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

## FINANCIAL STATEMENTS WITH
## INDEPENDENT AUDITORS' REPORT

## FOR THE FISCAL YEAR ENDED JUNE 30, 2015
## (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

Prepared by:

CHRIS MILLER, INTERIM EXECUTIVE DIRECTOR

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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LSL CERTIFIED PUBLIC ACCOUNTANTS

• David E. Hale, CPA, CFP
• Donald G. Slater, CPA
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• Bryan S. Gruber, CPA
• Deborah A. Harper, CPA
• Gary A. Cates, CPA
• Michael D. Mangold, CPA
• David S. Myers, CPA

# INDEPENDENT AUDITORS' REPORT

To the 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, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic 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.

**Auditors' 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 auditors' 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 opinion.

**Lance, Soll & Lunghard, LLP** 203 North Brea Boulevard • Suite 203 • Brea, CA 92821 • TEL 714.672.0022 • Fax 714.672.0331 **www.lslcpas.com**

Orange County Temecula Valley Silicon Valley

To the Board of Directors
Pasadena Community Access Corporation
Pasadena, California

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pasadena Community Access Corporation as of June 30, 2015, 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**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

*Prior Year Comparative Information*

The financial statements include (partial or summarized) prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2014, from which such partial information was derived. The June 30, 2014 financial statements were audited by other auditors whose report dated November 26, 2014 expressed an unmodified opinion on those statements.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2016, 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.

Lance, Soll & Lunghard, LLP

Brea California
February 4, 2016

**PASADENA COMMUNITY ACCESS CORPORATION**
**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, 2015. 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, 2015, was $331,609, an increase of $10,569 or 3.3%.

• During the year, the Corporation had operating expenses that were $58,163 more than the $935,594 generated from the operating agreement, service contracts, and other revenues from the Corporation's programs from the fiscal year ended June 30, 2015. This compares to last year, when operating expenses exceeded revenues by $182,661.

• Total cost of all of the Corporation's programs was $993,757. 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 increased from a year ago, from $321,040 to $331,609. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Corporation's activities.

**Table 1**

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Current and other assets | $498,863 | $475,609 |
| Capital assets, net | 178,104 | 158,211 |
| Total assets | 676,967 | 633,820 |
| Current Liabilities | (345,358) | (312,780) |
| Net position: | | |
| Net investment in capital assets | 178,104 | 158,211 |
| Unrestricted | 153,505 | 162,829 |
| Total net position | $331,609 | $321,040 |

*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 $162,829 at June 30, 2014, to $153,505 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 these net position to finance continuing operations in the coming fiscal year.

**Table 2**

| | For the Year Ended June 30, 2015 | For the Year Ended June 30, 2014 | Percentage Change From 2014 |
|---|---|---|---|
| **Revenues** | | | |
| **Operating revenues:** | | | |
| Operating Agreement | $849,000 | $790,000 | +7.5% |
| Service contracts | 28,000 | 27,572 | +1.6 |
| Production and other operating revenue | 58,594 | 8,231 | +611.9% |
| Total operating revenues | 935,594 | 825,803 | +13.3% |
| **Nonoperating revenues:** | | | |
| Public, education, and gov't (PEG) revenue | 187,793 | 970,516 | (80.7%) |
| Interest income | 22 | 7,146 | (99.7%) |
| Total nonoperating revenues | 187,815 | 977,662 | (80.8%) |
| Total revenues | 1,123,409 | 1,803,465 | (37.7%) |
| **Operating expenses:** | | | |
| Salaries and benefits | 713,454 | 733,300 | (2.7%) |
| Production expense | 8,939 | 4,668 | +91.5% |
| Contractual services | 6,631 | 13,254 | (50.0%) |
| General and administrative | 215,916 | 227,210 | (5.0%) |
| Depreciation | 48,817 | 30,032 | +62.5% |
| Total operating expenses | 993,757 | 1,008,464 | (1.5%) |
| **Nonoperating expenses:** | | | |
| PEG expense | 119,083 | 891,548 | (86.6%) |
| Total expenses | 1,112,840 | 1,900,012 | (41.4%) |
| **Net Income** | 10,569 | (96,547) | (110.9%) |
| Net position at beginning of year | 321,040 | 417,587 | (23.1%) |
| Net position at end of year | $331,609 | $321,040 | +3.3% |

The Corporation's total revenues decreased by 37.7% ($680,056) while the total cost of programs and services decreased by 41.4% ($787,172). Both declines resulted from reduced PEG expenditures and corresponding deferred revenue recognition.

*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.

The Corporation's adopted budget was $885,000 for the fiscal year ended June 30, 2015. Actual operating revenues were $50,594 more than budget, and operating expenses exceeded budget by $108,757. The Corporation's expenditures were higher due to depreciation and an unbudgeted staff position. The extra staff position cost was offset by additional revenue from production services.

## CAPITAL ASSETS

At the end of 2015, the Corporation had $178,104 invested in production equipment, net of accumulated depreciation. (See Table 3 below.) This amount represents a net increase (including additions and disposals) of $19,893 or 12.6% over last year.

**Table 3**

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Production equipment | $263,074 | $215,137 |
| Accumulated depreciation | (84,970) | (56,926) |
| Property and equipment, net | $178,104 | $158,211 |

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 2016 budget. The major expense budget increase was the planned increase in lease costs. Additional increases in payroll and healthcare insurance premiums were also included.

## 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**

**STATEMENT OF NET POSITION**
**JUNE 30, 2015 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2014)**

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Current: | | |
| Cash and cash equivalents (Note 2) | $ 376,424 | $ 244,927 |
| Receivables: | | |
| Accounts | 119,042 | 227,467 |
| Prepaid assets | 3,397 | 3,215 |
| **Total Current Assets** | **498,863** | **475,609** |
| Noncurrent: | | |
| Capital assets, net of accumulated depreciation (Note 3) | 178,104 | 158,211 |
| **Total Noncurrent Assets** | **178,104** | **158,211** |
| **Total Assets** | **676,967** | **633,820** |
| **Liabilities** | | |
| Current: | | |
| Accounts payable and other liabilities | 2,009 | 7,180 |
| Advances from other agencies (Note 7) | 298,908 | 256,701 |
| Accrued salaries and benefits | 29,066 | 26,622 |
| Compensated absences (Note 9) | 15,375 | 22,277 |
| **Total Current Liabilities** | **345,358** | **312,780** |
| **Total Liabilities** | **345,358** | **312,780** |
| **Net Position** | | |
| Net investment in capital assets | 178,104 | 158,211 |
| Unrestricted | 153,505 | 162,829 |
| **Total Net Position** | **$ 331,609** | **$ 321,040** |

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

**PASADENA COMMUNITY ACCESS CORPORATION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

| | 2015 | 2014 |
|---|---|---|
| **Operating Revenues** | | |
| Operating agreement | $ 849,000 | $ 790,000 |
| Service contracts | 28,000 | 27,572 |
| Production and other operating revenue | 58,594 | 8,231 |
| **Total Operating Revenues** | **935,594** | **825,803** |
| **Operating Expenses** | | |
| Salaries and benefits | 713,454 | 733,300 |
| Production expense | 8,939 | 4,668 |
| Contractual services | 6,631 | 13,254 |
| General and administrative | 215,916 | 227,210 |
| Depreciation expense | 48,817 | 30,032 |
| **Total Operating Expenses** | **993,757** | **1,008,464** |
| Operating Loss | (58,163) | (182,661) |
| **Nonoperating Revenues (Expenses)** | | |
| Public, education, and government (PEG) revenue | 187,793 | 970,516 |
| PEG expense | (119,083) | (891,548) |
| Investment income | 22 | 7,146 |
| **Total Nonoperating Revenues (Expenses)** | **68,732** | **86,114** |
| Changes in Net Position | 10,569 | (96,547) |
| **Net Position** | | |
| Beginning of Year | 321,040 | 417,587 |
| **End of Year** | **$ 331,609** | **$ 321,040** |

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

## STATEMENT OF CASH FLOWS
## YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

| | 2015 | 2014 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from customers | $ 58,594 | $ 8,231 |
| Cash received from contracts | 985,425 | 711,793 |
| Cash paid to employees for services | (717,912) | (724,321) |
| Cash paid to suppliers for goods and services | (236,839) | (238,406) |
| **Net Cash Provided by (Used in) Operating Activities** | **89,268** | **(242,703)** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Capital grants received | 230,000 | 724,575 |
| Acquisition of capital assets | (142,360) | (566,606) |
| Acquisition of capital assets for other agencies | (45,433) | (415,000) |
| **Net Cash Provided by (Used in) Capital and Related Financing Activities** | **42,207** | **(257,031)** |
| **Cash Flows from Investing Activities:** | | |
| Investment income | 22 | 7,146 |
| **Net Cash Provided by Investing Activities** | **22** | **7,146** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **131,497** | **(492,588)** |
| Cash and Cash Equivalents at Beginning of Year | 244,927 | 737,515 |
| **Cash and Cash Equivalents at End of Year** | **$ 376,424** | **$ 244,927** |
| **Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities** | | |
| Operating Loss | $ (58,163) | $ (182,661) |
| **Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used in) Operating Activities** | | |
| Depreciation | 48,817 | 30,032 |
| (Increase) decrease in accounts receivable | 108,425 | (105,779) |
| (Increase) decrease in prepaid assets | (182) | 370 |
| Increase (decrease) in accounts payable and accrued expenses | (9,629) | 15,335 |
| **Total Adjustments** | **147,431** | **(60,042)** |
| **Net Cash Provided by (Used in) Operating Activities** | **$ 89,268** | **$ (242,703)** |

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

## Note 1: Organization and Summary of Significant Accounting Policies

### a. Reporting Entity

The Pasadena Community Access Corporation (the Corporation) was organized in 1983 as a nonprofit, telecommunications resource for the City of Pasadena, California (the City). The Corporation 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 Corporation 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 eleven members with representatives from each of the seven City Council Districts, the Mayor, the City Manager, Pasadena Community College (PCC), and Pasadena Unified School District (PUSD). Residency is required except for the City Manager, PCC, and PUSD representatives. 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 the Corporation include direct revenues and expenses and certain allocations from the City.

### b. Basis of Presentation

The Corporation's basic financial statements are presented in conformance with Governmental Accounting Standards Board (GASB) Statement No. 34, which established standards for external financial reporting for all state and local governmental entities. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

### c. Basis of Accounting

The Corporation 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. The Corporation utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

### d. Classification of Revenues and Expenses

The Corporation classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, nonoperating revenues, and nonoperating expenses.

Operating revenues consist of charges to customers for sales and use of the facilities, with the relating costs considered operating expenses. Nonoperating revenues consist of investment earnings and other nonoperating income.

**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. Prepaid Assets**

Certain payments to vendors, which reflect costs applicable to future accounting periods and are recorded as prepaid assets.

**g. Capital Assets**

The Corporation 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 |

**h. Compensated Absences**

Regular full-time and part-time employees accrue vacation. Vacation time is accrued two to four weeks per year, depending on how long and employee has been with the Corporation. Part-time employees who work 20 hours per week or more are eligible to accrue vacation on a pro rata basis. It is the Corporation’s policy to permit employees to accumulate earned by unused vacation benefits from year to year up to a maximum of two times a full-time employee’s annual vacation amount.

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

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**i. Net Position**

Net position represents the difference between assets and liabilities on the Statement of Net Position. Net positions were classified in the following categories: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of the cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, as applicable.

Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the Corporation's Board of Directors, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

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

**j. 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.

**k. Comparative Data**

The amounts shown for the year ended June 30, 2014, in the accompanying financial statements are included to provide a basis for comparison with 2015 and present summarized totals only. Accordingly, the 2014 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 the Corporation's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

**Note 2: Cash and Cash Equivalents**

**a. Summary of Cash and Cash Equivalents**

As of June 30, 2015 and 2014, cash and cash equivalents were reported in the accompanying financial statements:

| | | |
|---|---|---|
| Cash on hand | $ | 200 |
| Deposits with financial institutions | | 376,224 |
| Total cash and cash equivalents | $ | 376,424 |

**b. Deposits**

At June 30, 2015, the carrying amount of the Corporation's deposits was $376,424 and the bank balance was $405,317. The $28,893 difference represents outstanding checks and other reconciling items. All of the Corporation's cash and cash equivalents as of June 30, 2015 were collateralized or insured with securities held by pledging financial institutions in the Corporation's name.

**c. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code 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 the Corporation's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

## Note 2: Cash and Cash Equivalents (Continued)

### d. Investments Authorized by the California Government Code

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

| Investment Types Authorized by the California Government Code | 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 |

### e. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Corporation 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. The Corporation held no investments as of the year ended June 30, 2015.

### f. 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. The Corporation held no investments as of the year ended June 30, 2015.

### g. Concentration of Credit Risk

In accordance with GASB Statement No. 40 requirements, the Corporation is considered to be exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. Investments guaranteed by the U.S. Government and investments in mutual funds and external investment pools are excluded from this requirement. The Corporation held no investments as of the fiscal year ended June 30, 2015.

## Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2015 is as follows:

| | Balance at June 30, 2014 | Additions | Dispositions | Balance at June 30, 2015 |
|---|---|---|---|---|
| Capital assets being depreciated: | | | | |
| Production Equipment | $ 215,137 | $ 68,710 | $ (20,773) | $ 263,074 |
| Less accumulated depreciation for: | | | | |
| Production Equipment | (56,926) | (48,817) | 20,773 | (84,970) |
| Total capital assets being depreciated, net | $ 158,211 | $ 19,893 | $ - | $ 178,104 |

Depreciation expense for the year ended June 30, 2015, was $48,817.

## Note 4: Defined Contribution Pension Plan

Effective January 1, 2004, the Corporation 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 the Corporation 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 the Corporation 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, the Corporation may choose to make an additional contribution to the Plan of 2% of compensation for eligible employees; however, this discretionary contribution is not required. The Corporation and employee contributions are fully vested immediately upon contribution to the Plan.

The Corporation contributed $722 to the Plan for the year ended June 30, 2015.

## Note 5: Operating Lease

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

Total rent expense for the year ended June 30, 2015 was approximately $130,051.

## Note 6: Other Provisions of Revenue and Contracts

### a. 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, the Corporation 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.

**Note 6: Other Provisions of Revenue and Contracts (Continued)**

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.

**b. Management and Operating Agreement**

On February 10, 2015, the Corporation entered into an agreement with the City to provide operation and day-to-day management of the local PEG access system, for a period of twenty-five (25) years, commencing as of the date of the Agreement, and ending July 1, 2040.

**c. 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.

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

During the 2014-2015 fiscal year, the Corporation received $230,000 in PEG funding, while spending $187,793 on eligible PEG capital expenditures.

As shown in Note 7, cumulative unspent PEG funding of $298,908 has been classified as advances from other agencies within these financial statements.

**d. Other Contracts**

The Corporation earns additional service contract revenue by providing various production services to Los Angeles County for Altadena Town Council Meetings.

## Note 7: Advances from other Agencies

As discussed in Note 6, the Corporation received $230,000 of PEG funding during the year ended June 30, 2015. Any PEG funds that have not been spent on approved capital expenditures will be deferred until earned. The Corporation 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, 2015, advances from other agencies were as follows:

| | | |
|---|---|---|
| Beginning advances from other agencies | $ | 256,701 |
| PEG Grant: | | |
| PEG revenue received | | 230,000 |
| PEG Capital Equipment Expenses | | (140,086) |
| Capital Equipment Expense: 1% PEG | | (45,433) |
| Capital Equipment Expense: Tenant Improvement Costs | | (2,274) |
| PEG eligible disbursements | | (187,793) |
| PEG subtotal | | 42,207 |
| Ending advances from other agencies | $ | 298,908 |

## Note 8: Concentrations of Revenue

For the year ended June 30, 2015, income from the Operating Agreement accounted for 75.6% of total revenue.

## Note 9: Compensated Absences

Changes in compensated absences as of June 30, 2015, were as follows:

| Balance at June 30, 2014 | Incurred | Satisfied | Balance at June 30, 2015 | Amount Due Within One Year | Amount Due in More than One Year |
|---|---|---|---|---|---|
| $ 22,277 | $ 15,994 | $ (22,896) | $ 15,375 | $ 15,375 | $ - |

## Note 10: Risk Management

The Corporation is covered under Special Liability, Property and Participant Accident policies through Alliant Insurance Services, Inc. Liability and Participant Accident claims are insured for up to $1,000,000 per occurrence for any amount over the Corporation's deductible amount of $1,000. Property claims are insured for up to $25,000,000 per occurrence for any amount over the Corporation's deductible amount of $1,000.

Workers' Compensation claims are covered under a purchased policy through Hartford Accident and Indemnity Company for claims up to $1,000,000 for each occurrence for any amount over the Corporation's deductible amount of $1,000.

**Note 11: Income Taxes**

The Corporation 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, the Corporation 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 the Corporation 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, 2015.

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

LSL
CERTIFIED PUBLIC ACCOUNTANTS

- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA
- Gary A. Cates, CPA
- Michael D. Mangold, CPA
- David S. Myers, CPA

INDEPENDENT AUDITORS' 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*

To the Board of Directors
Pasadena Community Access Corporation
City of 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 (the Corporation), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated February 4, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

**Material Weakness over Capital Assets**

We noted during our audit that capital assets were not being accounted for correctly. The Corporation's capital assets are tracked on an Excel spreadsheet, which includes the original cost, the acquisition date (the date placed in service) and accumulated depreciation. During the year ended June 30, 2015, the Corporation disposed of certain equipment and acquired additional equipment to replace the equipment disposed. The

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To the Board of Directors
Pasadena Community Access Corporation
City of Pasadena, California

equipment disposed and relating accumulated depreciation was not properly removed from the capital asset listing, and the subsequent acquisition was not added to the accounting records. A formal policy and procedures to ensure proper recording and reporting of capital asset acquisitions and dispositions should be implemented to ensure the accuracy and completeness of the financial statements.

**Management's Response:**

The Corporation and its accountant have established procedures to ensure that fixed asset additions and disposals are tracked on a continuous basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies:

**Significant Deficiency over Accrued Vacation**

We noted during our review of the compensated absences balance, a portion of the balance attributable to the Executive Director (ED), which was included as of June 30, 2014, was removed from the June 30, 2015 balance with no additional earnings or usage indicated during the year. Per the ED's employment agreement, she is not eligible to earn vacation leave. This was discovered during the year by the Corporation and was removed from the compensated absences listing. The accrual of vacation leave in prior periods resulted in a prior period overstatement of expenses and a current period understatement of expenses, however, the amount removed was not material to the fair presentation of the financial statements this year. The listing of compensated absences maintained by the Corporation should include logical tests to restrict employees from improperly earning vacation leave over their individual limit.

**Management's Response:**

The Corporation signed a new employment agreement with the Executive Director in March, 2015 that allows the ED to earn vacation leave. In addition, the Executive Director is no longer employed by the Corporation. All employees are now covered by the Employee handbook which restricts vacation accrual to what each employee can accrue in 2 years' time.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation'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.*

To the Board of Directors
Pasadena Community Access Corporation
City of Pasadena, California

**Corporation's Response to Findings**

The Corporation's response to the findings identified in our audit 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 the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
February 4, 2016