PASADENA CENTER OPERATING COMPANY
(A Component Unit of the City of Pasadena, California)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2011 AND 2010

PASADENA CENTER OPERATING COMPANY
JUNE 30, 2011 AND 2010

TABLE OF CONTENTS

BROWN
ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pasadena Center Operating Company
Pasadena, California

We have audited the accompanying basic financial statements of the Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative data has been derived from the financial statements of the Company for the year ended June 30, 2010, which we did not audit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the partial comparative data that has been derived, is based on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Company, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, on our consideration of the Company'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* and should be considered in assessing the results of our audit.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Pasadena, California
November 9, 2011

The objective of management's discussion and analysis is to help readers of the Pasadena Center Operating Company's (PCOC) financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2011, with selected comparative information for the year ended June 30, 2010. This discussion should be read in conjunction with the financial statements. Unless otherwise indicated, years (2011, 2010) in this discussion refer to the fiscal year ended June 30.

PCOC Financial Highlights:

The Statement of Net Assets presents information on all the assets and liabilities of PCOC, with the difference between the two reported as Net Assets, representing a measure of the current financial condition of PCOC. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of PCOC is improving or deteriorating.

The major components of the assets, liabilities, and net assets, compared to the prior year, are as follows:

	2011	2010	Change
ASSETS			
Cash and short-term investments	$ 7,981,243	$ 8,141,669	$ (160,426)
Accounts receivable and prepaid expenses	1,239,614	972,221	267,393
Fiscal agent cash	11,049,460	14,700,201	(3,650,741)
Capital assets	158,687,078	161,624,609	(2,937,531)
Other assets	25,294,436	17,032,780	8,261,656
Total assets	$ 204,251,831	$ 202,471,480	$ 1,780,351
LIABILITIES			
Accounts payable and accrued salaries	$ 1,164,103	$ 876,412	$ 287,691
Interest payable	607,043	833,245	(226,202)
Deposits	745,640	686,100	59,540
Deferred revenue	814,317	866,609	(52,292)
Current potion of long-term debt	1,375,579	2,123,536	(747,957)
Long-term liabilities	193,618,765	183,768,963	9,849,802
Total liabilities	$ 198,325,447	$ 189,154,865	$ 9,170,582
NET ASSETS			
Invested in capital assets, net of related debt	$ 9,504,991	$ 15,835,184	$ (6,330,193)
Restricted	14,090,026	1,937,809	12,152,217
Unrestricted	(17,668,633)	(4,456,378)	(13,212,255)
Total net assets	$ 5,926,384	$ 13,316,615	$ (7,390,231)

PCOC's Assets

Cash and short-term investments decreased $160,426 from 2010 to 2011. Cash and short-term investments fluctuate during the entire year due to changes in inflows and outflows. Also, in February 2011 PCOC paid the 2nd payment due on the 2006A Capital Appreciation Bonds in the amount of $800,000.

Accounts receivable and prepaid expenses increased $267,393 from 2010 to 2011. Of this amount, $203,551 represents increases in Transient Occupancy Taxes (TOT) and Transient Business Improvement District taxes (TBID) (both forms of room taxes) receivable from the City of Pasadena, (the City). The remaining $151,470 represents interest earned on invested funds and was reclassified to “short-term investments” in July 2011.

Fiscal agent cash and investments declined by $3,505,184. In July 2010 the City closed the remaining balances in the construction fund and transferred $2,082,857 to the investment fund. In April 2011, the City paid $1,073,367 to the IRS to settle an arbitrage liability related to the 2006 construction bond financing. An additional $145,557 is related to the decline in fair value of the fiscal agent investments.

Capital assets decreased by $2,937,531. This is despite acquisition of assets totaling $1,286,270 during the fiscal year. Acquisitions included $1,056,610 for the Ice Skating Center related construction in process and an additional $229,660 invested in completing the related retail space build-out. However, this was offset by depreciation expense of $4,229,835 recognized during the year.

Other assets increased $8,261,656 from 2010 to 2011. During 2011 derivative swap transactions in amount of $8,284,950 were recorded, due to current year valuation of the fair value of deferred outflows. This was offset by a decrease of $23,294 in unamortized bond costs due to continued amortization.

PCOC's Liabilities

Accounts payable consists of amounts due vendors. This increased by $426,948. Of this amount, $307,000 is related to recording invoices due for construction of the Ice Skating Center. These invoices were paid in July 2011. The remainder is related to recording year-end operating expenses in June, with payment in July.

Accrued salaries and benefits decreased $139,257 from 2010 to 2011, largely related to a decline in paid time off (PTO) by $70,395 and termination expenses.

Deposits increased by $59,540. The Pasadena Civic Auditorium event bookings increased for July and throughout the summer of 2011 resulting in an increase in deposits in advance of events.

Deferred revenue decreased by $52,292. Of this, $99,993 is for annual amortization of the $1 million contributed by Boston Culinary Group, now called Distinctive Gourmet Services (DGS). Lovebirds Café contributed assets in the amount of $61,331 and PCOC amortized $13,629 of that amount in the current year.

Interest payable decreased by $226,202 between fiscal years 2010 and 2011. Accrued interest in amount $143,209 on the 2010 Energy conservation loan was paid in December 2010. Also, in April, the City treasurer renegotiated the Letter of Credit fees from 0.95% to 0.40%. This reduced the liability for interest payable at year-end by $75,755 relating to the Letter of Credit.

The current portion of long-term debt decreased by $959,730. This was due to the arbitrage liability of $1,201,088 paid to IRS in April 2011. The remaining difference represents the increased payment on 2006A bond from $800,000 in 2011 to $1,095,000 in 2012.

POCO's Net Assets

Net assets represent the residual interest in PCOC's assets after all liabilities are deducted. PCOC's net assets at the end of 2011, totaling $5.9 million declined $7.4 million during the year, primarily as a result of recording the deferred derivative liability. This is more fully explained in note 6 to the basic financial statements. These net assets are reported in three major categories: invested in capital assets, restricted and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and net of outstanding debt used to acquire these assets, decreased $6.9 million from $15.8 million to $8.9 million. Although PCOC's net assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets grew from approximately $1.9 million to $14.1 million. Of this amount, $170,277 represents an increase in facility restoration fees collected during the year, these fees are collected per ticket for events in the Pasadena Civic Auditorium. $1,026,766 represents funds restricted for public art, and $11,049,460 represents funds restricted as a bond reserve accounts, as held by fiscal agents per bond indentures.

Included in the unrestricted net deficit are, unrestricted but designated assets for $163,789. These amounts represent funds remaining from a prior period facility improvement project. These funds are designated as resources for capital projects by the board of directors.

PCOC shows a continuing unrestricted net deficit because of a number of factors. The PCOC has undertaken a large capital improvement program recently. Capital assets, representing construction in process and finished capital assets are less than outstanding debts by $36,307,266. Once the construction is completed and the aforementioned $14.1 million in restricted net assets related to construction is used, the amount of capital assets, less outstanding debts will decline to approximately $22.2 million, before depreciation of capital assets and amortization of outstanding debts. A large portion is also related to a derivative instrument liability, reflecting the fair value of a swap transaction. Even though the fair value is negative, PCOC’s annual interest expense benefits from the swap transaction as the swap inflows partially offset interest expense, therefore lowering the cost of borrowing for PCOC in comparison to fixed rate debt. The swap’s fair value fluctuates constantly with changing interest rates. Finally, as the economy improves and the results of operations improve, unrestricted deficits will subside.

PCOC's RESULTS OF OPERATIONS

The Statement of Revenues, Expenses, and Changes in Net Assets is a presentation of PCOC's operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standard Board requirements, certain significant revenues relied upon and budgeted for fundamental operational support of PCOC are mandated to be reported as nonoperating revenues, including TOT, TBID and earnings on funds invested with the City's investment pool.

A summarized comparison of the operating results for 2011 and 2010, arranged in an informative format is as follows:

	2011	2010	Change
OPERATING REVENUES			
Occupancy fees and commissions	$ 3,651,201	$ 3,603,091	$ 48,110
Parking	1,325,344	1,270,158	55,186
Total operating revenues	4,976,545	4,873,249	103,296
OPERATING EXPENSES			
Pasadena Center	4,887,732	5,341,082	(453,350)
Parking garage	467,734	411,871	55,863
Convention and visitors bureau	1,794,066	1,736,309	57,757
Subtotal before depreciation	7,149,532	7,489,262	(339,730)
Depreciation	4,229,836	4,421,360	(191,524)
Total operating expenses	11,379,368	11,910,622	(531,254)
Operating income (loss)	(6,402,823)	(7,037,373)	634,550
NONOPERATING REVENUES (EXPENSES)			
Transient occupancy taxes	5,165,432	4,701,040	464,392
Tourism business improvement district tax	2,153,155	1,989,897	163,258
Facility restoration fees	170,277	174,827	(4,550)
Investment income	746,877	169,149	577,728
Interest expense	(8,895,121)	(7,229,092)	(1,666,029)
Contribution to City	(441,651)	(442,913)	1,262
Total nonoperating expenses	(1,101,031)	(637,092)	(463,939)
Income (loss) before other changes in net assets	(7,503,854)	(7,674,465)	170,611
Capital contributions	113,622	99,993	13,629
Increase (decrease) in net assets	(7,390,232)	(7,574,472)	184,240
Net assets at beginning of year	13,316,616	20,891,088	(7,574,472)
Net assets at end of year	$ 5,926,384	$ 13,316,616	$ (7,390,232)

Operating revenues increased $103,296 from $4.9 million in 2010 to $5.0 million in 2011, due to slightly improving business in events and parking.

Operating expenses, before depreciation, decreased 4.5% or $339,729 from $7,489,262 in 2010 to $7,149,533 in 2011 due to tight controls on administrative expenses. Overall operating expenses decreased $531,254. Depreciation decreased from $4,421,360 in 2010 to $4,229,835 in 2011, the result of assets being fully depreciated in 2010.

Nonoperating revenues increased $1,200,928 from $7,034,913 in 2010 to $8,235,741 in 2011.
Room taxes (TOT and TBID) increased a combined $627,650 or 9.4% from 2010. Also, investment pool earnings increased $577,728 from $169,149 in 2010 to $746,877 in 2011, $142,104 was earned on funds invested with the City and $435,624 on fiscal agent investments.

Nonoperating expenses increased $1,666,029. Of this amount, $1,369,878 is accretion interest on the 2006A Capital Appreciation Bonds, $138,321 is interest on the Energy Conservation Loan and $39,870 is interest on the 1999 loan.

Capital contributions includes $99,993 recognized as revenue from the $1 million contribution paid by DGS and $13,629 recognized as revenue from the $66,331 contribution paid by Lovebirds Café. Both items –are also included as deferred revenue. The remainder of the $766,615 unamortized amount paid by DGS and the $47,702 unamortized amount paid by Lovebirds Café will be recognized in equal monthly installments over the life of their respective agreements with PCOC.

The notes to the financial statements can be found on pages 10 through 25 of this report. These notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

INFORMATION REQUEST:

Questions concerning any of the information contained herein or requests for additional information should be addressed to Michael Carcieri, PCOC Finance Department at 626-793-2122, extension 234.

BASIC FINANCIAL STATEMENTS

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

	2011	2010
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 856,295	$ 1,556,249
Accounts receivable	253,183	313,481
Due from City of Pasadena (Note 3)	856,596	501,575
Prepaid expense	129,835	157,165
Total current assets	2,095,909	2,528,470
Noncurrent assets:		
Investments (Note 2)	7,124,948	6,585,421
Cash and investments with fiscal agent (Note 2)	11,049,460	14,700,201
Deferred outflows (Note 6)	24,752,211	16,467,261
Unamortized bond costs	542,225	565,519
Capital assets (Note 4):		
Building and Improvements	173,333,555	173,103,896
Machinery and equipment	1,219,256	1,219,256
Furniture and fixtures	266,582	266,582
Accumulated depreciation	(19,636,751)	(15,406,915)
Net depreciable assets	155,182,642	159,182,819
Land	2,423,473	2,423,473
Construction in progress	1,080,963	18,317
Property, plant, and equipment, net	158,687,078	161,624,609
Total noncurrent assets	202,155,922	199,943,011
Total assets	$ 204,251,831	$ 202,471,481
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	$ 667,613	$ 363,631
Due to City of Pasadena	122,966	-
Interest payable	607,043	833,245
Accrued salaries and benefits	373,524	512,781
Advance deposits payable	745,640	686,100
Deferred revenue (Note 8)	814,317	866,609
Current portion of long-term debt (Note 5)	1,375,579	2,123,536
Total Current Liabilities	4,706,682	5,385,902
Noncurrent liabilities:		
Derivative instrument liability (Note 6)	20,885,468	25,402,874
Long-term debt (Note 5)	172,733,297	158,366,089
Total noncurrent liabilities	193,618,765	183,768,963
Total Liabilities	$ 198,325,447	$ 189,154,865
Net assets (Note 7):		
Invested in capital assets, net of related debt	$ 9,504,991	$ 15,835,185
Restricted	14,090,026	1,937,809
Unrestricted	(17,668,633)	(4,456,378)
Total Net Assets	$ 5,926,384	$ 13,316,616

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating revenues:		
Occupancy fees	$ 2,735,958	$ 2,652,599
Food services	-	612,714
Parking	1,325,344	1,270,158
Commissions	915,243	337,778
Total operating revenues	4,976,545	4,873,249
Operating expenses:		
Pasadena Center	4,887,732	5,341,082
Parking garage	467,734	411,871
Pasadena Convention and Visitors Bureau	1,794,066	1,736,309
Depreciation expense	4,229,836	4,421,360
Total operating expenses	11,379,368	11,910,622
Operating loss	(6,402,823)	(7,037,373)
Nonoperating revenues (expenses):		
Transient occupancy taxes (Note 3)	5,165,432	4,701,040
Tourism business improvement district tax (Note 3)	2,153,155	1,989,897
Facility restoration fee	170,277	174,827
Contribution to the City of Pasadena	(441,651)	(442,913)
Investment income	746,877	169,149
Interest expense	(8,895,121)	(7,229,092)
Total nonoperating revenues (expenses)	(1,101,031)	(637,092)
Capital contributions	113,622	99,993
Decrease in net assets	(7,390,232)	(7,574,472)
Net assets at beginning of year	13,316,616	20,891,088
Net assets at end of year	$ 5,926,384	$ 13,316,616

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 5,044,091	$ 4,945,202
Cash paid to employees for services	(4,415,744)	(4,638,170)
Cash paid to suppliers of goods and services	(2,418,767)	(3,353,923)
Net cash used for operating activities	(1,790,420)	(3,046,891)
Cash flows from noncapital financing activities:		
Transient occupancy taxes from City of Pasadena	5,020,065	4,717,659
Tourism business improvement district taxes from City of Pasadena	2,094,972	1,990,612
Net cash provided by noncapital financing	7,115,037	6,708,271
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,292,305)	(1,074,316)
Proceeds of loan and deferred borrowings	1,264,940	494,800
Principal payments on long-term debt	(2,301,743)	(482,240)
Interest payments on long-term debt	(7,244,331)	(4,988,756)
Contribution to City of Pasadena	(441,651)	(442,913)
Capital grants and contributions	283,899	274,820
Net cash used for capital and related financing activities	(9,731,191)	(6,218,605)
Cash flows from investing activities:		
Sale of investments	3,111,214	1,773,596
Investment income received	595,406	-
Net cash provided by investing activities	3,706,620	1,773,596
Net decrease in cash and cash equivalents	(699,954)	(783,629)
Cash and cash equivalents at beginning of year	1,556,249	2,339,878
Cash and cash equivalents at end of year	$ 856,295	$ 1,556,249
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (6,402,823)	$ (7,037,373)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,229,836	4,421,360
Decrease in accounts receivable	60,298	19,356
(Increase) decrease in prepaid expenses	27,330	(133,576)
(Increase) decrease in deposits	-	4,000
Increase (decrease) in accounts payable and other liabilities	426,948	(342,649)
Decrease in accrued salaries and benefits	(139,257)	(26,606)
Increase in deposits payable	59,540	148,590
Decrease in deferred revenue	(52,292)	(99,993)
Net cash used for operating activities	$ (1,790,420)	$ (3,046,891)

There were no significant noncash capital, financing, or investing activities for the years ended June 30, 2011 and 2010.

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

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Business

The Pasadena Center Operating Company (the Company) was formed in 1973 as a nonprofit corporation under Section 501 (c)(4) of the Internal Revenue Code for the purpose of managing and operating the Pasadena Center and the Pasadena Convention and Visitors Bureau. The Pasadena Center is comprised of the Civic Auditorium, which includes the auditorium and adjacent land, and the Conference Center, which includes the Conference Center, Exhibition Hall, and related parking facilities.

The Company operates under an agreement with the City of Pasadena (the City) whereby the Company maintains and operates the Pasadena Center and the Convention and Visitors Bureau. The Pasadena City Council appoints the members of the Company's Board of Directors. The Company's 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 accounting principles generally accepted in the United States of America.

B. Basis of Accounting

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

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

C. Cash and Cash Equivalents

For the purpose 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.

D. Investments

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

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

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

Capital Assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Company capitalizes all assets with a historical cost of at least $10,000 consistent with City practice. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	10-15 years
Machinery and equipment	3-10 years
Furniture and fixtures	10 years

F. Compensated Absences

The Company has a PTO (paid time off) policy in effect. It is the Company's policy to permit employees to accumulate earned but unused PTO benefits. PTO hours can accrue up to a maximum of one and one-half times the annual allowable amount (maximum of 27 to 42 days (216 to 336 hours). The Company pays all earned PTO pay upon termination. All accumulated PTO is recorded as an expense and a liability at the time the benefit is earned.

G. Classification of Revenues

Operating revenues consist of charges to customers for sales and use of the facilities. *Nonoperating revenues* consist of transient occupancy taxes and tourism business improvement district taxes received from the City, investment income, and other nonoperating income. Capital contributions consist of contributed capital assets.

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

H. Comparative Data

The amounts shown for the year ended June 30, 2010, in the accompanying financial statements are included to provide a basis for comparison with 2011 and present summarized totals only. Accordingly, the 2010 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 entity's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

NOTE 1 – <u>NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

I. <u>Accounting Standards Update</u>

During the fiscal year ended June 30, 2011, the Company implemented the following Governmental Accounting Standards Board standards:

GASB Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions* was effective this fiscal year. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The hierarchy segregates fund balance in the governmental funds from the former reserved and unreserved (or undesignated and designated) to nonspendable, restricted, committed or assigned balances in funds other than the General Fund with positive fund balances and unassigned balances in the General Fund. The overall impact of implementation of GASB Statement No. 54 had no effect on the Company, which is solely an enterprise fund.

GASB Statement No. 59 - *Financial Instruments Omnibus* - updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments for which significant issues have been identified in practice. Changes in practice that effect the plan include the amendment of current disclosure practices for certain financial guarantees. The statement also removes the fair value exemption for unallocated insurance contracts. The effect of this change is that investments in unallocated insurance contracts and annuities are now reported as interest-earning investment contracts at fair value. Allocated insurance contracts and annuities are excluded from fair value as they have named beneficiaries. Current practice on deposit and investment risk disclosures is also amended to indicate that interest rate risk information should be disclosed only for debt investment pools, such as bond mutual funds and external bond investment pools, that do not meet the requirements to be reported as a 2a7-like pool. Disclosure practices for derivatives and similar financial instruments are also amended by redefining a derivative instrument to exclude contract provisions for a penalty payments for nonperformance and to provide that that financial guarantee contracts included in the scope of current practice are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit. Contracts based on specific volumes of sales or service revenues are also excluded from the scope of current derivatives disclosure. The overall effect of the implementation of GASB Statement No. 59 for the Company was minimal as the Company typically does not operate using these financial instruments.

Additional standards were released by GASB during the fiscal year.

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

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

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accounting Standards Update (Continued)

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

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net (Plan if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net Position instead of the current Statement of Changes in (Plan) Net Assets upon implementation for periods beginning after December 15, 2011. The Company will implement this change for the fiscal year ended June 30, 2012.

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

During 2011, GASB also released a mid-year supplement to the *Comprehensive Implementation Guide* that clarifies a number of reporting and accounting issues with regard to financial instruments and investments. The effect of these changes on the Company include segregation of disclosure of different types of United States Treasury and Agency investments. Investments that have an explicit federal guarantee contain different disclosure than those that have an implicit guarantee. Note 2 to the basic financial statements include these updated disclosures.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Cash and investments	$ 856,295
Investments	7,124,948
Cash and investments with fiscal agent	11,049,460
Total cash and investments	$ 19,030,703

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	$ 7,300
Deposits with financial institutions	848,995
City of Pasadena Investment Pool	7,124,948
Cash and investments with fiscal agent:	
Federal agency securities	10,718,568
Money market mutual funds	330,892
Total cash and investments	$ 19,030,703

Investments Authorized by California Government Code

The table below identifies the investment types that are authorized for the Company by the California Government Code and the City's Investment Policy. The table also identifies certain provisions of the California Government Code (or the City's Investment Policy, if more restrictive) that address interest rate risk and concentration of credit risk.

Investment Types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment In One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	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 (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Company's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Rating
U.S. Treasury Obligations	None	N/A
U.S. Agency Securities	None	N/A
State and Local Agency Bonds	None	Aa
Banker's Acceptances	360 days	Aa
Commercial Paper	270 days	Aa
Negotiable Certificates of Deposit	None	Aa
Repurchase Agreements	None	Aa
Money Market Mutual Funds	N/A	Aaa
Investment Contracts	None	Aa

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 market value to changes in market interest rates. One of the ways that the Company manages its exposure to interest rate risk is by purchasing a combination of short-term and long-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.

Information about the sensitivity of the fair values of the Company's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Company's investments by maturity:

		Remaining Maturity (in Months)		
Investment Type		12 Months or Less	13 to 60 Months	More than 60 Months
City of Pasadena Pool	$ 7,124,948	$ 7,124,948	$ -	$ -
Federal agency securities	10,718,568	-	10,718,568	-
Money market funds	330,892	330,892	-	-
Total	$ 18,174,408	$ 7,455,840	$ 10,718,568	$ -

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Company's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

			Ratings at end of year	
Investment Type		Minimum Legal Rating	AAA	Not Rated
City of Pasadena Pool	$ 7,124,948	N/A	$ -	$ 7,124,948
Federal agency securities	10,718,568	N/A	10,718,568	-
Money market funds	330,892	Aaa	330,892	-
Total	$ 18,174,408		$ 11,049,460	$ 7,124,948

Concentration of Credit Risk

The investment policy of the Company contains no limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California Government Code. Investments in anyone issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total Company investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal Agency Securities	$ 10,718,568

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 possession of an outside party. The custodial 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 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 government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 3 – TRANSIENT OCCUPANCY TAXES AND TOURISM BUSINESS IMPROVEMENT DISTRICT TAXES

Transient Occupancy Taxes (TOT)

The Company receives support for operations and capital improvements from the City. For operations support, the Company receives an allocation of the TOT collected by the City. A portion of this support is retained by the City to pay for the Company's insurance. The remaining allocation is not designated as to its use. Annual capital improvements to the Conference Center and the Pasadena Civic Auditorium are approved by the City. A portion of the Company's occupancy taxes are used to repay the Certificates of Participation that were issued to fund prior improvements. For the year ended June 30, 2011, net transient occupancy taxes received from the City were $5,165,432 of which $145,367 was payable to the Company at June 30, 2011.

Tourism Business Improvement District (TBID)

The TBID was established in March 2003. The TBID is an assessment levied against each hotel and motel business in the City. The assessment is calculated as a percentage of each day's Gross Occupancy Revenue and is passed through to guests. The rate of assessment is set annually by resolution of the City Council, but cannot exceed 2.89%. For the fiscal year ended June 30, 2011, the rate was set at 2.89%. The purpose of the TBID is to fund activities, programs, expenses, and services to market the City as a vacation destination. Marketing activities of the Pasadena Convention and Visitors Bureau and the Pasadena Conference Center can be financed by the TBID. For the year ended June 30, 2011, the Company received $2,153,155 of TBID from the City of which $58,183 was payable at June 30, 2011.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is as follows:

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Capital assets being depreciated:				
Buildings and improvements	$ 173,103,896	$ 229,659	$ -	$ 173,333,555
Machinery and equipment	1,219,256	-	-	1,219,256
Furniture and fixtures	266,582	-	-	266,582
Total depreciable capital assets	174,589,734	229,659	-	174,819,393
Less accumulated depreciation:				
Buildings and improvements	(14,818,635)	(4,144,070)	-	(18,962,705)
Machinery and equipment	(509,254)	(62,749)	-	(572,003)
Furniture and fixtures	(79,026)	(23,017)	-	(102,043)
Total accumulated depreciation	(15,406,915)	(4,229,836)	-	(19,636,751)
Net depreciable assets	159,182,819	(4,000,177)	-	155,182,642
Land	2,423,473	-	-	2,423,473
Construction in progress	18,317	1,062,646	-	1,080,963
Capital assets, net	$ 161,624,609	$ (2,937,531)	$ -	$ 158,687,078

Depreciation expense for the fiscal year ended June 30, 2011, was $4,229,836.

NOTE 5 – LONG-TERM DEBT

Long-term debt for the year ended June 30, 2011 are as follows:

	Balance at June 30, 2010	Additions/ Accretion	Principal Prepayments	Balance at June 30, 2011	Due in One Year
Conference Center Loan	$ 835,384	$ -	$ (70,644)	$ 764,740	$ 74,221
COP 2006 Series A	31,146,027	1,416,919	(800,000)	31,762,946	1,095,000
Unamortized discount 2006 Series A	(114,143)	-	4,806	(109,337)	-
COP 2008 Series A	134,720,000	-	-	134,720,000	-
Unamortized discount 2008 Series A	(265,699)	-	10,735	(254,964)	-
Deferred Refunding Charge	(10,033,032)	-	421,238	(9,611,794)	-
Arbitrage Liability	1,201,088	-	(1,201,088)	-	-
Energy Conservation Loan	3,000,000	-	(40,043)	2,959,957	206,358
Derivative Deferred Borrowing	-	14,067,296	(189,968)	13,877,328	
Total long-term liabilities	$ 160,489,625	$ 15,484,215	$ (1,864,964)	$ 174,108,876	$ 1,375,579

Conference Center Loan

In September 1999, the Company entered into a loan agreement for $1,400,000 with the City of Pasadena to provide funding of Conference Center maintenance and improvements. Interest accrues at a rate of 5.0% per annum. Principal and interest payments of $57,981 are due semiannually. The outstanding principal at June 30, 2011 is $764,740.

The annual requirements to repay the outstanding loan at June 30, 2011, are as follows:

June 30:	Principal Payment	Interest Payment	Total Debt Service
2012	$ 74,221	$ 37,321	$ 111,542
2013	77,978	33,563	111,541
2014	81,926	29,616	111,542
2015	86,073	25,468	111,541
2016	90,431	21,111	111,542
2017-2020	354,111	36,285	390,396
	$ 764,740	$ 183,364	$ 948,104

2006 Certificates of Participation

On August 23, 2006, the City issued the 2006 Certificates of Participation, 2006 Series A and B in the amount of $162,639,972. The Certificates of Participation were issued to finance the cost of improvements to the Pasadena Conference Center and related facilities, establish a reserve fund per the Trust Agreement and finance the cost of execution and delivery of the Certificates of Participation.

2006 Series A of the Certificates were issued as Capital Appreciation Certificates. These certificates appreciate in value based on annual accretion of the initial amount at a rate of interest that will result in each such capital appreciation certificate appreciating to its maturity value on its final maturity date. Accretion will commence on August 23, 2006. Interest accretes at a yield ranging from 3.85% to 4.81 %. By their nature, there are no regular interest payments associated with capital appreciation certificates; interest on the debt results from the difference between the amounts paid by the investors when the debt was issued and the significantly larger value at maturity. Each year, the outstanding balance is increased by the accreted value associated with the bonds. Principal on 2006 Series A is payable in annual installments ranging from $415,000 to $5,850,000 commencing February 2010 and ending February 2023.

NOTE 5 – LONG-TERM DEBT (Continued)

2006 Series B of the Certificates of Participation was refunded by the 2008 Series A Certificates of Participation (see note on following page).

The annual requirements to repay the outstanding certificates of participation 2006 Series A at June 30, 2011 are as follows:

June 30:	Principal Payment	Accretion
2012	$ 1,095,000	$ 1,449,590
2013	1,365,000	1,471,648
2014	2,560,000	1,482,810
2015	2,850,000	1,443,449
2016	3,460,000	1,388,328
2017-2021	22,300,000	5,187,383
2022-2023	11,340,000	783,847
	$ 44,970,000	$ 13,207,055

2008 Certificates of Participation

On April 15, 2008, the City issued the 2008 Refunding Certificates of Participation, 2008 Series A in the amount of $134,720,000. These certificates were issued to refund the City's Certificates of Participation (Conference Center Project), 2006 Series B and finance the costs of execution of the 2008 Series A Certificates of Participation. The refunded certificates were repaid in April 2008 and the liability has been removed from the statement of net assets. Interest on 2008 Series A certificates were issued at a variable rate with the reassignment of the synthetic fixed rate swap of 3.536%. Principal is payable in annual installments ranging from $6,775,000 to $11,445,000 commencing February 1, 2024, and ending February 1, 2035. The City has a line of credit that is used to satisfy the reserve requirement.

The annual requirements to repay the outstanding certificates of participation 2008 Series A at June 30, 2011 are as follows:

June 30:	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
2012	$ -	$ 364,647	$ 4,338,233	$ 4,702,880
2013	-	364,647	4,338,233	4,702,880
2014	-	364,647	4,338,233	4,702,880
2015	-	364,647	4,338,233	4,702,880
2016	-	364,647	4,338,233	4,702,880
2017-2021	-	1,823,233	21,691,167	23,514,400
2022-2026	22,515,000	1,766,311	20,673,145	44,954,456
2027-2031	54,370,000	1,249,778	13,986,551	69,606,329
2032-2035	57,835,000	386,300	3,274,087	61,495,387
	$ 134,720,000	$ 7,048,857	$ 81,316,115	$ 223,084,972

The above table incorporates the net receipts/payments of the hedging derivative instrument associated with this debt issue. These amounts assume that current interest rates on variable rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 6 for additional information regarding the derivative instruments associated with the debt of the Company.

NOTE 5 – LONG-TERM DEBT (Continued)

Energy Conservation Retrofit

The Company received approval from the City in June 2008 to commence a project designed to conserve energy through use of more efficient air conditioning systems and energy efficient lighting. The project budget cost is $4,581,071; $1,560,000 is pledged by Pasadena Water & Power (PWP) as a rebate based on energy savings and $3,000,000 is covered by a loan from California Energy Commission with an interest rate of 3.95% for 13 years. The payments on this $3,000,000 loan are budgeted at approximately $320,000 for 13 years.

The annual requirements to repay the outstanding loan from the State of California Energy Conservation Commission at June 30, 2011, are as follows:

June 30:	Principal Payment	Interest Payment	Total Debt Service
2012	$ 206,358	$ 115,215	$ 321,573
2013	214,898	106,674	321,572
2014	223,471	98,102	321,573
2015	232,385	89,188	321,573
2016	241,442	80,130	321,572
2017-2021	1,360,644	247,220	1,607,864
2022-2023	480,759	19,832	500,591
	$ 2,959,957	$ 756,361	$ 3,716,318

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred outflow	$ 24,752,211	Debt	$ 20,885,468	$ 133,000,000

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

NOTE 6 – <u>DERIVATIVE INSTRUMENT LIABILITY</u> (Continued)

<u>Objective and Terms of Hedging Derivative Instruments</u>

The following table displays the objective and terms of the Company's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty.

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 COPs	$ 133,000,000	9/18/2006	2/1/2034	Pay 3.536%; receives 64% LIBOR index	BBB/A

Credit risk. The Company is exposed to credit risk on hedging derivative instruments. The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2011, was $24,752,211. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Interest rate risk. The Company is exposed to interest rate risk on its interest rate swap. On its pay-fixed, receive-variable interest rate swap, as the LIBOR swap index decreases, the Company's net payment on the swap increases.

Basis risk. The Company is exposed to basis risk on its pay-fixed interest rate swap because the variable-rate payments received by the Company on these hedging derivative instruments are based on a rate or index other than interest rates the Company pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2011, the weighted-average interest rate on the Company's hedged variable-rate debt is 0.2707%, while 64 percent of LIBOR is 0.4669%.

Termination risk. The Company or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the Company would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover risk. The Company is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Company will be re-exposed to the risks being hedged by the hedging derivative instrument.

During the fiscal year ending June 30, 2011, the Company entered into a new agreement to take advantage of a more advantageous interest rate adjustment mode than the 2008 Series Bonds previously had. As a result, the former derivative instrument terminated and the new instrument has off-market terms. As a result, an up-front payment was received. The up-front payment is reported as a borrowing. The borrowing is amortized over the life of the swap and amortizes using the effective interest method for the life of the swap with adjustments to interest expense during each fiscal year. The original balance of the borrowing was $13,877,329. As of the year ended June 30, 2011, the balance was $13,410,059.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

The annual amortization and balance of the borrowing as of June 30, 2011, are as follows:

June 30	Beginning Balance	Accrued Interest	Payment	Ending Balance
2012	$ 13,877,329	$ 672,540	$ (1,139,810)	$ 13,410,059
2013	13,410,059	649,017	(1,139,810)	12,919,266
2014	12,919,266	624,309	(1,139,810)	12,403,765
2015	12,403,765	598,358	(1,139,810)	11,862,313
2016	11,862,313	571,101	(1,139,810)	11,293,604
2017	11,293,604	542,471	(1,139,810)	10,696,265
2018	10,696,265	512,400	(1,139,810)	10,068,855
2019	10,068,855	480,815	(1,139,810)	9,409,860
2020	9,409,860	447,641	(1,139,810)	8,717,691
2021	8,717,691	412,796	(1,139,810)	7,990,677
2022	7,990,677	376,197	(1,139,810)	7,227,064
2023	7,227,064	337,755	(1,139,810)	6,425,009
2024	6,425,009	297,498	(1,120,456)	5,602,051
2025	5,602,051	257,409	(1,060,395)	4,799,065
2026	4,799,065	218,464	(994,120)	4,023,409
2027	4,023,409	181,047	(921,204)	3,283,252
2028	3,283,252	145,571	(841,431)	2,587,392
2029	2,587,392	112,491	(754,231)	1,945,652
2030	1,945,652	82,314	(659,104)	1,368,862
2031	1,368,862	55,598	(555,479)	868,981
2032	868,981	32,956	(442,855)	459,082
2033	459,082	15,062	(320,589)	153,555
2034	153,555	2,848	(156,403)	-
Total:	$ 161,393,058	$ 7,626,658	$ (21,503,987)	$147,515,729

NOTE 7 – NET ASSETS

Net assets at June 30, 2011, consisted of the following:

Invested in capital assets, net of related:	
Property, plant, and equipment, net	$ 158,687,078
Unspent bond proceeds	11,049,460
Less:	
Outstanding debt issued to construct capital assets	(160,231,547)
Total invested in capital assets, net of related debt	9,504,991
Restricted net assets:	
Bond reserve account - cash held with fiscal agent	11,049,460
Facility Restoration Fee	2,010,736
Public Art	1,026,767
Organ repair and maintenance	3,063
Total restricted net assets:	14,090,026
Unrestricted net assets:	
Designated for capital projects	163,789
Undesignated	(17,832,422)
Total unrestricted net assets:	(17,668,633)
Total net assets	$ 5,926,384

Net asset restrictions and designations are as follows:

Bond reserve account - cash held with fiscal agent – This is the amount as held with fiscal agents, that is restricted for use per bond indentures, as a reserve account for future bond payments.

Facility Restoration Fee – This ticket surcharge is restricted to restoration of the facility. The restriction was in place at the time the fee was established; thus, the unspent amounts are reported as restricted net assets.

Public Art – This is the amount as earmarked by the City of Pasadena which is to be used for the purchase and contributions of Public Arts with the Convention Center.

Organ Repair and Maintenance – This is the remaining balance of a $15,000 grant which was received for the repair and maintenance of the Moller organ located in the Pasadena Civic Auditorium.

Designated for Capital Projects – These amounts are designated for capital projects (Pasadena Center Trust Fund) and facility maintenance (Deferred Maintenance Fund) by the Board of Directors. Since restrictions were not specified when a new revenue source was approved, the net assets are designated but not legally restricted.

NOTE 8 – DISTINCTIVE GOURMET SERVICES – CONCESSION AGREEMENT

In the fiscal year ended June 30, 2009, the Company entered into an agreement with Boston Culinary Group, now called Distinctive Gourmet Services (DGS), that allows DGS exclusive right to operate the food services concession for the Company. The agreement covers the period March 1, 2009, through June 30, 2014. In exchange for this exclusive right, DGS agreed to contribute up to $1,000,000 for capital asset purchases at the new kitchen in the Conference Center Expansion Project. As of June 30, 2011, DGS has contributed $999,933. This has been recorded as deferred revenue and is being amortized over 120 months starting March 1, 2009. The sum of $233,317 has been recognized as capital contributions. The remaining $766,616 is recorded as deferred revenue.

NOTE 9 – LOVEBIRDS CAFÉ & BAKERY – CONCESSION AGREEMENT

In the fiscal year ended June 30, 2010, the Company entered into an agreement with Lovebirds Café Bakery (LCB) that allows LCB exclusive right to operate a Café for the Company at the Pasadena Center. The agreement covers the period March 1, 2010, through June 30, 2012. In exchange for this exclusive right, LCB agreed to contribute up to $150,000 for interior improvements to the café space. As of June 30, 2011, LCB has contributed $61,331. This has been recorded as deferred revenue and is being amortized over 36 months starting November 1, 2010. The sum of $13,629 has been recognized as capital contributions. The remaining $47,702 is recorded as deferred revenue.

NOTE 10 – DEFINED CONTRIBUTION RETIREMENT PLAN

Plan Description

Eligible employees of the Company participate in the Pasadena Center Operating Company 401 (k) profit sharing plan (the Plan), which is a defined contribution retirement plan covering all employees except those whose employment is governed by a collective bargaining agreement. To be eligible to participate in the Plan, an employee must have completed 90 days of employment. To be eligible for the employer's match, an employee must have completed one full year of employment and must have 1,000 hours of service in a twelve-month period.

Funding Policy

The employee may defer up to 15% of compensation into the Plan, subject to certain limitations. The Company is required to match 100% of the employee's contribution, up to 5% of compensation. Employee contributions are vested immediately. Employer match contributions prior to July 1, 2004 are subject to vesting on a graduating basis, beginning at two years and becoming fully vested after five years of service. Employer match contributions after July 1, 2004 are vested immediately. The Company matched $125,529 for the fiscal year ended June 30, 2011.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the current year, the Company incurred charges for the use of the City's building maintenance (electricians, plumbers), locksmiths, printing, mail services, water and power. These nonevent expenses totaled $1,365,868 and are included within general and administrative expenses. During the current year, the Company also paid the City for police, fire, and public works services, primarily for events, amounting to $75,825. Total expenses related to the City amounted to $309,971. Total expenses related to the City Water and Power Department amounted to $1,131,722.to At June 30, 2011, amounts payable to the City totaled 122,966.

NOTE 12 – SUBSEQUENT EVENTS

On September 9, 2011, the Company received a loan from the City in the amount of $1,241,776.76 for construction of the Ice Skating Center. The total amount of money available to be loaned to the Company is $1,500,000 as approved per the City Board minutes of August 2, 2010. On September 9, 2011, the Company incurred $1,241,777 for accumulated direct construction costs related to the Ice Skating Center project and will use the remaining balance of $258,223 when the project has been completed.

OTHER REPORT

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BROWN ARMSTRONG
Certified Public Accountants

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

To the Board of Directors
Pasadena Center Operating Company
Pasadena, California

We have audited the financial statements of the business-type activities of the Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, as of and for the year ended June 30, 2011, which collectively comprise the Company's basic financial statements and have issued our report thereon dated November 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the Company, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Pasadena, California
November 9, 2011