

CITY OF PASADENA
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2006

	<u>Light and Power</u>	<u>Water</u>	<u>Old Pasadena Parking</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 12,859,861	7,343,922	2,985,128
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	14,226,983	2,768,208	449,601
Gain (loss) on disposal of assets	-	-	-
Other non-operating revenues (expenses)	1,643,017	2,016,281	(88,144)
(Increase) decrease in accounts receivable	(2,190,395)	(9,050)	(155,506)
Increase (decrease) in allowance for uncollectible accounts	(159,125)	(41,949)	-
(Increase) decrease in other deferred debits	-	-	-
(Increase) decrease in due to other funds	-	-	-
(Increase) decrease in inventories	(959,548)	(1,549,783)	-
(Increase) decrease in prepaids and other assets	61,841	101,336	233,523
Increase (decrease) in accounts payable and accrued liabilities	870,297	280,815	209,628
Increase (decrease) in insurance claims payable	-	-	-
Increase (decrease) in deferred charges	(1,773)	(59,980)	-
Increase (decrease) in compensated absences	-	-	-
Increase (decrease) in deposits payable	67,331	(120,700)	8,945
Increase (decrease) in amortized discount	(102,633)	(27,852)	(38,010)
Total adjustments	<u>13,455,995</u>	<u>3,357,326</u>	<u>620,037</u>
Net cash provided by (used for) operating activities	<u>26,315,856</u>	<u>10,701,248</u>	<u>3,605,165</u>
Non-cash investing, capital and financing related activity			
Non-cash changes in fair value of investments	\$ <u>(5,406,827)</u>	<u>(137,301)</u>	<u>(7,778)</u>

See accompanying notes to the basic financial statements

Paseo Colorado Parking	Non-Major Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds	Totals	
				2006	2005
<u>883,909</u>	<u>(1,629,770)</u>	<u>22,443,050</u>	<u>2,570,516</u>	<u>25,013,566</u>	<u>28,098,155</u>
654,499	1,009,691	19,108,982	1,936,421	21,045,403	20,363,603
-	(6,271)	(6,271)	-	(6,271)	-
(17,162)	189,203	3,743,195	188,206	3,931,401	2,778,179
81,397	(148,740)	(2,422,294)	(693,216)	(3,115,510)	(117,081)
-	(3,784)	(204,858)	-	(204,858)	140,176
-	-	-	-	-	(6,138,640)
-	-	-	4,800	4,800	-
-	-	(2,509,331)	(12,025)	(2,521,356)	(853,272)
(49,042)	-	347,658	103,417	451,075	1,155,444
(269,224)	38,697	1,130,213	(101,885)	1,028,328	(2,559,993)
-	-	-	(1,171,702)	(1,171,702)	206,913
-	-	(61,753)	-	(61,753)	58,293
-	-	-	(227,143)	(227,143)	(429,797)
2,875	1,614,126	1,572,577	(41,439)	1,531,138	1,218,849
-	38,761	(129,734)	-	(129,734)	(129,734)
<u>403,343</u>	<u>2,731,683</u>	<u>20,568,384</u>	<u>(14,566)</u>	<u>20,553,818</u>	<u>15,692,940</u>
<u>1,287,252</u>	<u>1,101,913</u>	<u>43,011,434</u>	<u>2,555,950</u>	<u>45,567,384</u>	<u>43,791,095</u>
<u>3,420</u>	<u>(56,223)</u>	<u>(5,604,709)</u>	<u>(386,038)</u>	<u>(5,990,747)</u>	<u>883,184</u>

CITY OF PASADENA
Statement of Net Assets
Fiduciary Funds
June 30, 2006

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (note 2)	\$ 131,570,158	2,614,019
Receivables:		
Accounts receivable	-	315,052
Interest	347,618	-
Total receivables	347,618	315,052
Other assets	-	854
Investments, at fair value (note 2):		
Government and agencies	17,746,151	-
Corporate obligations	18,630,265	-
Real estate investment trust (REIT)	18,836,392	-
Corporate stocks	79,932,043	-
Total investments	135,144,851	-
Total assets	267,062,627	2,929,925
 Liabilities		
Accounts payable and accrued liabilities	145,178	470,192
Due to other governments	-	2,459,733
Total liabilities	145,178	2,929,925
 Net assets reserved in trust for employees' pension benefits	\$ 266,917,449	-

See accompanying notes to the basic financial statements.

CITY OF PASADENA
Statement of Changes in Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

	Pension Trust	
	<u>2006</u>	<u>2005</u>
Additions:		
Contributions:		
Employer	\$ 1,427,573	29,068
Plan members	13,252,837	12,548,619
Total contributions	<u>14,680,410</u>	<u>12,577,687</u>
Net investment income:		
Net change in fair value of investments	20,185,587	16,826,223
Interest	2,132,823	1,920,060
Dividends	978,173	1,020,766
Gross investment income (loss)	23,296,583	19,767,049
Less investment expenses	<u>(685,331)</u>	<u>(456,685)</u>
Net investment income (loss)	<u>22,611,252</u>	<u>19,310,364</u>
Total additions	<u>37,291,662</u>	<u>31,888,051</u>
Deductions:		
Benefits paid to participants	23,670,514	20,687,950
Administrative expenses	<u>233,509</u>	<u>228,638</u>
Total deductions	<u>23,904,023</u>	<u>20,916,588</u>
Net increase (decrease)	13,387,639	10,971,463
Net assets reserved in trust for employees'		
 pension benefits:		
Beginning of year	<u>253,529,810</u>	<u>242,558,347</u>
End of year	<u>\$ 266,917,449</u>	<u>253,529,810</u>

See accompanying notes to the basic financial statements.

CITY OF PASADENA
Discretely Presented Component Units
Statement of Net Assets
June 30, 2006

	<u>Rose Bowl Operating Company</u>	<u>Pasadena Center Operating Company</u>	<u>Totals</u>	
			<u>2006</u>	<u>2005</u>
Assets				
Current assets:				
Cash and investments (note 2)	\$ 4,631,995	6,073,134	10,705,129	6,931,247
Accounts receivable, net	1,724,943	1,789,213	3,514,156	2,468,386
Prepays and other assets	-	71,959	71,959	75,690
Total current assets	<u>6,356,938</u>	<u>7,934,306</u>	<u>14,291,244</u>	<u>9,475,323</u>
Noncurrent assets:				
Restricted assets - cash and investments (note 2)	17,431,256	-	17,431,256	1,523,046
Unamortized bond issuance costs	276,605	-	276,605	-
Capital assets (note 7):				
Land	-	2,423,473	2,423,473	2,423,473
Construction in progress	3,699,316	6,033,218	9,732,534	6,847,605
Other capital assets, net	36,419,110	3,432,765	39,851,875	39,670,255
Total noncurrent assets	<u>57,826,287</u>	<u>11,889,456</u>	<u>69,715,743</u>	<u>50,464,379</u>
Total assets	<u>64,183,225</u>	<u>19,823,762</u>	<u>84,006,987</u>	<u>59,939,702</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	3,074,831	737,896	3,812,727	2,480,954
Deposits	32,281	367,990	400,271	345,290
Unearned revenue (note 8)	994,900	-	994,900	935,589
Advances from primary government - current (note 6)	-	57,981	57,981	55,187
Certificates of participation - current (notes 9 and 16)	45,045	-	45,045	1,742,951
Total current liabilities	<u>4,147,057</u>	<u>1,163,867</u>	<u>5,310,924</u>	<u>5,559,971</u>
Noncurrent liabilities:				
Compensated absences	124,258	-	124,258	104,066
Advances from primary government - long-term (note 6)	-	1,027,541	1,027,541	1,085,522
Certificates of participation - long-term (notes 9 and 16)	36,678,248	-	36,678,248	19,906,668
Total noncurrent liabilities	<u>36,802,506</u>	<u>1,027,541</u>	<u>37,830,047</u>	<u>21,096,256</u>
Total liabilities	<u>40,949,563</u>	<u>2,191,408</u>	<u>43,140,971</u>	<u>26,656,227</u>
Net Assets				
Invested in capital assets, net of related debt	20,979,633	10,686,151	31,665,784	27,448,998
Restricted for construction	-	1,229,408	1,229,408	1,163,096
Unrestricted	2,254,029	5,716,795	7,970,824	4,671,381
Total net assets	<u>\$ 23,233,662</u>	<u>17,632,354</u>	<u>40,866,016</u>	<u>33,283,475</u>

See accompanying notes to the basic financial statements.

CITY OF PASADENA
Discretely Presented Component Units
Combining Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

	<u>Rose Bowl Operating Company</u>	<u>Pasadena Center Operating Company</u>	<u>Totals</u>	
			<u>2006</u>	<u>2005</u>
Operating revenues:				
Charges for services:				
Golf course	\$ 2,620,935	-	2,620,935	2,320,094
Rose Bowl	7,268,839	-	7,268,839	7,486,737
Pasadena Center Operating Company	-	11,510,890	11,510,890	9,969,323
Total operating revenues	<u>9,889,774</u>	<u>11,510,890</u>	<u>21,400,664</u>	<u>19,776,154</u>
Operating expenses:				
Golf course	754,394	-	754,394	727,665
Rose Bowl	6,147,979	-	6,147,979	6,163,212
Pasadena Center Operating Company	-	6,836,426	6,836,426	6,625,877
Depreciation	1,896,785	377,117	2,273,902	2,255,151
Total operating expenses	<u>8,799,158</u>	<u>7,213,543</u>	<u>16,012,701</u>	<u>15,771,905</u>
Operating income	<u>1,090,616</u>	<u>4,297,347</u>	<u>5,387,963</u>	<u>4,004,249</u>
Nonoperating revenues (expenses):				
Investment earnings	264,637	86,104	350,741	186,864
Interest expense	(1,066,282)	(55,415)	(1,121,697)	(686,737)
Pre-expansion expenses	-	-	-	(181,838)
Other nonoperating revenues (expenses)	409,911	-	409,911	969,946
Total nonoperating revenues (expenses)	<u>(391,734)</u>	<u>30,689</u>	<u>(361,045)</u>	<u>288,235</u>
Income (loss) before operating transfers	<u>698,882</u>	<u>4,328,036</u>	<u>5,026,918</u>	<u>4,292,484</u>
Capital contributions	<u>2,651,076</u>	-	<u>2,651,076</u>	-
Change in net assets	3,349,958	4,328,036	7,677,994	4,292,484
Net assets at beginning of year, as restated (note 29)	<u>19,883,704</u>	<u>13,304,318</u>	<u>33,188,022</u>	<u>28,990,991</u>
Net assets at end of year	<u>\$ 23,233,662</u>	<u>17,632,354</u>	<u>40,866,016</u>	<u>33,283,475</u>

See accompanying notes to the basic financial statements.

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**Notes to the Basic
Financial Statements**

CITY OF PASADENA
Notes to the Basic Financial Statements
Year Ended June 30, 2006

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CITY OF PASADENA

Notes to the Basic Financial Statements

Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies

The basic financial statements of the City of Pasadena, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

(a) Reporting Entity

The City was incorporated on June 19, 1886 as a Charter City, which operates under a Council-City Manager form of government. The City is a municipal corporation governed by an elected eight-member council.

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City is such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The two methods of reporting component unit data in the basic financial statements are blended and discrete presentation. Blending is limited exclusively to when the board of the component unit is substantively the same as that of the City or if the component unit serves the City exclusively, or almost exclusively.

Blended component units, although legally separate entities, are in substance, part of the government's operations; data from these units are combined with data of the City. Component units that do not meet one of the two criteria for blending are included within financial statements as discrete presentations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. Similar to the City, each blended and discretely presented component unit has a June 30th year-end.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

(a) Reporting Entity, (Continued)

Blended Component Units

The following organizations are considered to be blended component units of the City:

Pasadena Parking Authority (The Authority)

The Authority was created by Resolution No. 1399, dated June 6, 1972 pursuant to the provisions of the Parking Law of 1949 (California Streets and Highways Code, Sections §32651 and §32661.1). The City Council constitutes the governing board of the Authority pursuant to the aforementioned Resolution. The primary purpose of the Authority is to establish parking facilities for motor vehicles within the City, to furnish motor vehicle parking spaces, and to care for such vehicles within any parking facility or space owned, controlled or operated by the Authority. The Authority is reported as an Enterprise Fund.

Pasadena Civic Improvement Corporation (PCIC)

PCIC was created on August 9, 1985 pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code). At the request of the City, PCIC was organized for the specific and primary purpose of providing financial assistance to the City by acquiring or constructing property and appurtenances for and on behalf of the City. This is accomplished through the issuance of such financing instruments as certificates of participation. The PCIC is a non-profit organization with three volunteer directors: a President, Vice-President, and Secretary/Treasurer. PCIC's financial data and transactions are blended with the Debt Service and Capital Projects fund types.

Pasadena Housing Authority (Housing Authority)

Formerly known as the Local Housing Authority, the Pasadena Housing Authority administers the City's federally funded housing programs under contract with the United States Department of Housing and Urban Development (HUD). The Housing Authority's purpose is to help provide safe and sanitary housing accommodations for citizens with low income. It is governed by the City Council. The Housing Authority's financial data and transactions are blended as a Special Revenue Fund.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

(a) Reporting Entity, (Continued)

Blended Component Units, (Continued)

Pasadena Public Financing Authority

The Pasadena Public Financing Authority (PPFA) was created through the joint exercise of powers agreement between the City and the Pasadena Community Development Commission (PCDC) dated April 24, 2000. The purpose of creating the PPFA is to accomplish the purposes of the law and the Bond Pooling Act, including the financing of public capital improvements and the purchase of certain local obligations issued or incurred by the City, PCDC, or other public agencies or the sale of such local obligations or the issuance of bonds of the PPFA secured in whole or in part by such local obligations, or by any other designated source of revenues, all permitted by the law or the Bond Pooling Act. The Bond Pooling Act authorizes and empowers the PPFA to, among other things, (i) issue bonds and to expend or loan the proceeds thereof to the City or PCDC, (ii) finance the acquisition and/or construction of public capital improvements and to sell or lease such improvements to the City or PCDC and (iii) purchase bonds issued by the City or PCDC, all for the purpose of financing public capital improvements, working capital, liability and other insurance needs, or certain other projects whenever there are significant public benefits, as determined by the City or PCDC.

Pasadena Fire and Police Retirement System (FPRS)

FPRS was originally established by the City Charter in 1919. The system was closed on June 30, 1977, but continues to pay out benefits to retirees and their beneficiaries. FPRS covers all sworn fire and police personnel who were employed by the City prior to July 1, 1977, except those who elected to transfer to the California Public Employees' Retirement System (CalPERS) when the system closed. FPRS is managed by a five-member Retirement Board. Three of the members are appointed by the City Council. The other two members represent firefighter and police officials, and are each appointed by their respective members. Additional information related to FPRS is included in note 24.

Pasadena Community Development Commission (PCDC)

PCDC was established on April 27, 1981 to succeed the Pasadena Redevelopment Agency (the Agency). All obligations and assets of the Agency were transferred to PCDC, which adopted the by-laws of the Agency. PCDC was established to eliminate deterioration of the community and promote economic revitalization

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

(a) Reporting Entity, (Continued)

Blended Component Units, (Continued)

within the City. The City provides management assistance to PCDC, and the members of the City Council also act as the governing body. PCDC's financial data and transactions are reported in a separate Special Revenue, Debt Service, and Capital Projects Fund.

Complete financial statements are only prepared for FPRS and PCDC, which can be obtained from the Department of Finance at the City of Pasadena, 117 East Colorado Boulevard, Pasadena, California 91105.

Discretely Presented Component Units

The following organizations are considered to be discretely presented component units of the City:

Rose Bowl Operating Company (RBOC)

RBOC was incorporated on January 18, 1994, as a legally separate entity with the primary purpose of returning economic and civic value to the City of Pasadena by managing a world class stadium and a professional quality golf course complex in a residential open-space environment. RBOC is governed by a twelve-member board. Ten members are appointed by the City Council, while the University of California, Los Angeles (UCLA) and the Tournament of Roses appoint one each. RBOC operations are discretely presented in the accompanying financial statements since neither of the two criteria for a blended component unit, as described above, have been met. RBOC's budget is reviewed and approved by the City Council. RBOC is presented as an Enterprise Fund Type. Separate component unit financial statements of RBOC are issued and available upon request from the RBOC Administration Office at 1001 Rose Bowl Drive, Pasadena, California, 91103.

Pasadena Center Operating Company (PCOC)

PCOC was established on September 19, 1973, as a legally separate entity with the primary purpose of managing and operating the Pasadena Center, a civic facility designed for conferences, exhibitions, trade shows, assemblies, cultural, educational and recreational programs, and for the use, benefit and enjoyment of the public. PCOC was also established to supervise the activities of the Pasadena

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

(a) Reporting Entity, (Continued)

Discretely Presented Component Units, (Continued)

Convention and Visitors Bureau. PCOC is governed by a fourteen-member board who are appointed by the City Council. The City provides a significant portion of the operating support of PCOC through allocation of the Transient Occupancy Tax collected by the City. PCOC is presented as an Enterprise Fund. Separate component unit financial statements of PCOC are issued and available upon request from Pasadena Center Operating Company, 300 E. Green Street, Pasadena, CA 91101.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

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.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

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

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*.

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

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

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*

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

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

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.

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.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

(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 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.

(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.

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.

Project Management Capital Projects 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.

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.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

(d) Cash Equivalents

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

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

(e) Cash and Investments

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

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

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

The City enters into interest rate swap agreements to modify rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements. As of June 30, 2006, the City entered into an interest rate swap agreement related to the Pension Bonds and the 1998 Electric Revenue/Refunding Bonds (see notes 11 and 14).

(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, 2006.

CITY OF PASADENA

Notes to the Basic Financial Statements, (Continued)

Year Ended June 30, 2006

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

(g) Inventories

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

(h) Advances to Other Funds

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

(i) Prepays

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

(j) Restricted Cash and Investments

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