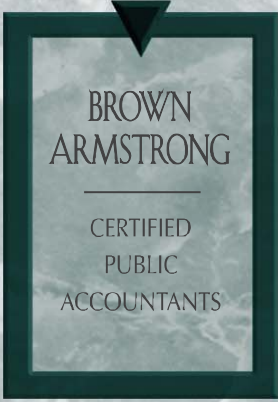


CITY OF PASADENA
AIR QUALITY IMPROVEMENT FUND
FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED JUNE 30, 2012

**CITY OF PASADENA
AIR QUALITY IMPROVEMENT FUND
FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED JUNE 30, 2012**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Pasadena, California

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, 2012, 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

As discussed in Note 2, the financial statements present only the Air Quality Improvement Fund and do not purport to, and do not, present fairly the financial position of the City of Pasadena, California, as of June 30, 2012, and the changes in revenues, expenditures, and net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2012, 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 November 29, 2012, on our consideration of the Air Quality Improvement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

The Air Quality Improvement Fund has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the financial statements

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Pasadena, California
November 29, 2012

**CITY OF PASADENA
AIR QUALITY IMPROVEMENT FUND
BALANCE SHEET
JUNE 30, 2012**

Assets

Motor vehicle fees receivable	\$ 43,017
	<hr/>
Total assets	\$ 43,017
	<hr/> <hr/>

Liabilities and Fund Balance

Liabilities:	
Due to other funds	\$ 25,743
Fund balance:	
Restricted	<hr/> 17,274
	<hr/>
Total liabilities and fund balance	\$ 43,017
	<hr/> <hr/>

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, 2012**

Revenues:	
Motor vehicle registration fees	<u>\$ 174,263</u>
Total revenues	<u>174,263</u>
Excess of revenues over expenditures	174,263
Other financing sources (uses):	
Transfers out	<u>(170,900)</u>
Change in fund balance	3,363
Fund balance at beginning of year	<u>13,911</u>
Fund balance at end of year	<u><u>\$ 17,274</u></u>

See accompanying notes to financial statements.

**CITY OF PASADENA
AIR QUALITY IMPROVEMENT FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 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.

NOTE 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.

E. Cash and Investments

The Air Quality Improvement Fund cash balances during the year were pooled with various other City of Pasadena 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.

NOTE 3 – 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, 2012, are available at the Pasadena City Hall.

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

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

Honorable Mayor and City Council
City of Pasadena, California

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We have audited the Air Quality Improvement Fund financial statements of the City of Pasadena, California (City) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012. 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

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Air Quality Improvement Fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Assembly Bill 2766, Chapter 1705 (Health and Safety Code Sections 44220 through 44247), 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*.

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North America
An association of legally
independent firms

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

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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Pasadena, California
November 29, 2012