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

BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

PASADENA COMMUNITY ACCESS CORPORATION
(A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA)
YEARS ENDED JUNE 30, 2012 AND 2011

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pasadena Community Access Corporation
Pasadena, California

We have audited the accompanying basic financial statements of the Pasadena Community Access Corporation, a component unit of the City of Pasadena, California, as of June 30, 2012 and 2011, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Pasadena Community Access Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits 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 audits provide 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 Pasadena Community Access Corporation as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 9, 2012, on our consideration of the Pasadena Community Access Corporation's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Pasadena, California
November 9, 2012

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, 2012. Please read it in conjunction with the Corporation's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- The Corporation's net assets for the fiscal year ending June 30, 2012, were $378,346, an increase of $34,191 or 9.9%.

- During the year, the Corporation had expenses that were $32,426 less than the $813,035 generated in franchise fees, service contracts, and other revenues from the Corporation's programs from the fiscal year ended June 30 2012. This compares to last year, when operating expenses exceeded revenues by $35,375.

- Total cost of all of the Corporation's programs was $630,606. The programmatic activities of the Corporation remained unchanged.

- Net assets of the Corporation increased during the year, reflecting a combination of increased operating revenues and increased receivables.

- The Corporation's adopted budget was $778,512 for the fiscal year ended June 30, 2012. Actual revenues were $34,523 more than budget and expenses were more than budget by $2,097. The Corporation kept expenditures within spending limits primarily through cost management through payroll reductions and benefit modifications.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets (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 Assets and the Statement of Revenues, Expenses, and Changes in Net Assets 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 assets* and changes in them. You can think of the Corporation's net assets—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 assets 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 assets increased from a year ago, from $344,155 to $378,346. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Corporation's activities.

Table 1
Pasadena Community
Access Corporation

	June 30, 2012	June 30, 2011
Current and other assets	$ 422,880	$ 371,222
Capital assets, net	6,154	12,665
Total assets	429,034	383,887
Payables	(50,688)	(39,732)
Net assets:		
Invested in capital assets, net of related debt	6,154	12,665
Unrestricted	372,192	331,490
Total net assets	$ 378,346	$ 344,155

Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debts, contribution restrictions, or other legal requirements—changed from $331,490 at June 30, 2011, to $372,192 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 assets to finance continuing operations in the coming fiscal year.

Table 2
Pasadena Community
Access Corporation

	June 30, 2012	June 30, 2011	Percentage Change 2012 From 2011
Revenues			
Operating revenues:			
Franchise fees	$ 464,429	$ 434,527	6.9%
Service contracts	340,372	336,011	1.3%
Other	8,234	12,075	-31.8%
Total operating revenues	813,035	782,613	
Nonoperating revenues (expenses):			
Interest income	1,765	3,428	-48.5%
Other	-	(5,290)	-100.0%
Total nonoperating revenues (expenses)	1,765	(1,862)	
Total revenues	814,800	780,751	
Operating expenses:			
Salaries and benefits	582,726	627,246	-7.1%
Other general and administrative	157,072	153,313	2.5%
Production expense	18,699	21,044	-11.1%
Depreciation	6,511	6,634	-1.9%
Other contract services	15,601	9,798	59.2%
Total operating expenses	780,609	818,035	
Net gain (loss)	$ 34,191	$ (37,284)	

The Corporation's total revenues increased by 4.4% ($34,049). The total cost of programs and services decreased by 4.6% ($37,379) due to minor adjustments to programmatic activity.

Budgetary Highlights

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

The actual expenses were $2,097 above the final budget amounts. The most significant negative variance ($3,279) occurred in the Corporation's production equipment repair account, due to unanticipated repairs.

CAPITAL ASSETS

At the end of 2012, the Corporation had $6,154 invested in furniture and fixtures, and production equipment. (See table below.) This amount represents a net decrease (including additions and disposals) of $93,987, or 93.8%, over last year.

Pasadena Community
Access Corporation

	June 30, 2012		June 30, 2011	
Production Equipment	$	33,170	$	33,170
Accumulated Depreciation		(27,016)		(20,505)
Property and Equipment, Net	$	6,154	$	12,665

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 2013 budget. The major expense budget increase was the relocation of the PCAC Media Center and the associated 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 2061 N. Los Robles Avenue, Suites 105-109, Pasadena, California, 91104. Our main office number is 626-794-8585 and our email is info@pasadenamedia.org.

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 298,025	$ 358,164
Accounts receivable, net	121,797	10,000
Prepaid assets	3,058	3,058
Total current assets	422,880	371,222
Noncurrent assets:		
Capital assets (Note 3):		
Production equipment	33,170	33,170
Less: accumulated depreciation	(27,016)	(20,505)
Capital assets, net	6,154	12,665
Total assets	$ 429,034	$ 383,887
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	$ 2,440	$ 12,474
Deferred revenue	16,934	-
Accrued salaries and benefits	31,314	27,258
Total current liabilities	50,688	39,732
Net assets:		
Invested in capital assets, net of related debt	6,154	12,665
Unrestricted	372,192	331,490
Total net assets	$ 378,346	$ 344,155

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating revenues:		
Franchise fees	$ 464,429	$ 434,527
Service contracts	340,372	336,011
Production and other operating revenue	8,234	12,075
Total operating revenues	813,035	782,613
Operating expenses:		
Salaries and benefits	582,726	627,246
Production expense	18,699	21,044
Contractual services	15,601	9,798
Other general and administrative	157,072	153,266
Depreciation	6,511	6,634
Total operating expenses	780,609	817,988
Operating income (loss)	32,426	(35,375)
Nonoperating revenues (expenses):		
Loss on disposal of capital assets	-	(5,290)
Interest income	1,765	3,428
Total nonoperating revenues	1,765	(1,862)
Net income (loss)	34,191	(37,237)
Net assets at beginning of year	344,155	381,392
Net assets at end of year	$ 378,346	$ 344,155

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 8,234	$ 12,075
Cash received from contracts	821,735	770,538
Cash paid to employees for services	(578,670)	(638,321)
Cash paid to supplies of goods and services	(313,203)	(185,035)
Net cash used in operating activities	(61,904)	(40,743)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	(11,781)
Proceeds from sale of property and equipment	-	5
Net cash used in capital and related financing activities	-	(11,776)
Cash flows from investing activities:		
Investment income	1,765	3,428
Net cash provided by investing activities	1,765	3,428
Net decrease in cash and cash equivalents	(60,139)	(49,091)
Cash and cash equivalents at beginning of year	358,164	407,255
Cash and cash equivalents at end of year	$ 298,025	$ 358,164
Reconciliation of operating income (loss) to net cash used in operating activities		
Operating income (loss)	$ 32,426	$ (35,375)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	6,511	6,634
(Increase) in accounts receivable	(111,797)	-
(Decrease) in accounts payable and accrued expenses	(5,978)	(12,002)
Increase in deferred revenue	16,934	-
Net cash used in operating activities	$ (61,904)	$ (40,743)

Noncash capital and related financing activities for the fiscal year related to depreciation of capital assets for $6,511.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Pasadena Community Access Corporation (PCAC) was organized in 1983 as a nonprofit, telecommunications resource for the City of Pasadena, California (the City). PCAC was organized to perform the community access function of the Pasadena telecommunications system pursuant to the Cable Communications Ordinance of the City. In 2011, the City Council determined that the PCAC should be reported as a discretely presented component unit of the City in accordance with Generally Accepted Governmental Accounting Principles for Governments (GAAP).

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

B. Basis of Accounting

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

PCAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

C. Classification of Revenues

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

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

D. Capital Assets

Capital assets 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.

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

D. Capital Assets (Continued)

The estimated useful lives of the assets are as follows:

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

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

F. Investments

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

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

G. Compensated Absences

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

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

H. 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.

I. Accounting Standards Update

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. PCAC has not fully judged the effect of the implementation of GASB Statement No. 60 as of the date of the basic financial statements.

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

I. Accounting Standards Update (Continued)

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the basic financial statements, PCAC has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, APB Opinions, and ARBs of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on PCAC's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net (Plan if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net Position instead of the current Statement of Changes in (Plan) Net Assets upon implementation for periods beginning after December 15, 2011. PCAC will implement this change for the fiscal year ended June 30, 2013.

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, PCAC has not made an assessment of any changes that will occur upon this statement's implementation.

Additional standards were released by GASB during the year:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. PCAC will implement this change for the fiscal year ended June 30, 2013.

GASB Statement No. 66 – *Items Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. As of the date of the basic financial statements, PCAC has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. PCAC has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. PCAC has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Cash on hand	$ 425	$ 386
Deposits with financial institutions	41,705	61,274
Investment in City of Pasadena Investment Pool	255,895	296,504
Total cash and cash equivalents	$ 298,025	$ 358,164

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

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

Investment Types Authorized by State Law	Authorized by Investment Policy	* Maximum Maturity	* Maximum Percentage of Portfolio	* Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
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%	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
JPA Pools (other investment pools)	Yes	N/A	None	None

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

Disclosures Relating to Interest Rate Risk

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

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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. Presented below is the minimum rating required by (where applicable) the California Government Code and the actual rating as of year-end for each investment type.

2012 Investment Type		Minimum Legal Rating	Rating as of Year-End Not Rated
Investment in City of Pasadena Investment Pool	$ 255,895	N/A	$ 255,895
Total	$ 255,895		$ 255,895

Concentration of Credit Risk

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

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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure PCAC deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011, is as follows:

	June 30, 2011	**Additions**	**Dispositions**	**June 30, 2012**
Production Equipment	$ 33,170	$ -	$ -	$ 33,170
Less: Accumulated Depreciation	(20,505)	(6,511)	-	(27,016)
Total Property and Equipment, Net	$ 12,665	$ (6,511)	$ -	$ 6,154

NOTE 3 – CAPITAL ASSETS (Continued)

	June 30, 2010	Additions	Dispositions	June 30, 2011
Production Equipment	$ 33,170	$ -	$ -	$ 33,170
Total Property and Equipment	33,170	-	-	33,170
Less: Accumulated Depreciation	(13,871)	(6,634)	-	(20,505)
Total Property and Equipment, Net	$ 19,299	$ (6,634)	$ -	$ 12,665

Depreciation expense for the years ended June 30, 2012 and 2011, was $6,511 and $6,634, respectively.

NOTE 4 – DEFINED CONTRIBUTION PENSION PLAN

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

PCAC contributed $2,309 and $5,313 to the plan for the years ended June 30, 2012 and 2011, respectively.

NOTE 5 – OPERATING LEASE

PCAC leases office and production facilities in Pasadena, California, under an operating lease agreement (the agreement). The agreement was extended to May 31, 2008, with two options to extend for two years per option. Pursuant to the agreement, PCAC is obligated to pay utilities, property taxes, insurance, and normal repairs and maintenance for the space that PCAC occupies. PCAC currently operates month-to-month and there are no future minimum annual lease payments

Total rent expense for the years ended June 30, 2012 and 2011, was approximately $80,878 and $79,210, respectively.

NOTE 6 – OTHER PROVISIONS OF REVENUES AND CONTRACTS

Franchise Fees

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

NOTE 6 – OTHER PROVISIONS OF REVENUES AND CONTRACTS (Continued)

Franchise Fees (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.

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

Channel 3 KPAS Service Contract

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

Effective October 1, 2010, the City and PCAC amended and extended the Contract to September 30, 2012. Pursuant to the terms of the Contract, the City will pay PCAC an amount, in accordance with a budget approved by the City, not to exceed $324,627 per year beginning October 1, 2010.

Other Contracts

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

NOTE 7 – CONCENTRATIONS OF REVENUE

Support Revenue

For the years ended June 30, 2012 and 2011, revenue from the Franchise Fee agreement accounted for 57.0% and 55% of total revenue, respectively.

For the years ended June 30, 2012 and 2011, revenue from the service contract with KPAS accounted for 39.8% and 40% of total revenue, respectively.

NOTE 8 – RESTATEMENT OF PRIOR BALANCES DUE TO CHANGE IN ACCOUNTING POLICY

PCAC did not have a formalized minimum threshold of capitalization prior to fiscal year 2012. During the year, management of PCAC implemented a minimum threshold of $5,000 for a purchased asset to be capitalized. As a result, prior year capital asset balances, related accumulated depreciation, and depreciation expense have been restated for the year 2011.

NOTE 9 – SUBSEQUENT EVENTS

Management has judged the subsequent events from June 30, 2012, through the date of the independent auditor's report on the basic financial statements.

NOTE 10 – INCOME TAXES

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

NOTE 10 – INCOME TAXES (Continued)

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, PCAC may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of PCAC and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year ending June 30, 2012.

PCAC files forms 990 in the U.S. federal jurisdiction and the State of California. PCAC is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

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BROWN ARMSTRONG
Certified Public Accountants

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

Board of Directors
Pasadena Community Access Corporation
Pasadena, California

We have audited the basic financial statements of the Pasadena Community Access Corporation (PCAC), a component unit of the City of Pasadena, California, as of June 30, 2012, and for the year then ended. 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.

Internal Control Over Financial Reporting
Management of PCAC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PCAC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCAC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PCAC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Report of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Report of Findings and Recommendations to be material weaknesses [2012-1 and 2012-2].

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCAC's financial statements 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.*

PCAC's response to the findings identified in our audit is described in the accompanying Report of Findings and Recommendations. We did not audit PCAC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City of Pasadena, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Pasadena, California
November 9, 2012

Current Year Findings and Recommendations

2012-1 – Material Weakness over Financial Reporting

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

As a result, internal controls have not been suitably designed and implemented over the financial reporting process to ensure the timely closure of the general ledger and sufficient management supervision of this process resulting in reliable and materially correct ending balances in accordance with accounting principles generally accepted in the United States of America.

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

Management Response/Corrective Action Plan:
Management concurs with Finding 2012-1. A transition of tasks and responsibilities of PCAC's staff, bookkeeper, and previous auditor led to a delay in closing procedures. Management will implement stronger policies and procedures to ensure proper and adequate year-end closing of the general ledger.

2012-2 – Material Weakness in Controls over Payroll

Observation:
During our testing of internal controls over payroll, we noted there are no controls to catch incorrect changes to the ADP system. Specifically, we noted the following conditions:

- For one (1) employee, we noted the employee as paid twice for the same day's work. He was paid during the normal pay period then again in the following pay period.
- For two (2) employees, we noted that the employees were improperly credited with additional hours of work that were not reflected on the employees' timesheets for the pay period.

The former Executive Director reviewed the ADP reports before the checks were paid, which provided supervision of the checks being paid. However, since the departure of the Executive Director, both the preparation and supervisory duties fell to the Interim Executive Director, and there were no controls in place to prevent or detect these sorts of mistakes. With no review, the kinds of mistakes as listed above appear to be made consistently and repeatedly throughout the sample we tested.

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

Management Response/Corrective Action Plan:
Management concurs with Finding 2012-2 with consideration that procedures were implemented near the end of fiscal year 2012 to ensure accurate capture of payroll information, including converting to a third party online timesheet entry system and three stages of timesheet/payroll review.

Prior Year Findings and Recommendations

2011-1 – Material Weakness over Financial Reporting

Observation:
Management is responsible for establishing and maintaining effective internal control over financial reporting. In performing our audit of the financial statements, we identified numerous material adjustments in nearly all significant transaction classes including cash, depreciation, accrued payroll, revenue, payables, and other areas. The following adjustments were needed to correct account balances that were materially misstated:

- Record sale of equipment to former Executive Director
- Record depreciation expense for the year
- Adjust accrued vacations to proper balances
- Adjust Franchise Fees from cash basis to accrual basis of accounting
- Reversal of debit liability accounts
- Reversal of prior year payable balance
- Record current year payable balance
- Accrue salaries payable at year-end
- Reconcile cash to bank reconciliation statement

As a result of these material adjustments, we have determined that there is a more than remote likelihood of a material misstatement of the financial statements.

Recommendation:
We recommend that the Board of Directors (Board) find a replacement Executive Director in order to establish internal controls and segregation of duties. Management has hired an external bookkeeper to assist in the recording of financial information; however, management needs to work more actively with the bookkeeper so that his expertise can be utilized, leading to more reliable financial information.

Management Response/Corrective Action Plan:
The Board of Directors has found a replacement Executive Director whose initial tasks include providing internal controls and segregation of duties in written form. The organization will endeavor to work more actively with the bookkeeper to utilize their expertise.

Current Year Status:
Corrected. Internal controls and segregation of duties have been re-established under the new Executive Director.

2011-2 – Material Weakness in Controls over Payroll

Observation:
There is no control to catch incorrect changes to the ADP system, nor to guard against personnel from taking paid time off and not recording it in ADP. We noted the client's Accrued Vacations Schedule correctly calculated vacation hours owed at year-end for all employees, except for a senior official; the schedule did not correctly reduce that official's total by the vacation time used in the fiscal year. The former Executive Director used to look over the ADP report before the checks were paid and allow for a level of review on any information the official would prepare, specifically information relating to her. However, due to the Executive Director no longer being with Pasadena Community Access Corporation (PCAC), many of these responsibilities fell to the official and now there are significant segregation of duty issues and no review process. The effect of the condition is that there is no level of review, which allows for misstatement in financial reporting, either due to error or fraud.

Recommendation:
We recommend that the Board find a replacement Executive Director in order to take over some of these responsibilities and establish segregation of duties. Furthermore, we recommend immediately implementing some temporary review process because it is unknown how long it may take for a replacement to be hired.

Management Response/Corrective Action Plan:
The Board of Directors has found a replacement Executive Director whose initial tasks include providing internal controls and segregation of duties in written form.

Current Year Status:
Procedures were implemented at the new fiscal cycle to ensure accurate capture of payroll information, including converting to a third party online payroll system with vacation (and sick) accrual and reporting functionality. Segregation of duties and oversight have been re-established under the new Executive Director.

2011-3 – Employee Paid for Incorrect Hours

Observation:
An employee actually worked 55 hours of normal time, and 6 hours of overtime for a total of 61 hours. However, they were paid for 65 hours of straight time instead. The employee had forgotten to turn in his timesheet, so a senior official called the employee for verbal confirmation of the number of hours (employee said 65) so she could process payroll. The employee later emailed the official and cc'd his direct supervisor to inform them of the correct number of hours (61). He said that the difference should reconcile with the overtime, and this official just submitted the 65 hours. The dollar amount did not reconcile and, as a result, the employee was overpaid.

Recommendation:
We recommend a stronger review over timesheets, especially in unusual circumstances like this. Hours reported on the timesheet should directly tie to the ADP system, and existing procedures in place should be followed more closely. We also recommend that the Board find a replacement Executive Director in order to take over some of these responsibilities and establish stronger internal control system.

Management Response/Corrective Action Plan:
The Executive Director will be implementing a new timesheet entry system that will ensure accuracy of entry and reporting.

Current Year Status:
Timesheet entry system was implemented that ensures accuracy of entry and reporting as well as oversight and review by key personnel.

2011-4 – Capital Assets and Depreciation

Observation:
PCAC failed to write-off over $5,000 of capital assets that were removed from its inventory when former Executive Director resigned, and as part of his Employment Agreement, purchased and kept this equipment. As a result, fixed assets are overstated by the amount.

Also, PCAC management failed to depreciate the existing capital assets. This occurred because they were in a transitional period from an old accountant to the current one, who was not properly informed of the transactions to be made. As a result, depreciation expense and accumulated depreciation are off by the current year expense of about $25,000.

Recommendation:
We recommend that PCAC make journal entries for the sale of capital assets to Don Repella and current year depreciation. We also recommend that management depreciate the existing and new capital assets using a simple depreciation schedule to ensure this does not happen again in the future.

Management Response/Corrective Action Plan:
The recommendation that management depreciate the existing and new capital assets using a depreciation schedule is accepted and the appropriate journal entries will be made.

Current Year Status:
Management depreciated existing capital assets and worked with the auditor to review and correct depreciation from prior years.

2011-5 – Franchise Fee Revenue

Observation:
PCAC understated Franchise Fee revenue by $9,532 as a result of not properly recording revenues on the accrual basis of accounting. Franchise Fees recorded as revenue included all fees actually received during the fiscal year. However, one of the fees recorded was for April through June of 2010, and should not have been recorded for fiscal year 2011. Also, PCAC failed to record fees for April through June of 2011, despite being received on June 30, 2011.

Recommendation:
We recommend that PCAC make the adjusting journal entry to properly state the fair value of Franchise Fees for the fiscal year. We also recommend that PCAC be more cognizant of this issue in the future so that they only record fees that were earned in the period, and not what was actually received.

Management Response/Corrective Action Plan:
The organization will endeavor to provide journal entries of properly accrued quarter two (April-June) franchise fees scheduled for mid-August payment (forty-five days following quarter end).

Current Year Status:
Journal entries are scheduled as part of monthly reconciliation provided by bookkeeper.

2011-6 – Year-End Adjustments

Condition:
Significant adjustments being made during the audit was a problem again in the current year. Significant entries were made in the areas of depreciation, accrued payroll, revenue, payables, and other areas for the trial balance to be fairly stated from known differences. Also, we were to receive a completed trial balance prior to our fieldwork in the beginning of August; however, we still did not have a finalized trial balance, including all adjusting journal entries, until mid-November.

Recommendation:
We recommend that all year-end adjustments be recorded prior to the start of the audit. This would include management having their bookkeeper review all financial information prior to the audit so issues or adjustments can be taken care of by management, and not by the auditors.

Management Response/Corrective Action Plan:
The organization will have the bookkeeper review all financial information prior to the audit.

Current Year Status:
Monthly oversight, review, and reporting to Management (and Board) conducted by bookkeeper.