)</u>
Net assets at July 1, 2004, as restated	<u>\$ 230,311,620</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments

Primary Government

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$380,074,038
Restricted cash and investments	173,423,525
Fiduciary funds:	
Cash and investments	<u>254,316,716</u>
Total cash and investments	<u>\$807,814,279</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 86,553
Deposits with financial institutions	960,686
Investments	<u>806,767,040</u>
Total cash and investments	<u>\$807,814,279</u>

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

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

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

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

Investments Authorized by Debt Agreements

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

CITY OF PASADENA
Notes to the Basic Financial Statements, (Continued)
Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

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

Disclosures Relating to Interest Rate Risk

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

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Corporate Bonds	\$32,567,369	4,381,032	5,006,564	23,179,773	-
U.S. Treasury Notes	10,777,438	5,986,004	-	4,791,434	-
Federal agency securities	362,828,084	33,251,311	89,047,017	168,252,342	72,277,414
Municipal Bond	1,922,507	-	-	-	1,922,507
Commercial paper	1,039,978	1,039,978	-	-	-
Repurchase Agreements	35,831,427	35,831,427	-	-	-
Mortgage-backed securities	269,763	-	259,746	4,841	5,176
State investment pool	15,231,155	15,231,155	-	-	-
Held by bond trustee:					
Federal agency securities	14,174,544	-	2,495,025	6,442,146	5,237,373
Commercial paper	3,421,038	3,421,038	-	-	-
Money market funds	138,009,624	138,009,624	-	-	-
State investment pool	11,117,144	11,117,144	-	-	-
Investment contracts	61,705,863	-	48,026,531	-	13,679,332
Deferred compensation Plan:					
Mutual fund	<u>117,871,106</u>	<u>117,871,106</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$806,767,040</u>	<u>366,139,819</u>	<u>144,834,883</u>	<u>202,670,536</u>	<u>93,121,802</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Entity's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

<u>Highly Sensitive Investments</u>	<u>Fair Value at Year End</u>
Mortgage pass through securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates	\$ 269,763

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>			<u>Not Rated</u>
			<u>AAA</u>	<u>AA</u>	<u>A</u>	
Corporate Bonds	\$ 32,567,369	A	3,402,033	7,034,320	22,131,016	-
U.S. Treasury Notes	10,777,438*	N/A	-	-	-	-
Federal agency securities	362,828,084	N/A	360,594,084	-	2,234,000	-
Municipal Bond	1,922,507	N/A	-	-	-	1,922,507
Commercial paper	1,039,978	A	-	-	1,039,978	-
Repurchase Agreements	35,831,427	N/A	-	-	-	35,831,427
Mortgage-backed securities	269,763	AA	269,763	-	-	-
State investment pool	15,231,155	N/A	-	-	-	15,231,155
Held by bond trustee:						
Federal agency securities	14,174,544	N/A	14,174,544	-	-	-
Commercial paper	3,421,038	A	-	3,421,038	-	-
Money market funds	138,009,624	A	-	138,009,624	-	-
State investment pool	11,117,144	N/A	-	-	-	11,117,144
Investment contracts	61,705,863	N/A	-	-	-	61,705,863
Deferred compensation Plan:						
Mutual fund	<u>117,871,106</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,871,106</u>
Total	<u>\$ 806,767,040</u>		<u>378,440,424</u>	<u>148,464,982</u>	<u>25,404,994</u>	<u>243,679,202</u>

* Exempt From Disclosure
N/A Not applicable

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$ 203,366,641
Federal Home Loan Mortgage Corp	Federal agency securities	58,735,501
Federal National Mortgage Assoc	Federal agency securities	89,347,058
Merrill Lynch	Repurchase agreements	36,283,420
Hartford Life	Mutual fund	117,743,892

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Light and Power Fund		
Federal Home Loan Bank	Federal agency securities	\$ 60,844,375
Federal Home Loan Mortgage Corp	Federal agency securities	20,467,207
Federal National Mortgage Assoc	Federal agency securities	38,046,641
Merrill Lynch	Repurchase Agreements	6,451,679
Debit Service Fund		
Goldman Fin. Sq. Tr. Prime Oblig	Money Market Fund	4,287,301
Local Agency Investment Fund	State investment pool	11,117,144
Trinity Plus Funding Inv. Agreement	Investment contracts	48,026,531
AIGMFC Inv. Agreement	Investment contracts	4,836,374
Federal Home Loan Bank	Federal agency securities	9,621,333

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Water Fund		
Societe Generale Inv. Agreement	Investment Contract	3,390,132
Paseo Colorado Parking Fund		
Wells Fargo Government	Money Market Fund	91,690
Federal Home Loan Bank	Federal agency securities	1,353,949

Custodial Credit Risk

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

As of June 30, 2005, \$783,405 of the Entity's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Primary Government, (Continued)

Investment in State Investment Pool

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

Discretely Presented Component Units

Rose Bowl Operating Company (RBOC)

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 2,813,893
Restricted cash and investments	<u>1,523,046</u>
Total cash and investments	<u>\$ 4,336,939</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 1,000
Deposits with financial institutions	4,221
Investments:	
Investment in City of Pasadena investment pool	2,808,672
Investments held by fiscal agents	<u>1,523,046</u>
Total cash and investments	<u>\$ 4,336,939</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Discretely Presented Component Units, (Continued)

Rose Bowl Operating Company (RBOC), (Continued)

Disclosures Relating to Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Held by fiscal agent:				
Federal Farm Credit Bank	\$ 1,460,156	-	-	1,460,156
Money market mutual funds	<u>62,890</u>	<u>62,890</u>	-	-
Total	<u>\$ 1,523,046</u>	<u>62,890</u>	<u>-</u>	<u>1,460,156</u>

CITY OF PASADENA
Notes to the Basic Financial Statements, (Continued)
Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Discretely Presented Component Units, (Continued)

Rose Bowl Operating Company (RBOC), (Continued)

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Aaa</u>
Held by fiscal agent:				
Federal Farm Credit Bank	\$ 1,460,156	N/A	1,460,156	-
Money market mutual funds	<u>62,890</u>	Aaa	-	<u>62,890</u>
Total	<u>\$ 1,523,046</u>		<u>1,460,156</u>	<u>62,890</u>

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	Federal agency securities	\$1,460,156

CITY OF PASADENA
Notes to the Basic Financial Statements, (Continued)
Year Ended June 30, 2005

(3) Cash and Investments, (Continued)

Discretely Presented Component Units, (Continued)

Pasadena Center Operating Company (PCOC)

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 4,117,354</u>
Total cash and investments	<u>\$ 4,117,354</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 9,400
Deposits with financial institutions	1,109,799
Investment in City of Pasadena investment pool	<u>2,998,155</u>
Total cash and investments	<u>\$ 4,117,354</u>

CITY OF PASADENA
Notes to the Basic Financial Statements, (Continued)
Year Ended June 30, 2005

(4) Accounts Receivable

As of June 30, 2005, the accounts receivable are categorized in part as follows:

	<u>General</u>	<u>Project Management</u>	<u>PCDC Debt Service</u>	<u>Non-Major Governmental</u>	<u>Internal Service</u>
Governmental activities:					
Accounts receivable	\$ 2,222,026	3,659,866	-	2,424,547	83,612
Accrued revenue receivable	8,816,477	3,695,720	1,245,556	3,906,886	4,429,175
Interest receivable	1,260,367	-	35,107	383,947	-
Paramedics receivable	<u>1,239,296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	13,538,166	7,355,586	1,280,663	6,715,380	4,512,787
Less: allowance for uncollectible accounts	<u>(712,267)</u>	<u>-</u>	<u>-</u>	<u>(29,964)</u>	<u>-</u>
Total	<u>\$ 12,825,899</u>	<u>7,355,586</u>	<u>1,280,663</u>	<u>6,685,416</u>	<u>4,512,787</u>
	<u>Light and Power</u>	<u>Water</u>	<u>Old Pasadena Parking</u>	<u>Paseo Colorado Parking</u>	<u>Non-Major Proprietary</u>
Business type activities:					
Accounts receivable	\$ 1,162,408	59,980	28,963	26,272	595,013
Accrued revenue receivable	9,717,551	2,719,868	260,798	362,316	1,102,877
Interest receivable	1,657,793	139,792	27,732	-	-
Utility receivable	<u>8,317,962</u>	<u>2,165,772</u>	<u>-</u>	<u>-</u>	<u>-</u>
	20,855,714	5,085,412	317,493	388,588	1,697,890
Less: allowance for uncollectible accounts	<u>(679,709)</u>	<u>(179,187)</u>	<u>-</u>	<u>-</u>	<u>(38,776)</u>
Total	<u>\$ 20,176,005</u>	<u>4,906,225</u>	<u>317,493</u>	<u>388,588</u>	<u>1,659,114</u>

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(5) Notes Receivable – Primary Government

The notes receivable in the Non-Major Governmental Funds amounted to \$25,140,496 at June 30, 2005. These are primarily PCDC notes receivable, which arose from the sale of land to project developers and other agencies, subject to approved redevelopment plans. These notes have various terms, including maturities ranging from 2 to 30 years and interest rates ranging from 3.5% to 11%. Due to the uncertainty of their collectibility, at June 30, 2005, the City has recorded a related allowance for uncollectible long-term receivables of \$12,079,986. Other notes receivable total \$379,584 at June 30, 2005.

As a result of required reclassifications and eliminations of interfund balances, the allowance for uncollectible long-term receivables on the Statement of Net Assets amounted to \$12,486,495 at June 30, 2005.

(6) Due From and To Other Funds

Current interfund receivable and payable balances at June 30, 2005 are as follows:

Due From Other Funds	Due To Other Funds	Amount
General Fund	PCDC Debt Service	\$ 1,190,968
	(a) Non-Major Governmental Funds	2,105,513
	Subtotal	3,296,481
Non-Major Governmental Funds	(b) Non-Major Governmental Funds	1,664,361
	Total	\$ 4,960,842

Generally, the above balances result from:

- (a) The \$2,105,513 due from Non-Major Government Funds to General Fund is due to negative cash balances at end of this fiscal year, including \$537,888 from Parking Funds; \$215,999 from Housing and Community Development Funds; \$592,939 from Public Safety Funds, and \$703,688 from Pasadena Community Development Commission Capital Project Funds.
- (b) The \$1,664,361 within Pasadena Community Development Commission Fund has amounts due from Fair Oaks Capital Project Fund due to the Downtown Capital Project Fund to finance overrun of costs during the litigation and purchase of land within the Fair Oaks redevelopment project.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(7) Advances To and From Other Funds

Primary Government

Long-term interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Advances from other funds</u>	<u>Advances to other funds</u>	<u>Amount</u>
Paseo Colorado Parking	General Fund	<u>\$ 1,036,553</u>
PCDC Debt Service	General Fund	5,760,955
	Internal Service Funds	2,589,525
	Non-Major Governmental Funds	<u>23,717,782</u>
	Subtotal	<u>33,104,815</u>
Old Pasadena Parking	General Fund	<u>3,836,545</u>
Non-Major Governmental Funds	General Fund	<u>4,365,948</u>
	Total	<u>\$ 41,307,308</u>

**Outstanding at
June 30, 2005**

General Fund Advances

The General Fund has agreements with PCDC providing for the advance of funds to finance redevelopment activities within the project areas. The agreement provides for reimbursement to the General Fund from any and all funds legally available to PCDC for such payment plus interest as computed from the time of advance to the date of repayment. A related allowance for uncollectible long-term receivables has been recorded for \$3,632,096 at June 30, 2005.

\$10,126,903

The General Fund also has an agreement with Old Pasadena Parking providing for advance of funds to finance parking activities. The agreement provides for an annual reimbursement to the General Fund. For fiscal year ending June 30, 2005, this amount was \$350,000.

3,836,545

The General Fund also has an agreement with Paseo Colorado Parking providing for advance of funds to finance parking activities. This agreement is referred to as the POMA agreement. Amounts lent to the parking fund will be paid back with interest.

1,036,553

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2005

(7) Advances To and From Other Funds, (Continued)

Primary Government, (Continued)

Housing and Community Development

The Community Development Fund has agreements with PCDC providing for the advance of funds to finance redevelopment activities within the Fair Oaks and Washington Project Areas. The agreement provides for reimbursement to the Community Development Fund from any and all funds legally available to PCDC for such payments plus interest computed from the time of advance to the date of repayment. A related allowance for uncollectible long-term receivables has been recorded for \$16,147,118 as of June 30, 2005.

16,147,118

New Development Impact

The New Development Fund has agreements with PCDC providing for the advance of funds to finance redevelopment activities within the Lake/Washington Project Areas. The agreement provides for reimbursement to the New Development Fund from any and all funds legally available to PCDC for such payments plus interest computed from the time of advance to the date of repayment.

355,490

1996 Multi-Purpose Capital Project Certificates of Participation

The 1996 Certificates of Participation Capital Project Fund has an agreement with PCDC providing for the advance of funds to finance redevelopment activities within the related project areas. This agreement provides a schedule of repayment from tax allocation revenues. A related allowance for uncollectible long-term receivables of \$1,856,918 has been recorded as of June 30, 2005.

6,448,016

Pasadena Community Development Commission

Certain project areas have advances outstanding with other project areas of PCDC. These agreements provide for repayment as funds are available.

767,158

General Liability

The General Liability Internal Service Fund has an agreement with PCDC providing for the advance of funds to finance redevelopment activities within the Fair Oaks Project area. The agreement provides for a schedule of repayment from tax allocation revenues payable within seven years. A related allowance for uncollectible long-term receivables has been recorded for \$406,509 as of June 30, 2005.

2,589,525

Total primary government advances

\$41,307,308