(23) Deferred Compensation Plan

For the benefit of its employees, the City has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or an unforeseeable emergency. As a result of changes under the Small Business Job Protection Act of 1996, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts must be held in a trust, custodial account, or annuity contract for the exclusive benefit of the employee participants and their beneficiaries. The new law effectively repeals the requirement that a section 457 plan sponsored by a governmental entity be solely the property of the employer, subject only to the claims of the employer's general creditors.

The plan has a Plan Administrator and an oversight committee. The five member committee is comprised of three elected City employees and two members of the community appointed by the City Council. The oversight committee members basically monitor the plan activity, performance of investment options and ensure that the Plan Administrator carries out his duties and responsibilities. The Plan Administrator is the Director of Finance or his designee and is responsible for the day to day administration, has authority to sign all legal agreements with approved plan providers, and ensures proper amounts are withheld and immediately transferred to trust and invested in accordance with participants' directions. In fiscal year 1999, the City adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Management of the City believes they have sufficient administrative involvement with the plan in their role as trustee, thus, plan assets were transferred from an Agency Fund to a Pension Trust Fund.

The following is a summary of the increases and decreases of amounts in the deferred compensation plan during the fiscal year:

	2006	2005
Assets, beginning of year (market value)	$117,871,106	105,991,735
Deferrals of compensation	13,196,293	12,466,787
Earnings and adjustments to market value	8,898,815	6,131,822
Payments to eligible employees	(9,480,314)	(6,719,238)
Assets, end of year (market value)	$130,485,900	117,871,106

(24) Pension Plans

Each full-time employee and each part-time employee (with 1,000 hours or more of service) of the City is a member of either the FPRS or California Public Employees' Retirement System. Both plans are defined benefit pension plans and are described individually in the following notes.

Pasadena Fire and Police Retirement System

Plan Description

FPRS is a single-employer defined benefit plan governed by a Retirement Board (Board) under provisions of the City Charter. The plan covers all fire and police personnel who were employed by the City prior to July 1, 1977, except for those who elected to transfer to the California Public Employees' Retirement System (CalPERS) at that time. Retirement benefits for all fire and police personnel employed thereafter are provided under CalPERS. The plan provides retirement, death and disability benefits. Copies of FPRS's annual financial report may be obtained from the Department of Finance, 117 E. Colorado Blvd, 5th Floor, Pasadena, California 91109. This annual financial report includes the required three-year trend information.

Funding Policy

Section 1509.9 of the City Charter provides that the normal member contribution rates will provide an average annuity, at age 50, equal to 1/100 of the final compensation of members for each year of service according to tables adopted by the Board. The basic benefits otherwise funded by these contributions have now been fully funded by Contribution Agreement 16,900. Pursuant to the agreement, the City contributed $100,000,000 net proceeds from the issuance of pension bonds to the System on August 5, 1999. The net proceeds plus the existing assets of the System became sufficient to fully fund the basic benefits, the unfunded basic benefits, the 1919 benefits, and $82,539,000 of the $109,274,000 present value of the COLA benefits. Contributions are recognized when due. Therefore, member contributions are suspended as long as basic benefits remain fully funded.

Pursuant to Section 1509.81 of the Charter, members also contribute an additional 5% of compensation for cost-of-living benefits. Because this is a flat rate and cost-of-living benefits are not fully funded, these contributions continued. The contribution requirements of plan members and the City are established and may be amended by the Board within the provisions of the City Charter.

(24) Pension Plans, (Continued)

Pasadena Fire and Police Retirement System, (Continued)

Annual Pension Cost

For fiscal year 2006, the City's annual pension cost was $6,533,195 for FPRS. The City's required and actual fiscal year contributions were $12,673,597 and $1,427,573, respectively. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected annual salary increases of 5.6%, and (c) 4.0% per year cost-of-living adjustments. The actuarial value of FPRS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period (smoothed market value). During June 2004, FPRS entered into a Settlement and Release Agreement with the City. Under the agreement, the City issued a debenture of $13,735,616 in June 2004 and agreed to make three payments to FPRS (in addition to the Cost of Living contributions required under the City Ordinance and employer pick-up of employee contributions negotiated in a labor agreement). The debenture included a principal amount of $12,829,096 plus interest accrued through the end of the fiscal year. The City made the first payment of $15 million in August 2004. The second payment of $15 million was made on November 1, 2004. A third payment of $10 million was made on January 2, 2005. The payments in excess of the debenture are projected to be used to cover any Supplemental Contribution required under actuarial as of June 30, 2004. In exchange for these payments, the FPRS Board agreed to modify the methodology used to calculate the actuarial value of assets in this and subsequent annual valuations. The modified methodology no longer requires that the actuarial value of assets remain within a 20% corridor around the actual market value of the assets. FPRS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Benefits and refunds are recognized when due and payable. The amortization period of the unfunded actuarial liability ends on June 30, 2007.

Three-Year Trend Information for FPRS (in thousands)

Fiscal Year	Annual Pension Cost (APC)	Actual Contributed	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ 11,765	13,863	117.833%	55,033
6/30/05	7,284	26,293	360.969%	36,023
6/30/06	6,533	1,427	21.851%	41,129

(24) Pension Plans, (Continued)

Pasadena Fire and Police Retirement System, (Continued)

Required Supplementary Information for FPRS – Unaudited (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/04	$117,100	186,072	68,972	63%	380	18,150%
6/30/05	132,730	185,181	52,451	72%	277	18,902%
6/30/06	127,841	184,852	57,011	69%	141	40,416%

Changes in the Net Pension Obligation (NPO) during the fiscal year ended June 30, 2006 are as follows:

Beginning of year net pension obligation		$36,023,279
Pension Cost:		
Annual required contribution	12,673,597	
Interest on beginning of year NPO less interest on mid year City contribution	2,881,861	
Amortization of beginning of year NPO	(9,022,263)	
Total pension costs		6,533,195
Less: City contribution		(1,427,573)
End of year net pension obligation		$41,128,901

California Public Employees' Retirement System

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their

(24) Pension Plans, (Continued)

California Public Employees' Retirement System, (Continued)

behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 19.648% of payroll for the safety plan and 8.313% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

A summary of principle assumptions and methods used to determine the ARC is shown below.

		1959 Survivor Program	
	Retirement Program	Misc. Plan	Safety Plan
Valuation Date	June 30, 2003	N/A	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method	N/A	Modified Term Insurance Method
Amortization Method	Level Percent of Payroll	N/A	Level Percent of Payroll
Average Remaining Period	13 Years as of the Valuation Date (21 years for the Safety Plan)	N/A	Rolling 5 Years
Asset Valuation Method	3 Year Smoothed Market	N/A	3 Year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return	7.75% (net of admin. expenses)	N/A	7.75% (net of admin. expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment (3.25% to 13.15% for the Safety Plan)	N/A	N/A
Inflation	3.00%	N/A	N/A
Payroll Growth	3.25%	N/A	N/A
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.	N/A	N/A

(24) Pension Plans, (Continued)

California Public Employees' Retirement System, (Continued)

Defined Benefit Pension Plan (PERS)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Required Supplementary Information – Safety – Unaudited (in thousands)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
Retirement Program						
6/30/02	$154,780	145,031	9,749	93.7%	25,047	38.9%
6/30/03	175,224	151,495	23,729	86.5%	29,002	81.8%
6/30/04	201,515	165,554	35,961	82.2%	31,761	113.2%
1959 Survivor Program						
6/30/02	$ 28	84	(56)	295.9%	25,047	(0.2%)
6/30/03	70	89	(19)	127.9%	23,873	(0.1%)
6/30/04	28	84	(56)	295.9%	25,047	(0.2%)

(24) Pension Plans, (Continued)

California Public Employees' Retirement System, (Continued)

Required Supplementary Information – Miscellaneous – Unaudited (in thousands)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
Retirement Program						
6/30/02	$381,780	420,214	(38,434)	110.1%	69,689	(55.2%)
6/30/03	425,200	421,556	3,644	99.1%	76,431	4.8%
6/30/04	454,138	438,764	15,374	96.6%	84,021	18.3%
1959 Survivor Program						
6/30/02	$ 0	0	0	-	69,689	0.0%
6/30/03	0	0	0	-	61,065	0.0%
6/30/04	0	0	0	-	69,689	0.0%

* Information for the 6/30/05 disclosures was not available at the time of printing.

Three-Year Trend Information

	Annual Pension Cost (Employer Contribution)			
Fiscal Year	Safety	Miscellaneous	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ 5,411	5,872	100%	-
6/30/05	11,030	8,274	100%	-
6/30/06	6,936	7,402	100%	-

(24) Pension Plans, (Continued)

Defined Contribution Plan

The City provides pension benefits for employees not covered by CalPERS or FPRS through the Public Agency Retirement System (PARS). This is a defined contribution plan created in accordance with Internal Revenue Code Sections 401(a) and 501, and administered by Phase II Systems. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The plan agreement requires the City to contribute an amount equal to 4.0% of the employees' earnings and the covered employee contributes 3.5%. The City contributions for each employee are fully vested.

The City's payroll for employees covered by PARS for the year ended June 30, 2006, was $3,365,737. Both the City and the covered employees made the total required 7.5% contributions of $134,629 from the City and $117,800 from the covered employees.

(25) Commitments and Contingencies

Primary Government

Jointly Governed Organizations

Joint Power Agreement between the City and the County of Los Angeles

Under a Joint Powers Agreement dated November 22, 1966, both the City and the County of Los Angeles (County) participated in the construction of a parking structure at 199 North Garfield Avenue, Pasadena, California. In 1985, the County exercised an option to purchase the structure from the Retirement Board of the Los Angeles County Employees' Retirement Association, at which time the City became tenant in common, holding a 30% share of the facility.

"Take or Pay" Contracts

The City's electric operation has entered into six "Take or Pay" contracts to provide for current and future electric generating capacity and transmission of energy for City customers. The City is obligated to pay the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity and/or transmission, as applicable. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract.

(25) Commitments and Contingencies, (Continued)

Primary Government, (Continued)

Jointly Governed Organizations, (Continued)

The Intermountain Power Authority (IPA), a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,640-megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The City, through contract, is obligated for 72 megawatts or 4.409% of the generation. In addition, the City entered into an "Excess Power Sales Agreement" with IPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the City to an additional share of 26 megawatts or 1.591%. The City's total obligation from the Intermountain Power Project (IPP) is 98 megawatts.

The City of Pasadena Light and Power Fund joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the cities of Los Angeles, Pasadena, Anaheim, Azusa, Banning, Riverside, Colton, Vernon, Burbank, Glendale, Cerritos, San Marcos, and the Imperial Irrigation District, was formed for the purpose of planning, financing, developing, acquiring, constructing operating and maintaining future power resources. The Joint Powers Agreement has a term of fifty years. The City entered into four projects with SCPPA.

The first project SCPPA participated in is a 3,810-megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde Nuclear Project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. Unit No. 1 began commercial operation in February 1986, Unit No. 2 was commercially operable in September 1986, and Unit No. 3 attained commercial operation in January 1988. SCPPA has purchased approximately 225 megawatts of capacity and associated energy in Palo Verde (approximately 5.9% of total output), of which the City received 9.9 megawatts or 4.4% of SCPPA's entitlement.

SCPPA financed a second project called the Southern Transmission System (STS), which transmits power from the IPP to Southern California. The 500 kV DC is rated at 1,920 megawatts. The City's share of the line is 5.883% or approximately 113 megawatts. STS commenced commercial operations in July 1986.

SCPPA financed a third project called the Mead-Adelanto Transmission System consisting of a 202 mile long 500 kV AC transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada.

(25) Commitments and Contingencies, (Continued)

Primary Government, (Continued)

Jointly Governed Organizations, (Continued)

Commercial operations commenced in April 1996. Nine members own one-third of Mead-Adelanto through SCPPA. SCPPA members are entitled to 815 megawatts. The City is obligated for 70 megawatts or 8.589% of the SCPPA entitlement.

SCPPA financed a fourth project called the Mead-Phoenix Transmission System consisting of a 256 mile long 500 kV AC transmission line extending between the Westwing substation in Arizona and the Marketplace substation in Nevada. Commercial operations commenced in April 1996. Nine members own one-fifth of Mead-Phoenix through SCPPA. The City is obligated for 33 megawatts from the Mead-Phoenix project or 13.806% of the SCPPA entitlement.

SCPPA financed a fifth project called the "Magnolia Power Project" consisting of a natural gas-fired generating facility with a nominally rated net base capacity of 242 MW to be located on an existing generating site in the City of Burbank, California, including necessary and appurtenant facilities and equipment thereto, the applicable portion of any common facilities and interconnection facilities. The Project was being constructed for the primary purpose of providing the participants in the Project with firm capacity and energy to help meet their power and energy requirements in 2005 and thereafter. Commercial operations commenced September, 2005. SCPPA owns the Magnolia Power Project, and six SCPPA members have contracted with SCPPA for 100% of its output. The City of Pasadena's share is 6.1307% or 15 MW of base capacity.

Deregulation of the electric industry in California continues to be one of the most significant issues facing the City. The City has long-term contracts with IPA and SCPPA, most of which obligate the City to purchase power and/or services at cost, which is projected to be higher than market in a deregulated environment.

The City opened its market to competition on January 1, 2000. As a result, the City is faced with a "stranded investment" with a present value estimated to be approximately $144.2 million in 2005. California Assembly Bill 1890 provides for the recovery of this stranded investment through a "competitive transaction charge" on each customer's utility bill. Since July 1, 2002, the City stopped collecting this charge.

(25) Commitments and Contingencies, (Continued)

Primary Government, (Continued)

Jointly Governed Organizations, (Continued)

A competitive financial strategy, which includes a ten-year financial planning model developed in 1996 and updated annually, serves as the blue print for managing the Utility through the open market transition. The strategy includes recovery and elimination of the stranded investment with minimal impact on customer rates over approximately five years. As of June 30, 2006, the City's Reserve for Stranded Investment fund balance was approximately $145.5 million, which exceeds the estimated future stranded costs. In addition, labor groups and management have jointly addressed appropriate actions in view of deregulation, and processes and procedures to reduce operating and capital expenses.

A summary of the City of Pasadena "Take or Pay" contracts by project as of June 30, 2006, and its estimated contractual obligations through 2024, based on projected energy prices (in millions) are as follows:

	Unaudited (in millions)					
	IPA Project	SCPPA Palo Verde	SCPPA Southern Transmission System	SCPPA Mead-Adelanto	SCPPA Mead-Phoenix	SCPPA Magnolia
Bonds and Notes sold (outstanding)	3,359	125	902	229	72	314
Interest	1,167	29	461	92	29	300
Combined total debt service	4,526	154	1,363	321	101	614
City percentage	6%	4.4%	5.88%	8.59%	13.81%	6.13%
City obligations	$ 272	7	80	28	14	38

(25) Commitments and Contingencies, (Continued)

Primary Government, (Continued)

Jointly Governed Organizations, (Continued)

SCPPA Natural Gas Development Project

In early 2004, Pasadena, along with eight other Southern California Public Power Authority (SCPPA) members, became alarmed about the volatility of price and supply forecasts of natural gas which is used to fuel our on-site and Magnolia generators. Furthermore, prices were projected to rise steadily as demand for natural gas continues to grow while supply remains stagnant or even falls. In order to mitigate some of the risk of the price and supply uncertainty, SCPPA was asked to look into a few different options for securing reliable and low cost sources of natural gas. After reviewing the options, the members decided to investigate further the purchase of a share in a natural gas reserve field. On July 1, 2004, nine SCPPA members signed a Development Agreement to jointly examine the feasibility and economics of purchasing a share in a natural gas reserves field. After almost a year of studying the financial and operational risks as well as the backgrounds of a number of gas drilling operations, Pasadena agreed to go forward and participate in the SCPPA Natural Gas Development Project and purchase property and up to a 1,000 MMBtu/day output share of natural gas reserves. Pasadena, along with five out of the original eight interested members, signed its first agreement with SCPPA effective July 1, 2005.

On July 1, 2005, SCPPA has successfully closed the first transaction to purchase an interest in natural gas reserves under the SCPPA gas development project to help ensure a stable fuel supply for Pasadena Water and Power's (PWP) power plants. The acquisition, which includes 38 operating oil and gas wells expected to yield about 112 billion cubic feet of natural gas over the life of the field, is believed to be the largest natural gas field owned by public power utilities. It will help ensure a stable supply for PWP's power plants and stabilize the most volatile component of PWP's operating expenses.

SCPPA and other participants, including Los Angeles Department of Water and Power and the Turlock Irrigation District, signed a purchase agreement with Anschutz Pinedale Corp. in Denver to buy a portion of the company's natural gas reserves in Wyoming for $300 million. Pasadena's SCPPA partners include the cities of Anaheim, Burbank, Colton and Glendale.

(25) Commitments and Contingencies, (Continued)

Primary Government, (Continued)

Jointly Governed Organizations, (Continued)

The agreement gives PWP a 2.13% ownership in the acquisition at a total cost of $6.5 million including development and transaction costs. On July 1, 2005, PWP began scheduling net gas flow deliveries of 402 MMBtu/day to the local power plant at a substantial discount from today's $7.50/MMBtu market prices. Daily deliveries are expected to nearly double over the next five years as a result of additional drilling investments.

Additional financial information on the SCPPA may be obtained by contacting Steve Endo, Power Engineer, with the Energy Contracts and Planning Division of the City of Pasadena Department of Water and Power, 45 E. Glenarm Street, Pasadena, CA 91105.

Multimodal Operation and Development Entity (MODE)

In April 2003, the City Council approved the formation of the Multimodal Operation and Development Entity (MODE), a joint powers authority between the City of Pasadena and the Los Angeles to Pasadena Metro Blue Line Construction Authority for the purpose of operating the 600 space Del Mar parking structure adjacent to the Del Mar Gold Line station. Once fully operational, the garage is expected to be self supporting from parking revenues. As an active participant in providing oversight of this garage, in November 2003 the City made a loan to the MODE of $50,000 in order to provide needed funding to maintain a quality parking facility and preserve the City's involvement in the operations of the garage. The loan is interest free and is due in full by the close of business on January 5, 2009.

Other

Certain Federal and State revenues are received for specific purposes and are subject to audit by the grantor agencies. City management is of the opinion that adjustments, if any, resulting from such audits will not be significant.

Litigation

A number of suits and claims are pending against the City, RBOC and PCOC arising in the normal course of operations. In the opinion of management, the results of such legal actions will not have a material adverse effect on the financial position or results of operations of the City, RBOC and PCOC.

(26) Defeasance of Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt issues. Accordingly, the trust account assets and the liability for the defeased debt issues are not included in the City's financial statements.

As of June 30, 2006 the following defeased debt issues are outstanding:

	Outstanding Balance at June 30, 2006
1987 Police Building and Jail General Obligation Bonds (Partial refunding)	$1,550,000
Electric Works Revenue Bonds, 1980 Series	5,895,000
Electric Works Revenue Bonds, 1990 Series	8,230,000
Electric Works Revenue Bonds, 1992 Series	18,250,000
1991 Water Revenue Bonds	4,635,000
1994 Financing Authority for Resource – Water	1,445,000
1993 Water Revenue Bonds	19,340,000
Fair Oaks 1985 Tax Allocation Bonds	835,000
Villa-Parke 1985 Tax Allocation Bonds	1,050,000
Lake/Washington, 1985 Tax Allocation Bonds	250,000
Orange Grove 1989 Subordinate Tax Allocation Bonds	1,490,000
Villa Parke 1989 Subordinate Tax Allocation Bonds	1,205,000
Fair Oaks 1993 Tax Allocation Bond	2,580,000
Villa Parke 1993 Tax Allocation Bond	810,000
Lake Washington 1993 Tax Allocation Bond	865,000
Housing Set-Aside Revenue Townhouse 1996 Tax Allocation Bond	2,160,000
1985 Certificates of Participation (Old Pasadena Parking Facilities Project of 1985)	16,385,000
1986 Refunding Certificates of Participation (Old Pasadena Parking Facilities Project of 1986)	18,045,000
1987 Certificates of Participation (Capital Improvement Projects)	11,560,000
1989 Certificates of Participation (Public Facilities Project)	17,950,000
1990 Certificates of Participation	23,900,000
1992 Certificates of Participation (Refunding and Capital Project)	14,055,000

(26) Defeasance of Debt, (Continued)

1993 Certificates of Participation (Refunding and Capital Project), Partial Refunding	21,405,000
1996 Certificates of Participation (Multi-Purpose Project), Partial Refunding	7,785,000
Total defeased debt issues outstanding	$201,675,000

(27) Debt Without Government Commitment – *Primary Government*

The City served as a conduit for the Collis P. and Howard Huntington Memorial Hospital Trust, a 501(c)3 public benefit corporation for the financing of the acquisition of computers and related equipment for Huntington Memorial Hospital. The maximum amount of debt was $10 million, disbursed through several loans and to be repaid over a maximum term of eight years. Wells Fargo is privately placing the notes. Repayment of the notes is the sole responsibility of the trust, not an obligation of the City, and is therefore excluded from the City's financial statements.

The City also participates in private property financing arrangements between lenders and property owners under the Marks Historical Rehabilitation Act of 1976. Such financing arrangements were issued by the City in 1984 in an aggregate amount of $4,000,000 and are due in December 2014. These are not obligations of the City, and are therefore excluded from the City's financial statements.

Also, on November 13, 1997, the City Issued $13,290,668 of its Community Facilities District#1 (Civic Center West Public Improvements) 1997 Special Tax Bonds. The Bonds were issued to refinance the previously issued 1992 Special Tax Bonds used to finance the public improvements related to the Civic Center West Project.

Special taxes have been and will continue to be assessed on the property by the City's Finance Department by means of direct billing. The special taxes assessed against the district are tax revenues pledged to pay the debt service on the bonds and cover any administrative expenses. The City is in no way liable for repayments but is only acting as an agent for revenue payers. The bonds are therefore not recorded as liabilities in the accompanying financial statements. As of June 30, 2006, the outstanding balances on the CFD Special Tax Bonds were $8,865,000.

(28) Subsequent Events

Pasadena Conference Center Expansion

On July 17, 2006, the City Council approved the Pasadena Conference Center expansion project and the financing plan which included the issuance of approximately $163.5 million of Certificates of Participation (COPs). Rather than issue the conventional fixed rate COPs, on September 7, 2006, the City issued the 2006A Series Capital Appreciation Bonds for $28 million and created a "synthetic" fixed rate obligation for the remaining $135.5 million of the bond issue by issuing the 2006B Series Auction Rate Certificates, which are variable rate COPs, and then entered into a Swap transaction. The Swap will have the net effect of converting the City's variable rate debt service obligation to a fixed rate debt obligation at an interest rate that is more favorable than if the City has issued traditional fixed rate debt from the outset. The Swap transaction was entered into with Depfa Bank plc, effective September 18, 2006 and will terminate on February 1, 2034. Under the Swap, the City will make payments to Depfa Bank plc based on the application of a fixed rate of 3.536% and Depfa Bank plc will make payments to the City based on 64% of LIBOR index. The annual debt service on the COPs is estimated at $5.4 in year 2010 and will gradually increase to $16 million in 2035.

Master Equipment Lease/Purchase Agreement

On July 26, 2006, the City negotiated a Master Equipment Lease/Purchase Agreement Lease line of credit for $5,000,000 with Bank of America Leasing & Capital LLC. The City has also negotiated a forward rate lock to be held until December 28, 2006. Until December 28, 2006, the interest rates are 3.93% for 3 years, 3.98% for 5 years, 4.04% for 7 years and 4.13% for 10 years. Subsequent to December 28, 2006, the interest rates will be calculated based upon the term of the lease (0.65x 3-year U.S. Treasury plus 0.7125 for 3 years; 0.65 x 5-year U.S. Treasury plus 0.7365 for 5 years; 0.65 x 7-year U.S. Treasury plus 0.7601 for 7 years; and 0.65 x 10-year U.S. Treasury plus 0.7955 for 10 years.

(29) Restatement of Beginning Net Assets

Primary Government

Governmental Activities

The accompanying financial statements reflect adjustments that resulted in the restatement of beginning net assets of the Governmental Funds. During the City's analysis of its Community Facilities District No. 1 fund, which accounts for the Civic Center West Project bond, this fund was incorrectly categorized as a special revenue fund rather than an agency fund.

The following schedule summarizes the effect of the prior period adjustment to the beginning net assets as of July 1, 2005.

Net assets at July 1, 2005	$ 273,345,934
Community Facilities District beginning balance	(1,416,150)
Net assets, at July 1, 2005, as restated	$ 271,929,784

Discretely Presented Component Unit

Rose Bowl Operating Company (RBOC)

The net assets as of July 1, 2005 have been restated to correct an error in the beginning balance of Buildings and Improvements.

Net assets at July 1, 2005	$ 19,979,157
Decrease in beginning balance of buildings and improvements	(95,453)
Net assets, at July 1, 2005, as restated	$ 19,883,704

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Required Supplementary Information

(1) Budgets and Budgetary Data

The City Council is required to adopt an annual budget resolution by June 30 of each fiscal year. The budgets are adopted on a basis that does not differ materially from GAAP.

An appropriated annual budget is legally adopted for the General and Special Revenue Governmental Funds. Annual appropriated budgets are not adopted for Debt Service Funds because bond indentures are used as the method for adequate budgetary control. Capital Projects Funds do not have annual appropriated budgets. Instead, control over projects is maintained by means of a project-length capital improvement budget. This project-length budget authorizes total expenditures over the duration of a construction project, rather than year by year.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the department level and within a single fund. The City Manager may authorize transfers of appropriations within a department so long as it is within a single fund. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are each considered a single department. Supplemental appropriations during the year must be approved by the City Council. There were no significant budget amendments during the fiscal year. All unencumbered appropriations lapse at fiscal year end. In order to be an encumbered appropriation there must be either an approved purchase order or contract in force as of June 30.

(2) Expenditures in Excess of Appropriations

The general fund reported an excess of expenditures over appropriations at June 30, 2006:

	Budget	Actual	Variance with Final Budget Positive (Negative)
General Fund:			
General government			
Non-departmental	6,539,712	8,301,282	(1,761,570)
Culture and leisure			
PCOC	4,598,100	5,317,863	(719,763)

(2) Expenditures in Excess of Appropriations, (Continued)

The general government, non-departmental expenditures exceeded appropriations due to $2,160,581 of the expenditures being for billable projects which do not typically have budgets. This overage was partially offset by savings in other non-departmental expenditures.