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

BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

PASADENA CENTER OPERATING COMPANY
(A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA)
JUNE 30, 2014

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2014, which collectively comprise the Company'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. The June 30, 2013 comparative information has been derived from the 2013 financial statements and is included for additional analysis only. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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 entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Company, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Company implemented Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to the matter.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, 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* in considering the Company's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 29, 2014

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, 2014, with selected comparative information for the year ended June 30, 2013. This discussion should be read in conjunction with the financial statements. Unless otherwise indicated, years (2014, 2013) in this discussion refer to the fiscal year ended June 30.

PCOC FINANCIAL HIGHLIGHTS

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

The major components of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, compared to the prior year, are as follows:

	2014	2013	Change
ASSETS			
Cash, cash equivalents, and investments	$ 7,068,657	$ 5,491,238	$ 1,577,419
Accounts receivable, prepaid expenses and due from City of Pasadena	1,650,671	1,431,893	218,778
Fiscal agent cash and investments	10,596,997	10,518,564	78,433
Capital assets	149,735,682	153,552,165	(3,816,483)
Other assets	-	495,638	(495,638)
Total assets	$ 169,052,007	$ 171,489,498	$ (2,437,491)
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	$ 20,327,031	$ 18,899,923	$ 1,427,108
Amortization of discounts and deferred refunding charges	1,865,021	1,942,580	$ (77,559)
Total deferred outflows of resources	$ 22,192,052	$ 20,842,503	$ 1,349,549
LIABILITIES			
Accounts payable and accrued salaries and benefits	$ 1,058,957	$ 1,015,816	$ 43,141
Interest payable	545,881	543,253	2,628
Deposits	1,202,249	912,126	290,123
Current potion of long-term debt	3,312,641	3,006,063	306,578
Long-term liabilities	186,815,438	187,218,161	(402,723)
Total liabilities	$ 192,935,166	$ 192,695,419	$ 239,747
DEFERRED INFLOWS OF RESOURCES			
Deferred refunding charge	$ 7,233,921	$ 7,545,131	$ (311,210)
Service concession agreement	466,636	566,629	(99,993)
Total deferred inflows of resources	$ 7,700,557	$ 8,111,760	$ (411,203)
NET POSITION			
Net investment in capital assets	$ (20,065,366)	$ (17,772,136)	$ (2,293,230)
Restricted	14,022,612	13,944,179	78,433
Unrestricted	(3,348,910)	(4,647,221)	1,298,311
Total net position	$ (9,391,664)	$ (8,475,178)	$ (916,486)

PCOC's Assets

Cash, cash equivalents, and investments increased $1,577,419 from 2013 to 2014. In February 2014, PCOC paid the third payment due on the 2006A Capital Appreciation Bonds in the amount of $2,560,000.

Accounts receivable, prepaid expenses, and due from the City of Pasadena (the City) increased $218,778 from 2013 to 2014.

Fiscal agent cash and investments increased $78,433 related to changes in the market values of these assets.

Capital assets decreased by $3,816,483. This is despite acquisition of assets totaling $588,690 during the fiscal year. Acquisitions included $100,865 as the initial deposit for fiscal year (FY) 2015 projects and $43,017 for various improvements to the physical plant. However, this was offset by depreciation expense of $4,406,173 recognized during the year.

Other assets decreased $495,638 from 2013 to 2014 as a result of the adjustment of unamortized bond costs per Governmental Accounting Standards Board (GASB) Statement No. 65.

PCOC's Deferred Outflows of Resources

Deferred outflows of resources for PCOC related to the accumulated decrease in fair value of hedging derivatives and amortization of discounts and deferred refunding charges. Deferred outflows of resources increased $1,349,549 from 2013 to 2014 due to the change in fair value of the derivatives at year-end.

PCOC's Liabilities

Accounts payable consist of amounts due to vendors. This increased by $41,402.

Accrued salaries and benefits increased $1,739 from 2013 to 2014, related to an increase in accrued year end payroll expenses.

Deposits increased by $290,123. The Pasadena Civic Auditorium event booking increased during current year resulting in an increase in deposits in advance of events.

Interest payable decreased by $2,628 between fiscal years 2013 and 2014. Loan amortizations have reduced the level of accrued interest by $2,103 and June interest on the 2008A Capital Appreciation Bonds was lower than last year by $525.

The current portion of long-term debt increased by $306,578. The 2006A Capital Appreciation Bonds payment increases by $290,000 in 2015.

PCOC's Deferred Inflows of Resources

Deferred inflows of resources for PCOC related to the deferred refunding charges and an upfront amount received as part of a service concession agreement with Centerplate. Deferred inflows of resources decreased $411,203 from 2013 to 2014 as a result of recognizing these revenues due to the passage of time.

PCOC's Net Position

Net position represents the residual interest in PCOC's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. PCOC's net position at the end of FY 2014, totaling $(9.4) million, declined $916 thousand 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. Net position is reported in three major categories: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets decreased $2.3 million from $(17.8) million to $(20) million. Although PCOC's net investment in capital assets is 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 position increased from approximately $13.9 million to $14 million. Of this amount, $189,686 represents an increase in facility restoration fees collected during the year; these fees are collected per ticket for events in the Pasadena Civic Auditorium. $1.0 million represents funds restricted for public art, $2.4 million represents funds restricted for facility restoration services, and $10.5 million represents funds restricted as bond reserve accounts, as held by fiscal agents per bond indentures.

Included in the unrestricted net position are unrestricted but designated assets of $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 position because of a number of factors. PCOC has undertaken a large capital improvement program recently. Capital assets, representing construction in progress and finished capital assets, are less than outstanding debts by $20,065,366. In addition, 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, thereby 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 net position will subside.

PCOC'S RESULTS OF OPERATIONS

The Statement of Revenues, Expenses, and Changes in Net Position is a presentation of PCOC's operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of PCOC are mandated to be reported as non operating revenues, including transient occupancy taxes (TOT), tourism business improvement district (TBID) tax, and earnings on funds invested with the City's investment pool.

A summarized comparison of the operating results for 2014 and 2013, arranged in an informative format, is as follows:

	2014	2013	Change
OPERATING REVENUES			
Occupancy fees and commissions	$ 3,542,645	$ 3,057,485	$ 485,160
Ice skating center	2,406,430	2,240,998	165,432
Parking	1,123,632	1,101,600	22,032
Commissions	1,197,804	1,213,790	(15,986)
Total operating revenues	8,270,511	7,613,873	656,638
OPERATING EXPENSES			
Pasadena Center	5,678,398	5,518,362	160,036
Ice skating center	1,549,024	1,449,232	99,792
Pasadena Convention and Visitors Bureau	2,005,184	2,014,707	(9,523)
Subtotal before depreciation	9,232,606	8,982,301	250,305
Depreciation	4,406,173	4,374,161	32,012
Total operating expenses	13,638,779	13,356,462	282,317
Operating loss	(5,368,268)	(5,742,589)	374,321
NONOPERATING REVENUES (EXPENSES)			
Transient occupancy taxes	7,993,593	6,267,505	1,726,088
Tourism business improvement district tax	2,856,556	2,626,962	229,594
Facility restoration fees	189,686	138,871	50,815
Investment income	1,292,485	515,213	777,272
Interest expense	(7,041,311)	(7,828,191)	786,880
Contribution to the City	(443,582)	(439,570)	(4,012)
Total nonoperating revenues (expenses)	4,847,427	1,280,790	3,566,637
Loss before other changes in net position	(520,841)	(4,461,799)	3,940,958
Capital contributions	99,993	148,521	(48,528)
Decrease in net position	(420,848)	(4,313,278)	3,892,430
Net position at beginning of year, as previously stated	(8,475,178)	(4,161,900)	(4,313,278)
Prior period adjustments (Note 14)	(495,638)	-	(495,638)
Net position at beginning of year, as restated	(8,970,816)	(4,161,900)	(4,808,916)
Net position at end of year	$ (9,391,664)	$ (8,475,178)	$ (916,486)

Operating revenues increased $656,638 from $7,613,873 in 2013 to $8,270,511 in 2014 due to improving business in events and the ice skating center.

Operating expenses, before depreciation, increased 3% or $250,305 from $8,982,301 in 2013 to $9,232,606 in 2014 due to the additional ice skating center expenses, offset by tight controls on administrative expenses. Depreciation increased from $4,374,161 in 2013 to $4,406,173 in 2014; some in-use assets have been fully depreciated.

Nonoperating revenues increased $2,783,769 from $9,548,551 in 2013 to $12,332,320 in 2014. Room taxes (TOT and TBID) increased a combined $1,955,682 or 18% from 2013. Also, investment pool income increased $777,272 from $515,213 in 2013 to $1,292,485 in 2014, mainly due to a $600,000 transfer from capital improvement fund held with the City as a joint entity.

Nonoperating expenses decreased $782,868 from $8,267,761 in 2013 to $7,484,893 in 2014. Of this amount, $1,482,810 is accretion interest on the 2006A Capital Appreciation Bonds, $77,560 is amortization on refunding charges, and the remaining $6,963,751 is interest on the long-term debt of PCOC.

Capital contributions include $99,993; which is recognized as revenue from $1 million contribution paid by Boston Culinary Group, now Centerplate. The remainder of the $466,636 unamortized amount paid by Boston Culinary Group will be recognized in equal monthly installments over the life of the agreement with PCOC.

The notes to the financial statements can be found following the basic financial statements included in this report. These notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

PCOC's investment in capital assets as of June 30, 2014 and 2013, amounts to $149,735,682 and $153,552,165, respectively (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, machinery and equipment, furniture and fixtures, land, and construction in progress. The net decrease in PCOC's investment in capital assets, net of depreciation, for the current fiscal year was $3,816,483.

There were no major capital asset events during the current fiscal year.

PASADENA CENTER OPERATING COMPANY
Capital Assets (Net of Depreciation)

	June 30, 2014	June 30, 2013
Buildings and improvements	$ 145,863,947	$ 149,737,530
Machinery and equipment	838,390	866,136
Furniture and fixtures	102,488	118,507
Land	2,423,473	2,423,473
Construction in progress	507,384	406,519
Total	$ 149,735,682	$ 153,552,165

Additional information on PCOC's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

As of June 30, 2014, PCOC had a long-term debt outstanding of $169,801,048, a decrease of $1,523,253 from 2013 as a result of current year principal payments.

PASADENA CENTER OPERATING COMPANY
Outstanding Debt

	June 30, 2014	June 30, 2013
Conference Center Loan	$ 530,615	$ 612,541
Certificates of Participation 2006 Series A Capital Appreciation Bonds	31,146,993	32,224,183
Certificates of Participation 2008 Series A Capital Appreciation Bonds	134,720,000	134,720,000
Arbitrage Liability	-	-
Energy Conservation Loan	2,315,230	2,538,701
Ice Skating Loan 2012	1,088,210	1,228,876
Total	$ 169,801,048	$ 171,324,301

There were no major debt events during the current fiscal year.

For additional information on PCOC's long-term debt activity, refer to Note 5 of the notes to the financial statements.

PRIOR PERIOD ADJUSTMENT

As discussed in Note 14 to the financial statements, PCOC had a prior period adjustment to correct unamortized bond issuance costs per GASB 65, which states costs related to the debt will no longer be recorded as a deferred charge and amortized over the life of debt; instead, they should be recognized as an expense in the period incurred. The beginning fund balance, as restated, reflects all necessary adjustments.

INFORMATION REQUEST

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

BASIC FINANCIAL STATEMENTS

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF NET POSITION
JUNE 30, 2014 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	2014	2013
Assets:		
Current and other assets:		
Cash and cash equivalents (Note 2)	$ 4,038,727	$ 1,920,700
Cash and investments with fiscal agent (Note 2)	10,596,997	10,518,564
Investments (Note 2)	3,029,930	3,570,538
Accounts receivable	503,548	542,456
Due from City of Pasadena (Note 3)	1,103,846	755,369
Prepaid expense	43,277	134,068
Unamortized bond costs	-	495,638
Total current and other assets	19,316,325	17,937,333
Capital assets (Note 4):		
Buildings and improvements	177,731,146	177,292,973
Machinery and equipment	1,604,460	1,561,443
Furniture and fixtures	274,217	266,582
Accumulated depreciation	(32,804,998)	(28,398,825)
Net depreciable assets	146,804,825	150,722,173
Land	2,423,473	2,423,473
Construction in progress	507,384	406,519
Property, plant, and equipment, net	149,735,682	153,552,165
Total assets	$ 169,052,007	$ 171,489,498
Deferred Outflows of Resources:		
Accumulated decrease in fair value of hedging derivatives (Note 6)	$ 20,327,031	$ 18,899,923
Deferred refunding charges	1,865,021	1,942,580
Total deferred outflows of resources	$ 22,192,052	$ 20,842,503

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF NET POSITION (Continued)
JUNE 30, 2014 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2013)

	2014	2013
Liabilities:		
Other liabilities:		
Accounts payable and other liabilities	$ 646,622	$ 459,237
Due to the City of Pasadena	119,198	265,181
Interest payable	545,881	543,253
Accrued salaries and benefits	293,137	291,398
Advance deposits payable	1,202,249	912,126
Total other liabilities	2,807,087	2,471,195
Long-term debt outstanding:		
Derivative instrument liability (Note 6)	20,327,031	18,899,923
Current portion of long-term debt (Note 5)	3,312,641	3,006,063
Long-term debt (Note 5)	166,488,407	168,318,238
Total long-term debt outstanding	190,128,079	190,224,224
Total liabilities	$ 192,935,166	$ 192,695,419
Deferred Inflows of Resources:		
Deferred refunding charge (Note 6)	$ 7,233,921	$ 7,545,131
Service concession agreement (Note 8)	466,636	566,629
Total deferred inflows of resources	$ 7,700,557	$ 8,111,760
Net Position (Note 7):		
Net investment in capital assets	$ (20,065,366)	$ (17,772,136)
Restricted	14,022,612	13,944,179
Unrestricted	(3,348,910)	(4,647,221)
Total net position	$ (9,391,664)	$ (8,475,178)

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
Operating revenues:		
Occupancy fees	$ 3,542,645	$ 3,057,485
Ice skating center	2,406,430	2,240,998
Parking	1,123,632	1,101,600
Commissions	1,197,804	1,213,790
Total operating revenues	8,270,511	7,613,873
Operating expenses:		
Pasadena Center	5,678,398	5,518,362
Ice skating center	1,549,024	1,449,232
Pasadena Convention and Visitors Bureau	2,005,184	2,014,707
Depreciation expense	4,406,173	4,374,161
Total operating expenses	13,638,779	13,356,462
Operating loss	(5,368,268)	(5,742,589)
Nonoperating revenues (expenses):		
Transient occupancy taxes (Note 3)	7,993,593	6,267,505
Tourism business improvement district tax (Note 3)	2,856,556	2,626,962
Facility restoration fee	189,686	138,871
Investment income	1,292,485	515,213
Interest expense	(7,041,311)	(7,828,191)
Contribution to the City of Pasadena	(443,582)	(439,570)
Total nonoperating revenues (expenses)	4,847,427	1,280,790
Capital contributions	99,993	148,521
Decrease in net position	(420,848)	(4,313,278)
Net position at beginning of year, as previously stated	(8,475,178)	(4,161,900)
Prior period adjustments (Note 14)	(495,638)	-
Net position at beginning of year, as restated	(8,970,816)	(4,161,900)
Net position at end of year	$ (9,391,664)	$ (8,475,178)

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 8,499,549	$ 7,676,024
Cash paid to employees for services	(5,619,141)	(5,339,819)
Cash paid to suppliers of goods and services	(3,333,550)	(3,503,031)
Net cash used for operating activities	(453,142)	(1,166,826)
Cash flows from noncapital financing activities:		
Transient occupancy taxes from the City of Pasadena	7,659,838	6,333,491
Tourism business improvement district taxes from the City of Pasadena	2,804,849	2,655,067
Net cash provided by noncapital financing	10,464,687	8,988,558
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(589,690)	(733,474)
Proceeds of loan and borrowings	77,559	-
Principal payments on long-term debt	(3,006,063)	(1,810,525)
Interest payments on long-term debt	(5,555,873)	(6,251,049)
Contribution to the City of Pasadena	(589,565)	(355,453)
Capital grants and contributions	289,679	287,392
Net cash used for capital and related financing activities	(9,373,953)	(8,863,109)
Cash flows from investing activities:		
Sale of investments	462,175	1,388,581
Investment income received	1,018,260	229,778
Net cash provided by investing activities	1,480,435	1,618,359
Net increase in cash and cash equivalents	2,118,027	576,982
Cash and cash equivalents at beginning of year	1,920,700	1,343,718
Cash and cash equivalents at end of year	$ 4,038,727	$ 1,920,700
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (5,368,268)	$ (5,742,589)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,406,173	4,374,161
Increase (decrease) in accounts receivable	38,908	(77,782)
Increase in prepaid expenses	90,791	11,352
Increase in accounts payable and other liabilities	187,385	108,555
Increase in accrued salaries and benefits	1,739	19,544
Increase in deposits payable	290,123	239,926
Decrease in advances on contracts	(99,993)	(99,993)
Net cash used for operating activities	$ (453,142)	$ (1,166,826)

There were no significant noncash capital, financing, or investing activities for the years ended June 30, 2014 and 2013.

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 Pasadena 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.

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 income* 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 – <u>NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

E. <u>Capital Assets</u>

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 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	3-30 years
Machinery and equipment	3-30 years
Furniture and fixtures	10 years

F. <u>Compensated Absences</u>

The Company has a paid time off (PTO) 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. <u>Classification of Revenues</u>

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. <u>Comparative Data</u>

The amounts shown for the year ended June 30, 2013, in the accompanying financial statements are included to provide a basis for comparison with 2014 and present summarized totals only. Accordingly, the 2013 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 Company's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

I. <u>Prior Period Adjustment</u>

As discussed in Note 14 to the financial statements, the Company had a prior period adjustment due to Governmental Accounting Standards Board (GASB) Statement No. 65 implementation. The beginning fund balance, as restated, reflects all necessary adjustments.

J. <u>Reclassifications</u>

Certain prior year amounts have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2014.

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

K. Accounting Standards Update

During the fiscal year ended June 30, 2014, the Company implemented the following GASB standards:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The Company implemented this change for the fiscal year ended June 30, 2014.

GASB Statement No. 66 – *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. The Company implemented this change for the current fiscal year.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. There was no effect on the Company's accounting or financial reporting as a result of implementing this statement.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. There was no effect on the Company's accounting or financial reporting as a result of implementing this statement.

Additional standards released by GASB impacting future fiscal years are as follows:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Company has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Company has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 4,038,727
Investments	3,029,930
Cash and investments with fiscal agent	10,596,997
Total cash and investments	$ 17,665,654

Cash and investments as of June 30, 2014, consist of the following:

Cash on hand	$ 11,100
Deposits with financial institutions	4,027,627
City of Pasadena Investment Pool	3,029,930
Cash and investments with fiscal agent:	
Federal agency securities	10,354,716
Money market mutual funds	242,281
Total cash and investments	$ 17,665,654

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 Company's investment policy. The table also identifies certain provisions of the California Government Code (or the Company'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
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% 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
Joint Powers Agency (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
Bankers' 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 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 Investment Pool	$ 3,029,930	$ 3,029,930	$ -	$ -
Federal agency securities	10,354,716	-	10,354,716	-
Money market mutual funds	242,281	242,281	-	-
Total	$ 13,626,927	$ 3,272,211	$ 10,354,716	$ -

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	AA+	Not Rated
City of Pasadena Investment Pool	$ 3,029,930	N/A	$ -	$ 3,029,930
Federal Agency Securities	10,354,716	N/A	10,354,716	-
Money Market Mutual Funds	242,281	Aaa	-	242,281
Total	$ 13,626,927		$ 10,354,716	$ 3,272,211

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 any one 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	$ 10,354,716

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 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 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 TOT are used to repay the Certificates of Participation that were issued to fund prior improvements. For the year ended June 30, 2014, net TOT revenue was $7,993,593, of which $837,457 was payable to the Company at June 30, 2014.

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, 2014, 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, 2014, TBID revenue was $2,856,556, of which $266,389 was payable at June 30, 2014.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, is as follows:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets being depreciated:				
Buildings and improvements	$ 177,292,973	$ 438,173	$ -	$ 177,731,146
Machinery and equipment	1,561,443	43,017	-	1,604,460
Furniture and fixtures	266,582	7,635	-	274,217
Total depreciable capital assets	179,120,998	488,825	-	179,609,823
Less accumulated depreciation:				
Buildings and improvements	(27,555,443)	(4,311,756)	-	(31,867,199)
Machinery and equipment	(695,307)	(70,763)	-	(766,070)
Furniture and fixtures	(148,075)	(23,654)	-	(171,729)
Total accumulated depreciation	(28,398,825)	(4,406,173)	-	(32,804,998)
Net depreciable assets	150,722,173	(3,917,348)	-	146,804,825
Land	2,423,473	-	-	2,423,473
Construction in progress	406,519	100,865	-	507,384
Capital assets, net	$ 153,552,165	$ (3,816,483)	$ -	$ 149,735,682

Depreciation expense for the fiscal year ended June 30, 2014, was $4,406,173.

NOTE 5 – LONG-TERM DEBT

Long-term debt for the year ended June 30, 2014, is as follows:

	Balance at June 30, 2013	Additions/ Accretion	Principal Prepayments	Balance at June 30, 2014	Due in One Year
Conference Center Loan	$ 612,541	$ -	$ (81,926)	$ 530,615	$ 86,073
Certificates of Participation 2006 Series A	32,224,183	1,482,810	(2,560,000)	31,146,993	2,850,000
Certificates of Participation 2008 Series A	134,720,000	-	-	134,720,000	-
Energy Conservation Loan	2,538,701	-	(223,471)	2,315,230	232,385
Ice Skating Loan 2012	1,228,876	-	(140,666)	1,088,210	144,183
Total Long-Term Liabilities	$ 171,324,301	$ 1,482,810	$ (3,006,063)	$ 169,801,048	$ 3,312,641

Conference Center Loan

In September 1999, the Company entered into a loan agreement for $1,400,000 with the City to provide funding of Pasadena 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, 2014, is $530,615.

The annual requirements to repay the outstanding loan at June 30, 2014, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2015	$ 86,073	$ 25,468	$ 111,541
2016	90,431	21,111	111,542
2017	95,009	16,533	111,542
2018	99,819	11,723	111,542
2019-2020	159,283	830,828	990,111
	$ 530,615	$ 905,663	$ 1,436,278

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 of Participation were issued as Capital Appreciation Certificates. These certificates of participation 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 of participation 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 of participation; 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 certificates of participation. Principal on the 2006 Series A Certificates of Participation 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 Certificates of Participation (Continued)

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

The annual requirements to repay the outstanding Certificates of Participation 2006 Series A at June 30, 2014, are as follows:

June 30	Principal Payment	Accretion
2015	$ 2,850,000	$ 1,443,449
2016	3,460,000	1,388,328
2017	3,810,000	1,301,447
2018	4,125,000	1,192,789
2019-2023	25,705,000	3,476,994
	$ 39,950,000	$ 8,803,007

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 of participation were issued to refund the City's Certificates of Participation (Conference Center Project), 2006 Series B Certificates of Participation and finance the costs of execution of the 2008 Series A Certificates of Participation. The refunded certificates of participation were repaid in April 2008 and the liability has been removed from the statement of net position. Interest on 2008 Series A Certificates of Participation 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, 2014, are as follows:

June 30	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
2015	$ -	$ 364,647	$ 4,338,233	$ 4,702,880
2016	-	364,647	4,338,233	4,702,880
2017	-	364,647	4,338,233	4,702,880
2018	-	364,647	4,338,233	4,702,880
2019-2023	-	1,823,233	21,691,167	23,514,400
2024-2028	41,460,000	1,619,946	18,630,726	61,710,672
2029-2033	63,715,000	942,202	10,141,905	74,799,107
2034-2035	29,545,000	110,947	484,686	30,140,633
	$ 134,720,000	$ 5,954,916	$ 68,301,416	$ 208,976,332

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 and Power (PWP) as a rebate based on energy savings and $3,000,000 is covered by a loan from the 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, 2014, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2015	$ 232,385	$ 89,188	$ 321,573
2016	241,442	80,130	321,572
2017	251,286	70,287	321,573
2018	261,310	60,263	321,573
2019-2023	1,328,807	136,503	1,465,310
	$ 2,315,230	$ 436,371	$ 2,751,601

Ice Skating Loan 2012

The Company borrowed $1,500,000 per City Council Action in August 2012 for construction of the new Ice Skating Center. The term of the loan is ten years with a fixed interest rate of 2.5%. The principal and interest payment of $171,388 is due annually in March.

The annual requirements to repay the outstanding ice skating loan at June 30, 2014, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2015	144,183	27,205	171,388
2016	147,787	23,601	171,388
2017	151,482	19,906	171,388
2018	155,269	16,119	171,388
2019-2022	489,489	24,675	514,164
	$ 1,088,210	$ 111,506	$ 1,199,716

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY

The Company has entered into a floating to fixed interest rate swap in order to hedge the change in cash flows with respect to certain variable debt as described below. This structure results in a lower borrowing cost by accessing interest rate markets more attractive than traditional fixed rate debt structures of the time. The greater liquidity and flexibility of the swap market has offered the Company significant cost savings opportunities in the swap the Company has engaged in.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

Conference Center Variable Rate Demand Refunding Certificates of Participation (COP)

On September 18, 2006, the Company entered into an interest rate swap agreement with DEPFA Bank related to the $135,500,000 Conference Center Auction Rate Certificates Series 2006B. The objective was to effectively change the Company's variable interest rate to a synthetic fixed rate of 3.536%. Under the terms of the swap, the Company pays the counterparty the fixed rate of 3.536% and receives a floating rate equal to 64% of the one month LIBOR rate. The swap has a notional amount of $133,000,000 representing a hedge ratio of 98.5% and declines according to the schedule set forth in the contract until the final principal payment on the certificates in 2034.

Objective and Terms

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 2008A COPs	$ 133,000,000	9/18/2006	2/1/2034	Pay 3.536%; receives 64% LIBOR index	Aa3/AA-

Note, in 2011, due to its declining credit ratings, DEPFA Bank was replaced by RBC as the counterparty for the swap. Pursuant to GASB Statement No. 64, the replacement did not require any change in accounting treatment.

On April 15, 2008, the Company issued the 2008 Refunding COPs, Series 2008A in the amount of $134,720,000. These certificates were issued to refund the Company's Certificates of Participation (Conference Center Project), Series 2006B and finance the cost of execution of the 2008A Certificates of Participation backed by a letter of credit from Bank of America. The final maturity on the 2008A COPs was extended by one year to 2035 in order to reduce the reserve requirement and consequently, reduce the size of the issue by approximately $800,000. The refunded certificates are considered to be defeased and the liability has been removed from the component unit's column of the statement of net position and recorded as a deferred amount upon a refunding. 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 $8,935,612.84. As of the year ended June 30, 2014, the balance was $7,233,921.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

Conference Center Variable Rate Demand Refunding Certificates of Participation (COP) (Continued)

The deferred amount is amortized over the life of the swap using the effective interest method for the life of the swap with adjustments to interest expense during each fiscal year as follows:

June 30	Beginning Balance	Accrued Interest	Payment	Ending Balance
2015	$ 7,233,921	$ 320,786	$ (646,380)	$ 6,908,327
2016	6,908,327	305,736	(646,380)	6,567,683
2017	6,567,683	289,991	(646,380)	6,211,294
2018	6,211,294	273,518	(646,380)	5,838,432
2019	5,838,432	256,284	(646,380)	5,448,336
2020	5,448,336	238,252	(646,380)	5,040,208
2021	5,040,208	219,387	(646,380)	4,613,215
2022	4,613,215	199,651	(646,380)	4,166,486
2023	4,166,486	179,003	(646,380)	3,699,109
2024	3,699,109	157,461	(635,404)	3,221,166
2025	3,221,166	136,068	(601,344)	2,755,890
2026	2,755,890	115,332	(563,760)	2,307,462
2027	2,307,462	95,454	(522,409)	1,880,507
2028	1,880,507	76,649	(477,171)	1,479,985
2029	1,479,985	59,154	(427,721)	1,111,418
2030	1,111,418	43,226	(373,774)	780,870
2031	780,870	29,157	(315,009)	495,018
2032	495,018	17,258	(251,140)	261,136
2033	261,136	7,877	(181,805)	87,208
2034	87,208	1,487	(88,695)	-
Total		$ 3,021,731	$ (10,255,652)	

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2014, 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, 2014		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge: Pay-fixed interest rate swaps	Deferred outflow	$ (1,427,108)	Debt	$ (20,327,031)	$ 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.

Credit risk: The Company is exposed to credit risk on hedging derivative instruments to the extent the value of the swap is positive from the Company's perspective. The aggregate fair value of hedging derivative instruments was negative as of June 30, 2014, and therefore the Company had no credit risk exposure.

Interest rate risk: The purpose of the swap is to eliminate interest rate risk on the associated hedged bonds and therefore the swap, in combination with related bonds does not create interest rate risk for the Company.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

Conference Center Variable Rate Demand Refunding Certificates of Participation (COP) (Continued)

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 typically remarketed every 7 days. As of June 30, 2014, the weighted-average interest rate on the Company's hedged variable-rate debt is .0680%, while 64% of LIBOR is .09664%.

Termination risk: The Company or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The derivative contract uses the International Swap Dealers Association Master Agreement which includes standard termination events such as failure to pay and bankruptcy. In addition, the Company may optionally terminate the agreement on any date. If at the time of a termination, the Company may be required to make a termination payment to its counterparty. If the Company had to terminate the Swap for any reason on June 30, 2014, the maximum exposure/loss would have been $28,704,814.

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 prior to the maturity of the related debt, the Company will be re-exposed to the risks being hedged by the hedging derivative instrument.

NOTE 7 – NET POSITION

Net position at JUNE 30, 2014, consisted of the following:

Net investment in capital assets:	
Property, plant, and equipment, net	$ 149,735,682
Less:	
Outstanding debt issued to construct capital assets	(169,801,048)
Total net investment in capital assets	(20,065,366)
Restricted net position:	
Bond reserve account - cash held with fiscal agent	10,596,997
Facility Restoration Fee	2,395,786
Public Art	1,026,766
Organ repair and maintenance	3,063
Total restricted net position	14,022,612
Unrestricted net position:	
Designated for capital projects	163,789
Undesignated	(3,512,699)
Total unrestricted net position	(3,348,910)
Total net position	$ (9,391,664)

Net position restrictions and designations are as follows:

Bond Reserve Account - Cash Held with Fiscal Agent – This is the amount 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 position.

NOTE 7 – NET POSITION (Continued)

Public Art – This is the amount earmarked by the City which is to be used for the purchase and contributions of Public Arts with the Pasadena 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 position is designated but not legally restricted.

NOTE 8 – CENTERPLATE – CONCESSION AGREEMENT

In the fiscal year ended June 30, 2009, the Company entered into an agreement with Boston Culinary Group, which then changed to Distinctive Gourmet Services, but is now called Centerplate (CP), that allows CP the 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, CP 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, 2014, CP has contributed $1,000,000. This has been recorded as advances on contracts and is being amortized over 120 months starting March 1, 2009. The sum of $533,297 has been recognized as capital contributions. The remaining $466,636 is recorded as a deferred inflow of resources.

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 the exclusive right to operate a café for the Company at the Pasadena Center. The agreement covers the period March 1, 2010, through June 30, 2014. In December 2011, LCB terminated its agreement with the Company in exchange for $50,000 and vacated the space. One-half of this amount ($25,000) was paid by CP for purchase of existing equipment on site. The remainder $25,000 was paid by the Company for early termination of lease.

In the fiscal year ended June 30, 2013, the Company entered into an agreement with CP that allows CP the exclusive right to operate a Starbucks Café at the Pasadena Center in the space formerly leased by Lovebirds Café & Bakery. The agreement covers the period January 1, 2012, through June 30, 2019. In exchange for this exclusive right, CP agreed to an initial capital investment of $400,000 for interior improvements to the café space in fiscal years 2012 and 2013, then an additional $175,000 after July 1, 2014. The Company has not contributed any capital to this project in current fiscal year and is not obligated to do so per the agreement.

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 $149,150 for the fiscal year ended June 30, 2014.

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, and mail services. These nonevent expenses totaled $1,709,766 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 $97,011, for a grand total of related party expenses of $1,806,777. Total expenses related to the City amounted to $542,909. Total expenses related to the PWP amounted to $1,263,869. At June 30, 2014, amounts payable to the City totaled $119,198.

NOTE 12 – SUBSEQUENT EVENTS

In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if those events are required to be disclosed in these financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through October 29, 2014, which is the date these financial statements were issued.

NOTE 13 – INCOME TAXES

The Company is exempt from federal income taxes under Section 501(c)(4) 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 Company 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 Company and various positions related to the potential sources of unrelated business taxable income. 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 the fiscal year ending June 30, 2014.

The Company files Form 990 in the U.S. federal jurisdiction and Form 199 in the State of California. The Company is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Information obtained and analysis performed, during the 2014 fiscal year, required restatements to the June 30, 2013 net position. These restatements are fully described as follows:

Net position at June 30, 2013, as previously stated	$	(8,475,178)
Adjustment to correct Unamortized Bond Issuance Costs per GASB 65		(495,638)
The reversal amortization entries were made on the amount of $(495,638) and recoded as prior period adjustment for 2013. In addition, bond issuance costs, premiums, and discounts are no longer carried in the asset and liability.		
Net position at June 30, 2013, as restated	$	(8,970,816)

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*

Board of Directors
Pasadena Center Operating Company
Pasadena, California

We have audited, 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, the financial statements of the business-type activities of the Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2014, which collectively comprise the Company's basic financial statements and have issued our report thereon dated October 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 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 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. However, material weaknesses may exist that have not been identified.

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*.

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 is not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 29, 2014