

# Agenda Report

December 17, 2012

**TO:** Honorable Mayor and City Council/Successor to Pasadena  
Community Development Commission

**FROM:** Director of Finance

**SUBJECT: FISCAL YEAR JUNE 30, 2012 ANNUAL FINANCIAL REPORTS**

**RECOMMENDATION:**

It is recommended that the following reports for the year ended June 30, 2012 be received by the City Council and/or the Successor Agency to Pasadena Community Development Commission.

- A. Comprehensive Annual Financial Report (Attached)
- B. Single Audit Report on Federal Awards (Attached)
- C. Pasadena Community Development Commission Financial Report for the Seven Months Ended January 31, 2012 (Distributed at Monday, December 3, 2012 meeting.)
- D. Management Letter – City of Pasadena (Attached)
- E. Pasadena Center Operating Company Basic Financial Statements (Distributed at Monday, December 3, 2012 meeting.)
- F. Rose Bowl Operating Company Basic Financial Statements (Attached)
- G. Pasadena Community Access Corporation Basic Financial Statements (Distributed at Monday, December 3, 2012 meeting.)
- H. Pasadena Fire and Police Retirement System Report and Audited Financial Statements and Required Supplemental Information (Distributed at Monday, December 3, 2012 meeting.)
- I. Air Quality Improvement Fund Financial and Compliance Report (Distributed at Monday, December 3, 2012 meeting.)
- J. Independent Accountant's Report on Agreed-Upon Procedures Applied Appropriation Limit Worksheets (Distributed at Monday, December 3, 2012 meeting.)
- K. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program (Distributed at Monday, December 3, 2012 meeting.)

- L. The Auditor's Communications with the City's Audit and Finance Committee (Attached)

**EXECUTIVE SUMMARY:**

This action is to receive and file the City's seven annual financial statements and five compliance-related reports for the fiscal year ended June 30, 2012. All financial statements received an unqualified (or clean) opinion. Attached to this report are the FY 2012 CAFR, the Single Audit Report, Management Letter, Rose Bowl Operating Company financial statements, and the Auditor's Communications with the City's Audit and Finance Committee. The remaining reports were delivered to the Audit/Finance Committee and to the City Council on December 3, 2012. A brief presentation will be made by the City's external auditors, Brown Armstrong, Certified Public Accountants.

The elimination of redevelopment created a number of additional complexities in preparing the FY2012 CAFR documents. Delays by the state in providing details on RDA elimination procedures resulted in delays in finalizing the CAFR documents. The CAFR presentation by the City's external auditors will include a more detailed explanation the RDA changes and their impact on current and future financial reporting.

**BACKGROUND:**

All seven financial statements received unqualified opinions from our outside auditors. This is the highest or cleanest attestation report given by independent auditors and includes the phrase "the financial statements referred to above present fairly, in all material respects, the financial position..." The five remaining reports presented deal with compliance information, specifically requested test work, and provide comment on errors, lack of errors, or suggestions for future improvements.

**Comprehensive Annual Financial Report (CAFR)**

Section 912 of the City Charter requires that an independent audit of the City's records, books, and inventories be conducted annually and a report issued thereon. In the attached audited CAFR for the year ending June 30, 2012, the City received an unqualified opinion, which means that the statements are free of material misstatement and are presented in conformity with generally accepted accounting principles.

**Single Audit Reports**

The Single Audit Act of 1984 and Single Audit Act Amendments of 1996 establish uniform audit requirements for local governments expending federal awards

greater than \$500,000 a year. The audit is on an "entity-wide" basis and imposes additional requirements in relation to testing of, and reporting on internal control and compliance with laws and regulations. The Single Audit Report for Fiscal Year ended June 30, 2012 found that there were no material weaknesses in internal control over financial reporting and that the City continues to be a low risk auditee. The report presents information regarding two significant weaknesses related to financial reporting and three significant weaknesses related to federal awards. In all cases, a management response and corrective action plan is provided and staff has or will fully address each finding.

### **Pasadena Community Development Commission Financial Statements**

In accordance with the changes to redevelopment law under AB 1X 26, the Pasadena Community Development Corporation ceased operations as of January 31, 2012. This is the final reporting of the seven months ended January 31, 2012. The bound report also includes the *Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And On Other Matters Based On An Audit of Financial Statements Performed In Accordance With Government Auditing Standards*.

### **Management Letter**

The management letter provides a general overview of the financial report and identifies certain matters involving the internal control structure and other operational matters including comments and recommendations for improvement. These comments and recommendations have been reviewed with the appropriate members of City staff and responses provided. There were no findings of material weakness in internal controls. This report includes two findings that are considered a significant deficiency; one related to unrecorded liability and Accounts Payable, and one related to personnel files. Additionally, two lessor items are presented. In all cases staff is fully aware of the issues and has already or will fully address the issues. The management letter also reports on the status of prior year findings.

### **Component Unit Financial Statements**

Financial statements for Pasadena Center Operating Company, Rose Bowl Operating Company, Pasadena Community Access Corporation, and Pasadena Fire and Police Retirement System are included as they are component units of the City. Component units are legally separate entities in substance but are part of the government's operations. Each of the City's component units received an unqualified opinion.

### **Air Quality Improvement Fund Financial and Compliance Report**

Assembly Bill 2766 (AB2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of those 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. The City's Air Quality Improvement Fund accounts for the use of these funds received from SCAQMD.

### **Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets**

Section 1.5 of Article XIII B of the California Constitution requires that the City follow the procedures agreed upon by the State of California and the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) to determine the annual appropriations limit. The auditors provide this report, which confirms the City's compliance.

### **Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program**

At the request of the City, the auditors performed certain procedures as enumerated in the report to verify the accuracy and timely posting of contributions to the deferred compensation program provided by Hartford. No exceptions were noted.

### **The Auditor's Communications with the City's Audit and Finance Committees**

One newer auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires more and documented communications between the auditors and the City Audit Committee/Finance Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit and to further define their role. They provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit, and no disagreements occurred with management. They point out that management has corrected all known misstatements, even those that could be passed adjustments that would be not material either individually or in the aggregate.

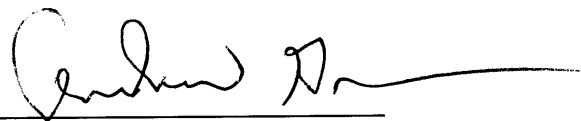
**Council Policy CONSIDERATION:**

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the receipt and review of these reports.

**FISCAL IMPACT:**


There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,

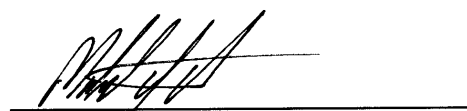


ANDREW GREEN  
Director of Finance

Prepared by:

  
Robert S. Ridley  
Controller

Approved by:

  
MICHAEL J. BECK  
City Manager

Attachments:

- A. Comprehensive Annual Financial Report
- B. Single Audit Report on Federal Awards
- C. \*Pasadena Community Development Commission Financial Report For the Seven Months Ended January 31, 2012
- D. Management Letter – City of Pasadena
- E. \*Pasadena Center Operating Company Basic Financial Statements
- F. Rose Bowl Operating Company Basic Financial Statements
- G. \*Pasadena Community Access Corporation
- H. \*Pasadena Fire and Police Retirement System Report and Audited Financial Statements and Required Supplemental Information
- I. \*Air Quality Improvement Fund Financial and Compliance Report
- J. \*Independent Accountant’s Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
- K. \*Independent Accountant’s Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
- L. The Auditors Communications with the City’s Audit and Finance Committees

\* These reports were distributed at the December 3, 2012 meeting.