

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

Fiscal Year ended June 30, 2008

ATTACHMENT E



CONRAD GOVERNMENT SERVICES DIVISION

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PASADENA CENTER OPERATING COMPANY

Basic Financial Statements

Fiscal Year ended June 30, 2008

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Board of Directors
Pasadena Center Operating Company
Pasadena, California

INDEPENDENT AUDITORS' 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, 2008 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 partial comparative data has been derived from the financial statements of the Company for the year ended June 30, 2007 and, in our report dated October 12, 2007 we expressed an unqualified opinion on those 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, 2008 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
December 1, 2008

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, 2008.

All amounts, 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 2008 by \$25,026 (net assets). Of this amount; \$164 is designated for capital projects, \$1,564 is currently restricted for facility restoration and \$8,850 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 \$4,272 over the previous fiscal year.

The total debt of PCOC increased \$165 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 11 through 24 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, 2008, the assets of PCOC exceed its liabilities by \$25,026.

The largest portion of PCOC net assets at 57.7% or \$14,449 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 6.2% or \$1,564 reflects resources that are subject to restrictions on how they may be used. There was an increase of \$185 in net assets that are restricted for facility restoration projects for the twelve month period ending June 30, 2008 due to collection of facility restoration fees.

An additional portion of PCOC net assets at .7% or \$164 reflects resources that are designated for capital projects by the Board of Directors.

The current remaining balance of unreserved net assets \$8,850 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 decrease of \$196 in total operating revenues for the most recent fiscal year when compared to the prior fiscal year due primarily to decreased building occupancy levels resulting from center expansion construction activity onsite.

There was an overall increase of \$778 in total operating expenses for PCOC over the previous fiscal year.

Transient Occupancy Tax (TOT) increased \$198, or 3.7%, when compared to the prior fiscal year.

TBID increased by \$92, or 3.7%, when compared to the prior fiscal year.

The Tourism Business Improvement District (TBID) tax was implemented in March 2003. This is a 2.89% 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, 2008 were \$2,543.

ECONOMIC FACTORS & CURRENT FISCAL BUDGET:

For the fiscal year ended June 30, 2008 the Pasadena Convention and Visitors Bureau, CVB, produced 217% of the annual goal for tentative hotel room night bookings. The actual definite hotel room bookings were 101% of the annual goal.

The FY 2009 budget for TOT (transient occupancy tax) was increased to \$5,760 based on estimates of actual collections and trends at the time of budget preparation; the actual amount collected in fiscal year 2008 is \$5,554.

The FY 2009 budget for TBID (tourism business improvement district) assessment is \$2,647 based on estimates of actual collections and trends at the time of budget preparation; the actual amount collected in fiscal year 2008 is \$2,543.

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.

BASIC FINANCIAL STATEMENTS

PASADENA CENTER OPERATING COMPANY

Statement of Net Assets

June 30, 2008

(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 497,733	1,186,530
Accounts receivable	209,909	425,874
Due from City of Pasadena (note 3)	1,155,982	955,995
Prepaid expenses	6,309	18,919
Total current assets	<u>1,869,933</u>	<u>2,587,318</u>
Noncurrent assets:		
Investments (note 2)	9,814,963	8,722,347
Cash and investments with fiscal agent (note 2)	76,610,341	130,714,707
Unamortized bond costs	521,181	1,719,323
Deposits	4,000	4,000
Capital assets (note 4):		
Buildings and improvements	21,041,006	10,546,464
Machinery and equipment	468,277	975,830
Furniture and fixtures	36,412	113,140
Accumulated depreciation	<u>(8,627,378)</u>	<u>(8,053,910)</u>
Net depreciable assets	12,918,317	3,581,524
Land	2,423,473	2,423,473
Construction in progress	97,487,152	41,828,791
Property, plant and equipment, net	<u>112,828,942</u>	<u>47,833,788</u>
Total noncurrent assets	<u>199,779,427</u>	<u>188,994,165</u>
Total assets	<u>201,649,360</u>	<u>191,581,483</u>
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	12,212,487	6,801,700
Interest payable	13,998	14,880
Accrued salaries and benefits	414,830	283,334
Advance deposits payable	430,296	344,175
Current portion of long-term debt (note 5)	64,000	60,917
Total current liabilities	<u>13,135,611</u>	<u>7,505,006</u>
Noncurrent liabilities:		
Long-term debt (note 5)	<u>163,487,438</u>	<u>163,322,579</u>
Total noncurrent liabilities	<u>163,487,438</u>	<u>163,322,579</u>
Total liabilities	<u>176,623,049</u>	<u>170,827,585</u>
Net assets (note 7):		
Invested in capital assets, net of related debt	14,448,855	10,831,445
Restricted:		
Unrestricted:		
Designated	163,789	163,789
Unreserved	8,850,009	8,380,474
Total net assets	<u>\$ 25,026,311</u>	<u>20,753,898</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, 2008
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Occupancy fees	\$ 1,693,458	1,800,066
Food services	248,506	248,882
Parking	1,040,512	1,106,786
Commissions	<u>79,660</u>	<u>102,433</u>
Total operating revenues	<u>3,062,136</u>	<u>3,258,167</u>
Operating expenses:		
Pasadena Center	5,521,362	5,178,648
Parking garage	453,082	395,439
Pasadena Convention and Visitors Bureau	<u>2,251,051</u>	<u>1,873,315</u>
Total operating expenses	<u>8,225,495</u>	<u>7,447,402</u>
Operating income (loss)	<u>(5,163,359)</u>	<u>(4,189,235)</u>
Nonoperating revenues (expenses):		
Transient occupancy taxes, net (note 3)	5,553,914	5,355,584
Tourism business improvement district tax (note 3)	2,542,671	2,450,470
Facility restoration fee	185,468	130,599
Grant revenue	772,637	191,607
Investment income	430,825	377,538
Gain (loss) on disposal of assets	-	(1,089,620)
Amortization of bond issuance costs	-	(52,740)
Interest expense	<u>(49,743)</u>	<u>(52,659)</u>
Total nonoperating revenues (expenses)	<u>9,435,772</u>	<u>7,310,779</u>
Increase (decrease) in net assets	4,272,413	3,121,544
Net assets at beginning of year	<u>20,753,898</u>	<u>17,632,354</u>
Net assets at end of year	<u>\$25,026,311</u>	<u>20,753,898</u>

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Statement of Cash Flows
Year ended June 30, 2008
(with comparative totals for 2007)

	2008	2007
Cash flows from operating activities:		
Cash received from customers	\$ 3,364,222	3,002,620
Cash paid to employees for services	(4,482,722)	(4,169,883)
Cash paid to suppliers of goods and services	(2,734,792)	(2,469,558)
Net cash provided by (used for) operating activities	(3,853,292)	(3,636,821)
Cash flows from noncapital financing activities:		
Transient occupancy taxes from City of Pasadena	5,292,127	5,868,388
Tourism business improvement district taxes from City of Pasadena	2,604,471	2,576,742
Net cash provided by (used for) noncapital financing	7,896,598	8,445,130
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(55,147,707)	(31,447,584)
Proceeds of bonds	134,720,000	160,482,396
Refunding of bonds	(135,500,000)	-
Principal payments on long-term debt	(60,917)	(57,981)
Interest payments on long-term debt	(9,810,537)	(3,954,707)
Capital grants and contributions	958,105	322,206
Net cash provided by (used for) capital and related financing activities	(64,841,056)	125,344,330
Cash flows from investing activities:		
Purchase of investments	(1,092,616)	(134,094,892)
Sale of investments	54,104,366	-
Investment earnings	7,097,203	4,397,811
Net cash provided by (used for) investing activities	60,108,953	(129,697,081)
Net increase (decrease) in cash and cash equivalents	(688,797)	455,558
Cash and cash equivalents at beginning of year	1,186,530	730,972
Cash and cash equivalents at end of year	\$ 497,733	1,186,530

(Continued)

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Statement of Cash Flows
Year ended June 30, 2008
(Continued)

	2008	2007
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (5,163,359)	(4,189,235)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	611,559	448,879
(Increase) decrease in accounts receivable	215,965	(231,732)
(Increase) decrease in prepaid expenses	12,610	49,040
Increase (decrease) in accounts payable and other liabilities	252,316	263,527
Increase (decrease) in accrued salaries and benefits	131,496	46,515
Increase (decrease) in deposits payable	86,121	(23,815)
Net cash provided by (used for) operating activities	\$ (3,853,292)	(3,636,821)
 <u>Noncash investing, capital and financing activities</u>		
Loss on disposal of asset	\$ -	1,089,620

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
Fiscal Year Ended June 30, 2008

(1) Nature of Business & 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 recorded 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 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.

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 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.

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.

Comparative Data

The amounts shown for the year ended June 30, 2007 in the accompanying financial statements are included to provide a basis for comparison with 2008 and present summarized totals only. Accordingly, the 2007 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 School's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 497,733
City of Pasadena Investment Pool	9,814,963
Cash and investments with fiscal agent	76,610,341
Total cash and investments	<u>\$ 86,923,037</u>

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 10,300
Deposits with financial institutions	487,433
City of Pasadena Investment Pool	9,814,963
Cash and investments with fiscal agent:	
Federal agency securities	22,551,438
Money market mutual funds	47,385,092
Investment agreement	6,673,811
Total cash and investments	<u>\$ 86,923,037</u>

Investments authorized by California Government Code

The table below identifies the investment types that are authorized for the Company by the California Government Code and the City 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)

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

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

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.

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. One of the ways that the Company manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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:

Investment Type		Remaining Maturity (in Months)		
		12 Months or Less	13 to 60 Months	More than 60 Months
City of Pasadena Pool	\$ 9,814,963	9,814,963	-	-
Federal agency securities	22,551,438	19,036,125	3,515,313	-
Money market funds	47,385,092	47,385,092	-	-
Investment agreement	6,673,811	-	-	6,673,811
Total	<u>\$86,425,304</u>	<u>76,236,180</u>	<u>3,515,313</u>	<u>6,673,811</u>

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(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.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings at end of year</u>	
			<u>AAA</u>	<u>Not Rated</u>
City of Pasadena Pool	\$ 9,814,963	N/A	-	9,814,963
Federal agency securities	22,551,438	N/A	22,551,438	-
Money market funds	47,385,092	Aaa	47,385,092	-
Investment agreement	6,673,811	N/A	-	6,673,811
Total	<u>\$86,425,304</u>		<u>69,936,530</u>	<u>16,488,774</u>

Concentration of Credit Risk

The investment policy of the Company contains no limitations on the amount that can be invested in any one 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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$22,551,438

Custodial Credit Risk

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

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(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 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 Civic Auditorium are approved by the City of Pasadena. A portion of the Company's occupancy taxes are used to repay the Certificates of Participation that were issued to fund prior improvements.

For the year ended June 30, 2008, net transient occupancy taxes received from the City were \$5,553,915 of which \$951,311 was payable to the Company at June 30, 2008.

Tourism Business Improvement District (TBID)

The Tourism Business Improvement District 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, 2008 the rate was set at 2.89%.

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, 2008, the Company received \$2,542,671 of TBID from the City of which \$204,671 was payable at June 30, 2008.

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(4) Capital Assets

Capital asset activity for the year ended June 30, 2008 is as follows:

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008
Capital assets being depreciated:				
Buildings and improvements	\$ 10,546,464	10,532,634	(38,091)	21,041,007
Machinery and equipment	975,830	-	(507,553)	468,277
Furniture and fixtures	113,140	-	(76,728)	36,412
Total capital assets being depreciated	11,635,434	10,532,634	(622,372)	21,545,696
Less accumulated depreciation for:				
Buildings and improvements	(7,550,644)	(604,301)	-	(8,154,945)
Machinery and equipment	(457,712)	(42,002)	63,692	(436,022)
Furniture and fixtures	(45,554)	-	9,142	(36,412)
Total accumulated depreciation	(8,053,910)	(646,303)	72,834	(8,627,379)
Net depreciable assets	3,581,524	9,886,331	(549,538)	12,918,317
Land	2,423,473	-	-	2,423,473
Construction in progress (1)	41,828,791	55,658,361	-	97,487,152
Capital assets, net	<u>\$ 47,833,788</u>	<u>65,544,692</u>	<u>(549,538)</u>	<u>112,828,942</u>

(1) Construction in progress consists of accumulated costs for the Convention Center Expansion Project.

Depreciation expense for year was \$646,303.

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(5) Long-Term Debt

Long-term liabilities for the year ended June 30, 2008 are as follows:

	Balance at June 30, 2007	Additions/ Accretion	Principal Repayments	Balance at June 30, 2008	Due in One Year
Conference Center Loan	\$ 1,027,541	-	(60,917)	966,624	64,000
COP 2006 Series A	27,625,911	1,253,807	-	28,879,718	-
COP 2006 Series B	135,500,000	-	#####	-	-
Unamortized discount 2006 A	(128,482)	4,726	-	(123,756)	-
Unamortized discount 2006 B	(641,474)	17,709	623,764	-	-
COP 2008 Series A	-	134,720,000	-	134,720,000	-
Unamortized discount 2008 A	-	(275,497)	-	(275,497)	-
Deferred refunding charge	-	(1,997,174)	-	(1,997,174)	-
Arbitrage liability	-	1,381,523	-	1,381,523	-
Total long-term liabilities	#####	135,105,094	#####	163,551,438	64,000

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, 2008 is \$966,624.

The annual requirements to repay the outstanding loan at June 30, 2008 are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2009	\$ 64,000	47,541	111,541
2010	67,240	44,301	111,541
2011	70,644	40,897	111,541
2012	74,221	37,321	111,542
2013	77,978	33,563	111,541
2014-2018	453,258	104,449	557,707
2019-2020	159,283	8,030	167,313
	<u>\$ 966,624</u>	<u>316,102</u>	<u>1,282,726</u>

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(5) Long-Term Debt, (Continued)

2006 Certificates of Participation

On August 23, 2006, the City of Pasadena issued the 2006 Certificates of Participation, 2006 Series A & B in the amount of \$162,639,972. The certificates 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.

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

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

The annual requirements to repay the outstanding certificates of participation 2006 Series A at June 30, 2008 are as follows:

<u>June 30</u>	<u>Principal Payment</u>	<u>Accretion</u>	<u>Total Debt Service</u>
2009	\$ -	1,311,431	1,311,431
2010	415,000	1,369,878	1,784,878
2011	800,000	1,416,918	2,216,918
2012	1,095,000	1,449,590	2,544,590
2013	1,365,000	1,471,648	2,836,648
2014-2018	16,805,000	6,808,823	23,613,823
2019-2023	<u>25,705,000</u>	<u>3,476,992</u>	<u>29,181,992</u>
Total	<u>\$ 46,185,000</u>	<u>17,305,280</u>	<u>63,490,280</u>

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(5) Long-Term Debt, (Continued)

The City entered into a series of refunding transactions during the fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's auction rate securities ("ARS") and variable rate demand certificates. The market that routinely absorbed the auction rate securities through a weekly auction process discontinued their interest in the product and the result was excessive high interest rates, often to the default rate as high as 12% as the auctions "failed", having insufficient bids to clear the auction.

Refinancing of 2006B Auction Rate (ARS) Certificates of Participation (COPs)

On April 15, 2008, The City refinanced \$135.5 million of the outstanding 2006B Auction Rate COPs with \$137.7 million 2008A Refunding Variable Rate Demand Bonds (VRDBs) 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 synthetic fixed rate swap associated with the 2006B COPs was reassigned to the 2008A refunding bonds.

The 2006B ARS were refinanced to secure lower cost variable rate financing. Given the inherent fluctuation in variable interest rates and the uncertainty regarding the future of the auction rate securities market, it is uncertain of the trading differential over the long term. Assuming a 200 basis point differential between the ARS and VRDBs, the City would save an estimated \$2.7 million per annum in interest cost savings or \$36.3 million in NPV savings over the life of the issue.

2008 Certificates of Participation

On April 15, 2008, the City issued the 2008 Refunding Certificates of Participation, Series 2008A in the amount of \$134,720,000. These certificates were issued to refund the City's Certificates of Participation (Conference Center Project), Series 2006B and finance the costs of execution of the 2008A Certificates of Participation. The refunded certificates are considered to be defeased and the liability has been removed from the component unit column of the statement of net assets. Interest on 2008A certificates were issued at a variable rate with the reassignment of the synthetic fixed rate swap of 3.536%. Principal is payable in annual installments ranging from \$6,775,000 to \$11,445,000 commencing February 1, 2024 and ending February 1, 2035. The legal reserve requirement is \$20,814,454. The balance held in the reserve account as of June 30, 2008 was \$21,001,481.

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(5) Long-Term Debt, (Continued)

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

June 30	Principal Payment	Interest Payment	Total Debt Service
2009	\$ -	5,384,008	5,384,008
2010	-	5,410,174	5,410,174
2011	-	5,120,645	5,120,645
2012	-	5,206,335	5,206,335
2013	-	5,204,926	5,204,926
2014-2018	-	26,028,169	26,028,169
2019-2023	-	26,028,169	26,028,169
2024-2028	41,460,000	22,610,451	64,070,451
2029-2033	63,715,000	12,657,081	76,372,081
2034-2035	29,545,000	1,213,656	30,758,656
Total	<u>\$ 134,720,000</u>	<u>114,863,615</u>	<u>249,583,615</u>

(6) Energy Conservation Retrofit

The Company received approval from the City in June 2008 to commence a project designed to conserve energy through use of more efficient air conditioning systems and energy efficient lighting. The project budget cost is \$4,581,071; \$1,560,000 is pledged by Pasadena Water & Power (PWP) as a rebate based on energy savings and \$3,000,000 is covered by a loan from California Energy Commission at 3.95% for 12 years. The payments on this \$3,000,000 loan are budgeted at approximately \$330,000 for 12 years.

As of June 30, 2008 the Company has not received any of the funds related to this project.

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
(Continued)

(7) Net Assets

Net assets at June 30, 2008 consisted of the following:

Invested in capital assets, net of related:	
Property, plant and equipment, net	\$ 112,828,942
Bond proceeds	76,610,341
Less:	
Outstanding debt issued to construct capital assets	(175,511,609)
Unamortized bond costs	521,181
	14,448,855
Total invested in capital assets, net of related debt	
Restricted net assets:	
Facility Restoration Fee	1,560,595
Organ repair and maintenance	3,063
Unrestricted net assets:	
Designated for capital projects	163,789
Unreserved	8,850,009
	25,026,311
Total net assets	\$ 25,026,311

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, 2008, 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)

(8) 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 \$115,869 for the fiscal year ended June 30, 2008.