PASADENA COMMUNITY ACCESS CORPORATION
(A COMPONENT UNIT OF THE
CITY OF PASADENA, CALIFORNIA)

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2014

PASADENA COMMUNITY ACCESS CORPORATION
(A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA)
YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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

7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET
SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pasadena Community Access Corporation
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Pasadena Community Access Corporation (the Corporation), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Pasadena Community Access Corporation's (a component unit of the City of Pasadena, California) (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Corporation's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- The Corporation's net position for the fiscal year ending June 30, 2014, was $321,040, a decrease of $96,547 or 23.12%.

- During the year, the Corporation had operating expenses that were $182,661 more than the $825,803 generated in franchise fees, service contracts, and other revenues from the Corporation's programs from the fiscal year ended June 30, 2014. This compares to last year, when operating expenses exceeded revenues by $80,392.

- Total cost of all of the Corporation's programs was $1,008,464. The programmatic activities of the Corporation remained unchanged.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position (on pages 7 and 8) provide information about the activities of the Corporation as a whole and present a long-term view of the Corporation's finances. As the Corporation operates as a business-type activity, no additional fund statements are necessary. When the Corporation charges customers for the services it provides—whether to outside customers or to the City of Pasadena or other governments—these services are reported similarly to the way a business operates.

A Statement of Cash Flows is also presented using the direct method, which portrays inflows and outflows for specific classes of operations along with an indirect reconciliation of losses to net cash used in operations. Non-cash entries are also discussed.

Reporting the Corporation's Results as a Whole

Our analysis of the Corporation as a whole begins on page 4. One of the most important questions asked about the Corporation's finances is, "Is the Corporation as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Corporation as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's *net position* and changes in them. You can think of the Corporation's net position—the difference between assets and liabilities—as one way to measure the Corporation's financial health, or *financial position*. Over time, *increases or decreases* in the Corporation's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Corporation's long-term contractual revenues and the condition of the Corporation's equipment and other assets, to assess the *overall health* of the Corporation.

THE CORPORATION AS A WHOLE

The Corporation's net position decreased from a year ago, from $417,587 to $321,040. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Corporation's activities.

Table 1
Pasadena Community
Access Corporation

	June 30, 2014	June 30, 2013
Current and other assets	$ 475,609	$ 862,788
Capital assets, net	158,211	115,117
Total assets	633,820	977,905
Current Liabilities	(312,780)	(560,318)
Net position:		
Net investment in capital assets	158,211	115,117
Unrestricted	162,829	302,470
Total net position	$ 321,040	$ 417,587

Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debts, contribution restrictions, or other legal requirements—changed from $302,470 at June 30, 2013, to $162,829 at the end of this fiscal year. Unless restricted by donation or grant covenant (of which the Corporation has no such restrictions at the present time), the Corporation generally can use this net position to finance continuing operations in the coming fiscal year.

Table 2
Pasadena Community
Access Corporation

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	Percentage Change 2014 From 2013
Revenues			
Operating revenues:			
Franchise fees	$ 790,000	$ 482,503	63.7%
Service contracts	27,572	344,768	-92.0%
Production and other operating revenue	8,231	5,710	44.2%
Total operating revenues	825,803	832,981	
Nonoperating revenues:			
Public, education, and government (PEG) revenue	970,516	191,358	407.2%
Interest income	7,146	3,395	110.5%
Total nonoperating revenues	977,662	194,753	
Total revenues	1,803,465	1,027,734	
Operating expenses:			
Salaries and benefits	733,300	691,331	6.1%
Production expense	4,668	22,399	-79.2%
Contractual services	13,254	17,070	-40.8%
General and administrative	227,210	175,298	29.6%
Depreciation	30,032	7,275	312.8%
Total operating expenses	1,008,464	913,373	
Nonoperating expenses:			
PEG expense	891,548	75,120	1086.8%
Total expenses	1,900,012	988,493	
Net Income	(96,547)	39,241	
Net position at beginning of year	417,587	378,346	
Net position at end of year	$ 321,040	$ 417,587	

The Corporation's total revenues increased by 75.5% ($775,731) while total cost of programs and services increased by 92.2% ($911,519). Both revenue and expenses increased due to increases in PEG capital income allocations and related capital expenditures.

Budgetary Highlights

Over the course of the year, the Board of Directors reviewed the budget during regular monthly meetings. There were no budget reforecasts submitted for approval; however, unfilled staff position(s) contributed to a positive expense variance in payroll and payroll taxes.

The Corporation's adopted budget was $830,000 for the fiscal year ended June 30, 2014. Actual operating revenues were $4,197 less than budget, and operating expenses exceeded budget by $178,464. The Corporation's expenditures were higher due to a delay in staff restructuring, higher relocation costs, and unbudgeted depreciation on capitalized assets.

CAPITAL ASSETS

At the end of 2014, the Corporation had $215,137 invested in production equipment. (See table below.) This amount represents a net increase (including additions and disposals) of $73,126 or 51.5% over last year.

**Pasadena Community
Access Corporation**

	June 30, 2014	June 30, 2013
Production equipment	$ 215,137	$ 142,011
Accumulated depreciation	(56,926)	(26,894)
Property and equipment, net	$ 158,211	$ 115,117

More detailed information about the Corporation's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Corporation's Board of Directors considered many factors when setting the fiscal year 2015 budget. The major expense budget increase was for payroll and related expenses due to staff restructuring to reflect actual costs associated with production obligations.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our stakeholders including donors, customers, and the City of Pasadena's officials with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation Office at 150 S. Los Robles Avenue, Suite 450, Pasadena, California, 91101. Our main office number is 626-794-8585 and our email is info@pasadenamedia.org.

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENTS OF NET POSITION
JUNE 30, 2014 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 244,927	$ 737,515
Accounts receivable, net	227,467	121,688
Prepaid assets	3,215	3,585
Total current assets	475,609	862,788
Noncurrent assets:		
Capital assets (Note 3):		
Production equipment	215,137	142,011
Less: accumulated depreciation	(56,926)	(26,894)
Capital assets, net	158,211	115,117
Total assets	$ 633,820	$ 977,905
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	$ 7,180	$ 824
Advances from other agencies	256,701	519,574
Accrued salaries and benefits	26,622	22,446
Accrued vacation	22,277	17,474
Total current liabilities	312,780	560,318
Total liabilities	$ 312,780	$ 560,318
Net position:		
Net investment in capital assets	$ 158,211	$ 115,117
Unrestricted	162,829	302,470
Total net position	$ 321,040	$ 417,587

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

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE INFORMATION FOR THE
YEAR ENDED JUNE 30, 2013)

	2014	2013
Operating revenues:		
Franchise fees	$ 790,000	$ 482,503
Service contracts	27,572	344,768
Production and other operating revenue	8,231	5,710
Total operating revenues	825,803	832,981
Operating expenses:		
Salaries and benefits	733,300	691,331
Production expense	4,668	22,399
Contractual services	13,254	17,070
General and administrative	227,210	175,298
Depreciation	30,032	7,275
Total operating expenses	1,008,464	913,373
Operating income	(182,661)	(80,392)
Nonoperating revenues (expenses):		
Public, education, and government (PEG) revenue	970,516	191,358
PEG expense	(891,548)	(75,120)
Interest income	7,146	3,395
Total nonoperating revenues (expenses)	86,114	119,633
Net income	(96,547)	39,241
Net position at beginning of year	417,587	378,346
Net position at end of year	$ 321,040	$ 417,587

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

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 8,231	$ 5,710
Cash received from contracts	711,793	827,378
Cash paid to employees for services	(724,321)	(682,725)
Cash paid to supplies of goods and services	(238,406)	(216,910)
Net cash provided by (used in) operating activities	(242,703)	(66,547)
Cash flows from capital and related financing activities:		
Capital grants received	724,575	694,000
Acquisition of capital assets	(566,606)	(116,238)
Acquisition of capital assets for other agencies	(415,000)	(75,120)
Net cash provided by capital and related financing activities	(257,031)	502,642
Cash flows from investing activities:		
Investment income	7,146	3,395
Net cash provided by investing activities	7,146	3,395
Net increase (decrease) in cash and cash equivalents	(492,588)	439,490
Cash and cash equivalents at beginning of year	737,515	298,025
Cash and cash equivalents at end of year	$ 244,927	$ 737,515
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	$ (182,661)	$ (80,392)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	30,032	7,275
Decrease (increase) in prepaid assets	370	(527)
(Increase) decrease in accounts receivable	(105,779)	109
Increase in accounts payable and accrued expenses	15,335	6,990
Decrease in deferred revenue	-	(2)
Net cash provided by (used in) operating activities	$ (242,703)	$ (66,547)

Noncash capital and related financing activities related to depreciation of capital assets were $30,032 and $7,275 for the years ended June 30, 2014 and 2013, respectively.

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Pasadena Community Access Corporation (PCAC) was organized in 1983 as a nonprofit, telecommunications resource for the City of Pasadena, California (the City). PCAC was organized to perform the community access function of the Pasadena telecommunications system pursuant to the Cable Communications Ordinance of the City. In 2011, the City Council determined that the PCAC should be reported as a discretely presented component unit of the City in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Board of Directors consists of ten members (one representing the Pasadena Community College; one representing the Pasadena Unified School District). Residency is required except for representatives from Pasadena Community College and Pasadena Unified School District. These operations constitute part of the overall financial reporting entity of the City and are accounted for as a discretely presented component unit in the City's Comprehensive Annual Financial Report consistent with GAAP. Revenues and expenses of PCAC include direct revenues and expenses and certain allocations from the City.

B. Basis of Accounting

PCAC is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. PCAC utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

C. Classification of Revenues

Operating revenues consist of charges to customers for sales and use of the facilities. *Nonoperating revenues* consist of investment earnings and other nonoperating income.

When both restricted and unrestricted resources are available for use, it is PCAC's policy to use unrestricted resources first, and then restricted resources as they are needed.

D. Capital Assets

PCAC capitalizes capital assets having an estimated useful life in excess of one year and acquisition cost of at least $5,000. Capital assets, which include production equipment are recorded at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Donated capital assets are recorded at estimated fair value as of the date of the donation. All significant expenditures exceeding $5,000 for repairs, renewals, and betterments that materially prolong the useful lives of the assets are capitalized.

The estimated useful lives of the assets are as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Production equipment	5 years

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

For the 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, and have an original maturity date of 3 months or less.

F. Investments

Investments are reported in the accompanying statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* include interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

G. Compensated Absences

Only full-time employees accrue vacation. Vacation time is accrued two to four weeks per year, depending on how long an employee has been with PCAC. PCAC also grants employees personal paid time off. Regular full-time and part-time (20 hours per week minimum) employees are eligible to accrue personal time off with pay. Full-time employees may accrue up to 20 personal days per calendar year. Part-time employees who work 20 hours per week or more are eligible to accrue personal paid time off on a pro rata basis. It is PCAC's policy to permit employees to accumulate earned but unused vacation benefits from year to year up to a maximum of two times a full-time employee's annual vacation amount. Personal paid time off is not accumulated from year to year.

All accumulated compensated absences are recorded as an expense and a liability at the time the benefit is earned.

H. Comparative Data

The amounts shown for the year ended June 30, 2013, in the accompanying financial statements are included to provide a basis for comparison with 2014 and present summarized totals only. Accordingly, the 2013 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with PCAC's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Accounting Standards Updates

During the fiscal year ended June 30, 2014, PCAC implemented the following Governmental Accounting Standards Board (GASB) standards:

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accounting Standards Updates (Continued)

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this statement did not affect the financial statements.

GASB Statement No. 66 – *Items Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The implementation of this statement did not affect the financial statements.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The implementation of this statement did not affect the financial statements.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The implementation of this statement did not affect the financial statements.

Additional standards released by GASB impacting future fiscal years are as follows:

GASB Statement No. 68 – *Accounting and financial Reporting for Pensions—an Amendment of GASB Statement No. 27* will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. PCAC has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. PCAC has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB Statement No. 71 are effective for financial statements beginning after June 15, 2014. PCAC has not fully judged the effect of the implementation of GASB Statement No. 71 as of the date of the basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014 and 2013, consist of the following:

	2014	2013
Cash on hand	$ 500	$ 425
Deposits with financial institutions	244,427	204,904
Investment in the City Investment Pool	-	532,186
Total cash and cash equivalents	$ 244,927	$ 737,515

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

The table below identifies the investment types that are authorized for PCAC by the California Government Code. Other than what is in the Government Code, PCAC has no other investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	* Maximum Maturity	* Maximum Percentage of Portfolio	* Maximum Investment in One Issuer
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
Bankers' Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20%	None
Medium-Term Notes	Yes	5 years	30%	None
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	Yes	N/A	None	None
Joint Power Agency Pools (other investment pools)	Yes	N/A	None	None

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

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 PCAC 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.

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. PCAC held no investments at year-end.

Concentration of Credit Risk

There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total PCAC investments.

NOTE 2 – <u>CASH AND CASH EQUIVALENTS</u> (Continued)

<u>Custodial Credit Risk</u>

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 does 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 fair 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 PCAC deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 3 – <u>CAPITAL ASSETS</u>

Capital asset activity for the years ended June 30, 2014 and 2013, is as follows:

	June 30, 2013	Additions	Dispositions	June 30, 2014
Production Equipment	$ 142,011	$ 73,126	$ -	$ 215,137
Less: Accumulated Depreciation	(26,894)	(30,032)	-	(56,926)
Total Property and Equipment, Net	$ 115,117	$ 43,094	$ -	$ 158,211

Depreciation expense for the year ended June 30, 2014, was $30,032.

NOTE 4 – <u>DEFINED CONTRIBUTION PENSION PLAN</u>

Effective January 1, 2004, PCAC adopted a defined contribution 403(b)(7) pension plan (the Plan) for which all employees who have completed one year of service (as defined in the plan) are eligible to participate. The employees of PCAC may elect to contribute to the Plan (subject to overall limits) in any one plan year provided the Plan does not violate certain conditions as set forth in the Plan document. Each year PCAC will make a matching contribution to the Plan, for the employees who are contributing to the Plan, up to 2% of the first 2% of the employee's total compensation. In addition, PCAC may choose to make an additional contribution to the Plan of 2% of compensation for eligible employees; however, this discretionary contribution is not required. PCAC and employee contributions are fully vested immediately upon contribution to the Plan.

PCAC contributed $2,922 and $4,182 to the Plan for the years ended June 30, 2014 and 2013, respectively.

NOTE 5 – <u>OPERATING LEASE</u>

PCAC leases office and production facilities in Pasadena, California, under an operating lease agreement. The lease term is through 2020. PCAC is obligated to pay utilities, property taxes, insurance, and normal repairs and maintenance for the space that PCAC occupies.

Total rent expense for the years ended June 30, 2014 and 2013, was approximately $115,372 and $117,123, respectively.

NOTE 6 – OTHER PROVISIONS OF REVENUES AND CONTRACTS

Franchise Fees

On December 2, 1983, a 15-year cable franchise agreement (the Agreement) was entered into by and between the City and a cable communications operator (Cable Operator). According to the terms of the Agreement, PCAC is entitled to receive 2% of the Cable Operator's gross revenues (as defined in the Agreement) in return for providing the public access and public service programming function of the Cable Operator's communications system. This agreement expired during the years ended June 30, 1999. The City committed to continue to fund the agreement, after expiration, until a new agreement could be reached.

Effective October 1, 2000, the City and the Cable Operator entered into a new nonexclusive franchise agreement to operate a cable television system in the City. Although the City continues to fund at 2% of the Cable Operator's gross revenues, the funding amount is discretionary.

In addition to the above, PCAC will receive up to 160 hours per month of studio time at the Cable Operator's facility. PCAC began use of the facilities in August 2001. In exchange for the studio time, PCAC moved certain production equipment from its studio facility to the Cable Operator's studio facility.

Channel 3 KPAS Service Contract

On August 24, 1998, PCAC entered into a 2-year contract with the City to provide administrative and production services for Channel 3 KPAS (the Contract). Production services include broadcasting City Council Meetings, City Beat, News Brief, and other additional programs approved by the City. According to the terms of the Contract, the City would pay PCAC up to $237,000 per year for these services. The Contract expired on September 30, 2004. Effective October 1, 2004, the City and PCAC amended and extended the Contract to September 30, 2010, and then again to September 30, 2012.

For the fiscal year of 2014, PCAC presented the updated budget to City Council which approved an increase to match production expenses. The revised Operating Agreement will be approved in late 2014.

1% Public, Education, and Government (PEG) Allocation

Pursuant to Pasadena Municipal Code 18.04.060, it was established that a fee would be paid to the City for the support of public, educational, and governmental access facilities and activities within the City. The Pasadena Municipal Code states that this fee shall be one percent (1%) of a cable provider's gross revenues, as defined in California Public Utilities Code Section 5860.

PCAC serves as a receiving, holding, and disbursing entity for monies intended to promote non-commercial uses of the cable telecommunication medium. These funds are allocated as grants solely for PEG related purposes.

In the year 2014, PCAC received $724,575 in PEG funding, while spending $970,516 on eligible PEG capital expenditures.

As shown in Note 7, the remaining $256,701 has been classified as advances from other agencies within these financial statements.

Other Contracts

PCAC earns additional service contract revenue by providing various production services to other municipalities.

NOTE 7 – ADVANCES FROM OTHER AGENCIES

As discussed in Note 6, PCAC received $724,575 of PEG funding during the year ended June 30, 2014. Any PEG funds that have not been spent on approved capital expenditures will be deferred until earned. PCAC also received KPAS funds in excess of the maximum contract amount, and will be deferred until earned in future periods. The total of these amounts received before being earned is classified as advances from other agencies within these financial statements.

As of June 30, 2014 and 2013, advances from other agencies were as follows:

	2014	2013
Beginning advances from other agencies	$ 519,574	$ 16,934
PEG grant:		
PEG revenue received	724,575	694,000
PEG Capital Equipment Expense	(266,321)	-
Capital Equipment Expense	-	(191,358)
Capital Equipment Expense: 1% PEG	(415,000)	-
Capital Equipment Expense: Tenant Improvement Costs	(289,195)	-
PEG eligible disbursements	(970,516)	(191,358)
PEG subtotal	273,633	519,576
KPAS grant:		
KPAS revenue received in excess of yearly contract	-	16,932
Recognition of prior year KPAS advance	(16,932)	(16,934)
KPAS subtotal	(16,932)	(2)
Ending advances from other agencies	$ 256,701	$ 519,574

NOTE 8 – CONCENTRATIONS OF REVENUE

Support Revenue

For the years ended June 30, 2014 and 2013, revenue from the Franchise Agreement accounted for 44.0% and 47.0% of total revenue, respectively.

For the years ended June 30, 2014 and 2013, revenue from the service contract with KPAS accounted for 1.5% and 33% of total revenue, respectively.

NOTE 9 – COMPENSATED ABSENCES

Changes in compensated absences as of June 30, 2014, were as follows:

Compensated absences, beginning	$ 17,474
Current year earnings	4,803
Employee vacation time taken	-
Compensated absences, ending	22,277
Less: current portion payable	(22,277)
Long-term portion payable.	$ -

NOTE 10 – SUBSEQUENT EVENTS

Management has judged the subsequent events from June 30, 2014, through the date of the independent auditor's report on the basic financial statements.

In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if those events are required to be disclosed in these financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through November 26, 2014, which is the date these financial statements were issued.

NOTE 11 – INCOME TAXES

PCAC is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and applicable state law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, PCAC may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of PCAC and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year ending June 30, 2014.

PCAC files forms 990 in the U.S. federal jurisdiction and the State of California. PCAC is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

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

7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET
SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Pasadena Community Access Corporation
Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pasadena Community Access Corporation (PCAC), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise PCACs basic financial statements and have issued our report thereon dated November 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PCAC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCAC's internal control. Accordingly, we do not express an opinion on the effectiveness of PCAC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Report of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PCAC's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Report of Findings and Recommendations as findings 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCAC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We noted no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PCAC's Response to Findings

PCAC's response to the findings identified in the audit are described in the accompanying Report of Findings and Recommendations. PCAC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PCAC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PCAC's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 26, 2014

Current Year Findings and Recommendations

Finding 2014-001 – Material Weakness over Financial Reporting

Criteria:
Internal controls over financial reporting should be implemented ensuring timely closure of the general ledger and materially correct ending balances in accordance with accounting principles generally accepted in the United States of America.

Condition:
Per our audit procedures performed, we noted Pasadena Community Access Corporation (PCAC) did not complete year-end closing procedures required to properly report its financial position at year-end in accordance with accounting principles generally accepted in the United States of America. The adjustments, considered to be material to the financial statements, include the following: receivables, capital assets, payroll accrual, deferred income, revenue, and depreciation expense. There was a lack of review of the financial information provided to the external auditors to detect misstatements prior to the audit.

Internal controls have not been suitably designed over the financial reporting process to ensure timely closure of the general ledger and materially correct ending balances in accordance with accounting principles generally accepted in the United States of America.

Effect:
The financial statements were materially misstated.

Cause:
PCAC lacks a formal policy and procedures for closing procedures.

Recommendation:
We recommend PCAC implement a formal policy and procedures to ensure that a comprehensive closing of the general ledger is performed in a timely manner and that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure accuracy and completeness of the financial statements. We also recommend PCAC implement a policy and procedures for ensuring sufficient resources and adequate oversight are available to oversee PCAC's closing procedures and preparation of financial statement supporting documentation.

Management Response:
Subsequent to fiscal year-end leading up the audit fieldwork, there were a number of factors that rendered the financial statements and underlying general ledger incomplete:

- Payments received during the year from the City of Pasadena were misidentified between contract revenue and 1% PEG fees. This was due in large part to the City staff's confusion, which led to an understatement of receivables and deferred income.
- During the fiscal year, PCAC expended over $1 million on capital expenditures; however, we incurred staff delays in identifying those items requiring capitalization. For this reason capital assets and depreciation expense were understated.
- Although the prior year payroll accrual was reversed, the year-end payroll was not accrued, which was an oversight by the outside accountant.

Controls have been implemented and resources are committed to ensure proper year-end closing procedures and the accuracy and completeness of the financial statements. A more consistent billing and collection system has been put in place with the City of Pasadena. Assets requiring capitalization are identified on a timely basis by staff and related depreciation is properly calculated and recorded. Management and the outside accountant will perform a thorough analysis of the accounts and significant variances at year-end. Finally, the accounting system is "closed" as of each year-end. The system issues an immediate warning if a posting date is earlier than the current fiscal year.

Finding 2014-002 – Material Weakness Over Payroll

Criteria:
Best human resources practices require all vacation and sick time to be reviewed. PCAC's policy requires that timesheets to be reviewed by the Executive Director.

Condition:
During our testing of internal controls over payroll, we noted that internal controls are not operating effectively to prevent or detect improper payroll transactions within the payroll system. Specifically, we noted the following conditions:

- 1 out of 40 timesheets lacked an approving signature by the Executive Director. We were unable to verify that the hours per the timesheet were properly approved.
- 9 out of 40 timesheets lacked approval for sick or vacation time taken. The PCAC's policy requires vacation and sick time to be approved. It is the PCAC's procedures to require approval for sick and vacation time taken. We were unable to verify proper approval for vacation and sick time taken.

Effect:
Lack of approval of the timesheets could cause errors in payroll.

Cause:
PCAC's lack of oversight.

Recommendation:
We recommend the PCAC establish formal procedures and policies to require all timesheets and vacation/sick time be reviewed prior to processing.

Management Response:
PCAC has implemented an online timesheet system whereby each employee must input his or her time in order to be paid. Completed timesheets of full-time and part-time staff are approved online by the Executive Director and the direct supervisor, respectively. Payroll does not process unless all timesheets are approved.

In accordance with best human resource practices, PCAC has revised its policy such that only vacation time is required to be requested and approved in advance. Vacation time request forms of full-time and part-time staff are approved by the Executive Director and the direct supervisor, respectively. Each form is kept in the current payroll folder and the requested vacation hours are matched by the office manager to the entered online timesheet. Once the vacation hours are processed, the vacation time request form is filed in the employee's personnel file.

Prior Year Findings and Recommendations

2013-1 – Material Weakness over Financial Reporting

Observation:
During our fieldwork, we noted that Pasadena Community Access Corporation (PCAC) did not complete year-end closing procedures required to properly state its financial position at year-end. These adjustments made by management, considered to be material to the financial statements, were related to receivables, capital assets, payroll liabilities, deferred revenue, revenue, depreciation expense, and more. Furthermore, the closing procedures did not include a sufficient review of the information provided to the external auditors in order to catch these misstatements prior to our audit.

As a result, internal controls have not been suitably designed and implemented over the financial reporting process to ensure the timely closure of the general ledger and sufficient management supervision of this process resulting in reliable and materially correct ending balances in accordance with accounting principles generally accepted in the United States of America. This is a repeat finding from the 2012 year-end audit, but no improvement seems to have been made.

Recommendation:
We recommend that PCAC implement stronger policies and procedures to ensure that a comprehensive closing of the general ledger is performed in a timely manner and that sufficient resources and adequate oversight are available to oversee PCAC's year-end closing procedures and preparation of financial statement supporting documentation. We also recommend that PCAC strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements.

Management Response/Corrective Action Plan:
PCAC will be contracting for accounting services to ensure adequate oversight and formal year-end closing procedures.

Current Year Status:
See Finding 1 – Material Weakness over Financial Reporting.

2013-2 – Material Weakness over Payroll

Observation:
During our testing of internal controls over payroll, we noted that internal controls are not operating effectively to prevent or detect improper payroll transactions within the payroll system. Specifically, we noted the following conditions:

- For seven (7) of forty (40) employees tested with sick time, they did not submit a signed sick/vacation day form. Per the Executive Director, the policy requires that the sick and vacation forms be signed and turned into the office manager.
- For two (2) of forty (40) employees tested, an incorrect number of hours was paid than was actually worked per the timesheet.
- For four (4) of forty (40) employees tested, signed timesheets were not available to us for review.

PCAC has implemented new procedures as a result of the switch from ADP to QuickBooks, however, these procedures are not working effectively to accurately capture payroll information in the system and allow for proper review of this work by a supervisor.

Recommendation:
We continue to recommend the new Executive Director immediately establish procedures to effectively and accurately capture payroll information in the payroll system and allow for review of this work by a supervisor.

Management Response/Corrective Action Plan:
PCAC moved away from ADP to QuickBooks Payroll with timesheet entry system and three stages of timesheet/payroll review in April of 2012. All of the fiscal year 2012 items were identified and remedied. The items presented were due to QuickBooks handling of overtime. PCAC will implement a stronger review process for calculating and entering overtime hours utilizing the QuickBooks payroll online timesheet entry tool.

Current Year Status:
See Finding 2014-002 – Material Weakness Over Payroll.