

City Council
City of Pasadena
Pasadena, California

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Megan Hoffman McClane A.C.

Irvine, California
November 26, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Pasadena, we offer readers of the City of Pasadena's financial statements this narrative overview and analysis of the financial activities of the City of Pasadena for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, which can be found on pages 1-10 of this report.

FINANCIAL HIGHLIGHTS

- The primary government assets of the City of Pasadena exceeded liabilities at the close of fiscal year 2007 by \$ 836,061,123 (*net assets*). Of this amount, \$103,778,705 (*unrestricted net assets*) is for unrestricted uses in accordance with finance-related legal requirements reflected in the City's fund structure.
- The primary government's total net assets increased by \$84,457,419. Approximately 38.6 percent of this increase is attributable to the increase of the Governmental Activities and 61.4 percent is attributable to the increase of the Business Type Activities.
- As of the close of fiscal year 2007, the City of Pasadena's governmental funds reported combined ending fund balances of \$209,116,452 a decrease of \$22,521,515 in comparison with the prior year. While approximately 56 percent of the total amount, or \$117,576,550, is labeled as Unreserved Fund Balance, \$68,444,024 of this has been designated for specific purposes by City Council.
- At the end of 2007, unreserved fund balance for the General Fund was \$59,516,646 or 26.8 percent of total general fund expenditures and transfers out.
- Of the unreserved general fund balance of \$59,516,646, \$26,199,444 is undesignated and is \$4.5 million less than was available from the prior year.
- The City of Pasadena's total debt had a net decrease of \$774,013 or 0.1 percent during fiscal year 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The *statement of net assets* presents information on all of the City of Pasadena's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net

assets may serve as a useful indicator of whether the financial position of the City of Pasadena is improving or deteriorating.

The *statement of activities* presents information to show how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The basic government-wide financial statements can be found on pages 34-37 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City of Pasadena maintains forty six individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Project Management Capital Project Fund, and the Community Development Commission Debt Service Fund, all of which are considered to be major funds. Data from the other forty-two governmental funds are combined

into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 38-44 of this report.

Proprietary Funds

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

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

The basic proprietary fund financial statements can be found on pages 46-53 of this report.

Fiduciary funds

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

The basic fiduciary fund financial statements can be found on pages 54-55 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 59-167 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Pasadena's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 169-171 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 174-175 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pasadena, assets exceeded liabilities by \$836,061,123 at the close of the most recent fiscal year.

Approximately 59.3 percent of the City of Pasadena's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Pasadena uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Pasadena's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Pasadena's Net Assets

	Governmental Activities		Business Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 319,086,268	345,880,052	324,944,247	292,554,164	644,030,515	638,434,216
Capital assets	440,574,291	387,193,517	440,575,699	410,150,389	881,149,990	797,343,906
Total Assets	759,660,559	733,073,569	765,519,946	702,704,553	1,525,180,505	1,435,778,122
Long-term debt outstanding	-	360,049,980	-	239,717,847	-	599,767,827
Other liabilities	22,924,803	61,340,974	13,483,260	23,065,617	36,408,063	84,406,591
Total Liabilities	22,924,803	421,390,954	13,483,260	262,783,464	36,408,063	684,174,418
Net assets:						
Invested in capital assets, net of debt	284,365,848	221,450,195	211,671,681	172,776,299	496,037,529	394,226,494
Restricted	44,513,743	37,607,809	191,731,146	191,110,517	236,244,889	228,718,326
Unrestricted	15,401,828	52,624,611	88,376,877	76,034,273	103,778,705	128,658,884
Total Net Assets	344,281,419	311,682,615	491,779,704	439,921,089	836,061,123	751,603,704

An additional portion of the City of Pasadena's net assets \$236,244,889 or 28.3 percent represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$103,778,705 or 12.4 percent is for unrestricted uses in accordance with finance-related legal requirements reflected in the City's fund structure. The *unrestricted net assets* of the City decreased by approximately \$24.9 from the prior year.

At the end of the 2007 fiscal year, the City of Pasadena is able to report positive balances in all three categories of net assets for the government as a whole.

During the 2007 fiscal year, the primary government's net assets increased by \$84.4 million. Approximately 38.6 percent of this increase is represented in the City's Governmental Activities and 61.4 percent of this increase is in the City Business-Type Activities.

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City of Pasadena's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 60,053,165	57,822,175	229,747,761	205,862,910	289,800,926	263,685,085
Operating grants and contributions	33,667,611	34,841,585	2,669,713	2,693,420	36,337,324	37,535,005
Capital grants and contributions	17,165,972	16,113,238	-	-	17,165,972	16,113,238
General revenues:						
Taxes:						
Property taxes, levied for						
general purpose	61,735,584	51,115,947	-	-	61,735,584	51,115,947
Sales taxes	34,634,207	33,992,089	-	-	34,634,207	33,992,089
Utility users' tax	28,062,945	26,766,277	-	-	28,062,945	26,766,277
Transient occupancy tax	8,565,154	8,480,672	1,792,700	1,765,939	10,357,854	10,246,611
Construction tax	3,827,836	3,223,420	-	-	3,827,836	3,223,420
Business license tax	5,321,066	5,288,965	-	-	5,321,066	5,288,965
Franchise taxes	2,187,351	2,193,997	1,957,251	1,658,664	4,144,602	3,852,661
Other taxes	6,152,984	5,721,149	-	-	6,152,984	5,721,149
Other intergovernmental	14,144,677	13,478,384	-	-	14,144,677	13,478,384
Fines and forfeits	-	-	-	-	-	-
Investment earnings	13,807,989	11,301,595	13,580,388	10,059,307	27,388,377	21,360,902
Net change in fair value of investments	2,640,386	(2,481,680)	2,475,786	(5,604,708)	5,116,172	(8,086,388)
Gain on sale of assets	-	23,003	-	-	-	23,003
Miscellaneous revenues	6,361,304	9,428,706	3,138,822	3,905,450	9,500,126	13,334,156
Total revenues	298,328,231	277,309,522	255,362,421	220,340,982	553,690,652	497,650,504
Expenses:						
General government	45,708,101	38,300,960	-	-	45,708,101	38,300,960
Public safety	95,180,581	82,372,339	-	-	95,180,581	82,372,339
Transportation	34,109,516	42,277,246	-	-	34,109,516	42,277,246
Sanitation	3,109,637	3,103,965	-	-	3,109,637	3,103,965
Health	12,469,435	11,547,887	-	-	12,469,435	11,547,887
Culture and leisure	26,122,883	24,725,157	-	-	26,122,883	24,725,157
Community development	38,595,901	33,654,958	-	-	38,595,901	33,654,958
Interest and other fiscal charges	16,752,925	15,978,523	-	-	16,752,925	15,978,523
Electric	-	-	141,189,141	143,062,795	141,189,141	143,062,795
Water	-	-	32,886,171	29,423,662	32,886,171	29,423,662
Refuse	-	-	10,785,546	10,737,103	10,785,546	10,737,103
Parking	-	-	11,959,684	11,292,758	11,959,684	11,292,758
Telecommunication	-	-	363,712	382,516	363,712	382,516
Total expenses	272,048,979	251,961,035	197,184,254	194,898,834	469,233,233	446,859,869
Increase (decrease) in net assets, before transfers	26,279,252	25,348,487	58,178,167	25,442,148	84,457,419	50,790,635
Transfers	6,319,552	22,914,233	(6,319,552)	(22,914,233)	-	-
Increase (decrease) in net assets	32,598,804	48,262,720	51,858,615	2,527,915	84,457,419	50,790,635
Net assets at beginning of year, as restated	311,682,615	263,419,895	439,921,089	437,393,174	751,603,704	700,813,069
Net assets at end of year	\$ 344,281,419	311,682,615	491,779,704	439,921,089	836,061,123	751,603,704

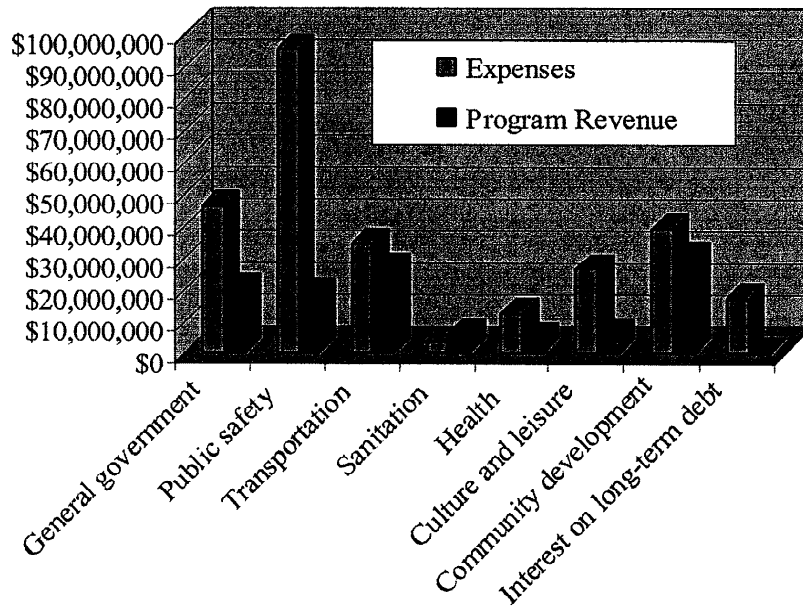
Governmental Activities

Governmental activities increased City of Pasadena's net assets by \$32.6 million, a 4.3 percent increase in the primary government's net assets. Key elements of this increase are as follows:

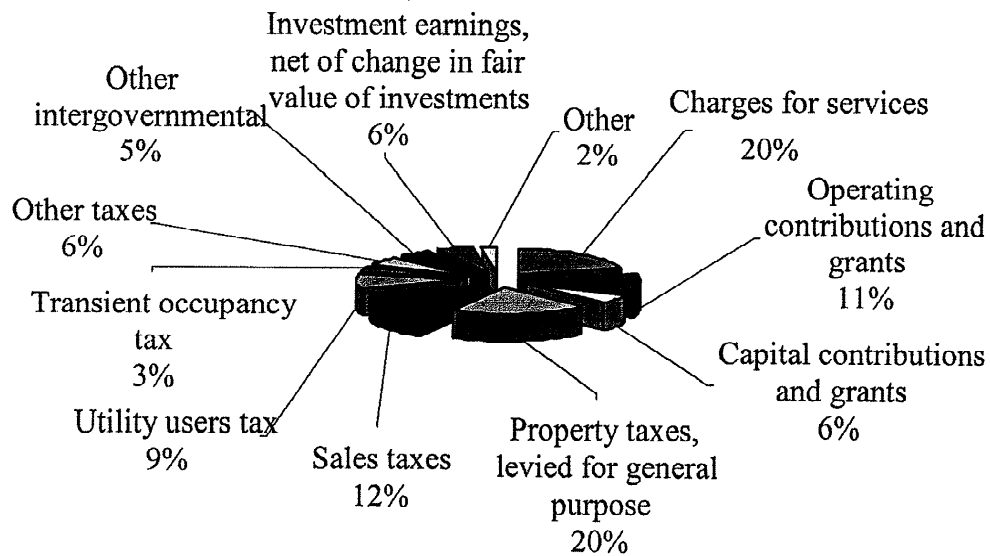
- Total Program Revenues (Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions) increased by \$2.1 million or 1.9 percent from the prior year. Operating Grants and Contributions decreased \$1.2 million or 3.4 percent. This decrease was offset by increases in Charges for Services and Capital Grants and Contributions, which increased \$2.2 million or 3.8 percent and \$1.0 million or 6.5 percent, respectively.
- Tax revenue increased by \$13.7 million or 10.0 percent increase from fiscal year 2006. This change was due primarily to increases in property taxes (\$ 10.6 million), utility users' tax (\$ 1.3 million), sales taxes (\$.6 million), and construction tax (\$.6 million).
- Investment earnings increased 22.2 percent from \$11.3 million to \$13.8 million. The increase reflects both higher market yields and investment gains generated by the portfolio.
- Total expenses increased from fiscal year 2006 by \$20.1 million or 8.0 percent. This is primarily driven by an increase in General Government expenses by \$7.4 million or 19.3 percent compared to the prior fiscal year, primarily related to increased internal service costs and increased supplemental contribution to the Fire and Police Retirement System. Public Safety increased by \$12.8 million or 15.6 percent. Transportation decreased by \$8.2 million or 19.3 percent. Also, Culture and Leisure increased \$1.4 million or 5.7 percent. Community Development increased \$4.9 million or 14.7 percent.

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Expenses and Program Revenues - Governmental Activities



Revenues by Sources - Governmental Activities



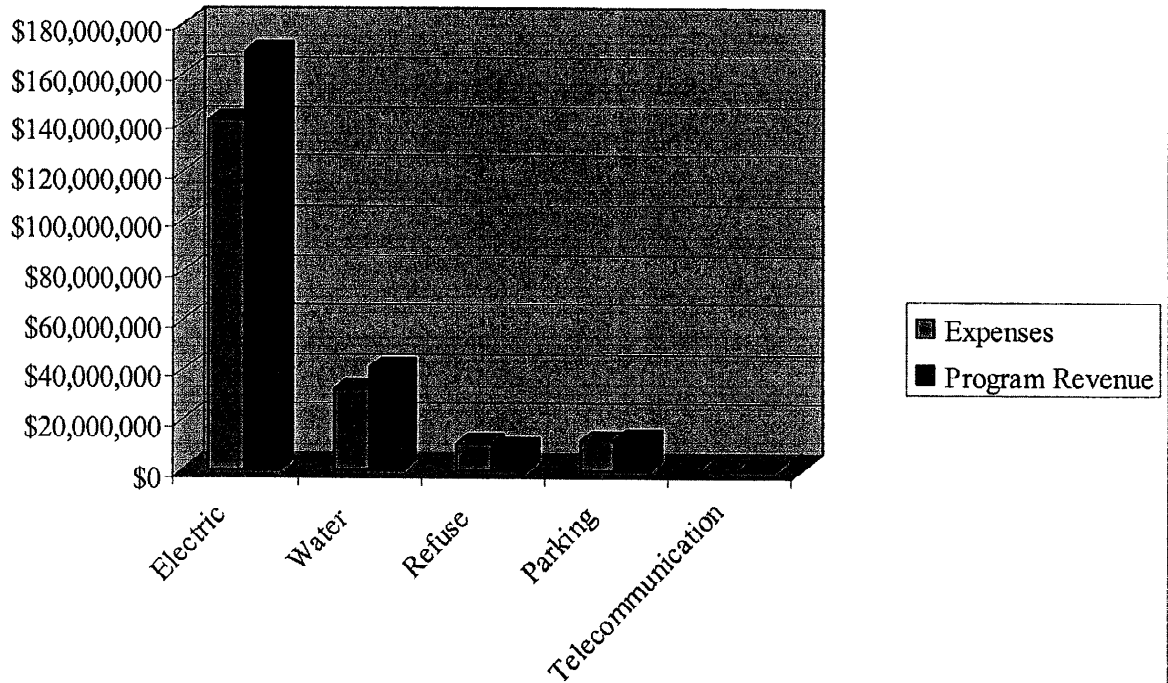
Business-Type Activities

Business-type activities increased the City of Pasadena's net assets by \$51.8 million, a 6.9 percent increase in the primary government's net assets. Key elements of this increase are as follows:

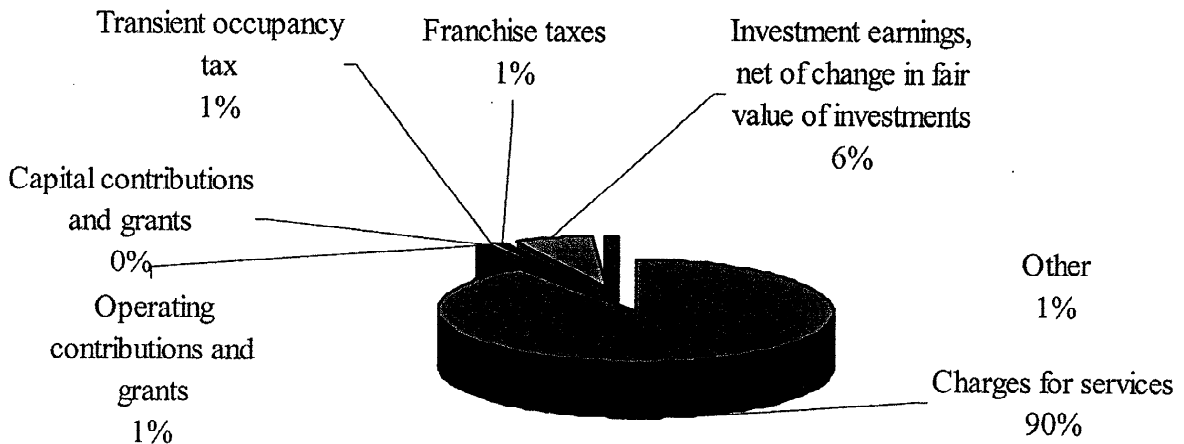
- Charges for services revenue increased from the prior year by \$23.9 million or 11.6 percent. Of this increase, Electric revenues increased \$17.6 million or 11.7 percent. Approximately \$12.6 million of this increase was due to increased electric rates and \$5.0 million due to increased electricity consumption. This \$5.0 million increase reflects a 3.4% or 40,569 MWH increase in consumption.
- Total business-type activities expenses increased by \$2.3 or 1.2 percent from \$194.9 million for the prior year to \$197.2 million for the current year. Electric expenses decreased \$1.9 million or 1.3 percent from \$143.1 million to \$141.2 million. Water expenses increased \$3.5 million or 11.8 percent from \$29.4 million to \$32.9 million. The balance of the increase in business-type activity expenses comes from Parking, which increased approximately \$.7 million.

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Expenses and Program Revenues - Business-type Activities



Revenue by Sources - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

Governmental Funds report the difference between their assets and liabilities as *fund balance*, which is divided into *reserved* and *unreserved* portions. The function of *reserved fund balance* is simply to isolate the portion of fund balance that is unavailable for the following period's budget. The *unreserved fund balance* can serve as a measure of current available financial resources. City Council may commit a portion of the *unreserved fund balance* by *designation* of fund balance to an intended future use.

As of the end of the 2007 fiscal year, the City of Pasadena's governmental funds reported combined ending fund balances of \$209,116,452 a decrease of \$22.5 million or 9.7 percent in comparison with the prior year. This fund balance is then divided into two categories, reserved fund balance of \$91,539,902 and unreserved fund balance of \$117,576,550. Subtracting from \$117,576,550 the unreserved fund balance of the Special Revenue Funds of \$43,024,637, Debt Service Funds of (\$24,474,889), Capital Projects Fund of \$38,463,306, and the Permanent Fund of \$1,046,850, results in the General Fund unreserved fund balance of \$59,516,646. This unreserved General Fund balance has had \$33,317,202 designated by City Council for the following; UUT Reserve (\$6,206,318), City Hall seismic retrofit (\$12,044,942), and emergency/capital improvements (\$15,065,942). This leaves a General Fund *undesignated, unreserved* fund balance of \$26,199,444

The General Fund is the chief operating fund of the City of Pasadena. At the end of the 2007 fiscal year, unreserved fund balance of the General Fund was \$59,516,646, while total fund balance reached \$66,487,713. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 35.0 percent of total General Fund expenditures, while total fund balance represents 39.1 percent of that same amount.

The fund balance of the City of Pasadena's General Fund decreased by \$13.0 million or 16.3 percent, during 2007 fiscal year. Key factors in this decrease are as follows:

- The Change in fund balance of the General Fund, from an increase of \$10,384,986 for fiscal year 2006 to a decrease of \$12,978,699 for fiscal 2007, represents an overall change of approximately \$23.4 million.
- Total expenditures increased \$15,629,303 or 10.1%. The expenditures increased from the prior year in the following amounts: \$3.9 million or 12.9% in General Government, \$9.9 million or 12.6% in Public Safety, \$.7 million or 7.6% in Community Development, \$.6 million or 4.6% in Culture and Leisure, and \$5 million or 2.2% in Transportation. These mostly relate to increase personnel associated costs, except for General Governmental which also increased due

to additional supplemental contribution to the Fire and Police Retirement System and election costs.

- Taxes increased by \$7.7 million or 7.1 percent from the prior year. This increase is comprised mainly of increases in Secured Property Tax of \$4.8 million or 18.9 percent, Retail Sales Tax of \$.8 million or 2.6 percent, Utility User Tax of \$1.3 million or 4.8 percent, and Construction Tax of \$.6 million or 18.8% increase from the prior year.
- Intergovernmental Revenues increased \$.6 million or 5.8 percent from the prior year, reflecting increases in Motor Vehicle In Lieu Tax, California Office of Traffic Safety Grant, Other County Reimbursements, and a decrease in FEMA Reimbursements
- Charges for services increased \$2.8 million or 9.9 percent from the prior year. Services to other funds increased by \$.8 million, Emergency Medical Aid Response increased by \$.9 million, Street Light and Traffic Signal revenue increased by \$.7 million.

The Project Management Capital Project Fund has a fund balance of \$4,433,261, which is a decrease of \$1.4 million or 24.6 percent from the prior year. The key factors contributing to this decrease are as follows:

- An increase of \$3.1 million in Intergovernmental Revenues for the completion of Raymond Avenue freeway connector funded by Federal Traffic Mitigation revenues.
- Total revenues increased \$5.6 million or 67.9 percent, whereas total expenditures decreased \$14.5 million or 19.3 percent.
- Other financing sources decreased by \$20.6 million or 31.3 percent from \$65.8 million in 2006 to \$45.2 million in 2007.

The Community Development Commission Debt Service Fund has a total fund deficit of \$24,474,889. The deficit exists since GAAP requires the debt service funds to record advances from other funds as a liability. At June 30, 2007, the balance in advances from other funds is \$33,566,114. The net change in fund balance during the current year in the debt service fund is \$.9 million or 3.5 percent increase from the prior year deficit balance of \$25,362,581.

Proprietary Funds

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

Unrestricted net assets of the Light and Power Fund at the end of the year amounted to \$81,398,338 and those for the Water, Old Pasadena Parking, and Paseo Colorado Parking Funds amounted to \$3,751,292, \$930,306 and (\$2,460,085); respectively. The total net income (loss) for each fund was \$40,444,615, \$7,739,083, \$1,756,358, and (\$671,994); respectively.

In the Light and Power Fund, \$2.4 million operating transfer in was reimbursed from the Project Management Fund to pay for all underground projects done by the Power Division. Operating expenses decreased \$1.9 million or 1.4 percent from \$137,125,392 to \$135,269,933. Pricing on spot market purchases has stabilized in FY 2007 as compared to the prior year when weather conditions

drove prices higher. This reduction in prices combined with reduced usage decreased short term purchases \$9.3 million. This combined with \$.4 million more commercial expenses and a \$7.0 million increase in long term and renewable source purchases net to the \$1.9 million decrease.

Water Fund operating expenses increased by \$3.3 million or 12.3 percent from the prior year. The \$2.8 million or 19.3 percent increase in utility production expenses from the prior year was due to an increase of \$2.4 million in water purchases from the Metropolitan Water District and small increases in utility transmission and distribution expenses and depreciation expense.

Old Pasadena Parking Fund net income decreased \$71,015 from the prior year or 3.8 percent. The reason for the decrease was due to an increase in depreciation caused by purchases in FY 2006 and an increase in merchant fees for real-time credit card approvals.

Paseo Colorado Parking Funds net income decreased \$.2 million or 45.5% from a net loss of \$.5 million in 2006 to a net loss of \$.7 million in 2007. Net income decreased due to an increase in interest expense on its variable rate outstanding debt.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund final budgeted appropriations increased by \$9.3 million from the original budget or 5.7 percent. The primary reasons for the increase from the original budget to the final budget came from Non-Department of \$5.4 million which consists of \$3.9 million for the City's payment of its pension obligation to the Fire and Police Retirement System and \$1.5 million in bonds proceeds for capital. Excluding non-departmental expenditures, the Fire Department budget had the largest increase which was \$1.8 million or 5.0 percent. The driver behind this increase is negotiated personnel costs and an additional rescue ambulance. The Public Works and Transportation budget increased \$.7 million or 2.7 percent for parking services and traffic control consultants. The Police Department Budget increased approximately \$.5 million or 1.0 percent of which the majority of increase was due to grants received for traffic enforcement services. Overall, the differences between the original budget and the final amended budget were relatively minor.

The General Fund actual total expenditures did not exceed final budgeted appropriations. The variance between actual total expenditures and the final appropriation was \$2.8 million or 1.6 percent. The largest negative variance occurred in the Non-departmental expenditures which exceed the final budget by \$1.7 million. Approximately \$2.1 million of the non-departmental expenditures is related to billable projects which do not typically have budgets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Pasadena's investment in capital assets for its governmental and business-type activities as of June 30, 2007 amounts to \$881,149,990, net of accumulated depreciation. This investment in

capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The net increase in the City of Pasadena's investment in capital assets for the current fiscal year was 9.3 percent (a 11.3 percent increase for governmental activities and a 7.4 percent increase for business-type activities).

Major capital asset events during the 2007 fiscal year included the following:

- Improvement of city-owned facilities continues to be a priority. Work continues this year in the area of historic preservation, design services, preparation of construction and bidding documents and construction of three major projects: City Hall Seismic Retrofit and Exterior Restoration, Seismic Retrofit of Glenarm Power Plant and Pasadena Ice Rink Facility Construction. Approximately \$33,435,818 was spent on these projects during fiscal year 2007. The City Hall Seismic Retrofit and Exterior Restoration project was completed in May 2007 with a total cost of \$116,486,829.
- A variety of street maintenance and construction, electrical system undergrounding, traffic control and parks and landscape projects continue Citywide. Some of the major projects in these categories this fiscal year include: Raymond Avenue Pasadena Freeway Connector, Street Widening, Pavement Rehabilitation, Avenue 64-La Loma Road Street Lighting and Undergrounding, Traffic Control and Monitoring System (ITS), and Restoration of Flint Wash Bridge Crossing - Hahamongna. Work on these projects during the 2007 fiscal year reached \$13,819,553. Construction in Progress for the governmental activities as of June 30, 2007 is \$86,348,066.
- As of June 30, 2007, the Water and Power utility plant amounted to \$384,575,782 (net of accumulated), an increase of 8.6 percent or \$30,313,717. During the fiscal year, the City spent \$47,149,526 on various water and power projects and capitalized \$39,833,501 for projects completed. Some of the major projects completed are related to improvements to components of the transmission and distribution assets.

City of Pasadena's Capital Assets

(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$55,467,474	55,467,474	5,236,929	5,236,929	60,704,403	60,704,403
Buildings and improvements	195,731,518	80,391,450	88,522,671	89,726,299	284,254,189	170,117,749
Machinery and equipment	15,252,459	15,017,029	293,763,843	269,450,930	309,016,302	284,467,959
Infrastructure	97,619,605	94,283,537	-	-	97,619,605	94,283,537
Construction in progress	<u>76,503,235</u>	<u>142,034,027</u>	<u>53,052,256</u>	<u>45,736,231</u>	<u>129,555,491</u>	<u>187,770,258</u>
Totals	<u>\$440,574,291</u>	<u>387,193,517</u>	<u>440,575,699</u>	<u>410,150,389</u>	<u>881,149,990</u>	<u>797,343,906</u>

Additional information on the City of Pasadena's capital assets can be found in note 7 on pages 108-111 of this report.

Long-Term Debt

At year-end, the City has a number of debt issues outstanding. These include \$128 million of taxable pension bonds, \$9.9 million of tax allocation bonds applicable to PCDC, \$224.1 million of revenue bonds, \$168.1 million of certificates of participation, \$9.1 million of notes payable and \$9.1 million of capitalized lease obligations. Long-term debt decreased by a net amount of \$774,017 as a result of normal scheduled principal maturities, increased arbitrage rebate liability, compensated absences, and net pension obligation. The City was assigned an AA+ rating from Standard and Poor's and Fitch Ratings on general obligation bonds.

City of Pasadena's Outstanding Debt

	Governmental Activities		Business Activities		Total	
	2007	2006	2007	2006	2007	2006
Notes payable	\$ 7,162,835	8,144,865	1,909,341	2,016,981	9,072,176	10,161,846
Pension bonds	128,045,000	131,960,000	-	-	128,045,000	131,960,000
General obligation bonds	-	1,550,000	-	-	-	1,550,000
Tax allocation bonds	9,928,550	10,607,328	-	-	9,928,550	10,607,328
Certificates of participation	138,963,861	143,901,497	29,106,683	31,469,001	168,070,544	175,370,498
Revenue bonds	10,355,000	10,355,000	213,785,000	201,535,000	224,140,000	211,890,000
Capitalized lease obligations	7,812,910	9,291,742	1,284,128	2,353,108	9,097,038	11,644,850
Unamortized premium (discounts)	(4,230,214)	(4,624,363)	2,215,365	2,343,757	(2,014,849)	(2,280,606)
Arbitrage Rebate Liability	762,711	759,576	-	-	762,711	759,576
Compensated absences	7,858,348	6,975,434	-	-	7,858,348	6,975,434
Net pension obligation	44,034,293	41,128,901	-	-	44,034,293	41,128,901
Totals	\$ 350,693,294	360,049,980	248,300,517	239,717,847	598,993,811	599,767,827

Additional information on the City of Pasadena's long-term debt can be found in notes 9 through 16 on pages 114 to 141 of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Pasadena's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Director of Finance, 100 North Garfield Avenue, Room S310, Pasadena, California, 91109.

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CITY OF PASADENA
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total Primary Government
Assets			
Cash and investments (note 2)	\$ 247,613,662	65,909,142	313,522,804
Accounts receivable (note 3)	36,960,986	51,617,681	88,578,667
Less allowance for uncollectible amounts (note 3)	(1,064,318)	(8,397,568)	(9,461,886)
Notes receivable (note 4)	28,893,822	-	28,893,822
Internal balances (note 5)	2,570,116	(2,570,116)	-
Inventories	265,151	15,994,773	16,259,924
Prepays and other assets	978,147	24,927,032	25,905,179
Internal advances (note 6)	5,916,447	(5,916,447)	-
Advances to (from) component units (note 6)	1,027,541	-	1,027,541
Allowance for uncollectible long-term receivables (notes 4 and 6)	(12,200,119)	-	(12,200,119)
Restricted assets - cash and investments (note 2)	1,383,268	183,379,750	184,763,018
Property held for resale	6,741,565	-	6,741,565
Capital assets (note 7):			
Land	55,467,474	5,236,929	60,704,403
Construction in progress	76,503,235	53,052,256	129,555,491
Other capital assets, net	308,603,582	382,286,514	690,890,096
Total assets	<u>759,660,559</u>	<u>765,519,946</u>	<u>1,525,180,505</u>
Liabilities			
Accounts payable and accrued liabilities	29,453,271	19,892,236	49,345,507
Deposits	2,838,765	4,433,493	7,272,258
Insurance claims payable (note 22)			
Due within one year	8,483,399	-	8,483,399
Due in more than one year	15,754,885	-	15,754,885
Interest payable	1,832,168	-	1,832,168
Due to other governments	272,928	-	272,928
Unearned revenue (note 8)	6,050,430	1,113,996	7,164,426
Noncurrent liabilities (notes 9 to 15):			
Due within one year	22,924,803	13,483,260	36,408,063
Due in more than one year	327,768,491	234,817,257	562,585,748
Total liabilities	<u>415,379,140</u>	<u>273,740,242</u>	<u>689,119,382</u>
Net Assets			
Invested in capital assets, net of related debt	284,365,848	211,671,681	496,037,529
Restricted:			
Expendable:			
Culture and leisure	3,347,058	-	3,347,058
Capital projects	-	8,220,826	8,220,826
Community development	13,008,784	-	13,008,784
Contribution	-	13,547,004	13,547,004
Debt service	27,111,051	22,484,094	49,595,145
Stranded investments (note 18 and 25)	-	144,504,546	144,504,546
Other purposes	-	2,974,676	2,974,676
Nonexpendable:	1,046,850	-	1,046,850
Unrestricted	15,401,828	88,376,877	103,778,705
Total net assets	<u>\$ 344,281,419</u>	<u>491,779,704</u>	<u>836,061,123</u>

See accompanying notes to the basic financial statements.

Component Units	Total	
	2007	2006
7,827,571	321,350,375	342,007,022
3,127,961	91,706,628	95,862,428
-	(9,461,886)	(8,961,828)
-	28,893,822	28,520,611
-	-	-
-	16,259,924	13,036,841
2,259,971	28,165,150	16,574,896
-	-	-
(1,027,541)	-	-
-	(12,200,119)	(11,894,527)
144,328,216	329,091,234	188,879,768
-	6,741,565	5,322,588
2,423,473	63,127,876	63,127,876
57,550,683	187,106,174	197,502,792
38,627,684	729,517,780	588,721,120
<u>255,118,018</u>	<u>1,780,298,523</u>	<u>1,518,699,587</u>
9,093,691	58,439,198	51,361,145
412,485	7,684,743	7,547,556
-	8,483,399	7,742,628
-	15,754,885	12,693,160
-	1,832,168	1,816,015
-	272,928	24,035
1,057,617	8,222,043	8,429,950
1,686,931	38,094,994	33,533,802
197,552,259	760,138,007	603,081,576
<u>209,802,983</u>	<u>898,922,365</u>	<u>726,229,867</u>
29,885,702	525,923,231	425,892,278
-	3,347,058	3,331,704
1,378,190	9,599,016	11,424,912
-	13,008,784	8,716,431
-	13,547,004	6,856,349
-	49,595,145	48,321,002
-	144,504,546	145,504,122
-	2,974,676	4,800,551
-	1,046,850	992,663
14,051,143	117,829,848	136,629,708
<u>45,315,035</u>	<u>881,376,158</u>	<u>792,469,720</u>

CITY OF PASADENA
Statement of Activities
For the Fiscal Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 45,708,101	16,160,801	267,565	3,302,188
Public safety	95,180,581	13,274,076	4,743,837	-
Transportation	34,109,516	12,275,199	4,687,400	9,677,958
Sanitation	3,109,637	5,592,821	-	-
Health	12,469,435	731,414	3,861,804	-
Culture and leisure	26,122,883	2,152,203	3,940,946	-
Community development	38,595,901	9,866,651	16,166,059	4,185,826
Interest and other fiscal charges	16,752,925	-	-	-
Total governmental activities	<u>272,048,979</u>	<u>60,053,165</u>	<u>33,667,611</u>	<u>17,165,972</u>
Business-type activities:				
Electric	141,189,141	167,538,011	1,488,752	-
Water	32,886,171	39,942,271	1,180,961	-
Refuse	10,785,546	9,626,950	-	-
Parking	11,959,684	12,282,153	-	-
Telecommunication	363,712	358,376	-	-
Total business-type activities	<u>197,184,254</u>	<u>229,747,761</u>	<u>2,669,713</u>	<u>-</u>
Total primary government	<u>\$ 469,233,233</u>	<u>289,800,926</u>	<u>36,337,324</u>	<u>17,165,972</u>
Component units	<u>\$ 19,747,893</u>	<u>13,791,832</u>	<u>-</u>	<u>297,530</u>

General revenues:

Taxes:

Property tax, levied for general purpose
Sales tax
Utility users' tax
Transient occupancy tax
Construction tax
Business license tax
Franchise tax
Other taxes
Other intergovernmental, unrestricted
Investment earnings
Net change in fair value of investments
Gain on sale of assets
Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year, as restated (note 28)

Net assets - end of year

See accompanying notes to the basic financial statements.

**Net (Expenses) Revenues and
Changes in Net Assets**

Primary Government					
Governmental Activities	Business-type Activities	Total Primary Government	Component Units	Total	
				2007	2006
(25,977,547)	-	(25,977,547)	-	(25,977,547)	(18,906,078)
(77,162,668)	-	(77,162,668)	-	(77,162,668)	(66,374,557)
(7,468,959)	-	(7,468,959)	-	(7,468,959)	(18,580,845)
2,483,184	-	2,483,184	-	2,483,184	2,253,623
(7,876,217)	-	(7,876,217)	-	(7,876,217)	(2,381,998)
(20,029,734)	-	(20,029,734)	-	(20,029,734)	(21,584,707)
(8,377,365)	-	(8,377,365)	-	(8,377,365)	(1,630,952)
(16,752,925)	-	(16,752,925)	-	(16,752,925)	(15,978,523)
<u>(161,162,231)</u>	<u>-</u>	<u>(161,162,231)</u>	<u>-</u>	<u>(161,162,231)</u>	<u>(143,184,037)</u>
-	27,837,622	27,837,622	-	27,837,622	8,803,239
-	8,237,061	8,237,061	-	8,237,061	5,896,477
-	(1,158,596)	(1,158,596)	-	(1,158,596)	(1,600,682)
-	322,469	322,469	-	322,469	585,466
-	(5,336)	(5,336)	-	(5,336)	(27,004)
<u>-</u>	<u>35,233,220</u>	<u>35,233,220</u>	<u>-</u>	<u>35,233,220</u>	<u>13,657,496</u>
<u>(161,162,231)</u>	<u>35,233,220</u>	<u>(125,929,011)</u>	<u>-</u>	<u>(125,929,011)</u>	<u>(129,526,541)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,658,531)</u>	<u>(5,658,531)</u>	<u>6,917,342</u>
61,735,584	-	61,735,584	-	61,735,584	51,115,947
34,634,207	-	34,634,207	-	34,634,207	33,992,089
28,062,945	-	28,062,945	-	28,062,945	26,766,277
8,565,154	1,792,700	10,357,854	5,355,584	15,713,438	15,548,508
3,827,836	-	3,827,836	-	3,827,836	3,223,420
5,321,066	-	5,321,066	-	5,321,066	5,288,965
2,187,351	1,957,251	4,144,602	-	4,144,602	3,852,661
6,152,984	-	6,152,984	2,450,470	8,603,454	7,729,892
14,144,677	-	14,144,677	191,607	14,336,284	13,478,384
13,807,989	13,580,388	27,388,377	1,419,068	28,807,445	21,711,643
2,640,386	2,475,786	5,116,172	-	5,116,172	(8,086,388)
-	-	-	-	-	23,003
6,361,304	3,138,822	9,500,126	690,821	10,190,947	6,433,427
6,319,552	(6,319,552)	-	-	-	-
<u>193,761,035</u>	<u>16,625,395</u>	<u>210,386,430</u>	<u>10,107,550</u>	<u>220,493,980</u>	<u>181,077,828</u>
32,598,804	51,858,615	84,457,419	4,449,019	88,906,438	58,468,629
311,682,615	439,921,089	751,603,704	40,866,016	792,469,720	734,001,091
<u>\$ 344,281,419</u>	<u>491,779,704</u>	<u>836,061,123</u>	<u>45,315,035</u>	<u>881,376,158</u>	<u>792,469,720</u>

CITY OF PASADENA

Balance Sheet

Governmental Funds

June 30, 2007

	<u>General</u>	<u>Pasadena Community Development Commission Debt Service</u>	<u>Project Management Capital Project</u>	<u>Non-Major Governmental Funds</u>
<u>Assets</u>				
Cash and investments (note 2)	\$ 59,168,047	9,269,584	5,219,819	143,997,155
Accounts receivable (note 3)	15,663,096	627,040	7,454,007	7,534,496
Less allowance for uncollectible amounts (note 3)	(1,035,905)	-	-	(28,413)
Notes receivable (note 4)	386,403	-	-	28,507,419
Due from other funds (note 5)	6,015,821	-	-	1,685,559
Prepays and other assets	588,887	-	49,927	-
Advances to other funds (note 6)	15,237,831	-	-	24,526,426
Advances to component units (note 6)	1,027,541	-	-	-
Allowance for uncollectible long-term receivables	(11,341,808)	-	-	(32,178,552)
Property held for resale	-	-	-	6,741,565
Total assets	\$ 85,709,913	9,896,624	12,723,753	180,785,655
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 11,046,824	265,640	5,514,178	5,065,360
Deposits	1,798,192	-	-	1,040,573
Due to other funds (note 5)	-	539,759	-	4,601,105
Due to other governments	272,928	-	-	-
Deferred revenue (note 8)	6,104,256	-	2,776,314	2,759,198
Advances from other funds (note 6)	-	33,566,114	-	4,649,052
Total liabilities	19,222,200	34,371,513	8,290,492	18,115,288
Fund balances:				
Reserved for:				
Encumbrances	1,072,213	-	-	14,383,439
Notes receivable	386,403	-	-	16,237,303
Prepays and other assets	588,887	-	49,927	-
Advances to other funds	4,923,564	-	-	5,504,636
Property held for resale	-	-	-	6,741,565
Debt service	-	-	-	41,651,965
Unreserved, reported in (note 17):				
General fund	59,516,646	-	-	-
Special revenue funds	-	-	-	43,024,637
Debt service funds	-	(24,474,889)	-	-
Capital projects funds	-	-	4,383,334	34,079,972
Permanent funds	-	-	-	1,046,850
Total fund balances	66,487,713	(24,474,889)	4,433,261	162,670,367
Total liabilities and fund balances	\$ 85,709,913	9,896,624	12,723,753	180,785,655

See accompanying notes to the basic financial statements.

Totals

<u>2007</u>	<u>2006</u>
217,654,605	240,401,696
31,278,639	36,771,954
(1,064,318)	(662,450)
28,893,822	28,470,611
7,701,380	8,015,459
638,814	595,290
39,764,257	39,259,516
1,027,541	1,085,522
(43,520,360)	(42,759,501)
<u>6,741,565</u>	<u>5,322,588</u>
<u>289,115,945</u>	<u>316,500,685</u>
21,892,002	22,261,931
2,838,765	2,728,388
5,140,864	6,770,279
272,928	24,035
11,639,768	15,733,035
<u>38,215,166</u>	<u>37,345,050</u>
<u>79,999,493</u>	<u>84,862,718</u>
15,455,652	13,084,806
16,623,706	16,066,412
638,814	595,290
10,428,200	10,877,434
6,741,565	5,322,588
41,651,965	38,780,430
59,516,646	72,400,797
43,024,637	44,033,108
(24,474,889)	(25,362,581)
38,463,306	54,847,020
<u>1,046,850</u>	<u>992,663</u>
<u>209,116,452</u>	<u>231,637,967</u>
<u>289,115,945</u>	<u>316,500,685</u>

CITY OF PASADENA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2007

Fund balances of governmental funds		\$ 209,116,452
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.		430,872,258
Allowance for advances		31,889,350
Long term debt has not been included in governmental fund activity.		
Arbitrage Rebate Liability	(762,711)	
Notes payable	(7,162,835)	
Pension bonds	(128,045,000)	
Tax allocation bonds	(9,928,550)	
Revenue bonds	(10,355,000)	
Certificates of participation	(138,963,861)	
Capitalized lease obligations	(4,874,613)	
Net pension obligation	(44,034,293)	
Unamortized premium (discount)	<u>4,230,214</u>	
Net adjustment		(339,896,649)
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.		(1,832,168)
Unearned revenue related to GASB 33 requirement, which consisted primarily of intergovernmental receivables not collected within the availability period.		5,589,338
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net assets and liabilities of the internal service funds must be added to the statement of net assets.		<u>8,542,838</u>
Net assets of governmental activities		<u>\$ 344,281,419</u>

See accompanying notes to the basic financial statements.

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CITY OF PASADENA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	<u>General</u>	<u>Pasadena Community Development Commission Debt Service</u>	<u>Project Management Capital Project</u>	<u>Non-Major Governmental Funds</u>
Revenues:				
Taxes	\$ 115,916,861	21,789,079	-	12,781,187
Licenses and permits	2,024,034	-	-	5,097,022
Intergovernmental revenues	12,705,093	558,000	10,625,397	36,415,306
Charges for services	30,711,841	-	193,693	6,985,916
Fines and forfeits	7,593,705	-	-	164,095
Investment earnings	22,024,174	394,151	-	7,774,100
Net change in fair value of investments	857,707	62,953	-	1,336,885
Rental income	1,317,087	-	-	3,674,111
Miscellaneous revenues	2,063,664	212,050	-	6,480,550
Contributions	-	-	3,096,577	4,195,826
Total revenues	<u>195,214,166</u>	<u>23,016,233</u>	<u>13,915,667</u>	<u>84,904,998</u>
Expenditures:				
Current:				
General government	34,178,408	-	-	538,308
Public safety	88,398,871	-	-	4,314,405
Transportation	24,514,491	-	-	9,678,130
Sanitation	-	-	-	3,109,637
Health	-	-	-	12,246,665
Culture and leisure	13,700,557	-	-	11,817,253
Community development	9,468,514	36,001	-	28,547,751
Capital outlay	-	-	60,591,371	310,272
Debt service:				
Principal retirement	-	1,430,809	-	10,865,171
Interest	-	19,645,886	-	15,566,334
Payment to refunded bond escrow agent	-	-	-	-
Total expenditures	<u>170,260,841</u>	<u>21,112,696</u>	<u>60,591,371</u>	<u>96,993,926</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,953,325</u>	<u>1,903,537</u>	<u>(46,675,704)</u>	<u>(12,088,928)</u>
Other financing sources (uses):				
Issuance of long-term debt	87,401	-	-	-
Other financing use-bond discount	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in (note 21)	13,634,346	850,739	47,602,529	47,036,497
Transfers out (note 21)	(51,653,771)	(1,866,584)	(2,370,276)	(43,934,626)
Total other financing sources (uses)	<u>(37,932,024)</u>	<u>(1,015,845)</u>	<u>45,232,253</u>	<u>3,101,871</u>
Change in fund balances	(12,978,699)	887,692	(1,443,451)	(8,987,057)
Fund balances (deficits) at beginning of year	<u>79,466,412</u>	<u>(25,362,581)</u>	<u>5,876,712</u>	<u>171,657,424</u>
Fund balances (deficits) at end of year	<u>\$ 66,487,713</u>	<u>(24,474,889)</u>	<u>4,433,261</u>	<u>162,670,367</u>

See accompanying notes to the basic financial statements.