

Agenda Report

February 23, 2026

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

THROUGH: Finance/Audit Committee (February 9, 2026)

FROM: Department of Finance

SUBJECT: RECEIVE AND FILE THE FISCAL YEAR JUNE 30, 2025, ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the City Council and/or the Successor Agency to the Pasadena Community Development Commission review, discuss and file the following reports for the year ended June 30, 2025.

- A. Annual Comprehensive Financial Report
- B. Independent Auditors' 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* (This replaces what was called the "Management Letter.")
- C. Pasadena Center Operating Company Financial Statements
- D. Rose Bowl Operating Company Basic Financial Statements
- E. Pasadena Community Access Corporation Financial Statements
- F. Pasadena Fire and Police Retirement System A Pension Trust Fund of the City of Pasadena, California Financial Statements
- G. City of Pasadena, California Air Quality Management District Fund Financial Statements
- H. Pasadena Housing Successor Pasadena, California Financial Statements
- I. City of Pasadena, California Foothill Workforce Development Board Financial Statements
- J. Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
- K. Independent Accountants' Report on Applying Agreed-Upon Procedures for review of Deferred Compensation
- L. The Auditors' Communications with the City's Finance/Audit Committee

EXECUTIVE SUMMARY:

This action is to receive and file the City's eight (8) annual financial statements and four (4) compliance-related reports for the fiscal year ended June 30, 2025. A presentation will be made by the City's Finance Department at the February 9, 2026, Finance/Audit Committee and City Council meetings. All financial statements received an unmodified (or clean) opinion. An unmodified opinion indicates that the financial data of the City is fairly presented in accordance with accounting principles 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. These standards require that the City's auditors plan and perform the audits to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

BACKGROUND:

This year's audit was the third annual audit performed by Lance, Soll, & Lunghard, LLP, who was awarded a three-year contract with two one-year optional extensions on June 12, 2023, to perform the City's audits. On June 12, 2023, the City Council approved the contract with Lance, Soll, & Lunghard, LLP that required sampling from all funds. The audit was conducted in a hybrid manner, on-site and in a remote setting. The remote audit was facilitated by the City's use of Tyler Munis and the electronic storage of documents.

All eight (8) financial statements received unmodified opinions from the external auditors. The four (4) remaining reports, present compliance information, specifically requested test work, and provide comment on internal controls, errors, lack of errors, or suggestions for future improvements.

Annual Comprehensive Financial Report (ACFR) (Attachment A)

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 ACFR for the fiscal year ending June 30, 2025, the City received an unmodified opinion, which means that the statements are free of material misstatement and are presented in conformity with Generally Accepted Accounting Principles. The audited financial statements are incorporated into an ACFR, which provides additional analytical and statistical information to fully describe the City's financial condition. The ACFR is submitted to the Government Financial Officers Association of the United States and Canada (GFOA) for consideration of Award of the Certificate of Achievement for Excellence in Financial Reporting. The City has received this award for 24 consecutive years.

The City's ACFR is organized into three main sections. The Introductory Section provides an overview of the City's organizational structure, letter of transmittal from management, independent auditor's report, and management's discussion and analysis. The Financial Section contains the City's basic financial statements, including government-wide and fund-level statements, along with detailed notes and supplementary schedules. The Notes to the Financials provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Statistical Section complements the financial statements and notes, offering a broader perspective on the

City's financial health and economic conditions. This section provides additional historical and demographic information of a wide variety of statistical data, such as multi-year trend data on financial and operational performance, economic indicators, population statistics, and other relevant information.

ANALYSIS AND DISCUSSION

Government-wide financials

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units.

Governmental activities represent the City's overall financial position for all governmental operations, including long-term assets (capital assets) and liabilities (bonds payable). They are reported on the government wide financial statements, which include the General Fund and are prepared using the full accrual basis of accounting. Total assets increased, driven by the capitalization of \$38.5M in capital assets and higher cash from the issuance of \$195M in General Obligation Bonds related to the approval of Measure PL, Central Library seismic retrofit and improvements. Liabilities also rose mainly due to the bond issuance, while deferred inflows and outflows were adjusted to reflect actuarial changes for pension and Other Post Employment Benefits (OPEB).

The City's governmental activities ended Fiscal Year (FY) 2025 with an increase of \$8.8 million increase to net position; however, this was offset by an adjustment of \$27 million to reflect the adoption of GASB Statement No. 101, Compensated Absences, and by \$2.7 million for a prior period correction. This resulted in an overall net position decrease of approximately \$16 million or (6%).

Proprietary funds account for City operations that recover costs through customer charges. They include enterprise funds for services like electric, water, refuse, parking, and telecommunications, and internal service funds for functions such as fleet maintenance, information technology, and insurance. Enterprise funds are reported as business-type activities, while internal service funds are included under governmental activities in the government-wide statements.

Business-type activities increased the City's net position by \$57.4 million in FY 2025, driven by higher water and refuse revenues. This growth was partially offset by lower electric service charges and rising operating costs for electric and water services due to increased fuel, energy, and water purchase expenses.

General Fund financials

The General Fund is the City's primary operating fund and focuses on short-term resources and obligations. The Statement of Revenues, Expenditures, and Changes in Fund Position are reported using the modified accrual basis of accounting and exclude long-term assets and liabilities, focusing on the current financial resources available for operations. At the end of FY 2025, the General Fund balance declined by \$22 million (14%) as spending

exceeded revenues by \$25 million. The City's expenditure drivers were primarily personnel salary and benefit increases and inflationary demands on supplies and services. Included in the General Fund's expenditure total was a one-time contribution to the Pasadena Fire and Police Retirement System for approximately (\$11 million), which was funded by revenues from the sale of property in which the system had a beneficial interest. Some of increases in expenditures were associated with costs incurred due to the Eaton Fire, which the City is actively seeking reimbursement.

It should be noted that while the General Fund shows \$25.1 million as unassigned fund balance, this amount is effectively offset by negative cash balances in the Health (Fund 203), Benefits (Fund 504), and Rent Stabilization (Fund 689), totaling \$36.2 million. These negative balances stem from anticipated future receivables but are currently being covered by the General Fund. Under GASB 54, the General Fund cannot report a negative unassigned fund balance.

Proprietary financials

The City's proprietary funds provide detailed financial data similar to Government-wide statements. At the end of FY 2025, the Light and Power Fund reported an unrestricted net position of \$340.7 million, while the Water, Off-Street Parking, and nonmajor enterprise funds reported \$47.9 million, \$4.4 million, and \$4.6 million, respectively. Income before transfers totaled \$47.3 million for Light and Power and \$19.1 million for Water. Light and Power revenues fell \$12.8 million due to lower sales, while expenses rose \$29.6 million from higher fuel costs. Water revenues increased \$11.2 million, with expenses up \$8.6 million mainly for water purchases and administration. GASB 68 and 75 implementation added pension and OPEB liabilities of \$61 million and \$8.6 million for the Light and Power Fund.

Independent Auditors' 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* (This replaces what was called the "Management Letter") (Attachment B)

This report summarizes the auditor's review of the City's financial statements and internal controls, noting that no issues were identified. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the Governmental Auditing Standards issued by the Comptroller General. Auditors use techniques such as data sampling, staff and management interviews, procedure testing, confirmations with external parties, spot checks of internal records, review of meeting minutes, and specialized audit checklist. The auditors assessed the City's internal controls to determine which procedures to apply and how large the sample size should be. While audit procedures do not include review of 100% transactions, the City contracted to have samples pulled from every fund, which is more than required under generally accepted audit procedures.

This report defines the terms "deficiency in internal control," "material weakness," and "significant deficiency" within the internal control framework. The current year's financial audit found no deficiencies, material weaknesses, or significant deficiencies. A "material

weakness” is defined as a deficiency in internal control, such that there is a reasonable possibility that a material misstatement of the entities’ financial statements will not be prevented, or detected and corrected, on a timely basis. A “significant deficiency” in internal control, is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Component Unit Financial Statements

Financial statements for the Pasadena Center Operating Company (Attachment C), Rose Bowl Operating Company (Attachment D), Pasadena Community Access Corporation (Attachment E), and Pasadena Fire and Police Retirement System (Attachment F) are included, as they are component units of the City. Component units are legally separate entities in substance, but are part of the City’s operations. Each of the City’s component units received an unmodified opinion.

The Pasadena Fire and Police Retirement System financial statements were audited by another firm, Macias Gini and O’Connell.

Air Quality Improvement Fund Financial and Compliance Report (Attachment G)

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. The Air Quality Improvement Fund Financial and Compliance Report received an unmodified opinion.

Pasadena Housing Successor Basic Financial Statements and Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Regarding the Low- and Moderate-Income Housing Asset Fund (Attachment H)

Since Fiscal Year 2016, the Pasadena Housing Successor Fund has been presented as a major fund with the major governmental funds in the ACFR. This facilitates meeting the state’s required reporting and auditing requirements for this fund. To meet the reporting requirements, the Housing Successor Financial Statements and the Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance were submitted to the California Department of Housing and Community Development on December 30, 2025. The Housing Successor Financial Statements, the Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters regarding the Low-and Moderate-Income Housing Asset Fund, will be delivered to the Mayor and City Council members on January 26, 2026, and posted on the City’s website. The auditors opined that the Housing Successor has complied in all material respects with the compliance requirements they must report on, and they did not identify any noncompliance with the California Health and Safety Code requirements.

Foothill Workforce Development Board Basic Financial Statements and Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Attachment I)

The City serves as the lead agency for this Joint Powers Authority. The Foothill Workforce Development Board (FWDB) financial statements, received an unmodified opinion. The auditors also opined that the FWDB has complied in all material respects with the compliance requirements they must report on.

Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheet (Attachment J)

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 perform "Agreed-Upon Procedures" where they recalculate the Gann Limit. They determined that the current year calculation is correct and found no exceptions.

Independent Accountants' Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program (Attachment K)

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 Empower Financial Services. There were no exceptions noted as a result of the procedures.

The Auditors' Communications with the City's Audit and Finance Committees (Attachment L)

One auditing pronouncement, Statement of Auditing Standards No. 114, requires defined and documented communications between the auditors and the City's Finance/Audit Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit and to further explain their role. The letter confirms that management is responsible for establishing and applying appropriate accounting policies and for preparing the financial statements. The auditor's responsibility is to evaluate the accounting estimates made by management and assess its reasonableness. The financial statement disclosures were found to be neutral, consistent and clear. Additionally, the letter confirms that no significant difficulties or disagreements occurred during the course of the audit, and no misstatements were identified during the course of the audit.

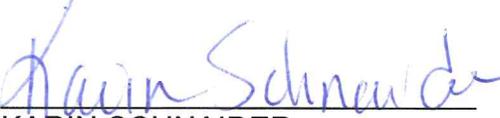
COUNCIL POLICY CONSIDERATION:

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:

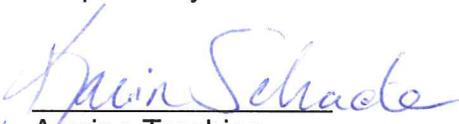
There is no fiscal impact as a result of this action, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



KARIN SCHNAIDER
Director of Finance

Prepared by:


Armine Trashian
Controller

Approved by:


MIGUEL MÁRQUEZ
City Manager

Attachments: (12)

- A. Annual Comprehensive Financial Report
- B. 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*
- C. Pasadena Center Operating Company Financial Statements
- D. Rose Bowl Operating Company Basic Financial Statements
- E. Pasadena Community Access Corporation Financial Statements
- F. Pasadena Fire and Police Retirement System A Pension Trust Fund of the City of Pasadena, California Financial Statements
- G. City of Pasadena, California Air Quality Management District Fund Financial Statements
- H. Pasadena Housing Successor Pasadena, California Financial Statements
- I. City of Pasadena, California Foothill Workforce Development Board Financial Statements
- J. Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
- K. Independent Accountants' Report on Applying Agreed-Upon Procedures for review of Deferred Compensation
- L. The Auditors' Communications with the City's Finance/Audit Committee