

CITY OF PASADENA
Air Quality Improvement Fund
Financial and Compliance Report
Year ended June 30, 2005

CONRAD AND
ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF PASADENA
Air Quality Improvement Fund

Financial and Compliance Report

Year ended June 30, 2005

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Honorable Mayor and City Council
City of Pasadena, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Air Quality Improvement Fund of the City of Pasadena, California, as of and for the year ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the City of Pasadena's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Fund of the City of Pasadena at June 30, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005 on compliance and on internal control over financial reporting based on an audit of the Air Quality Improvement Fund. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

October 5, 2005

CITY OF PASADENA
Air Quality Improvement Fund

Balance Sheet

June 30, 2005

Assets

Cash and investments (note 3)	\$ 2,322
Motor vehicle fees receivable	<u>42,380</u>
Total assets	<u>\$44,702</u>

Liabilities and Fund Balance

Fund balance:	
Designated for special fund purposes	<u>\$44,702</u>
Total liabilities and fund balance	<u>\$44,702</u>

See accompanying notes to financial statements.

CITY OF PASADENA
Air Quality Improvement Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Year ended June 30, 2005

Revenues:	
Motor vehicle registration fees	<u>\$166,848</u>
Total revenues	<u>166,848</u>
Expenditures:	
Public transportation	18,388
Transportation demand management	<u>141,612</u>
Total expenditures	<u>160,000</u>
Excess of revenues over (under) expenditures	6,848
Fund balance at beginning of year	<u>37,854</u>
Fund balance at end of year	<u>\$ 44,702</u>

See accompanying notes to financial statements.

CITY OF PASADENA
Air Quality Improvement Fund

Notes to Financial Statements

Year ended June 30, 2005

(1) General

Assembly Bill 2766 (AB 2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of the collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act.

(2) Summary of Significant Accounting Policies

(a) Fund Accounting

The accounts of the City of Pasadena are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies received under AB 2766 are recorded in a Special Revenue Fund, the Air Quality Improvement Fund, that is used to account for the proceeds of revenue to be used for the purpose of implementing the California Clean Air Act.

(b) Basis of Accounting

Special Revenue Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual" that is, measurable and available to finance expenditures in the current period. Expenditures are incurred when the liability is incurred.

(c) Measurement Focus

Special Revenue Funds are accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets and current liabilities are included on their balance sheets. Statements of revenues, expenditures and changes in fund balance for Special Revenue Funds generally present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets.

(d) Scope of Reporting

The accompanying financial statements are intended to reflect the financial position and results of operations for the Air Quality Improvement Fund relating to AB 2766 only.

CITY OF PASADENA
Air Quality Improvement Fund

Notes to Financial Statements

(Continued)

(2) Summary Significant Accounting Policies (Continued)

(e) Cash and Investments

The Air Quality Improvement Fund cash balances during the year were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average monthly balances to the total of the pooled cash and investments.

(f) Payroll Expenditures

Salaries and benefits for one employee of the City of Pasadena are fully funded by the Air Quality Improvement Fund. The employee administers the ride-share program that is designed to reduce traffic and increase traffic flow.

(3) Cash and Investments

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

Statement of net assets:	
Cash and investments	<u>\$ 2,322</u>
Total cash and investments	<u>\$ 2,322</u>

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

Investment in City of Pasadena pool	<u>\$ 2,322</u>
Total cash and investments	<u>\$ 2,322</u>

CITY OF PASADENA
Air Quality Improvement Fund

Notes to Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

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

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

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	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% of base value	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 (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

CITY OF PASADENA
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Notes to Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

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

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 minimum rating required by the California Government Code or the City's investment policy and the actual rating as of year end for each investment type is presented in the City of Pasadena's Comprehensive Annual Financial Report.

(4) Availability of Other Information

Copies of separate progress reports filed with the SCAQMD Board which detail the accomplishments during the fiscal year ended June 30, 2005 are available at the Pasadena City Hall.

Honorable Mayor and City Council
City of Pasadena, California

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the Air Quality Improvement Fund financial statements of the City of Pasadena, California as of and for the year ended June 30, 2005, and have issued our report thereon dated October 5, 2005. 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 of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Air Quality Improvement Fund financial statements of the City of Pasadena are free of 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pasadena's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Air Quality Improvement Fund financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in their normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Council of the City of Pasadena and the South Coast Air Quality Management District and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

October 5, 2005