DEPARTMENT OF FINANCE
Notice of a Regular Meeting of the
FINANCE COMMITTEE
4:00 p.m. – Monday, March 13, 2017
Pasadena City Hall - Council Chambers Room S249

NOTICE IS HEREBY GIVEN that a regular meeting of the Finance Committee will be held **Monday, March 13, 2017** at **4:00 p.m.** in the Council Chambers Room S249, at City of Pasadena City Hall, 100 N. Garfield Ave., Pasadena, California.

A. CALL TO ORDER

B. PUBLIC COMMENT

C. NEW BUSINESS

1. *Fiscal Year June 30, 2016 Annual Financial Reports

D. INFORMATION ONLY

1. Fiscal Year 2017 Financial Update – General Fund

E. ADJOURN

Terry Tornek, Mayor
Finance Committee Chair

*Attachments included in City Council packets.

This notice, in its entirety, was posted at City Hall and distributed as indicated below by 5:30 p.m., Thursday, March 9, 2017.

Lori Eubanks, Recording Secretary
Finance Committee

Distribution:

City Council	Central Library	Pasadena Now
City Manager	Pasadena Independent	Pasadena Star News
City Attorney	Los Angeles Times	Pasadena Weekly
Public Information Officer	Pasadena Journal	La Opinion

Agenda Report

March 13, 2017

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

THROUGH: Finance/Audit Committee

FROM: Director of Finance

SUBJECT: FISCAL YEAR JUNE 30, 2016 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following reports for the year ended June 30, 2016 be reviewed, discussed, and filed by the City Council and/or the Successor Agency to Pasadena Community Development Commission.

A. Comprehensive Annual Financial Report*
B. Single Audit Report
C. 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* (This replaces what was called the "Management Letter.")
D. Pasadena Center Operating Company Basic Financial Statements*
E. Rose Bowl Operating Company Basic Financial Statements*
F. Pasadena Community Access Corporation Basic Financial Statements
G. Pasadena Fire and Police Retirement System Independent Auditor's Report and Basic Financial Statements with Required Supplemental Information*
H. Air Quality Improvement Fund Financial and Compliance Report *
I. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets*
J. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program*
K. The Auditor's Communications with the City's Audit and Finance Committee*
L. Pasadena Housing Successor Basic Financial Statements*

*Reports previously delivered.

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, 2016. All financial statements received an unqualified (or clean) opinion. One material weakness in internal controls and two significant deficiencies were identified in the 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. Management responses are provided for the material weakness and the significant deficiencies. The Single Audit report repeats the above three financial statement findings and reports an additional material weakness and six additional significant deficiencies related to federal awards. In all cases corrective action has already occurred or an action plan to address the finding has been established. A presentation will be made by the City's external auditors, Lance, Soll & Lunghard, LLP at the March 13, 2017 Finance/Audit Committee and City Council meetings.

BACKGROUND:

This year's audit was the second annual audit performed by Lance, Soll & Lunghard, LLP, who was awarded a three year contract to perform the City's audits on May 18, 2016. The contract calls for an expanded scope audit with samples from every City fund and a reduced level of materiality so that sample sizes are increased. All seven financial statements received unqualified opinions from the 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 internal controls, errors, lack of errors, or suggestions for future improvements.

Comprehensive Annual Financial Report (CAFR) (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 CAFR for the year ending June 30, 2016, 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 on Federal Awards (Attachment B)

The Single Audit Act of 1984, Single Audit Act Amendments of 1996, and more recent Office of Management and Budget's (OMB) "Uniform Guidance" establish uniform audit requirements for local governments expending federal awards greater than $750,000 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 Reports for Fiscal Year ended June 30, 2016 contains

two reports. The first one reports on internal control over financial reporting and reports one material weaknesses in internal control over financial reporting, two instances of significant deficiency, and no instances of noncompliance or other matters requiring disclosure. The second reports on compliance with major federal programs and found that the City complied in all material respects with the requirements that have a direct and material effect on each of the City's major federal programs. However, there was one finding identified as a material weakness and six findings of significant deficiency in internal controls related to federal programs. A management response and corrective action plan is provided, and staff either have or will fully address all findings.

The auditors also express an opinion that the schedule of expenditures of federal awards (SEFA) is "fairly stated" in all material respects. Lastly, the Single Audit Report provides a status update on all prior year findings (from FY 2015). Of the 32 findings, 30 are identified as "This finding is considered to be resolved." Two findings are reported as "not resolved" and repeated as a finding in FY 2016.

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 (This replaces what was called the "Management Letter") (Attachment C)

This report explains the auditors' audit of the City's financial reports in relation to their review of internal controls. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures, confirmation with outside parties, spot checking of internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other techniques. The auditors considered the City's internal controls in determining what procedures to use and the size of samples to be selected. While audit procedures do not include review of 100 percent of transactions, the City contracted to have every fund examined and for sample sizes to be greater than required under generally accepted audit procedures.

This report provides definitions of "deficiency in internal control," "material weakness," and "significant deficiency" involving the internal control structure. This year's audit identified one material weakness and two significant deficiencies. The auditors did not identify any "other matters" which are a third and less critical category of findings. These comments and recommendations have been reviewed with the appropriate members of City staff and City responses are provided. In all cases staff fully understands the issues and has already or will fully address the issues.

Component Unit Financial Statements

Financial statements for Pasadena Center Operating Company (Attachment D), Rose Bowl Operating Company (Attachment E), Pasadena Community Access Corporation (Attachment F), and Pasadena Fire and Police Retirement System (Attachment G) 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.

Pasadena Housing Successor Basic Financial Statements (Attachment L)

In previous years the Pasadena Housing Successor fund has been presented with the other non-major special revenue funds. This year and going forward the City has elected to present it as a major fund presenting it with the major governmental funds in the CAFR. This facilitates meeting the state's required reporting and auditing requirements for this fund.

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

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 unqualified opinion.

Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets (Attachment I)

Section 1.5 of Article XIIIB 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 XIIIB Appropriations Limitation Uniform Guidelines) to determine the annual appropriations limit. The auditors perform an "Agreed-Upon Procedure" where they recalculate the Gann Limit. They determined that the City has incorrectly calculated the Gann Limit. The Fiscal Year 2016 appropriation limit should have been $255,661,600, resulting in an immaterial understatement of the limit of $42,344 from the original City adopted limit of $255,619,256. This has not resulted in any budget or actual impact on the City and the calculation will be corrected to reflect the correct amount upon the next budget adoption.

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

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 Great West Retirement Services. The auditors noted that the amounts deposited did not match to the amounts withheld. The City has determined that this is solely a timing difference resulting from retirement and separation checks which, due to the payroll cycle, are reported with the next or subsequent regular payroll.

The Auditor's Communications with the City's Audit and Finance Committees (Attachment K)

One auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires defined 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,

MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:

Robert S. Ridley
Controller

Approved by:

STEVE MERMELL
City Manager

Attachments: (2)

A. Comprehensive Annual Financial Report*
B. Single Audit Report
C. 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*
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*Reports previously delivered

CITY OF PASADENA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2016

CITY OF PASADENA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2016

CITY OF PASADENA, CALIFORNIA

JUNE 30, 2016

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LSL

CPAs AND ADVISORS

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*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pasadena, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2016-001.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2016-002 and 2016-003.

LSL CPAs AND ADVISORS

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
February 7, 2017

LSL CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pasadena, California (the "City")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-004 through 2016-010. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-004, that we consider to be a material weakness. Additionally, material weaknesses may exist that have not been identified. We also identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-005 through 2016-010, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

CPAs AND ADVISORS

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

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 7, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
March 6, 2017 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is February 7, 2017)

CITY OF PASADENA, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed through the State of California				
Department of Agriculture:				
Special Supplemental Nutrition Program for Women, Infants and Children *	10.557	05-45781	$ 1,236,091	$ -
Passed through the State of California				
Department of Health Service:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20496	483,858	-
Total U.S. Department of Agriculture			**1,719,949**	**-**
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants/Entitlement Grants *	14.218	N/A	2,105,401	565,077
Community Development Block Grants - Section 108 Loan Guarantees *	14.248	N/A	21,427	-
Emergency Solutions Grant Program	14.231	N/A	123,675	111,687
Shelter Plus Care	14.238	N/A	68,293	-
Home Investment Partnerships Program	14.239	N/A	881,713	-
Continuum of Care Program *	14.267	N/A	1,837,641	987,226
Section 8 Housing Choice Vouchers	14.871	N/A	12,585,789	-
Passed through the City of Los Angeles:				
Housing Opportunities for Persons with AIDS	14.241	C-126938	84,780	-
Total U.S. Department of Housing and Urban Development			**17,708,719**	**1,663,990**
U.S. Department of Justice				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	32,078	-
Equitable Sharing Program	16.922	N/A	202,453	-
Total U.S. Department of Justice			**234,531**	**-**
U.S. Department of Labor				
Passed through the State of California				
Employment Development Department:				
Employment Service/Wagner-Peyser Funded Activities	17.207	K699958	286,429	-
WIA/WIOA Adult Program	17.258	K594757, K698358	583,981	178,533
	17.258	K594757	222,222	58,084
	17.258	K491014	23,123	15,859
WIA/WIOA Youth Activities	17.259	K594757, K698358	583,108	3,690
WIA/WIOA Dislocated Worker Formula Grants	17.278	K594757, K698358	662,312	242,745
	17.278	K594757, K698358	185,767	-
	17.278	K594757, K698358	22,748	-
	17.278	K594757, K698358	164,769	33,200
Passed through the City of Inglewood:				
WIA/WIOA Dislocated Worker Formula Grants	17.278	13WO60	34,783	-
Total U.S. Department of Labor			**2,769,242**	**532,111**
U.S. Department of Transportation				
Passed through the State of California				
Department of Transportation:				
Highway Planning and Construction *	20.205	HP21L-5062(020)	5,186,633	-
	20.205	RPSTPLE-5064(080)	280,916	-
	20.205	BHLS-5064(078)	47,240	-
	20.205	CML-5064(067)	323,833	-
	20.205	HPLU-5064(058)	209,234	-
	20.205	RPSTPLE-5064(081)	192,942	-
	20.205	SRTSL-5064(071)	261,000	-
	20.205	CML-5064(079)	245,554	-
	20.205	HSIPL-5064(075)	33,648	-
	20.205	CML-5064(083)	136,051	-
Recreational Trails Program *	20.219	RT-19-032	45,882	-
Federal Transit - Capital Investment Grants (Fixed Guideway Capital Investment Grants)	20.500	SAFTEA-LU HPLUL-5064(057)	3,882	-
	20.500	CA-04-0094	94,375	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	145.SCG03174.01	20,305	-
Job Access and Reverse Commute Program	20.516	CA-37-X100, CA-37-X123-01	34,381	-
	20.516	CA-37-X171	286,173	-
State and Community Highway Safety	20.600	PT1539	108,522	-
	20.600	PT1621	196,958	-
	20.600	PS1513	38,825	
State Traffic Safety Information System Improvement	20.610	PS1513	89,781	-
Total U.S. Department of Transportation			**7,836,135**	**-**

CITY OF PASADENA, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of the Treasury				
Direct Programs:				
Equitable Sharing Program	21.000	N/A	35,552	-
Total U.S. Department of the Treasury			**35,552**	**-**
National Endowment for the Arts				
Direct Programs:				
NEA Our Town Project	45.024	N/A	90,759	-
Total National Endowment for the Arts			**90,759**	**-**
U.S. Department of Health and Human Services				
Direct Programs:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) *	93.104	N/A	624,491	-
Racial and Ethnic Approaches to Community Health	93.304	N/A	551,043	-
Special Projects of National Significance *	93.928	N/A	318,240	-
Passed through the County of Los Angeles:				
Public Health Emergency Preparedness	93.069	PH-002221	225,266	-
Temporary Assistance for Needy Families	93.558	IA0614	68,000	-
HIV Emergency Relief Project Grants *	93.914	H209212	830,338	-
Alcohol & Drug Abuse/Mental Health Services Block Grant - AODPS	93.994	H702536	217,715	-
Passed through the State of California Department of Health Service:				
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	14-10028	89,957	-
Immunization Cooperative Agreements	93.268	13-20337	69,155	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	31,900	-
Medical Assistance Program	93.778	Pasadena 63	219,047	-
Maternal and Child Health Services Block Grant to the States	93.994	201061	329,183	-
Passed through the City of Inglewood:				
Temporary Assistance for Needy Families	93.558	16WXXX22564	139,258	-
Total U.S. Department of Health and Human Services			**3,713,593**	**-**
U.S. Department of Homeland Security				
Passed through the County of Los Angeles:				
Homeland Security Grant Program	97.067	2014-0019, OES#37-00000	5,294	-
Passed through the City of Los Angeles:				
Homeland Security Grant Program	97.067	2014-0019, OES#37-95050	482,397	-
Total U.S. Department of Homeland Security			**487,691**	**-**
Total Expenditures of Federal Awards			**$ 34,596,171**	**$ 2,196,101**

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Pasadena, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The City has elected not to use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

Note 2: Section 108 Loan Guarantee Program

On October 29, 2015, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development in the amount of $6,000,000 for the Robinson Park Project. Principal is payable in annual installments of $300,000 commencing on August 1, 2016 and ending August 1, 2035. Interest rate is variable and set on the first day of each month to 20 basis points (0.2%) above the London Interbank Offered Rate (LIBOR). Interest payment is paid quarterly from the effective date of November 12, 2015. The balance outstanding as of June 30, 2016, is $6,000,000.

Note 3: Loan Programs with Continuing Compliance Requirements

The program costs listed below are administered directly by the City of Pasadena, and balances and transactions relating to these programs are included in the City's basic financial statements. Loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at June 30, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2016
14.218	CDBG Entitlement	$ 20,638,664
14.871	Section 8 Low Income Housing - Voucher Program	50,000
14.239	HOME - Investment in Affordable Housing	11,382,928
		$ 32,071,592

CITY OF PASADENA, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? X yes ____ no
- Material weaknesses identified? X yes ____ none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? X yes ____ no
- Material weaknesses identified? X yes ____ none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? X yes ____ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.218	Community Development Block Grants/Entitlement Grants Cluster
14.248	Community Development Block Grants – Section 108 Loan Guarantees
14.267	Continuum of Care Program
20.205 / 20.219	Highway Planning and Construction Cluster
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
93.914	HIV Emergency Relief Project Grants
93.928	Special Projects of National Significance

Dollar threshold used to distinguish between type A and type B program $1,037,958

Auditee qualified as low-risk auditee? ____ yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2016-001 – Financial Statement Close Process
Material Weakness

Condition
As a result of our audit procedures, it was noted that the overall financial statement close process does not enable the City to close the records in a timely fashion. The following items were noted:

- Bank reconciliations not being completed within a timely manner after year-end
- Closing journal entries still being prepared after several months after year-end
- The CAFR not being ready before December 31

Management Response and Corrective Action
The City agrees with this finding. The City has a detailed plan for closing the fiscal year and publishing a timely CAFR. Implementing all of the core financial modules of an ERP system was a monumental task and proved to be more work than anticipated. Key milestones included completion of all bank reconciliations along with detailed analysis and review in order to accurately record all required closing entries. Finance is dependent on all Departments to timely submit all fiscal year invoices for payment and timely billing of receivables. These are two areas that require further improvement for Fiscal Year 2017. There is no shortcutting of these procedures and staff worked diligently to accomplish them.

Finding 2016-002 – Long-term Debt
Significant Deficiency

Condition
During the fiscal year, the City executed an advance refunding of debt. Governmental Auditing, Accounting and Financial Reporting requirements state that an advance refunding results in a deferred gain/loss calculated as the difference between the reacquisition price of and the carrying value of the refunded debt at the time of refunding. Upon our initial review of the CAFR it was discovered that this deferred/inflow outflow was not recorded or disclosed. This resulted in a material adjustment to the Government-wide Statement of Net Position.

Management Response and Corrective Action
The City agrees with this finding but had already made the necessary corrections to the financial records prior to this being brought to our attention by the Auditors.

Finding 2016-003 – Grants Reconciliation
Significant Deficiency

Condition
During our audit procedures of the federal grants, we noted that some grant activity was not documented on the schedule of federal awards and had not been reconciled to the general ledger at the end of the fiscal year resulting in adjustments to the schedule. This resulted in federal expenditures being reported in the incorrect accounting period. We recommend that grant activities be reconciled to the general ledger to avoid misreporting grant activity on the schedule of federal awards.

Management Response and Corrective Action
The City agrees with this finding and will work with Departments on timelier reporting of grant allocations and billings related to primarily grant funded Projects. The City does currently reconcile to the General Ledger.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2016-004 – Reporting
Noncompliance/Material Weakness

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
The grant award agreement stipulates that the grantee shall comply with the Federal Funding Accountability and Transparency Act (FFATA) in Appendix A to 2 CFR part 170. The City is required under FFATA to report subawards greater than or equal to $25,000 using the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward was made, and annually thereafter.

Condition
As part of our audit testing, we requested that the City provide us with the FFATA reports filed for each subrecipient with a subaward greater than $25,000. The City was not able to provide us with the reports and it became apparent that the reports were not prepared or filed.

Cause of the Condition
The City was not aware that the FFATA reporting requirements were applicable, resulting from inadequate internal controls relating to identification of reporting requirement for the grant program.

Effect or Possible Effect
The City did not comply with the reporting requirements of FFATA or the grant agreement.

Questioned Costs
No questioned costs were identified ($0).

Context
We requested a total of eight (8) subrecipient FFATA reports, of which none were able to be provided.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to identify required reports and reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management Response and Corrective Action
This recommendation has been implemented. The City (Housing Department) has developed an internal department checklist, which will include attached copies of the required Federal Funding Accountability and Transparency Act (FFATA) report. The checklist, along with supporting documents, will be reviewed and approved by the Housing and Career Services Director prior to executing all federal grant award agreements.

Finding 2016-005 – Procurement, Suspension, and Debarment
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the subrecipient files for the City's eight (8) largest subawards and noted that each one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and will affect future years' subrecipient RFPs.

Repeat Finding
This is a repeat finding. Refer to Finding 2015-032 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action
This recommendation has been implemented. The City revised its CDBG Request for Proposals (RFP) to include, as part of required supporting documentation, a clearance printout from the System of Award Management (SAM) to be included in submission of proposals for all eligible CDBG projects. Implementation of the revised RFP began with the 2016-2017 program year commencing July 1, 2016.

Finding 2016-006 – Reporting
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
Part 4 of the Compliance Supplement requires that prime recipients of Community Development Block Grants (CDBG) funding submit the Integrated Disbursement and Information System (IDIS) *C04PR03 Activity Summary Report* and *the C04PR26 CDBG Financial Summary Report* within ninety (90) days after the end of the recipient's grant program year. The Department of Housing and Urban Development (HUD) also requires that the *HUD 60002 Section 3 Summary Report* be submitted to HUD at the same time as the CDBG recipient's *Consolidated Annual Performance and Evaluation Report* (CAPER), which is also due within ninety (90) days after the end of the program year.

Condition
During our audit testing, we inspected the *C04PR03 Activity Summary Report* and the *C04PR26 CDBG Financial Summary Report* and observed that the reports were dated January 31, 2017 and October 5, 2016, respectively. We also inspected the *HUD 60002 Section 3 Summary Report* and observed that it was dated January 10, 2017. The deadline for submitting each of these three reports was September 28, 2016, which is ninety (90) days after program year end of June 30, 2016.

Cause of the Condition
This condition was caused by inadequate internal controls regarding the identification, communication, and review of reporting deadlines for the grant program.

Effect or Possible Effect
The City is not in compliance with the reporting requirements of the CDBG program. Potentially, if reporting requirements are consistently not met, HUD may reconsider providing the City with CDBG funding.

Questioned Costs
No questioned costs were identified ($0).

Context
Only one of each of these reports are filed each program year. As such, any late filings would be considered to be noncompliance with the reporting requirements. The City was not late in the prior fiscal year, and we believe this finding is an isolated instance and not a consistent or pervasive problem.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to identify reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management Response and Corrective Action
This recommendation has been implemented. The City's CDBG program has a deadline to perform financial close outs by August 15th. The City's Finance Department will finalize the *PR26 CDBG Financial Summary Report* by the first week of September, to be included in the *Consolidated Annual Performance and Evaluation Report* (CAPER) submission by the September 28th deadline. In addition, the *PR03 Activity Summary Report* will be included as an attachment to the CAPER, along with the *HUD 60002 Section 3 Summary Report*.

Finding 2016-007 – Reporting
Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
The U.S. Department of Housing and Urban Development (HUD) allows for grantees to report their financial status on the *Standard Form 425 Federal Financial Report* (SF-425) using either the cash basis or the accrual basis of accounting. The requirement is that the reporting must be consistent.

Condition
During our audit testing of the *SF-425 Federal Financial Reports*, we observed that the reports indicated that they are prepared using the accrual basis of accounting. However, we noted that the reports are actually prepared on the cash basis of accounting.

Cause of the Condition
The condition as caused by inadequate internal controls relating to the preparation and review of the *SF-425 Federal Financial Reports.*

Effect or Possible Effect
The City's *SF-425 Federal Financial Reports* do not accurately represent the financial position of the program, as they incorrectly purport to include accruals for program expenditures.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the four (4) *SF-425 Federal Financial Reports* prepared for the program year and noted that each one is marked "accrual." We recalculated each report and noted that they were prepared on the cash basis of accounting.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to review the reports that are prepared and to verify that all information contained within the reports is accurate.

Management Response and Corrective Action
The City agrees with this finding and will mark "cash basis" on the SF-425 Federal Financial Reports moving forward. The City chose "accrual basis" as it is the general accounting basis.

Finding 2016-008 – Special Tests and Provisions
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
The U.S. Department of Housing and Urban Development (HUD) requires that grantees submit a *Consolidated Annual Performance and Evaluation Report* (CAPER) to report on the grantee's program accomplishments for each program year. The CAPER is to be submitted to HUD within ninety (90) days after the close of the grantee's program year.

Condition
As part of our audit procedures, we inspected the CAPER prepared by the City for the program year ended June 30, 2016. We observed that the CAPER was completed and submitted to HUD on October 11, 2016; the deadline to submit the CAPER to HUD was September 28, 2016, which is ninety (90) days after the program year-end.

Cause of the Condition
This condition was caused by inadequate internal controls regarding the identification, communication, and review of reporting deadlines for the grant program.

Effect or Possible Effect
The City is not in compliance with the reporting aspect of the Citizen Participation special provisions of the CDBG program. Potentially, if reporting requirements are consistently not met, HUD may reconsider providing the City with CDBG funding.

Questioned Costs
No questioned costs were identified ($0).

Context
Only one CAPER is filed each program year. As such, any late filing would be considered to be noncompliance with the program requirements.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to identify reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management Response and Corrective Action
The City (Housing and Career Services Department) will publish the required 15-day notice of a CAPER public hearing by September 1st to allow for public comment. The City will finalize and approve the CAPER prior to September 28th in order to meet the HUD submission deadline.

Finding 2016-009 – Procurement, Suspension, and Debarment
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.267
Program Title: Continuum of Care Program
Federal Award Numbers: CA0659L9D071407, CA1360L9D071400, CA0933L9D071405, CA1054L9D071404, CA0653L9D071401, CA0662L9D071205, and CA1363L9D071400
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the subrecipient files for the City's eight (8) subawards and noted that each one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and should correct this finding in future years' audits.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action
SAM clearance was pulled for the subrecipients following last year’s finding, which was after fiscal year 2016 Continuum of Care (CoC) contracting. As stated by the auditor, this issue will be resolved for future audits as a result of the steps put in place following last year’s Single Audit.

Finding 2016-010 – Procurement, Suspension, and Debarment
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 20.205
Program Title: Highway Planning and Construction
Federal Award Numbers: HP21L-5062(020)
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Transportation
Pass-Through Entity: State of California Department of Transportation

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for the construction contractor awarded the contract for the La Loma Bridge project the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the contractor agreement for the La Loma Bridge project and noted that it was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and should correct this finding in future years' audits.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action
The City agrees with this finding. The City started implementing the new RFP policy which required SAM clearance for subrecipients and contractors in the middle of fiscal year 2016. The City will enforce the RFP policy moving forward.

CITY OF PASADENA, CALIFORNIA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I - FINANCIAL STATEMENT FINDINGS

Finding 2015-001 – Depreciation for Capital Assets Placed in Service
Material Weakness

Condition and Criteria
Generally accepted accounting standards require that completed construction-in-progress assets be placed in service and properly depreciated according to the City's depreciation policy. During our audit, we noted that the City recognized construction-in-progress assets; however, failed to place those completed assets in service and properly recognize a corresponding depreciation expense to those assets.

Cause and Effect
Capital assets are being maintained on several excel spreadsheets, which, inherently increases the risk for error. As a result, the City erroneously understated capital assets by approximately three million dollars ($3 million); resulting in a restatement to the City's net position at June 30, 2015.

Recommendation
We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks, and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital assets balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action
The City staff identified this issue and agrees with this recommendation and has made the necessary corrections to the financial records. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated fixed asset module.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-002 – Accounting and Financial Reporting for Capital Assets
Material Weakness

Condition and Criteria
Generally accepted accounting standards require that capital assets are properly reported and/or disclosed in the City's financial statements, separately for governmental-type and business-type activities. During our audit, we noted that the City erroneously accounted for $6 million of business-type infrastructure assets in both the City's governmental-type activities and business-type activities. Thus, overstating governmental-type activities' capital assets and net position balance at June 30, 2014 by $6 million.

Cause and Effect
The city utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes of both governmental and business-type activities. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. As a result, capital assets and net position for governmental-type activities were restated by $6 million.

Finding 2015-002 – Accounting and Financial Reporting for Capital Assets (Continued)
Material Weakness

Recommendation
We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks, and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital assets balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. Additionally, the accounting of projects that cover both business-type and governmental-type activities will be separated to avoid this error in the future. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution wich includes an integrated fixed asset module.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-003 – Accounting for Successor Agency Assets
Material Weakness

Condition and Criteria
Generally accepted accounting standards require that capital assets are properly reported and/or disclosed in the City's financial statements, separately for governmental-type, business-type activities, and fiduciary assets. Upon dissolution of the former Pasadena Community Development Commission (PCDC), all assets, including property held for resale and capital assets owned by the former PCDC were to be transferred to the Successor Agency of the Former PCDC. During our audit, we noted that the City did not properly record assets that were transferred from the PCDC to the Successor Agency of the Former PCDC.

Cause and Effect
The City utilizes multiple excel spreadsheets to track and maintain capital assets balances for reporting purposes of both governmental and business-type activities. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. As a result, the City overstated governmental-type activities' capital assets and net position balance at June 30, 2014, and also restated the fiduciary net position of the Successor Agency of the Former PCDC.

Recommendation
We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks, and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital assets balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. As this was a one-time correction related to the dissolution of Redevelopment, this error will not occur again. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated fixed asset module.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-004 – Accounting for Land Held for Resale
Material Weakness

Condition and Criteria
In 2010, the City purchased land and building (YMCA) for $8.3 million with the intention of preserving its historic value to the City; and with no intentions of selling the asset. However, the City erroneously recorded the asset as property held for resale, in which under generally accepted accounting principles, requires the asset to be recorded on both the fund level balance sheet and the City's government-wide statement of net position.

Cause and Effect
Due to the fact that the City did not have any intention on selling the asset, the asset should have been properly classified as a depreciable asset. In addition, by recording the asset at the fund level as property held for resale, the City overstated its fund level assets, thus, improperly calculating its major funds determination under GASB Statement No. 34.

Recommendation
We recommend that the City include in its year-end closing process, procedures to ensure that land held for resale are recorded properly.

Management Response and Corrective Action
The City disagrees to the extent that the property was initially acquired with the intention of resale at a future time; however, the City agrees that once the determination was made not to sell the asset, the classification of the asset should have been changed. The reclassification has been made. The major fund determination was not changed by this correction. This City has added an item to its year-end checklist to review the recording and classification of land held for resale.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-005 – Land Held for Resale and Major Fund Determination
Material Weakness

Condition and Criteria
In the prior fiscal year, the City intended to reclassify land to land held for resale (2 condos on Mar Vista and 1 condo on N. Allen), in the amount of $530,000. As aforementioned, generally accepted accounting principles require that land held for resale be recorded on both the fund level balance sheet and the governmental statement of net position.

Cause and Effect
The City properly reclassified land to land held for resale on the governmental statement of net position; however, failed to record the assets at the fund level. Thus, the general fund balance was understated, and the City improperly calculated its major fund determination.

Recommendation
We recommend that the City include in its year-end closing process, procedures to ensure that land held for resale are recorded properly.

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. The major fund determination outcome was not changed by this correction. This City has added an item to its year-end checklist to review the recording and classification of land held for resale.

Finding 2015-005 – Land Held for Resale and Major Fund Determination (Continued)
Material Weakness

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-006 – Accounting for Land Purchase
Material Weakness

Condition and Criteria
In 1989, the City purchased land (Concord Senior Housing) in the amount of $1.4 million; since this time, the City has failed to record the land as an asset on the statement of net position as required under GASB Statement No. 34.

Cause and Effect
The City does not utilize a capital asset module to identify and track capital asset purchases. The City utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. As a result, the City understated net position by $1.5 million at June 30, 2014.

Recommendation
We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks, and administers assets that have been purchased and placed into service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes a fixed asset module.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-007 – Accounting for Construction-in-Progress
Material Weakness

Condition and Criteria
Generally accepted accounting standards requires that costs relating to projects be capitalized in the year in which they are incurred. During our audit procedures performed on capital assets, it was noted that the City had expenditures incurred in previous years that were not capitalized until the current year. We also noted instances in which costs were capitalized in previous years, but reclassified as repairs and maintenance in the current year as it was determined they should not have been capitalized initially.

Cause and Effect
The City utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. This results in assets not being correctly valued or depreciated and causes misstatements in net position due to items not being expensed as opposed to capitalized and vice versa.

Finding 2015-007 – Accounting for Construction-in-Progress (Continued)
Material Weakness

Recommendation
We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks, and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction-in-progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. The Finance Department will be working with the other departments to ensure they understand the importance of initially classifying assets correctly. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated fixed asset module.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-008 – Controls Surrounding the Recording of Capital Assets
Material Weakness

Condition and Criteria
It became apparent during our audit that a large majority of the City's capital assets and infrastructure are tracked manually using an excel spreadsheet. This process results in more opportunities for errors to occur, many revisions to the spreadsheet during the audit process, and is not an adequate method to track the large number of assets owned by the City.

Cause and Effect
Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. Therefore, multiple accounting errors related to capital assets were identified and restated net position.

Recommendation
We recommend that a capital asset tracking and management system be implemented to maintain the City's significant capital assets, and assist in tracking acquisition dates, relating useful lives, and depreciation.

Management Response and Corrective Action
The City agrees with this recommendation and implemented a new Enterprise Resource Planning system, Tyler Munis, on July 1, 2015. A fixed asset module is part of this system and all assets are being transitioned from excel spreadsheets to the Tyler Munis system.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-009 – Parking Cash Account
Material Weakness

Condition and Criteria
The City has a bank account that holds cash relating to parking revenues received. The account contains a cash balance but the City had recorded a receivable for the amount as opposed to recording the actual cash on hand.

Finding 2015-009 – Parking Cash Account (Continued)
Material Weakness

Cause and Effect
Due to the fact that the account was recorded as an accounts receivable account, the City did not properly reconcile the account to ensure that the cash balance was accurately being classified and presented. As a result, the City's total cash balance was understated and accounts receivable balance was overstated; in which, the City recorded a reclassifying journal entry.

Recommendation
It is recommended that all cash accounts are properly reconciled to the general ledger at each year-end.

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has added an item to its year-end checklist to review the reconciliation of Parking Cash to the general ledger.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-010 – Notes Receivable Balance with Former PCDC
Material Weakness

Condition and Criteria
The City had an advance recorded with the Successor Agency of the Former PCDC in the amount of $39 million representing an agreement between the City and the former PCDC that was denied as an enforceable obligation by the Department of Finance (DOF) during fiscal year 2013, and has continued to be denied through fiscal year 2015.

Cause and Effect
The advance should have been removed from both the City and the Successor Agency of the Former PCDC once it was denied. This resulted in a restatement of both governmental and fiduciary net position.

Recommendation
We recommend the City to remove this receivable from the books as an enforceable obligation to correct the error.

Management Response and Corrective Action
The City previously recorded this amount after receiving direction from the City's prior external audit firm and in consultation with legal counsel. Ultimately, this is a management decision based on expectations and evaluation of the probability of a favorable outcome to the City. While we continue to rank this with a positive probability of a favorable outcome, we acknowledge the auditor's advice that in the face of regulatory denial different accounting is recommended. This amount is still under appeal pending a court decision. The City has made the necessary accounting adjustments to reflect this change.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-011 – Accounting for Plan Check Fees
Material Weakness

Condition and Criteria
The City receives revenues for plan check fees relating to development projects ongoing. It was brought to our attention by management that these fees are paid for upfront prior to the projects commencing. Under GAAP accounting rules, the refundable portion should be considered unearned revenue until requirements have been met to consider the revenue earned.

Cause and Effect
A portion of plan check fees are considered refundable if the project is stopped or never completed. This resulted in a restatement of opening governmental fund balance.

Recommendation
We recommend the City include in its year-end closing process, procedures to ensure that unearned revenue from plan check fees are properly recorded and classified.

Management Response and Corrective Action
As stated, the City's management discovered this error and has made the correction. The City has added an item to its year-end checklist to adjust unearned revenues related to plan check fees.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-012 – Accounting for Underwriters Discount
Material Weakness

Condition and Criteria
During 2015, the City issued debt that resulted in an underwriters' discount of $325,000. Under governmental accounting, auditing, and financial reporting standards, an underwriters' discount is considered a use of current financial resources and thus recorded as an expenditure in the year it is incurred.

Cause and Effect
The City included this amount with bond issue discount to be amortized over the life of the debt. This resulted in an increase of governmental expenditures.

Recommendation
We recommend that the City reclassify this amount as an expenditure, and to develop procedure ensuring that discounts are properly recorded in governmental funds.

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has added an item to its year-end checklist to review the recording of discounts.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-013 – Capitalized Interest Expense
Material Weakness

Condition and Criteria
Under generally accepted accounting principles, governments frequently incur interest cost in connection with the acquisition, construction, and improvement of capital assets. As such, related interest expense should be capitalized as a part of the cost of that asset. The calculation of the amount of interest to be capitalized considers the amount of capital outlay incurred on qualifying assets.

Cause and Effect
During our review, we noted that the City was using a simplistic calculation to determine the amount of interest to capitalize. The City capitalized interest based on a percentage of bond proceeds drawn down, net of interest revenue. This is an incomplete method in determining the proper amount of interest to capitalize in accordance with GASB Statement No. 62. Therefore, interest expense and Construction in progress, was improperly stated for prior years.

Recommendation
We recommend that the City ensure all interest is capitalized in accordance with GASB Statement No. 62.

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-014 – Amortization of Premiums/Discounts
Material Weakness

Condition and Criteria
Under generally accepted accounting principles, the original issue premium or discount relating to the issuance of debt, is required to be amortized over the life of the debt.

Cause and Effect
It was discovered that the City had written off all premiums relating to business-type debt in 2013, thus improperly stating their business-type activities net position by roughly $12 million. This required an adjustment in the current year to restate their business-type net position by that same amount.

Recommendation
We recommend that the City ensure all premiums and discounts relating to long-term debt are being properly amortized over the life of the related debt.

Management Response and Corrective Action
The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has added an item to its year-end checklist to review and ensure that all premiums and discounts related to long-term debt are being properly amortized.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-015 – Verification of Goods Received/Services Performed
Material Weakness

Condition and Criteria
When items are purchased, there is no verification that goods have been received or services have been performed prior to submitting invoices for payments. Also, the vendor master file is not being updated timely with new vendors and information relating to those vendors such as addresses, bank information, etc.

Cause and Effect
These weaknesses could result in payments being made for services never performed, or payments not being received by vendors because the incorrect information is on file.

Recommendation
We recommend that the City develop procedures to ensure that vendor information is properly updated in the vendor master file. In addition, we recommend the City develop procedure to verify the receipt of goods or services prior to payment for goods or services.

Management Response and Corrective Action
The City agrees with this recommendation and made corrections to this process before the end of the 2014-2015 fiscal year. The vendor master file we reviewed as part of the implementation of the new Enterprise Resource Planning system, Tyler Munis, and will be reviewed at least annually as part of the 1099 issuance process.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-016 – Purchasing Controls
Material Weakness

Condition and Criteria
There were multiple instances during testing in which the purchase order date was after the invoice date.

Cause and Effect
The City changed ERP systems at the close of the fiscal year, and noted that there were numerous invoices received which required processing of payment that had not applicable purchase order in the system. In order to process payment, a purchase order had to be created after the service had already been performed and invoice had already been received.

Recommendation
We recommend the City to develop procedures (preferably automated procedures) to restrict vendor payments that do not have an approved and dated purchase order on file; therefore, ensuring that invoices are not paid without a vaild purchase order.

Management Response and Corrective Action
The City agrees with this recommendation and is working to correct this practice.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-017 – Recording of Expenditures/Expenses
Material Weakness

Condition and Criteria
There were a number of transactions that related to fiscal year 2014, but were recorded as expenditures during fiscal year 2015.

Cause and Effect
The City did not have in place an adequate year-end close and reconciliation process in place to ensure that expenses and expenditures are being properly reflected in the correct period. This resulted in budget schedules not properly reflecting actual activity during the fiscal period under generally accepted accounting principles.

Recommendation
We recommend that the City develop and implement year-end close procedures ensuring that expenditures/expenses are being recorded in the proper period.

Management Response and Corrective Action
The City agrees with this recommendation and is working to correct this practice.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-018 – Accounts Payable Accrual
Material Weakness

Condition and Criteria
Generally accepted accounting principles require that goods and services rendered during the fiscal year, that have not been paid, to be accrued as an accounts payable until paid.

Cause and Effect
During our test work, we noted approximately $600,000 in disbursements relating to services performed in fiscal year 2015, which were not properly accrued for as of June 30, 2015.

Recommendation
We recommend the City implement a better review process for invoices received after the close of the fiscal year to ensure that all items are properly accrued for.

Management Response and Corrective Action
The City agrees with this recommendation and is working to correct this practice.

Status of Prior Audit Finding
This finding is considered to be resolved.

Finding 2015-019 – Recordkeeping for Expenses and Expenditures
Material Weakness

Condition and Criteria
There were a number of transactions in which the supporting documentation to justify the transaction and its amount were inadequate. This included items that did not have invoices but just check requests or internal invoices prepared by the City but not third party invoices provided by the vendors. This also included support that appeared to be hand altered with numbers being crossed out and changed. We were unable to determine when the change was made or what it was made for.

Recommendation
We recommend that the City ensure each transaction has adequate documentation to support it, including mainly third party documentation, and ensure that if a change is needed to an invoice, the City utilize a change form or process to better track who is making the change and why it is being made.

Management Response and Corrective Action
The City agrees with this recommendation and began implementing changes prior to the close of the 2014-2015 fiscal year.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-020 – Purchasing Card Controls
Material Weakness

Condition and Criteria
The City purchasing manual states that purchases under $3,000 can use a p-card without additional authorization, given that the purchase does not qualify as a prohibited p-card transaction. We noted that in early fiscal year 2015, proof of authorization for transactions over the authorized amounts were not being properly tracked by the City, and minimal to no review of these transactions were being performed.

Recommendation
We recommend a thorough review is performed of transactions in excess of authorized amounts, and the proper approvals are obtained and recorded.

Management Response and Corrective Action
The City agrees with this recommendation. The entire purchasing card program was evaluated and re-implemented at the beginning of fiscal year 2016. As such, limits were reduced, the number of cards issued was reduced and user training with every card holder was conducted to ensure compliance with the policy.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-021 – Authorized Usage of Purchasing Cards
Material Weakness

Condition and Criteria
The City purchasing manual states that all p-card holders are required to have a signed p-card agreement on file, which typically occurs after the employee goes through the required p-card orientation in order to receive their card. We noted multiple instances in which no signed p-card agreement was on file for p-card holders actively using their cards.

Recommendation
We recommend that the City ensure all p-card holders go through the proper orientation and sign the required agreement prior to continued use of their p-cards.

Management Response and Corrective Action
The City agrees with this recommendation. The entire purchasing card program was evaluated and re-implemented at the beginning of fiscal year 2016. As such, limits were reduced, the number of cards issued was reduced and user training with every card holder was conducted to ensure compliance with the policy. During each user training, the user was required to sign the p-card agreement before taking possession of their new card.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-022 – Usage of Ghost Purchasing Cards
Material Weakness

Condition and Criteria
During 2015, the City had items called “Ghost Cards” that were considered p-cards. These did not represent actual p-cards, but rather agreements with excessive spending limits, often in excess of $750,000, with frequently used vendors to expedite the process of getting invoices paid. These transactions had minimal controls or review surrounding them. While these transactions did have supporting invoices, there were no purchase orders or contracts stipulating what was being purchased, for what quantity, and for what amount.

Recommendation
We recommend that the City cease all use of the “Ghost Cards” and following the purchasing policies put in place to acquire goods and services and to process payments.

Management Response and Corrective Action
The City agrees with this recommendation. All “Ghost Cards” have been eliminated and individual contracts and/or purchase orders have been issued with the respective vendors.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-023 – Usage of Emergency Purchasing Cards
Material Weakness

Condition and Criteria
During 2015, the City had multiple "Emergency Cards" issued that had no spending limits and were to be used in case of emergencies, most specifically relating to IT. A card with no spending limits opens the City up to additional risks in the event it is used improperly.

Recommendation
We recommend that the City either put a limit on these cards, or cease the use of these and update the proper procedures to follow in case of an IT emergency, and also specify in the purchasing manual what specifically is considered an IT emergency.

Management Response and Corrective Action
The City agrees with this recommendation. As of fiscal year, 2016, the City Manager, Assistant City Managers, and the Finance Director hold only emergency cards. Instead of allowing cards with no limits, the respective cards have regular spending limits in line with other card holders on a day-to-day basis, and the emergency spending limits may only be activated during an emergency by contacting the card issuer and answering security questions.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-024 – Capitalization of Fuel Inventory
Material Weakness

Condition and Criteria
As a result of our audit procedures relating to inventory, it was noted that the City failed to capitalize the costs of purchased fuel, prior to the actual usage of the fuel.

Recommendation
We recommend the City to develop year-end procedures to ensure that fuel inventory is properly capitalized when purchased, and properly expensed when used.

Management Response and Corrective Action
The City has corrected the item. As the City tanks are replenished frequently, the City chooses to expense the costs of purchased fuel during the fiscal year. In order to correctly record fuel inventory at year-end, the City will measure the fuel inventory at the fiscal year-end and make a year-end fuel inventory adjustment accordingly.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-025 – Financial Statement Close Process
Material Weakness

Condition and Criteria
As a result of our audit procedures, it became apparent that the overall financial statement close process for the City is inadequate in order to close the records in a timely fashion. The following items are instances of those inadequacies:

Bank reconciliations not being completed within six months of year-end
Closing journal entries still being prepared six months after year-end
Client-proposed restatements due to improper reconciliations during the year and in the past
The CAFR not being ready before December 31

Recommendation
We recommend that the City perform month-end close procedures no later than 30 days after the close of the previous month and include procedures such as the completion and management review of bank reconciliations, and review of manual journal entries. In addition, we recommend the City develop year-end closing procedures that ensure the timely completion and presentation of the CAFR within 6 months after the fiscal year-end.

Management Response and Corrective Action
The City agrees with this recommendation. This is the first year that the City has not produced its CAFR and related financial reports prior to December 31. The delay has been due to the implementation of the new Enterprise Resource Planning system and staff vacancies. The City will complete its reconciliations, journal entries and financial reports in a timely manner for fiscal year 2016.

Status of Prior Period Finding
This finding is not considered resolved and is repeated in fiscal year 2015-2016 as Finding 2016-001.

Finding 2015-026 – Outstanding Checks
Significant Deficiency

Condition and Criteria
As a result of our audit procedures, we noted that the City had checks on their outstanding check list that were, in certain instances, in excess of 3 years old.

Recommendation
We recommend that the City replenish their cash balance for these stale dated checks, and if plausible, recognize a liability for these stale dated checks.

Management Response and Corrective Action
The City agrees with this recommendation and will establish an annual escheatment process for outstanding checks.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-027 – Petty Cash
Significant Deficiency

Condition and Criteria
As a result of our audit procedures, it was noted that the City does not reconcile all petty cash accounts to the general ledger at year-end, and also that there is an excessive amount of petty cash on hand, in excess of $100,000.

Recommendation
We recommend that all petty cash balances are properly reconciled to the general ledger and that the City reduce the amount of petty cash on hand to a reasonable amount.

Management Response and Corrective Action
The City agrees with this recommendation and will reconcile all petty cash accounts at year-end. Additionally, the City will reduce or eliminate petty cash accounts for departments to reduce the overall exposure.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-028 – Vendor Master File Edit List
Significant Deficiency

Condition and Criteria
As a result of our audit procedures, it was noted that no independent review of the vendor master file or edit listing is being performed, and no review of annual purchase volume is being performed.

Recommendation
We recommend that the Finance Department periodically review the vendor listing, including any changes made to that listing, as well as review annual purchase amounts to vendors to ensure vendors are being paid proper amounts, and not unauthorized changes to the vendor listing are made that would result in fraudulent or inaccurate payments being made during the year.

Management Response and Corrective Action
The City agrees with this recommendation. The vendor master file and related purchase volume will be reviewed at least annually as part of the 1099 process. Additionally, the maintenance of the vendor master file has been transferred out of Accounts Payable to Purchasing. This transfer ensures that those individuals with the ability to issue a payment do not have access to modify vendor records.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-029 – Timecard Approval
Significant Deficiency

Condition and Criteria
As a result of our audit procedures, it was noted that there were certain instances in which employees at comparable levels were able to approve each other's timecards for specific pay periods.

Recommendation
We recommend that employees have specific approvers in positions above their level to ensure all time input is accurate and properly completed.

Finding 2015-029 – Timecard Approval (continued)
Significant Deficiency

Management Response and Corrective Action
The City agrees with this recommendation and the change has been implemented.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-030 – Acting Pay Employees
Significant Deficiency

Condition and Criteria
As a result of our audit procedures, it was noted that for acting pay employees (grade-scale increases), Human Resources does not possess an efficient way to ensure that employees are returned to their original rate of pay.

Recommendation
We recommend a procedure be developed to ensure that these employees are returned to their original rate of pay timely and efficiently.

Management Response and Corrective Action
The City agrees with this recommendation and is taking steps to ensure that employees are returned to their original rate of pay timely and efficiently. We anticipate a tracking system will be available in our new Enterprise Resource Planning system, Tyler Munis, which will assist in this effort.

Status of Prior Period Finding
This finding is considered to be resolved.

Finding 2015-031 – Compliance and Other Matters

Fraud Hotline
During the fiscal year under audit, we noted that the City's fraud hotline was directly handled by the City Controller. The City Controller had the direct and sole discretion to communicate issues, concerns, or fraudulent activity directly to Council. In addition, the City Controller was charged with following up and also communicating issues to the City Attorney directly. We recommend that the Fraud Hotline be handled by an individual independent of the Finance Department and any other Departments outside of the City Manager or City Attorney offices.

Employee Training
During our audit, we noted that employees had not been trained on how to communicate fraud or on the City's policies concerning fraud, ethics, and conflicts of interest. We recommend the City to periodically and consistently train employees on these policies.

Debt Covenant Requirements
The City failed to meet debt covenant reporting requirements for the fiscal year ended June 30, 2015. We recommend that the City, as a part of its monthly close process, perform a test of its debt covenant requirements to determine if the City is in compliance. In regards to reporting, we recommend the City to complete its financial statements and financial statement audits within the covenant reporting requirements.

Finding 2015-031 – Compliance and Other Matters (Continued)

Management Response and Corrective Action

Fraud Hotline

Due to budget constraints, the City's Internal Auditor was laid off. In the absence of an Internal Auditor, the Controller was directed to implement and maintain the City's fraud hotline. The online reporting portal automatically notified the City Attorney, Assistant City Manager, Director of Finance, Human Resources Director, and the Controller. Voicemail reports were sent solely to the Controller, who then forwarded the reports to the City Attorney, Assistant City Manager, Director of Finance, and Human Resources Director. Upon hiring and Internal Audit Manager, all fraud hotline activities were promptly transferred to the Internal Audit Manager.

Employee Training

The Human Resources Department has developed a three-step process for training on City ethics and means of reporting fraud, waste, or abuse. All employees were required to complete online training. The Senior Management Group received comprehensive training, materials were provided to each Department to discuss in their staff meetings. Included in the City's fiscal year 2017 training schedule are four sessions which will be conducted by an attorney.

Debt Covenant Requirements

Due to staff turnover and implementation of the new Enterprise Resource Planning software, year-end closing and Comprehensive Annual Financial Report was delayed. On December 17, 2015, the City of Pasadena filed a "Municipal Secondary Market Disclosure Information Notice of Expected Failure to File" to the Municipal Securities Rulemaking Board (MSRB) EMMA system through the City's disseminating agent, Digital Assurance Certification (DAC). The Notice specifically stated that the City's CAFR will not be released by the due date as specified in the Annual Continuing Disclosure Reports, but instead, will be filed by the end of February 2016. The City will complete is debt covenant reporting requirements in a timely manner for fiscal year 2016.

Status of Prior Period Finding

Fraud Hotline

This finding is considered to be resolved.

Employee Training

This finding is considered to be resolved.

Debt Covenant Requirements

This finding is considered to be resolved.

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2015-032 – Procurement, Suspension, and Debarment
Noncompliance

Federal Program
CFDA Number: 14.218
Title: Community Development Block Grants/Entitlement Grants
Federal Grantor: U.S. Department of Housing and Urban Development
Grant Number: N/A

Criteria
The March 2014 OMB Circular A-133 Compliance Supplement says to select a sample of procurements and verify compliance with other procurement requirements specific to an award.

Condition
During our audit of the procurement, suspension, and debarment of the subrecipients and contractors, we noted that there was not process in performing the System for Award Management (SAM) checks.

Effect
The City is not in compliance.

Recommendation
We recommend the City implement procedures to perform System for Award Management (SAM) checks to ensure that subrecipients and contractors are not suspended or debarred from working on federally-funded projects.

Management Response and Corrective Action
This recommendation has been implemented. To prevent future occurrences, the City has revised its CDBG Request for Proposals (RFP) to include, as a part of required supporting documentation, a clearance printout from the System of Award Management (SAM) to be included in submission of proposals for all eligible CDBG projects.

Status of Prior Period Finding
This finding is not considered resolved and is repeated in fiscal year 2015-2016 as Finding 2016-005.

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CPAs AND ADVISORS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

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

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

Prepared by:

CHRIS MILLER, INTERIM EXECUTIVE DIRECTOR

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

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pasadena Community Access Corporation
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Pasadena Community Access Corporation (the Corporation), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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CPAs AND ADVISORS

To the Board of Directors
Pasadena Community Access Corporation
Pasadena, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pasadena Community Access Corporation as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Prior Year Comparative Information

The financial statements include (partial or summarized) prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2015, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2017, on our consideration of the Corporation'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Brea California
February 28, 2017

PASADENA COMMUNITY ACCESS CORPORATION
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, 2016. Please read it in conjunction with the Corporation's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

• The Corporation's net position for the fiscal year ending June 30, 2016, was $275,606, a decrease of $56,003 or 16.9%.

• During the year, the Corporation had operating expenses that were $77,860 more than the $1,016,613 generated from the operating agreement, service contracts, and other revenues from the Corporation's programs from the fiscal year ended June 30, 2016. This compares to last year, when operating expenses exceeded revenues by $58,163.

• Total cost of all of the Corporation's programs was $1,094,473. The programmatic activities of the Corporation remained unchanged.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position (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. There were no non-cash entries during the year.

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 Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 position* and changes in them. You can think of the Corporation's net position—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 position 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 position decreased from a year ago, from $331,609 to $275,606. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Corporation's activities.

Table 1

	June 30, 2016	June 30, 2015
Current assets	$520,413	$498,863
Capital assets, net	144,609	178,104
Total assets	665,022	676,967
Current Liabilities	(389,416)	(345,358)
Net position:		
Net investment in capital assets	144,609	178,104
Unrestricted	130,997	153,505
Total net position	$275,606	$331,609

Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debts, contribution restrictions, or other legal requirements—changed from $153,505 at June 30, 2015, to $130,997 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 position to finance continuing operations in the coming fiscal year.

Table 2

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015	Percentage Change From 2015
Revenues			
Operating revenues:			
Operating Agreement	$960,000	$849,000	13.1%
Service contracts	18,000	28,000	-35.7%
Production and other operating revenue	38,613	58,594	-34.1%
Total operating revenues	1,016,613	935,594	8.7%
Nonoperating revenues:			
Public, education, and gov't (PEG) revenue	55,415	187,793	-70.5%
Interest income	67	22	204.5%
Total nonoperating revenues	55,482	187,815	-70.5%
Total revenues	1,072,095	1,123,409	-4.6%
Operating expenses:			
Salaries and benefits	703,699	724,726	-2.9%
Production expense	11,141	2,920	281.5%
Occupancy expense	215,830	157,019	37.5%
Contractual services	35,400	15,797	124.1%
General and administrative	73,118	44,478	64.4%
Depreciation	55,285	48,817	13.2%
Total operating expenses	1,094,473	993,757	10.1%
Nonoperating expenses:			
PEG expense	33,625	119,083	-71.8%
Total expenses	1,128,098	1,112,840	1.4%
Net Income (loss)	(56,003)	10,569	-629.9%
Net position at beginning of year	331,609	321,040	3.3%
Net position at end of year	$275,606	$331,609	-16.9%

Although the Corporation's total cost of programs and services had a net increase of 1.4% ($15,258), a closer look shows that Operating expenditures increased 10.1% ($100,716), while PEG expenditures decreased 71.8% ($85,458). The Corporation's revenues decreased by a net 4.6% ($51,314), resulting from a combination of increased Operating revenues offset by reduced deferred revenue recognition in Nonoperating revenue.

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.

The Corporation's adopted operating budget was $1,009,000 for the fiscal year ended June 30, 2016. Actual operating revenues were $7,613 more than budget, and operating expenses exceeded budget by $85,473. The Corporation's expenditures were higher due to depreciation and legal fees.

CAPITAL ASSETS

At the end of 2016, the Corporation had $144,609 invested in production equipment, net of accumulated depreciation. (See Table 3 below.) This amount represents a net decrease (including additions and disposals) of $33,495 or 18.8% over last year.

Table 3

	June 30, 2016	June 30, 2015
Production equipment	$284,864	$263,074
Accumulated depreciation	(140,255)	(84,970)
Property and equipment, net	$144,609	$178,104

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 2017 budget. The major expense budget increase was the planned 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 150 S. Los Robles Avenue, Suite 101, Pasadena, California, 91101. Our main office number is 626-794-8585 and our email is info@pasadenamedia.org.

PASADENA COMMUNITY ACCESS CORPORATION

STATEMENT OF NET POSITION
JUNE 30, 2016 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	2016	2015
Assets		
Current:		
Cash and cash equivalents (Note 2)	$ 471,467	$ 376,424
Receivables:		
Accounts	1,325	119,042
Prepaid assets	47,621	3,397
Total Current Assets	**520,413**	**498,863**
Noncurrent:		
Capital assets, net of accumulated depreciation (Note 3)	144,609	178,104
Total Noncurrent Assets	**144,609**	**178,104**
Total Assets	**665,022**	**676,967**
Liabilities		
Current:		
Accounts payable and other liabilities	-	2,009
Related party payables (Note 12)	44,000	-
Advances from other agencies (Note 7)	301,493	298,908
Accrued salaries and benefits	30,156	29,066
Compensated absences (Note 9)	13,767	15,375
Total Current Liabilities	**389,416**	**345,358**
Total Liabilities	**389,416**	**345,358**
Net Position		
Net investment in capital assets	144,609	178,104
Unrestricted	130,997	153,505
Total Net Position	**$ 275,606**	**$ 331,609**

The accompanying notes are an integral part of these financial statements.

PASADENA COMMUNITY ACCESS CORPORATION

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015)**

	2016	2015
Operating Revenues		
Operating agreement	$ 960,000	$ 849,000
Service contracts	18,000	28,000
Production and other operating revenue	38,613	58,594
Total Operating Revenues	**1,016,613**	**935,594**
Operating Expenses		
Salaries and benefits	703,699	724,726
Production expense	11,141	2,920
Occupancy expense	215,830	157,019
Contractual services	35,400	15,797
General and administrative	73,118	44,478
Depreciation expense	55,285	48,817
Total Operating Expenses	**1,094,473**	**993,757**
Operating Loss	(77,860)	(58,163)
Nonoperating Revenues (Expenses)		
Public, education, and government (PEG) revenue	55,415	187,793
PEG expense	(33,625)	(119,083)
Investment income	67	22
Total Nonoperating Revenues (Expenses)	**21,857**	**68,732**
Changes in Net Position	(56,003)	10,569
Net Position		
Beginning of Year	331,609	321,040
End of Year	**$ 275,606**	**$ 331,609**

The accompanying notes are an integral part of these financial statements.

PASADENA COMMUNITY ACCESS CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016 (WITH COMPARATIVE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	$ 38,613	$ 58,594
Cash received from contracts	1,095,717	985,425
Cash paid to employees for services	(704,217)	(729,184)
Cash paid to suppliers for goods and services	(337,722)	(225,567)
Net Cash Provided by Operating Activities	**92,391**	**89,268**
Cash Flows from Capital and Related Financing Activities		
Capital grants received	58,000	230,000
PEG eligible expenses paid	(33,625)	(119,083)
Acquisition of capital assets	(21,790)	(23,277)
Acquisition of capital assets for other agencies	-	(45,433)
Net Cash Provided by Capital and Related Financing Activities	**2,585**	**42,207**
Cash Flows from Investing Activities:		
Investment income	67	22
Net Cash Provided by Investing Activities	**67**	**22**
Net Increase in Cash and Cash Equivalents	**95,043**	**131,497**
Cash and Cash Equivalents at Beginning of Year	376,424	244,927
Cash and Cash Equivalents at End of Year	**$ 471,467**	**$ 376,424**
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating Loss	$ (77,860)	$ (58,163)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	55,285	48,817
Decrease in accounts receivable	117,717	108,425
Increase in prepaid assets	(44,224)	(182)
Increase (decrease) in accounts payable and accrued expenses	41,473	(9,629)
Total Adjustments	**170,251**	**147,431**
Net Cash Provided by Operating Activities	**$ 92,391**	**$ 89,268**

The accompanying notes are an integral part of these financial statements.

Note 1: Organization and Summary of Significant Accounting Policies

a. Reporting Entity

The Pasadena Community Access Corporation (the Corporation) was organized in 1983 as a nonprofit, telecommunications resource for the City of Pasadena, California (the City). The Corporation 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 Corporation should be reported as a discretely presented component unit of the City in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Board of Directors consists of eleven members with representatives from each of the seven City Council Districts, the Mayor, the City Manager, Pasadena Community College (PCC), and Pasadena Unified School District (PUSD). Residency is required except for the City Manager, PCC, and PUSD representatives. 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 the Corporation include direct revenues and expenses and certain allocations from the City.

b. Basis of Presentation

The Corporation's basic financial statements are presented in conformance with Governmental Accounting Standards Board (GASB) Statement No. 34, which established standards for external financial reporting for all state and local governmental entities. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

c. Basis of Accounting

The Corporation 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. The Corporation utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

d. Classification of Revenues and Expenses

The Corporation classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, nonoperating revenues, and nonoperating expenses.

Operating revenues consist of charges to customers for sales and use of the facilities, with the relating costs considered operating expenses. Nonoperating revenues consist of investment earnings and other nonoperating income.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

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. Prepaid Assets

Certain payments to vendors, which reflect costs applicable to future accounting periods and are recorded as prepaid assets.

g. Capital Assets

The Corporation capitalizes capital assets having an estimated useful life in excess of one year and acquisition cost of at least $5,000. Capital assets, which include production equipment 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.

The estimated useful lives of the assets are as follows:

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

h. Compensated Absences

Regular full-time and part-time employees accrue vacation. Vacation time is accrued two to four weeks per year, depending on how long an employee has been with the Corporation. Part-time employees who work 20 hours per week or more are eligible to accrue vacation on a pro rata basis. It is the Corporation's policy to permit employees to accumulate earned by unused vacation benefits from year to year up to a maximum of two times a full-time employee's annual vacation amount.

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

i. Net Position

Net position represents the difference between assets and liabilities on the Statement of Net Position. Net positions were classified in the following categories: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of the cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, as applicable.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the Corporation's Board of Directors, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

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

j. 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.

k. Comparative Data

The amounts shown for the year ended June 30, 2015, in the accompanying financial statements are included to provide a basis for comparison with 2016 and present summarized totals only. Accordingly, the 2015 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Note 2: Cash and Cash Equivalents

a. Summary of Cash and Cash Equivalents

As of June 30, 2016, cash and cash equivalents were reported in the accompanying financial statements:

Cash on hand	$	200
Deposits with financial institutions		471,267
Total cash and cash equivalents	$	471,467

b. Deposits

At June 30, 2016, the carrying amount of the Corporation's deposits was $471,467 and the bank balance was $501,256. The $29,789 difference represents outstanding checks and other reconciling items. All of the Corporation's cash and cash equivalents as of June 30, 2016 were collateralized or insured with securities held by pledging financial institutions in the Corporation's name.

Note 2: Cash and Cash Equivalents (Continued)

c. 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 fair 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 the Corporation's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

d. Investments Authorized by the California Government Code

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

Investment Types Authorized by the California Government Code	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
Bankers' 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
Joint Power Agency Pools (other investment pools)	Yes	N/A	None	None

e. 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 the Corporation 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. The Corporation held no investments as of the year ended June 30, 2016.

Note 2: Cash and Cash Equivalents (Continued)

f. 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. The Corporation held no investments as of the year ended June 30, 2016.

g. Concentration of Credit Risk

In accordance with GASB Statement No. 40 requirements, the Corporation is considered to be exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. Investments guaranteed by the U.S. Government and investments in mutual funds and external investment pools are excluded from this requirement. The Corporation held no investments as of the fiscal year ended June 30, 2016.

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance at June 30, 2015	Additions	Dispositions	Balance at June 30, 2016
Capital assets being depreciated:				
Production Equipment	$ 263,074	$ 21,790	$ -	$ 284,864
Less accumulated depreciation for:				
Production Equipment	(84,970)	(55,285)	-	(140,255)
Total capital assets being depreciated, net	$ 178,104	$ (33,495)	$ -	$ 144,609

Depreciation expense for the year ended June 30, 2016, was $55,285.

Note 4: Defined Contribution Pension Plan

Effective January 1, 2004, the Corporation 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 the Corporation 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 the Corporation may choose to make a matching contribution to the Plan, for the employees who are contributing to the Plan. In addition, the Corporation may choose to make an additional contribution to the Plan of 2% of compensation for eligible employees. These discretionary contributions are not required. The Corporation and employee contributions are fully vested immediately upon contribution to the Plan.

The Corporation did not contribute to the Plan for the year ended June 30, 2016.

Note 5: Operating Lease

The Corporation leases office and production facilities in Pasadena, California, under an operating lease agreement. The lease term is through 2020. The Corporation is obligated to pay utilities, property taxes, insurance, and normal repairs and maintenance for the space that the Corporation occupies.

The minimum annual lease payments due during the term of the lease are as follows:

Year Ending December 31,	Amount
2017	$ 191,316
2018	142,490
2019	146,035
Total	$ 479,841

Total rent expense for the year ended June 30, 2016 was approximately $174,288.

Note 6: Other Provisions of Revenue and Contracts

a. 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, the Corporation 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.

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.

b. Management and Operating Agreement

On February 10, 2015, the Corporation entered into an agreement with the City to provide operation and day-to-day management of the local PEG access system, for a period of twenty-five (25) years, commencing as of the date of the Agreement, and ending July 1, 2040.

c. 1% Public, Education, and Government (PEG) Allocation

Pursuant to Pasadena Municipal Code 18.04.060, it was established that a fee would be paid to the City for the support of public, educational, and governmental access facilities and activities within the City. The Pasadena Municipal Code states that this fee shall be one percent (1%) of a cable provider's gross revenues, as defined in California Public Utilities Code Section 5860.

Note 6: Other Provisions of Revenue and Contracts (Continued)

The Corporation serves as a receiving, holding, and disbursing entity for monies intended to promote noncommercial uses of the cable telecommunication medium. These funds are allocated as grants solely for PEG related purposes.

During the 2015-2016 fiscal year, the Corporation received $58,000 in PEG funding, while spending $55,415 on eligible PEG capital expenses, including the purchase of capital assets.

As shown in Note 7, cumulative unspent PEG funding of $301,493 has been classified as advances from other agencies within these financial statements.

d. Other Contracts

The Corporation earns additional service contract revenue by providing various production services to Los Angeles County for Altadena Town Council Meetings.

Note 7: Advances from other Agencies

As discussed in Note 6, the Corporation received $58,000 of PEG funding during the year ended June 30, 2016. Any PEG funds that have not been spent on approved capital expenditures will be deferred until earned. These unearned amounts are classified as advances from other agencies within these financial statements.

As of June 30, 2016, advances from other agencies were as follows:

Beginning advances from other agencies	$	298,908
PEG Grant:		
PEG revenue received		58,000
PEG Capital Equipment Expenses		(55,415)
PEG eligible disbursements		(55,415)
PEG subtotal		2,585
Ending advances from other agencies	$	301,493

Note 8: Concentrations of Revenue

For the year ended June 30, 2016, income from the Operating Agreement accounted for 90% of total revenue.

Note 9: Compensated Absences

Changes in compensated absences as of June 30, 2016, were as follows:

Balance at June 30, 2015	Incurred	Satisfied	Balance at June 30, 2016	Amount Due Within One Year	Amount Due in More than One Year
$ 15,375	$ 14,317	$ (15,925)	$ 13,767	$ 13,767	$ -

Note 10: Risk Management

The Corporation is covered under Special Liability, Property and Participant Accident policies through Alliant Insurance Services, Inc. Liability and Participant Accident claims are insured for up to $1,000,000 per occurrence for any amount over the Corporation's deductible amount of $1,000. Property claims are insured for up to $25,000,000 per occurrence for any amount over the Corporation's deductible amount of $1,000.

Workers' Compensation claims are covered under a purchased policy through Hartford Accident and Indemnity Company for claims up to $1,000,000 for each occurrence for any amount over the Corporation's deductible amount of $1,000.

Note 11: Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

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, the Corporation 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 the Corporation 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, 2016.

The Corporation files forms 990 in the U.S. federal jurisdiction and the State of California.

Note 12: Related Party Transactions

The City of Pasadena (the City) bills the Corporation for advances and services rendered on the Corporation's behalf. Advances and services provided to the Corporation for the years ended June 30, 2016 and 2015, were $54,000 and $-0-, respectively. The amount payable to the City as of June 30, 2016 and 2015, was $44,000 and $-0-, respectively. These costs are expected to be paid back in full by the Corporation to the City.

Note 13: Office Lease

The Company leases its offices at 150 South Los Robles Avenue, Suite 101 and Suite 450, Pasadena, California, from Pasadena Tri City Ventures (the Landlord). The lease for Suite 101 is for 78 months commencing May 1, 2013 and expiring on October 31, 2019. The lease for Suite 450 is for 26 months commencing March 1, 2015 and expiring May 31, 2017. Notice must be given by the Company to the Landlord 90 days prior to the end of the term to exercise the renewal option. The current combined monthly rent is $16,291.

Note 13: Office Lease (Continued)

The combined, future minimum annual lease payments due during the term of the leases are as follows:

Year Ending June 30,	Amount
2017	$ 191,316
2018	142,490
2019	146,035
Total	$ 479,841

Note 14: Subsequent Events

The Corporation has evaluated subsequent events through February 28, 2017, the date on which the financial statements were available to be issued.

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CPAs AND ADVISORS

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*

To the Board of Directors
Pasadena Community Access Corporation
City of Pasadena, California

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Pasadena Community Access Corporation, (the Corporation) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated February 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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*.

PrimeGlobal
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CPAs AND ADVISORS

To the Board of Directors
Pasadena Community Access Corporation
City of Pasadena, California

Purpose of this Report

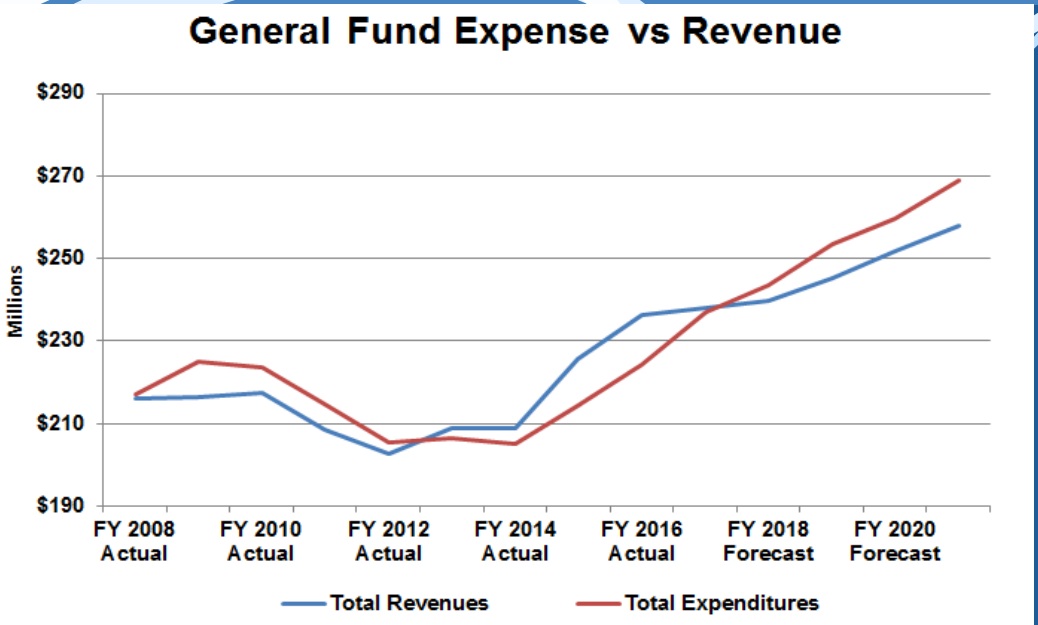
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
February 28, 2017

Fiscal Year 2017
General Fund Update

March 13, 2017



The Fiscal Year (July 1, 2016-June 30, 2017) has been mixed from a revenue standpoint mirroring in some aspects the uncertain economic state of the nation's economy. Since the presidential election, the national and global economy have become increasingly unstable and are projected to remain so for the near future. Additionally, in January 2017 the CalPERS Board took action to lower the discount rate (expected rate of investment returns) from 7.5% to 7.0% over a three year period. In doing so, the City's Unfunded Accrued Liability (UAL) is expected to increase by as much as $100 million. The most current report had a UAL of $388 million.

General Fund Revenue Analysis

Property Tax: Property Tax continues to represent the City's largest single revenue source for the General Fund and will likely continue to do so unless statewide tax reforms are enacted in the future. The bulk of property taxes are received in December and April of each year. The FY 17 Budget represents an increase of 8 percent over the FY 16 Budget, which equates to $4.0 million. This increase was larger than most other revenue sources but is realistic and perhaps conservative in light of the continued economic development and increasing property values in the City. Through December, Secured Property Tax Revenues totaled $18.87 million. The property tax amounts for annual property tax payments are coming slightly above those forecasted in the original budget. The City is also expecting an additional one-time payment related to the redevelopment unwinding of SB 481 of approximately $8.4 million during the fiscal year. This unwinding was related to a lawsuit the City filed against the State of California to receive approximately $40 million in property tax allocation of the former Redevelopment Agency provided under SB 481 . The City was unsuccessful in its lawsuit, and this money represents the City's General Fund property tax allocation (21 percent) of the funds in question. These funds were not included in the operating budget. In total, projections show an increase over budget of approximately $9.0 million related to one-time revenues and incremental growth.

Sales Tax: The budget for FY 17 included a 4.3 percent increase in sales tax over FY 16 for a total sales tax budget of $35.47 million. Sales tax is accrued and paid with a 60-day accrual, meaning that the July and August payments are accrued to the previous fiscal year. Therefore, despite being seven months into the fiscal year, the City has recognized only four months of sales tax revenue. Through December, sales tax revenue is at $8.5 million. This is below the budget estimates. As noted in the quarterly sales tax updates many of the previously strong sales tax categories for the City have been flat or down for the first half of the fiscal year. If this trend continues, sales could be as much as $1.0 million short of estimates by the end of the fiscal year.

General Fund Revenue Summary

In general, the health of General Fund revenues for FY 17 remains guarded. Based upon all of the data provided of key revenue sources, without the one-time property tax payment of $8.4 million, revenues are tracking to meet the budgeted estimates. A cautionary note to this figure is that the general economic market nationwide and globally has become increasingly volatile in the past few months. While many economic indicators are still strong, the City must remain cautious in its projections. A continued downturn in retail sales or something to deter tourism or development could have a negative impact on the General Fund's revenue strength.

Revenues Continued...

Transient Occupancy Tax: The City charges a Transient Occupancy Tax (TOT) on the nightly rate of a hotel stay. A significant portion of TOT is remitted to the Pasadena Center Operating Company (Convention Center) to cover debt service related to the site; however, in 2016 the City renegotiated the tax sharing agreement to limit the amount that could be transferred. This new agreement will be critical to the health of the General Fund as new hotels are constructed or if AirBNB becomes permitted. Included in the budget is an anticipated increase of 4.4 percent over the FY 16 budget and a cumulative increase over the past two years of more than 12 percent. This equates to an increase of approximately $1.5 million over the two-year span. Through December, total TOT revenues are up 11.0 percent or $795,000. Some of this growth is from the Residence Inn opening in 2016, but the growth also reflects the continuation of high average daily room rates and occupancy levels.

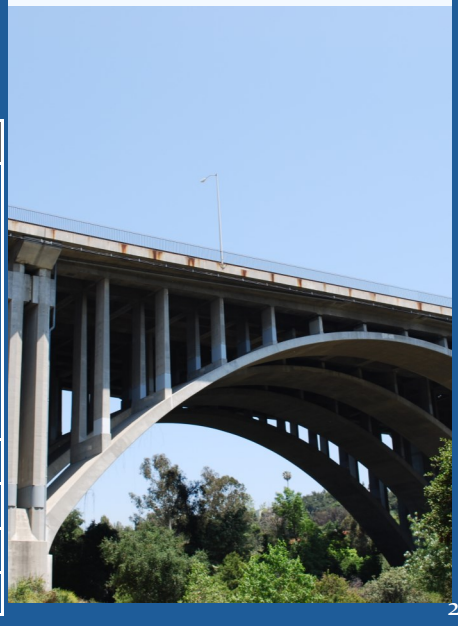
Utility Users Tax: The Utility Users Tax (UUT) is a fee charged on utilities provided within the City. The chart below reflects the current UUT rates in Pasadena. UUT revenues as a whole are declining due to a number of factors. Reduced UUT related to electricity and water are a direct result of conservation and consumption declines. Telephone based UUT is also down as a whole due to the continued shift away from having home telephone landlines, bundled service packages, lower costs, and less than anticipated prepaid cell-phone usage. For FY 17, the City's budget was essentially the same overall from FY 16. Through December, all categories but water are down in comparison to FY 16 actuals and there is nothing economically that would suggest the decline may stop. If the downward trend continues, it is likely that UUT will come in $1 million below the budgeted estimate.

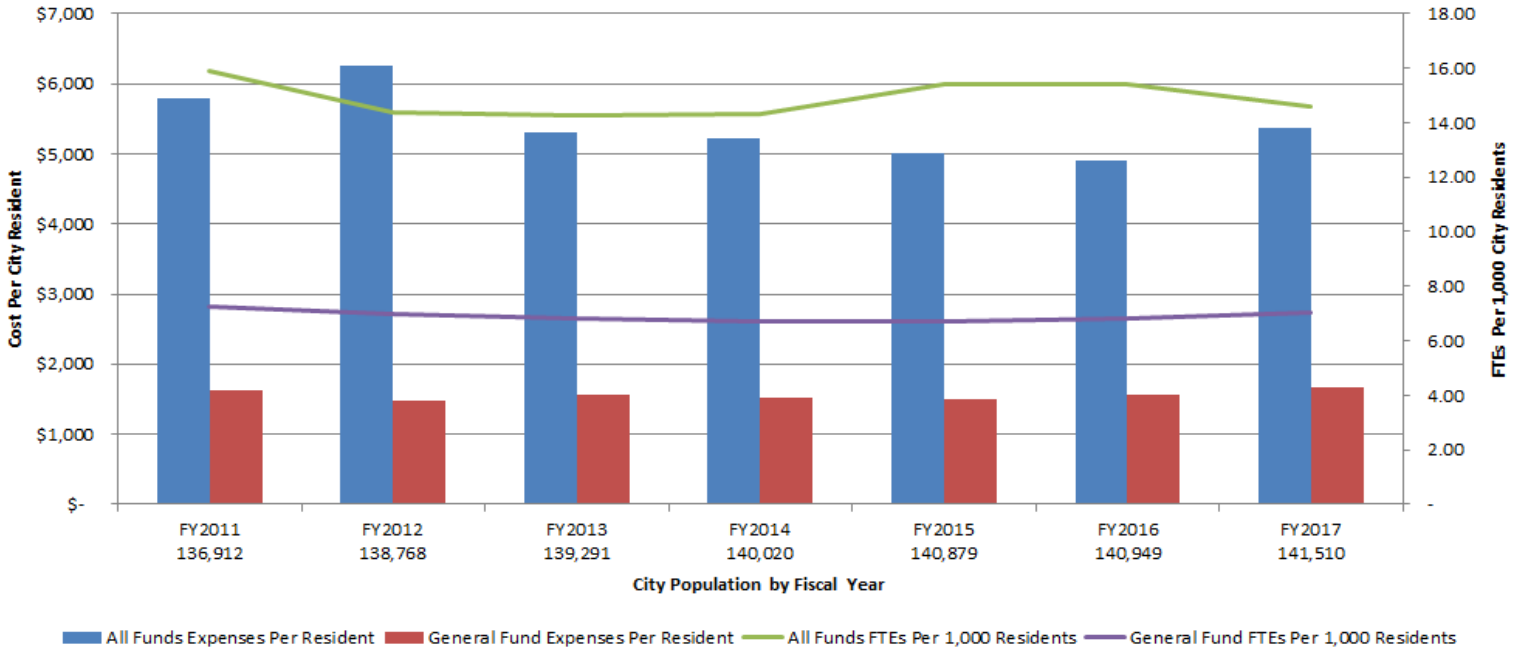
Franchise Fees: The City receives franchise fee payments from non-city provided utilities and waste haulers with operations in the City. Franchise fees had been declining over the years due to the bundling or elimination of landline telephone service along with the reduced usage of traditional cable television, and the FY 17 budget included a 3.3 percent decline as a result. Actual payments through December are 1.45 percent down in comparison to FY 16, which is slightly better than the anticipated decline. This minor improvement is mainly related to improved revenue related to natural gas. If the trend continues, franchise fees should finish the fiscal year slightly above budgeted estimates.

UTILITIES SUBJECT TO TAX	
Telecommunications (see ordinance definitions) Includes wired and wireless telecommunications (prepaid and postpaid); intrastate, interstate and international services; ancillary services; conferencing services; VoIP; text messages; and private communication services	8.28%
Prepaid wireless (per Rev & Tax Code 42100 et seq.) effective 1/1/2016	7.5%
Electricity	7.67%
Gas	7.9%
Video (including CATV, IP-TV, and similar offerings of video programming)	9.4%
Water	7.67%

What is the General Fund ?

The General Fund is the primary operating fund of the City and is supported by a large variety of revenue sources including taxes, license fees, permit fees, charges for services, fines, forfeitures, investment earnings, rental income and a variety of other miscellaneous sources. Through these revenues the General Fund supports *Public Safety* (Police and Fire), *Public Works*, *Community Services* (Libraries, Housing, Human Services and Recreation, Planning and Community Development, and Transportation), *Administration* (City Manager's Office, City Attorney, City Clerk, Finance, and Human Resources), *Non-Departmental* (Transfers to the Pasadena Community Operating Corporation and Pasadena Community Access Corporation) and Debt Service.





The chart above depicts total expenditures and General Fund expenditures on a per capita basis. The red columns, depicting General Fund expenditures per capita, have been remarkably flat over the past seven years despite the growing need for more services. Unless new revenues are identified through City Council approved fees or voter approved taxes, the revenue per capital will likely stay relatively flat.

Overnight Parking Permits: The City's revenue related to overnight parking permits continues to increase year over year. Actual receipts through December have exceeded $900,000, which is $100,000 more than FY 16. If this trend continues, actual receipts for this should total at least $1.6 million for FY 17, which is $300,000 more than the current budget.

Motor Vehicle License Fee: The City receives property tax payments in lieu of the former payments directly from Motor Vehicle License Fees. These payments are distributed in January and May of each year. This revenue source has shown positive growth over many years and the City included a projected 4 percent increase in FY 17 over FY 16 actuals. Upon receipt of the payment in January, the actuals for FY 16 will exceed the budget by $100,000 or 4.9 percent more than FY 16 actuals.

Contribution from Light & Power Fund: The contribution from Light & Power, generally referred to as the Power Fund Transfer, has been set at 10 percent for the past several years. When the FY 17 budget was developed it was projected that this transfer would be $17.9 million. Once the FY 16 year was closed, it was determined that the revenue to the Light & Power Fund was less than projected and will result in a transfer of only $17.37 million. This will result in a $564,900 shortfall for FY 17.

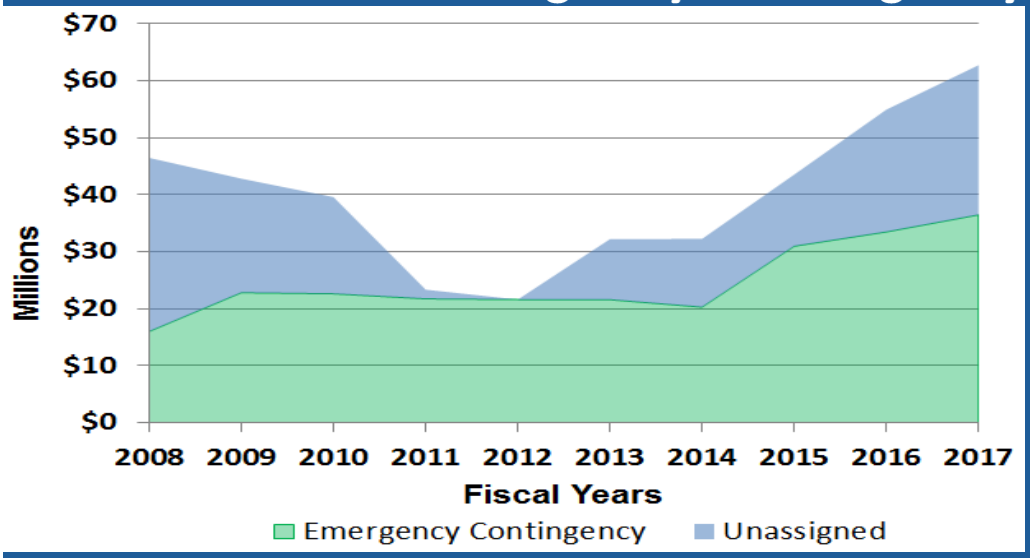
Parking Citations: Parking citation related revenue is an area that we have traditionally budgeted fairly conservatively. As a result, parking citations through December are $3.17 million. This is slightly higher than FY 16 and if consistent, will result in additional revenue of approximately $400,000 in FY 17. With the projected deficit leading in to the development of the FY 18 budget, this is a revenue that will be budgeted a little more aggressively to reflect the three year average of revenues.

General Fund Projection (in millions)

Adopted General Fund Revenues	$237.8
Budget Adjustments	0.2
Analysis Projected Increase*	8.4
Projected General Fund Revenues	$246.4
Adopted General Fund Expenditures	$237.8
Budget Adjustments	(0.9)
Projected General Fund Expenditures	$236.9

*This projected increase is due to the one-time property tax allocation.

General Fund Emergency Contingency



General Fund Emergency Contingency

The City continues to be aggressively pursing the goal of setting aside 20 percent of operating expenditures as an emergency contingency reserve. In December 2016 the City Council took action to add an additional $3 million from fund balance to this reserve which only increased the total reserve by one-tenth of a percent to 15.3 percent due to the increase in operating expenditures. The positive point to this as that once the City receives its anticipated $8.4 million in one-time property tax dollars as outlined on page 1 of this document, the City Council could increase the reserve to more than 18 percent if these funds are designated for the emergency contingency reserve.

General Fund Expenditures Analysis

Salaries and Benefits

Through the fifteenth payroll of the fiscal year (January 22, 2017), the General Fund has expended $84.5 million. Projecting this figure over the annual 26 pay period pay cycle for the fiscal year brings estimated payroll costs to $146.4 million. The total General Fund budget related to salaries and benefits is $148.9 million. With the understanding that is a big picture view and that some departments are currently projected to spend their full budget allocation, General Fund payroll costs are likely to increase due to continued onboarding of new staff to fill vacancies and some one-time pays that occur before the end of the fiscal year, the projected $2.5 million buffer provides for reasonable adjustments within the adopted budget during the fiscal year.

Services and Supplies

Projecting services and supplies over the fiscal year typically proves to be more difficult as large, one-time costs such as insurance premium payments can make generic forecasting difficult. In lieu of doing this type of forecasting, the responsibility rests between the analysts and management staff of the departments along with the Budget Division in the Finance Department to track items ongoing. In support of this, regular budget adjustments are made within departments and funds to make necessary changes, and quarterly budget updates are presented to the Finance Committee and City Council for review and approval. The next quarterly update is planned for April 2017. As of the presentation of this update, there are no known significant variances that will affect the actuals verses budget figures.

City of Pasadena

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