

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

Fiscal Year ended June 30, 2006

Conrad Government Services Division

MHM

**Mayer
Hoffman
McCann P.C.**
An Independent CPA Firm

PASADENA CENTER OPERATING COMPANY

Basic Financial Statements

Fiscal Year ended June 30, 2006

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Board of Directors
Pasadena Center Operating Company
Pasadena, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Pasadena Center Operating Company (the Company) as of and for the year ended June 30, 2006 as listed in the table of contents. These basic financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year financial information has been derived from the Company's 2005 financial statements which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated September 2, 2005 expressed an unqualified opinion on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pasadena Center Operating Company as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Mayer Hoffman McCann P.C.

Irvine, California
August 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of Pasadena Center Operating Company (PCOC), we offer this narrative overview and analysis of the financial activities of PCOC for the fiscal year ending June 30, 2006. All amount, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS:

The assets of PCOC exceeded its liabilities at the close of the most recent fiscal year 2006 by \$17,632 (net assets). Of this amount; \$164 is designated for capital projects, \$1,232 is currently restricted for facility restoration and \$5,550 is unreserved but designated both to cover operating deficits and for future expansion purposes per Board of Directors decision.

The Net Assets of PCOC increased by \$4,328 over the previous fiscal year.

The total debt of PCOC decreased by \$55 when compared to the prior fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS:

This presentation and analysis are intended to provide an introduction to the basic financial reports of PCOC. These financial statements are designed to present readers with a broad overview of the finances of PCOC, in a manner similar to a private sector business.

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

The Statement of Revenues, Expenses and Changes in Net Assets presents information indicating how PCOC net assets have changed during the most recent fiscal year. All changes in Net Assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in impacting cash flows in future fiscal periods.

The notes to the financial statements can be found on pages 14 through 23 of this report. These notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS:

Comparative Statement of Net Assets:

As noted earlier, Net Assets may serve over time as a useful indicator of an entity's financial position. At the close of the most recent fiscal year, 2006, the assets of PCOC exceed its liabilities by \$17,632.

The largest portion of PCOC net assets at 60.6% or \$10,686 reflects its investment in capital assets (land, buildings and improvements, machinery and equipment, and furniture and fixtures), less any outstanding debt related to acquisition of these assets. Although PCOC's investment in its 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.

An additional portion of PCOC net assets at 7.0% or \$1,232 reflects resources that are subject to restrictions on how they may be used. There was an increase of \$230 in net assets that are restricted for facility restoration projects for the twelve month period ending June 30, 2006 and June 30, 2005 due to collection of facility restoration fees.

An additional portion of PCOC net assets at .9% or \$164 reflects resources that are designated for capital projects by the Board of Directors.

The current remaining balance of unreserved net assets \$5,550 may be used to support PCOC's ongoing operations and an undetermined percentage is to be designated for future expansion related expenditures.

Comparative Statement of Revenues, Expenses and Changes in Net Assets:

There was an overall increase of \$504 in total operating revenues for the most recent fiscal year when compared to the prior fiscal year due primarily to increased building occupancy levels and increased ancillary revenues (equipment rental and commissions from third party providers).

There was an overall increase of \$210 in total operating expenses for PCOC over the previous fiscal year.

TOT increased \$711 when compared to the prior fiscal year.

TBID increased by \$277 when compared to the prior fiscal year.

The Tourism Business Improvement District (TBID) tax was implemented in March 2003. This is a 2.39% hotel/motel assessment that is passed on to guests in the same manner as the TOT. The TBID revenues are to be used for marketing Pasadena as a destination. Total collections for the fiscal year ended June 30, 2006 were \$2,009.

ECONOMIC FACTORS & CURRENT FISCAL BUDGET:

For the fiscal year ended June 30, 2006 the Pasadena Convention and Visitors Bureau, CVB, produced 97% of the annual goal for tentative hotel room night bookings. The actual definite hotel room bookings were 67% of the annual goal.

The FY 2006 budget for TOT (transient occupancy tax) was increased to \$4,598 based on estimates of actual collections and trends at the time of budget preparation; the actual amount collected in fiscal year 2006 is \$5,302.

The FY 2006 budget for TBID (tourism business improvement district) assessment is \$1,726 based on estimates of actual collections and trends at the time of budget preparation; the actual amount collected in fiscal year 2006 is \$2,009.

INFORMATION REQUEST:

This report is prepared to provide the reader with a general overview of PCOC financial position. Questions concerning any of the information contained herein or requests for additional financial information should be addressed to Michael Carcieri, PCOC Finance Department, at 626-793-2122, extension 234.

ATTACHMENT A

**THE PASADENA CENTER OPERATING COMPANY
COMPARATIVE SCHEDULE OF NET ASSETS**

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
Current and other assets	\$ 7,934,306	\$ 4,808,503	\$ 3,125,803	65%
Capital assets	<u>11,889,456</u>	<u>11,220,927</u>	<u>668,529</u>	6%
Total assets	19,823,762	16,029,430	3,794,332	24%
Long-term liabilities outstanding	1,027,541	1,085,522	(57,981)	-5%
Other liabilities	<u>1,163,867</u>	<u>1,639,590</u>	<u>(475,723)</u>	-29%
Total liabilities	2,191,408	2,725,112	(533,704)	-20%
Net assets:				
Invested in capital assets, net of related debt	10,686,151	9,855,165	830,986	8%
Restricted	1,232,471	1,002,370	230,101	23%
Unrestricted:				
Designated	163,789	163,789	-	0%
Unreserved	<u>5,549,943</u>	<u>2,282,994</u>	<u>3,266,949</u>	143%
Total net assets	\$ 17,632,354	\$ 13,304,318	\$ 4,328,036	33%

BASIC FINANCIAL STATEMENTS

PASADENA CENTER OPERATING COMPANY

Statement of Net Assets

June 30, 2006

(with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 730,972	1,119,199
Investments (note 2)	5,342,162	2,998,155
Accounts receivable	194,142	95,529
Due from City of Pasadena (note 3)	1,595,071	519,930
Prepaid expenses	67,959	71,690
Total current assets	<u>7,930,306</u>	<u>4,804,503</u>
Noncurrent assets:		
Deposits	4,000	4,000
Capital assets (note 4):		
Buildings and improvements	12,783,845	12,783,845
Machinery and equipment	468,277	455,427
Furniture and fixtures	174,787	174,787
Accumulated depreciation	(9,994,144)	(9,647,547)
Net depreciable assets	<u>3,432,765</u>	<u>3,766,512</u>
Land	2,423,473	2,423,473
Construction in progress	6,033,218	5,030,942
Property, plant and equipment, net	<u>11,889,456</u>	<u>11,220,927</u>
Total noncurrent assets	<u>11,893,456</u>	<u>11,224,927</u>
Total assets	<u>19,823,762</u>	<u>16,029,430</u>
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	485,296	1,032,056
Interest payable	15,781	16,721
Accrued salaries and benefits	236,819	231,470
Advance deposits payable	367,990	304,156
Current portion of long-term debt (note 5)	57,981	55,187
Total current liabilities	<u>1,163,867</u>	<u>1,639,590</u>
Noncurrent liabilities:		
Long-term debt (note 5)	<u>1,027,541</u>	<u>1,085,522</u>
Total noncurrent liabilities	<u>1,027,541</u>	<u>1,085,522</u>
Total liabilities	<u>2,191,408</u>	<u>2,725,112</u>
Net assets (note 6):		
Invested in capital assets, net of related debt	10,686,151	9,855,165
Restricted	1,232,471	1,002,370
Unrestricted:		
Designated	163,789	163,789
Unreserved	5,549,943	2,282,994
Total net assets	<u>\$ 17,632,354</u>	<u>13,304,318</u>

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2006
(with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Occupancy fees	\$ 3,437,237	3,025,763
Food services	304,930	239,843
Commissions and surcharges	208,874	193,865
Other operating revenues	<u>19,108</u>	<u>6,505</u>
 Total operating revenues	 <u>3,970,149</u>	 <u>3,465,976</u>
 Operating expenses:		
Pasadena Center	5,020,877	4,768,377
Parking garage	392,110	377,735
Pasadena Convention and Visitors Bureau	<u>1,800,556</u>	<u>1,856,888</u>
 Total operating expenses	 <u>7,213,543</u>	 <u>7,003,000</u>
 Operating income (loss)	 <u>(3,243,394)</u>	 <u>(3,537,024)</u>
 Nonoperating revenues (expenses):		
Transient occupancy taxes, net (note 3)	5,301,897	4,590,702
Tourism business improvement district tax (note 3)	2,008,743	1,731,507
Facility restoration fee	230,101	166,138
Grant revenue	-	15,000
Investment income	86,104	50,049
Interest expense	<u>(55,415)</u>	<u>(58,001)</u>
 Total nonoperating revenues (expenses)	 <u>7,571,430</u>	 <u>6,495,395</u>
 Increase (decrease) in net assets	 4,328,036	 2,958,371
 Net assets at beginning of year	 <u>13,304,318</u>	 <u>10,345,947</u>
 Net assets at end of year	 <u>\$17,632,354</u>	 <u>13,304,318</u>

See accompanying notes to the basic financial statements.

PASADENA CENTER OPERATING COMPANY

Statement of Cash Flows

Year ended June 30, 2006

(with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,935,370	3,441,776
Cash paid to employees for services	(4,185,084)	(4,281,993)
Cash paid to suppliers of goods and services	<u>(3,189,022)</u>	<u>(2,279,962)</u>
Net cash provided by (used for) operating activities	<u>(3,438,736)</u>	<u>(3,120,179)</u>
Cash flows from noncapital financing activities:		
Transient occupancy taxes from City of Pasadena	4,447,992	5,059,090
Tourism business improvement district taxes from City of Pasadena	<u>1,787,507</u>	<u>2,022,947</u>
Net cash provided by (used for) noncapital financing activities	<u>6,235,499</u>	<u>7,082,037</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,045,646)	(3,453,575)
Principal payments on long-term debt	(55,187)	(52,528)
Interest payments on long-term debt	(56,354)	(59,013)
Collection of facility restoration fees	230,101	166,138
Capital grant	<u>-</u>	<u>15,000</u>
Net cash provided by (used for) capital and related financing activities	<u>(927,086)</u>	<u>(3,383,978)</u>
Cash flows from investing activities:		
Investment in City of Pasadena investment pool	(2,344,007)	(2,061,157)
Investment earnings	<u>86,103</u>	<u>50,049</u>
Net cash provided by (used for) investing activities	<u>(2,257,904)</u>	<u>(2,011,108)</u>
Net increase (decrease) in cash and cash equivalents	(388,227)	(1,433,228)
Cash and cash equivalents at beginning of year	<u>1,119,199</u>	<u>2,552,427</u>
Cash and cash equivalents at end of year	<u>\$ 730,972</u>	<u>1,119,199</u>

(Continued)

PASADENA CENTER OPERATING COMPANY
Statement of Cash Flows
Year ended June 30, 2006
(Continued)

	<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (3,243,394)	(3,537,024)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	377,117	377,123
(Increase) decrease in accounts receivable, net	(98,613)	14,402
(Increase) decrease in prepaid expenses	3,731	(677)
Increase (decrease) in accounts payable and other liabilities	(546,760)	62,079
Increase (decrease) in accrued salaries and benefits	5,349	2,520
Increase (decrease) in deposits payable	<u>63,834</u>	<u>(38,602)</u>
Net cash provided by (used for) operating activities	<u>\$ (3,438,736)</u>	<u>(3,120,179)</u>

Noncash investing, capital and financing activities

There were no noncash investing, capital and financing activities for the year ended June 30, 2006.

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

Fiscal Year ended June 30, 2006

(1) Nature of Business and Significant Accounting Policies

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 whereby the Company maintains and operates the Pasadena Center and the Convention and Visitors Bureau. The Pasadena City Council appoints the members of the Company's Board of Directors. The Company's operations constitute part of the overall financial reporting entity of the City and are accounted for as a discretely presented component unit in the City's Comprehensive Annual Financial Report consistent with generally accepted accounting principles.

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 recognized when earned and expenses are recognized as they are incurred.

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

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(1) Nature of Business and Significant Accounting Policies. (Continued)

Capital Assets

Capital Assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Company capitalizes all assets with a historical cost of at least \$5,000. 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.

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

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

Compensated Absences

The Company has a PTO (paid time off) policy in effect. It is the Company's policy to permit employees to accumulate earned but unused PTO benefits. PTO hours can accrue up to a maximum of one and a 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 pay is recorded as an expense and a liability at the time the benefit is earned.

Classification of Revenues

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

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

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 730,972
Investments	<u>5,342,162</u>
Total cash and investments	<u>\$ 6,073,134</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 9,400
Deposits with financial institutions	721,572
Investment in the City of Pasadena Investment Pool	<u>5,342,162</u>
Total cash and investments	<u>\$ 6,073,134</u>

Investments Authorized by the California Government Code

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

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

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. All of the Company's investments are held in the City of Pasadena's Investment Pool.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Company's investment in the City of Pasadena's Investment Pool is not rated and does not have a minimum rating required by the California Government Code.

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

(3) Transient Occupancy Taxes and Tourism Business Improvement District Taxes

Transient Occupancy Taxes

The Company receives support for operations and capital improvements from the City of Pasadena. For operations support, the Company receives an allocation of the transient occupancy tax 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 Civic Auditorium are approved by the City of Pasadena. A portion of the Company's transient occupancy taxes are used to repay the Certificates of Participation that were issued to fund prior improvements.

For the year ended June 30, 2006, net transient occupancy taxes received from the City were \$5,301,897 of which \$1,202,328 was payable to the Company at June 30, 2006.

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(3) Transient Occupancy Taxes and Tourism Business Improvement District Taxes.
(Continued)

Tourism Business Improvement District

The Tourism Business Improvement District (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 the assessment is set annually by resolution of the City Council, but cannot exceed 2.89%. For the fiscal year ended June 30, 2006 the rate was set at 2.39%.

The purpose of the TBID is to fund activities, programs, expenses and services to market the City of Pasadena 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, 2006, the Company received \$2,008,743 of TBID from the City of which \$392,743 was payable at June 30, 2006.

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(4) Capital Assets

Capital asset activity for the year ended June 30, 2006 is as follows:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Capital assets, being depreciated:				
Buildings and improvements	\$12,783,845	-	-	12,783,845
Machinery and equipment	455,427	45,550	(32,700)	468,277
Furniture and fixtures	<u>174,787</u>	<u>-</u>	<u>-</u>	<u>174,787</u>
Total capital assets being depreciated	<u>13,414,059</u>	<u>45,550</u>	<u>(32,700)</u>	<u>13,426,909</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,110,979)	(344,003)	-	(9,454,982)
Machinery and equipment	(406,233)	(18,680)	30,520	(394,393)
Furniture and fixtures	<u>(130,335)</u>	<u>(14,434)</u>	<u>-</u>	<u>(144,769)</u>
Total accumulated depreciation	<u>(9,647,547)</u>	<u>(377,117)</u>	<u>30,520</u>	<u>(9,994,144)</u>
Net depreciable assets	3,766,512	(331,567)	(2,180)	3,432,765
Land	2,423,473	-	-	2,423,473
Construction in progress ⁽¹⁾	<u>5,030,942</u>	<u>1,002,276</u>	<u>-</u>	<u>6,033,218</u>
Capital assets, net	<u>\$11,220,927</u>	<u>670,709</u>	<u>(2,180)</u>	<u>11,889,456</u>

(1) Construction in progress consists of accumulated costs for the preliminary design of the convention center expansion project.

Depreciation expense for the year was \$377,117.

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(5) Long-Term Debt

Long-term liabilities for the year ended June 30, 2006 are as follows:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Principal Repayments</u>	<u>Balance at June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Conference Center loan	\$1,140,709	-	(55,187)	1,085,522	57,981
Total long-term liabilities	<u>\$1,140,709</u>	<u>-</u>	<u>(55,187)</u>	<u>1,085,522</u>	<u>57,981</u>

Conference Center Loan

In September 1999, the Company entered into a loan agreement for \$1,400,000 with the City of Pasadena to provide funding of Conference Center maintenance and improvements. Interest accrues at a rate of 5.0% per annum. Principal and interest payments of \$55,771 are due semi-annually. The outstanding principal at June 30, 2006 is \$1,085,522.

The annual requirements to amortize outstanding long-term debt of the Company at June 30, 2006 are as follows:

<u>June 30</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2007	\$ 57,981	53,561	111,542
2008	60,917	50,625	111,542
2009	64,000	47,541	111,541
2010	67,240	44,301	111,541
2011	70,645	40,897	111,542
2012-2016	410,629	147,079	557,708
2017-2020	<u>354,110</u>	<u>36,285</u>	<u>390,395</u>
	<u>\$1,085,522</u>	<u>420,289</u>	<u>1,505,811</u>

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(6) Net Assets

Net assets at June 30, 2006 consisted of the following:

Invested in capital assets, net of related debt:	
Property, plant and equipment, net	\$ 11,889,456
Less:	
Outstanding debt issued to construct capital assets	(1,085,522)
Accounts payable used to construct capital assets	<u>(117,783)</u>
Total invested in capital assets, net of related debt	10,686,151
Restricted net assets:	
Facility Restoration Fee	1,229,408
Organ repair and maintenance	3,063
Unrestricted net assets:	
Designated for capital projects	163,789
Unreserved	<u>5,549,943</u>
Total net assets	<u>\$17,632,354</u>

Net asset restrictions and designations are as follows:

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

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.

TBID – When the City of Pasadena established the TBID revenue, they specified that the funds could only be spent on marketing and Convention and Visitors Bureau expenses. Since the revenues are restricted by enabling legislation, the unspent amounts are reported as restricted net assets. As of June 30, 2006, accumulated eligible expenses exceeded accumulated TBID revenues.

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

PASADENA CENTER OPERATING COMPANY

Notes to the Basic Financial Statements

(Continued)

(7) Defined Contribution Retirement Plan

Plan Description

Eligible employees of the Company participate in the Pasadena Center Operating Company 401(K) profit sharing 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 \$111,728 for the fiscal year ended June 30, 2006.

(8) Subsequent Events

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.