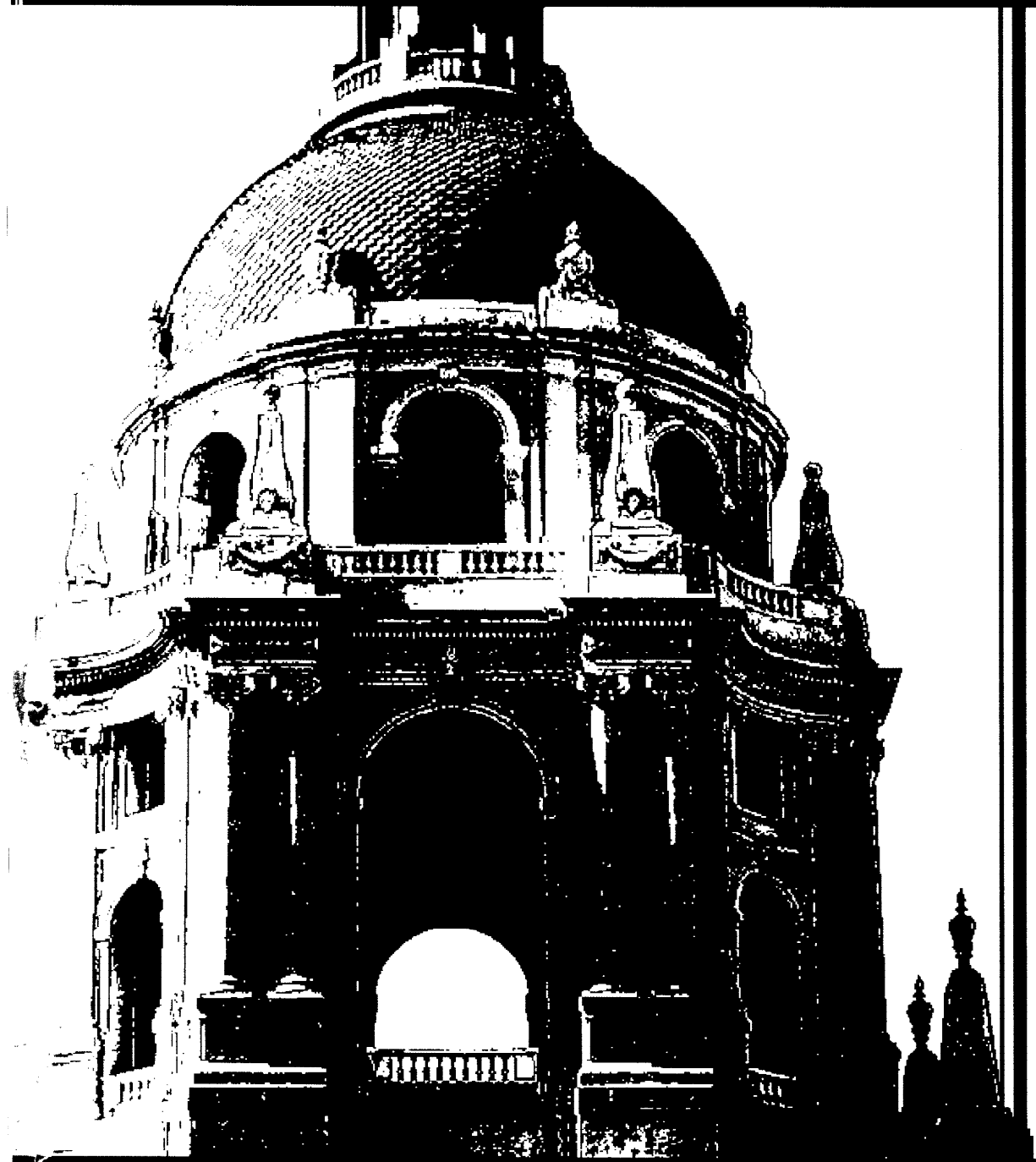
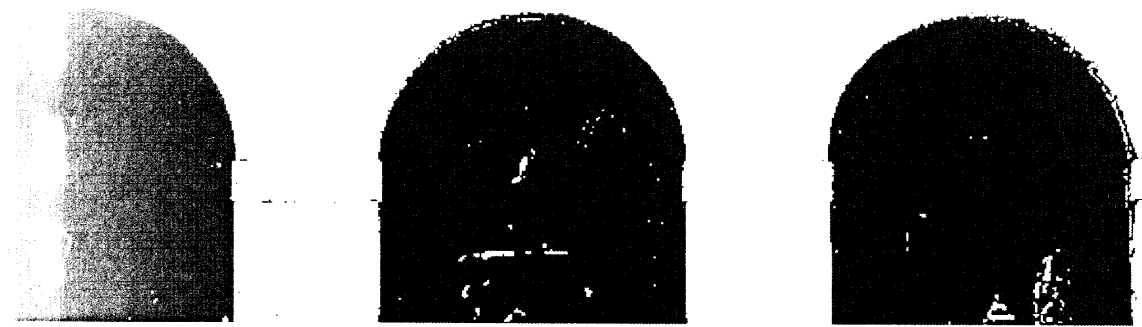


CITY OF PASADENA



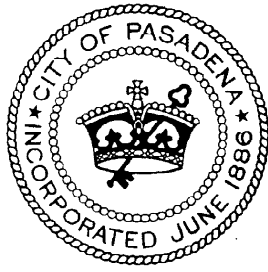
Comprehensive Annual Financial Report

CITY HALL



12/17/2007
Item 5.B.1 & 8.B.
Attachment A

City of Pasadena, California

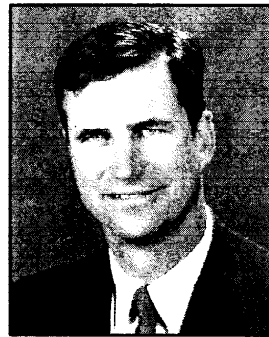


COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2007



Bill Bogaard
Mayor



Steve Haderlein
Vice Mayor
District 4



Jacque Robinson
Council Member
District 1



Margaret McAustin
Council Member
District 2



Chris Holden
Council Member
District 3



Victor Gordo
Council Member
District 5



Steve Madison
Council Member
District 6



Sidney F. Tyler, Jr.
Council Member
District 7

CYNTHIA J. KURTZ, CITY MANAGER
STEPHEN C. STARK, DIRECTOR OF FINANCE
PREPARED BY THE CITY OF PASADENA DEPARTMENT OF FINANCE

CITY OF PASADENA
Comprehensive Annual Financial Report
Year Ended June 30, 2007

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INTRODUCTORY SECTION

INTRODUCTORY
SECTION

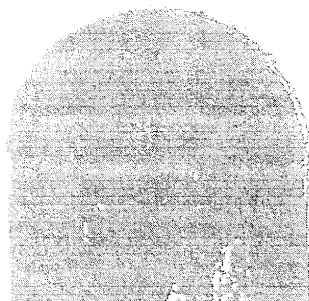
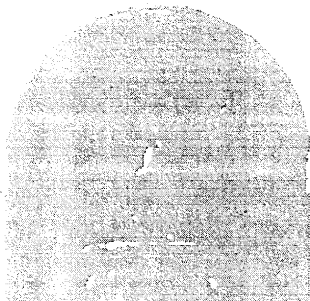


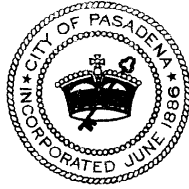
Comprehensive Annual Financial Report

Year Ended June 30

2007

CITY HALL





DEPARTMENT OF FINANCE

December 10, 2007

To the Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California

In accordance with Section 907.5 of the City Charter, the Department of Finance hereby submits the Comprehensive Annual Financial Report (CAFR) of the City of Pasadena, California (City) for the fiscal year ended June 30, 2007. This report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). GASB has the primary responsibility for determining accounting and financial reporting standards for state and local government entities.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. It is believed that the data, as presented, is accurate in all material respects, and is presented in a manner designed to fairly set forth the financial position and results of operations of the City and component units as measured by the financial activity of the various funds and account groups, and that it contains all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs and evaluate its financial condition.

The City Charter requires an independent audit of the financial statements of all accounts of the City by an independent certified public accountant. Accordingly, this year's audit was undertaken by Mayer Hoffman McCann PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Pasadena for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor

Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California
December 10, 2007

concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Pasadena's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to meeting the requirements set forth in the City Charter, the independent audit was also part of the broader, federally mandated Single Audit Act of 1984, as amended in 1996, and the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* to meet the needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Pasadena's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Pasadena's MD&A can be found immediately following the report of the independent auditor.

GOVERNMENTAL STRUCTURE

The City was incorporated in 1886 and became a charter City in 1901. The City operates under the powers granted by a City Charter which dictates the responsibilities of the City Council and City Manager. There are seven City Council members who are nominated and elected by district for overlapping four-year terms. In addition, there is a citywide elected Mayor who also serves for four years.

The City Council is responsible, among other things, for setting policies, passing ordinances, adopting the budget, appointing committees and hiring the City's manager, attorney, clerk and prosecutor. The City Manager is responsible for carrying out policies and ordinances of the City Council, appointing the heads of the City's departments and overseeing the day-to-day operations of the City.

The City covers an area of 23 square miles in the northwestern portion of the San Gabriel Valley and has a population of 147,262, according to the State Department of Finance. The City is bounded on the west by the cities of Los Angeles, Glendale and La Canada,

Honorable Mayor, Members of the City Council
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December 10, 2007

on the south by South Pasadena and San Marino, on the east by Arcadia and Sierra Madre, and on the north by the unincorporated community of Altadena.

REPORTING ENTITY AND ITS SERVICES

This report includes all funds of the City, as well as all of its component units. Component units are legally separate entities for which the City is financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the City's operations and are included in this CAFR as part of the City. Accordingly, the Pasadena Public Financing Authority, Pasadena Parking Authority, the Pasadena Civic Improvement Corporation (PCIC), the Pasadena Fire and Police Retirement System (FPRS), the Pasadena Housing Authority and the Pasadena Community Development Commission (PCDC) are reported as part of the City. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City and to differentiate their financial position, results of operations and cash flows from those of the City. The Rose Bowl Operating Company (RBOC) and the Pasadena Center Operating Company (PCOC) are the discretely presented component units.

The City provides a full range of municipal services including: public safety (police and fire), street construction and maintenance, refuse collection, water and power utilities, sewer utilities, library, culture and recreation, public improvements, planning and zoning, health services, housing and community development, and general administrative and support services.

BUDGETARY CONTROLS

The City adopts a comprehensive budget detailed by department and fund prior to the beginning of each fiscal year, July 1. From the effective date of the budget, funds become appropriated to the departments for the objects and purposes identified. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by a motion adopted by the affirmative vote of at least five members of the City Council. The accounts of the City are maintained by line item detail or object of expenditure. The legal level of budgetary control (the level at which management may not reassign resources or over spend appropriations) is at the

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December 10, 2007

departmental level within each fund. Revenues are estimated annually and monitored on an ongoing basis to ensure there are adequate resources to cover expenditures.

MAJOR GOALS AND ACCOMPLISHMENTS

The City Council has outlined the following goals:

- Assure a Safe and Secure Community
- Foster Economic Prosperity
- Protect and Enhance Neighborhood Vitality and Livability
- Focus on Planning, Programming and Reinvesting in Pasadena's Parks and Open Space
- Maintain and Reinvest in the City's Physical Assets to Assure Their Availability for Future Generations
- Operate an Effective and Cost Efficient Government
- Protect and Enhance Pasadena's Economic, Ethnic and Cultural Diversity

In recognition of these goals, the City continues to promote strong public safety, cohesive neighborhoods, aggressive economic development and effective government. Major and noteworthy accomplishments during fiscal year 2007 are as follows:

- In continuing its strong support of the Pasadena Unified School District, the City has funded and deployed a School Safety Team consisting of six officers and a sergeant. An additional two officers were later transferred to this unit. The City has also provided support for the following items of mutual benefit; \$45,000 for the renovation of ten tennis courts at Muir High School, installation of new playground at Madison School, contracting for use of District buses in the event of an emergency, renting of ARTS bus parking, and management audit services.
- In fiscal year 2007, \$562,000 of a \$979,947 federal grant was expended on behalf of the Pasadena Healthcare Consortium to establish new approaches to better coordinated health care services and referrals for uninsured people in the greater Pasadena area. The service area for the project, called Pasadena Healthcare Link, includes Pasadena, Sierra Madre and Altadena. Other core members of the consortium include Community Health Alliance of Pasadena (CHAP), Young & Healthy Pasadena and Huntington Hospital.

Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California
December 10, 2007

- The purchase, equipping, and staffing of a new rescue ambulance to assist the City in maintaining its response time to a level higher than State Standards.
- Four new positions were created in the Police Department Communication Section to ensure that 911 emergency calls are promptly dispatched.
- The City continues its investment in police and fire services and stresses the importance of disaster preparedness. The Fire Department has trained approximately 1,035 area residents through a program entitled Pasadena Emergency Response Team (PERT).
- The City began working with Huntington Memorial Hospital, the Community Alliance of Pasadena (CHAP), and other local health care and social service providers to identify a site for a much needed urgent care center.
- Athletic fields at Victory Park, Allendale Park, Villa Parke and Oak Grove Field in Hahamonga Watershed Park have recently been renovated.
- The City is the first in Southern California to adopt a ten year strategy to end homelessness. Pasadena's strategic plan includes enhanced coordinated efforts in preventing people from losing their homes, increased overnight and transitional housing, and more staff and volunteers to manage the cases of individuals who may need services in addition to shelter.
- A Citywide cross-departmental team created the City's first Green City Action Plan, which outlines more than 70 environmental initiatives to guide Pasadena towards sustainability and at the same time, help the City to remain competitively poised for future growth. Pasadena Water and Power (PWP) continues to move closer to meeting its Renewable Portfolio Standard of 10 % renewable energy resources by entering into a 20-year agreement to purchase five megawatts from the Milford Wind Corridor in Millard County, Utah, a plant expected to be on-line in late 2008. Additionally, PWP is increasing its investment in the Azusa Hydroelectric Plant, which supplies 2.5 megawatts of green power to Pasadena.
- In response to an increase of incidents, resources were added to expand the City's graffiti abatement program.
- The Hahamonga Watershed Park Master Plan was amended to reflect the purchase of 30 acres of property by the City from the Metropolitan Water

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District. This property will be used for open space and passive recreation purposes.

- The City's commitment to maintaining its physical treasures for future generations is marked by the substantially completed seismic upgrade and exterior renovation of City Hall.
- The Water and Power Department continues the implementation of the Water Distribution System Master Plan. The City's aging water infrastructure is being upgraded to provide the fire flow, water quality, and supply reliability demands of customers.
- In fiscal year 2007, the City Council adopted the Sewer Master Plan. It is anticipated that implementation will begin in fiscal year 2008.
- Mobile license plate reading equipment was purchased to increase efficiency for the Parking Enforcement program.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Pasadena operates.

Local Economy

Pasadena's economic base is very diversified. Some of the leading industries include health care, telephone utilities, engineering and construction, financial services, higher education, cosmetics and general retail merchandise. Fifteen major companies provide over 29,000 jobs in the City and total employment is estimated at 110,000 jobs. Pasadena has withstood many of the economic challenges faced by most cities throughout California and has experienced stable revenues and strong economic activities, especially in the area of housing construction. The growth the City has experienced comes from a combination of business expansion and commercial, retail and residential development.

Pasadena's financial health is impacted by national and state-wide trends and events. The U.S. economy is showing signs of slower growth as the impact of record high oil prices and the continued fallout from sub-prime lending continue to ripple through the economy. Closer to home, California's economy shows greater signs of weakness.

Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California
December 10, 2007

California's unemployment rate is higher than the national average. In fact, one of every three Americans unemployed in the past year was from California. As it prepares enter a new fiscal year the state of California's structural deficit has increased from an estimated \$6 billion to \$10 billion. A key contributor has been sales tax revenues coming in below estimates. While the deficit is smaller than that faced by the state several years ago, the resources available to the state are more limited today.

Long-term Financial Planning

The City's financial condition is consistently being monitored. Quarterly reports are presented to the City Council Finance Committee regarding the performance of all major funds as well as the City's two operating companies. By closely tracking revenues and expenditures and forecasting the trends the City has been able to manage through economic downturns with minimal impact on service levels.

Cash Management Policies and Practices

In order to maximize interest earnings, the City employs a pooled cash system managed by the City Treasurer. Pooled cash is maintained in an invested position providing for reasonable liquidity to meet maturing obligations. Interest revenue derived from pooled cash is allocated to participating funds on a monthly basis, based on the average monthly cash balance of each fund, except for investment earnings associated with funds not legally required to receive pooled investment income, and that has been assigned to and recorded as revenue of the general fund, as provided by California Government code Section §53647.

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

Note 2 (Cash and Investments) of the basic financial statements lists the types of City investments and their credit risk categories.

Risk Management

The City is self-insured for liability and workers' compensation. The City funds self-insurance with self-administered claim programs to provide for workers' compensation and liability risks. These activities are accounted for in Internal Service funds, which are a proprietary fund type. The fund revenues are primarily premium charges to other

Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California
December 10, 2007

funds. No workers' compensation self-insurance claim settlement has yet to exceed a \$1,000,000 injury payout.

The Workers' Compensation Supervisor and staff administer the claims process, coordinate benefit delivery to injured workers, and ensure employees receive all benefits to which they are entitled, in the most expeditious, cost-efficient manner possible within the context of the laws of the State of California. A third party administrator is used to process workers' compensation claims by the Police and Fire Department employees. The Safety Officer and staff coordinate employee safety training and monitoring Citywide.

The Liability Claims Coordinator and staff administer the pre-litigation liability claims process, purchase property insurance or other insurance to protect City assets, and manage risks of accidental loss to City resources other than workers compensation claims. The program includes the identification and measurement of risks of accidental loss, application of appropriate risk management techniques for minimizing or avoiding retained risk, the transfer of risk to others by the purchase of policies of insurance for specific, separately funded enterprise liabilities, and coordinating risk management and/or insurance requirements for persons dealing with the City, such as vendors, permittees, licensees, and contractors.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Pasadena's local economy is diverse. The City' has a job base of well over 100,000 and the unemployment rate is consistently below county and state levels. The vacancy factor for commercial space is less than 5%, one of the lowest in Los Angeles County.

The General Fund five-year financial plan continues to be the mechanism by which the long-term financial health of the City is monitored. By tracking and trending current and anticipated revenues and expenses, the plan provides a tool for the City's policymakers.

The City continues to monitor personnel costs as they are the single largest expense. Pension and medical costs have stabilized after a period of rapid increase. Salaries continue to increase somewhat faster than inflation and management looks to setting salaries that attract and retain quality staff without cutting services. City revenues remain stable for now, but as discussed above national and state-wide trends are being closely monitored.

Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California
December 10, 2007

The City is taking steps to address changes affecting Utility Users Tax (UUT) and protect this important General Fund revenue. Many cities such as Pasadena rely on revenue from UUT applied to telecommunications (i.e., cable television, telephone, long distance, and mobile/cellular) water, electricity and natural gas to fund critical services. Changes in federal law as well as a number of legal challenges to the manner in which UUT is applied may reduce or eliminate local governments' ability to continue to apply this tax to telecommunications. Pasadena currently receives in excess of \$10 million annually in UUT revenue related to telecommunications which represents approximately six percent of total General Fund revenues.

The Adopted Fiscal Year 2007 Operating Budget established a \$3 million UUT reserve within the General Fund to help mitigate impacts in the event of a loss of UUT revenues. Another \$3.1 million was added during the fiscal year, thus increasing the reserve to \$6.1 million. The Fiscal Year 2008 Adopted Operating Budget includes an additional \$785,500 bringing the reserve to approximately \$6.9 million, of which approximately \$400,000 will be used to underwrite the cost of a special election wherein voters will be asked whether or not to update the City's UUT ordinance.

The FY 2008 Adopted Operating Budget includes funding towards the restoration of the eight percent General Fund Reserve. City policy calls for a reserve in the General Fund equal to eight percent of the current year's appropriations. In fiscal year 2004, as part of the response to a significant loss of revenues to the state, the City capped the reserve at its then current level of \$13.25 million, which represented 7.17 percent of then current appropriations. Since that time the City has contributed amounts each year to restore the reserve. The Adopted Operating Budget for fiscal year 2008 includes an additional \$914,922, bringing the reserve to 7.65 percent. It is expected that the reserve will be fully funded at eight percent by fiscal year 2012.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Pasadena for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

In addition, the City has been awarded the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) in prior

Honorable Mayor, Members of the City Council
and the Citizens of the City of Pasadena, California
December 10, 2007


years. Beginning in 2006 the California Society of Municipal Finance Officers (CSMFO) will no longer make this award available to Cities that receive the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

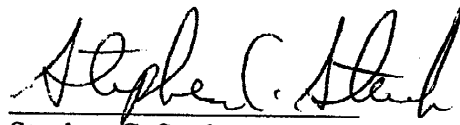
Staff believes this current report continues to conform to the program requirements and will submit it to the GFOA award program for consideration.

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Department of Finance staff.

The Mayor and City Council should also be acknowledged for their leadership, support and continuing efforts to maintain the City's strong fiscal health.

Respectfully submitted,


Cynthia J. Kurtz
City Manager


Stephen C. Stark
Director of Finance

CITY OF PASADENA

Principal City Officials

CITY COUNCIL

Mayor	Bill Bogaard
Vice-Mayor	Steve Haderlein (District 4)
Council Member	Jacque Robinson (District 1)
Council Member	Margaret McAustin (District 2)
Council Member	Chris Holden (District 3)
Council Member	Victor Gordo (District 5)
Council Member	Steve Madison (District 6)
Council Member	Sidney F. Tyler, Jr. (District 7)

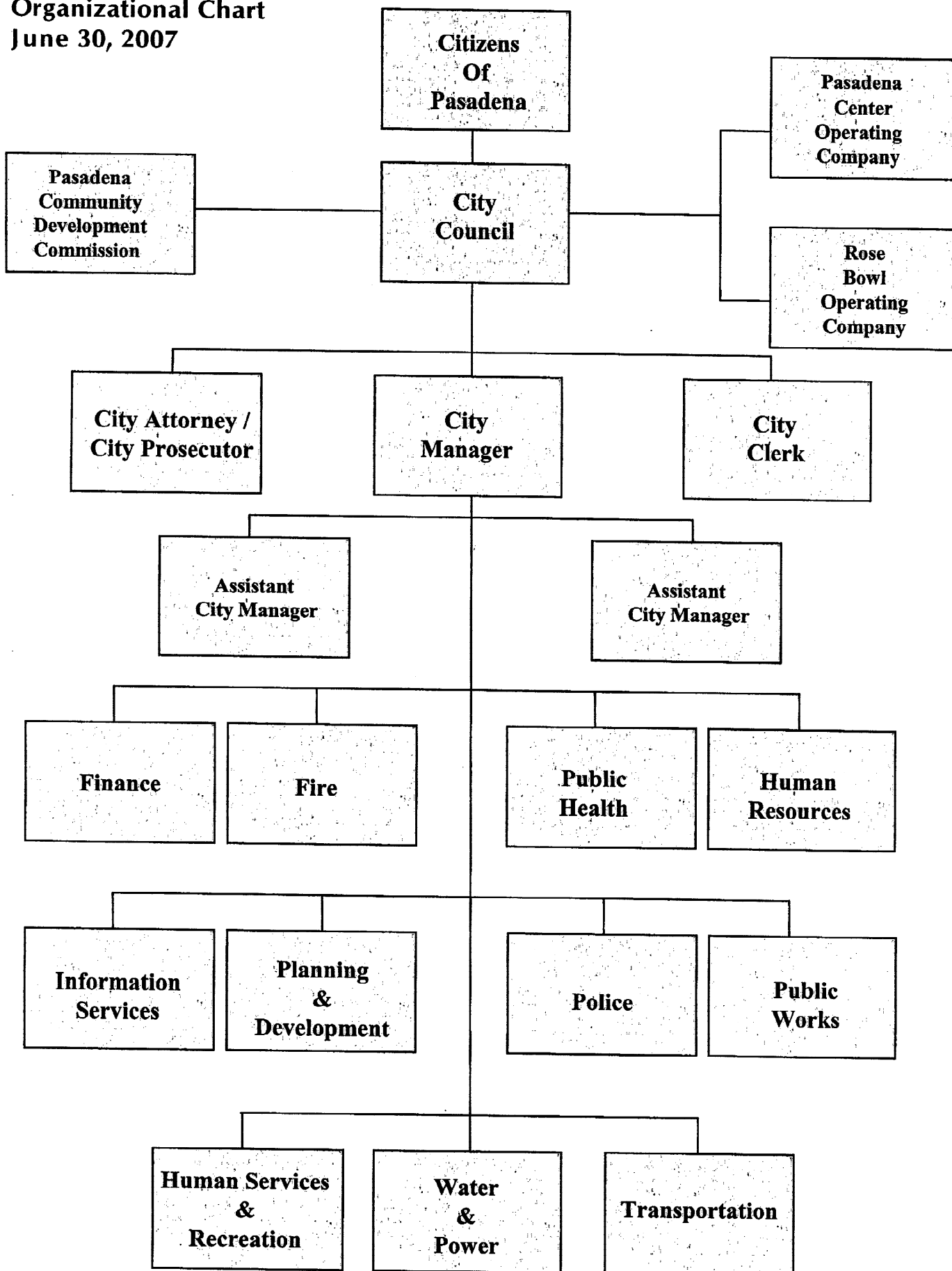
APPOINTED OFFICIALS

City Manager	Cynthia J. Kurtz
City Attorney / City Prosecutor	Michele Beal Bagneris
City Clerk	Jane L. Rodriguez

EXECUTIVE STAFF

Assistant City Manager	Julie Gutierrez
Assistant City Manager	Brian Williams
Director of Finance	Stephen C. Stark
Fire Chief	Dennis J. Downs
Director of Human Resources	Karyn S. Ezell
Director of Human Services and Recreation	Patricia Lane
Director of Information Services	Jan Sanders
Chief Information Technology Officer	John Pratt
Chief Prosecutor	Constance Orozco-Morgan
Director of Planning and Development	Richard J. Bruckner
Police Chief	Bernard K. Melekian
Director of Public Health/Health Officer	Takashi Wada
Director of Public Works	Martin Pastucha
Interim Director of Transportation	Mark Yamarone
General Manager of Water and Power	Phyllis Currie
Chief Executive Officer of Pasadena Center Operating Company	Michael Ross
General Manager, Rose Bowl Operating Company	Darryl Dunn

**CITY OF PASADENA
Organizational Chart
June 30, 2007**



CITY OF PASADENA
Comprehensive Annual Financial Report
Year Ended June 30, 2007

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Pasadena
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

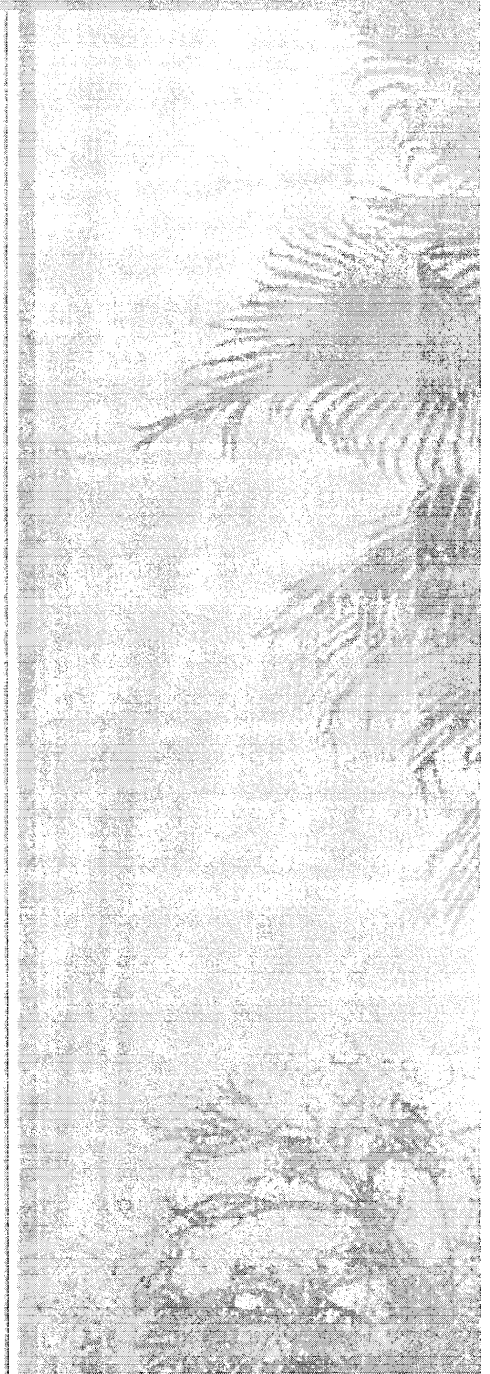
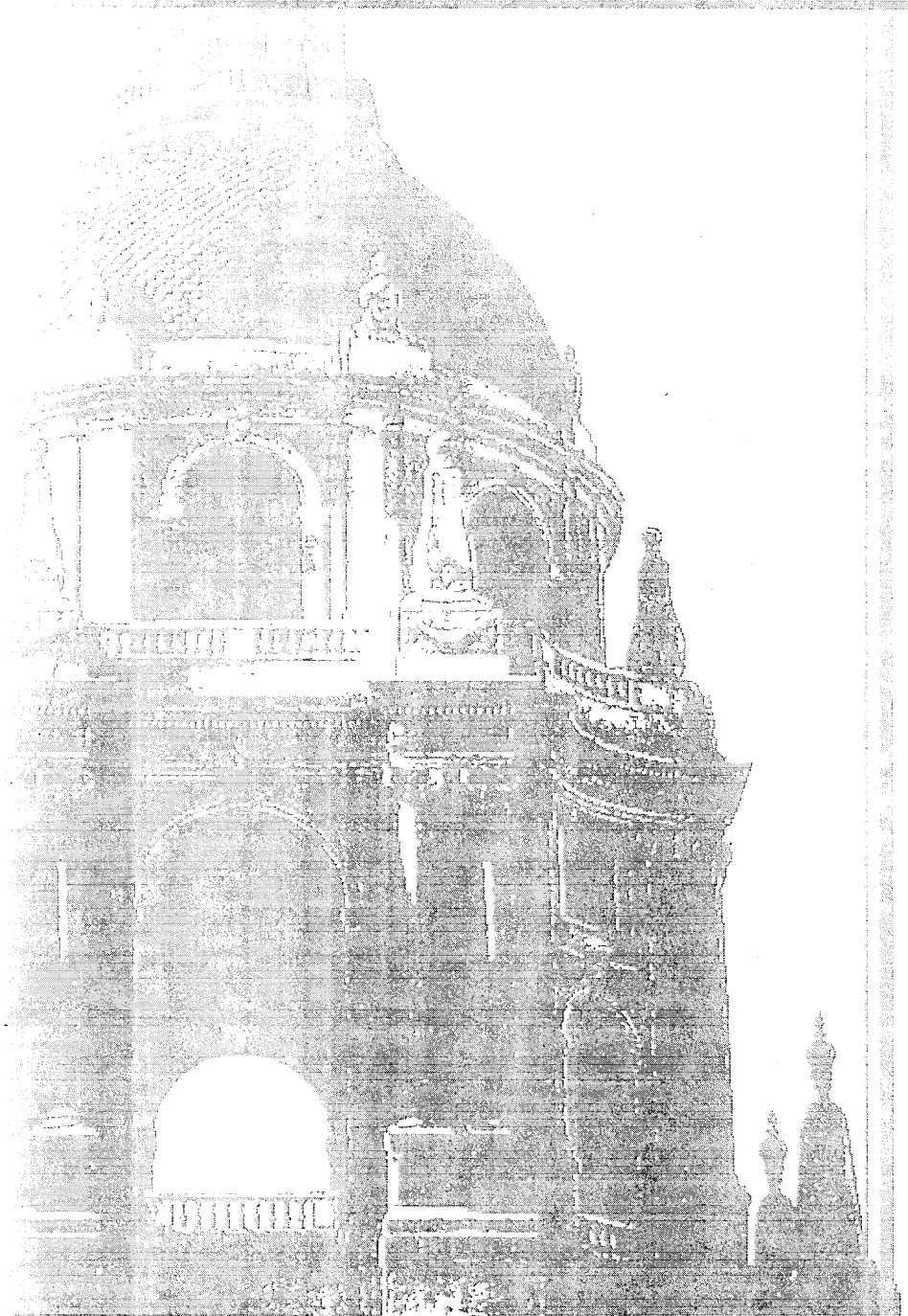
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Pasadena for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006.

In order to be awarded a certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

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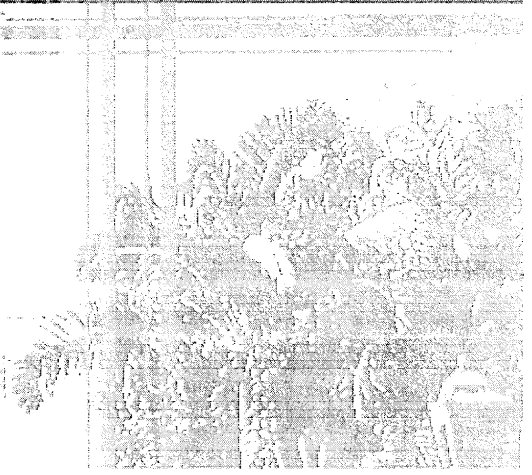
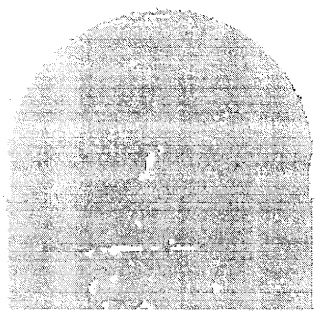
FINANCIAL SECTION



FINANCIAL
SECTION

Year Ended June 30
Comprehensive Annual Financial Report 2007

CITY HALL





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City Council
City of Pasadena
Pasadena, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Pasadena. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Fire and Police Retirement System Pension Trust Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that fund, is based solely on the report of the other auditors. The prior year partial comparative information has been derived from the financial statements of the City of Pasadena for the year ended June 30, 2006 and, in our report dated September 28, 2006, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles 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 opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, of the City of Pasadena, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.