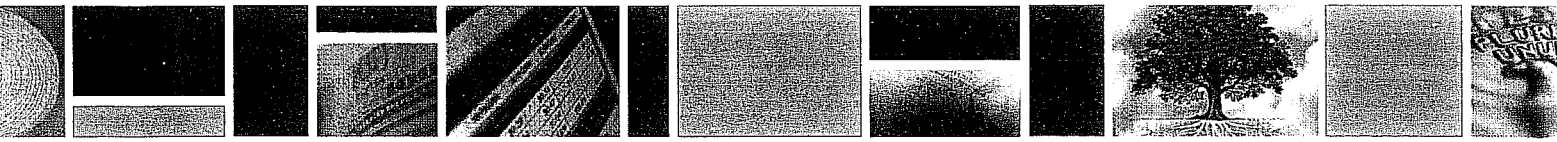


ATTACHMENT E



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

Fiscal Year ended June 30, 2010



Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

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

Fiscal Year ended June 30, 2010

PASADENA CENTER OPERATING COMPANY

Basic Financial Statements

Fiscal Year ended June 30, 2010

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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, 2010 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, 2009 and, in our report dated October 16, 2009 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, 2010 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.

As described further in Note 6 to the financial statements, the Company changed its method of accounting for derivatives for the fiscal year ended June 30, 2010.

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
October 11, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

The objective of management's discussion and analysis is to help readers of the Pasadena Center Operating Company's (PCOC) financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2010, with selected comparative information for the year ended June 30, 2009. This discussion should be read in conjunction with the financial statements. Unless otherwise indicated, years (2010, 2009) in this discussion refer to the fiscal year ended June 30.

PCOC FINANCIAL HIGHLIGHTS:

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

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

	<u>2010</u>	<u>2009</u>	change
ASSETS			
Cash & short term investments	\$ 8,141,669	\$ 10,371,066	(2,229,397)
Accounts receivable & prepaid expenses	972,221	875,335	96,886
Fiscal agent cash	14,700,201	14,858,881	(158,680)
Capital assets	161,624,609	164,971,653	(3,347,044)
<u>Other assets</u>	<u>17,032,780</u>	<u>592,813</u>	<u>16,439,967</u>
Total assets	202,471,479	191,669,748	10,801,731
LIABILITIES			
Accounts payable & accrued salaries	876,412	1,245,667	(369,255)
Interest payable	833,245	417,277	415,968
Deposits	686,100	537,510	148,590
Deferred revenue	866,609	966,602	(99,993)
Current portion of long term debt	2,123,536	482,240	1,641,296
<u>Long term liabilities</u>	<u>183,768,963</u>	<u>166,728,407</u>	<u>17,040,556</u>
Total liabilities	189,154,864	170,377,703	18,777,161
NET ASSETS			
Invested in capital assets, net of related debt	15,835,185	12,619,887	3,215,298
Restricted	1,937,809	1,762,982	174,827
Unrestricted			-
Designated	163,789	163,789	0
<u>Undesignated</u>	<u>(4,620,167)</u>	<u>6,745,387</u>	<u>(11,365,554)</u>
Total net assets	13,316,616	21,292,045	(7,975,429)

All amounts below, unless otherwise indicated, are expressed in thousands of dollars.

PCOC's Assets

Cash and short term investments decreased \$2,229 from 2009 to 2010. On June 30, 2009 PCOC received a one-time, non-recurring grant in the amount of \$1,564 from City of Pasadena for the energy conservation project. Also, accounts payable is \$369 lower at June 2010 and 1st payment on 2006A bonds was paid in 2010 in amount \$415.

Accounts receivable and prepaid expenses increased \$97 from 2009 to 2010. During 2010 PCOC changed workers compensation carriers and the new provider required an advance payment. Fiscal agent cash declined \$159, during the year final construction invoices were paid. The remainder reflects debt service reserve funds held by fiscal agent.

Capital assets decreased by \$3,347. Assets totaling \$1,056 were acquired including \$692 for final construction invoices, \$201 for new electric panel, \$93 for retail space work to date. Depreciation expense of \$4,421 was recognized during the year.

Other assets increased \$16,440 from 2009 to 2010. During 2010 bond transactions related to implementing GASB 53 were recorded.

PCOC's Liabilities

Accounts payable consists of amounts due vendors. This decreased by \$369; expenses that were accrued at the end of 2009 were paid during 2010. These expenses were not re-accrued at the end of 2010 as they were expensed and paid prior to the end of the fiscal year.

Accrued salaries and benefits decreased \$26.6 from 2009 to 2010. Accrued severance at the end of 2009 was a non-recurring item.

Deposits increased by \$148.6. Completion of the center brought increased public interest in renting space for future events.

Deferred revenue decreased by \$99.9. This is a one year amortization of the \$1 million contributed by Boston Culinary Group, now called Distinctive Gourmet Services a division of Centerplate and the remainder will be recognized over the life of their contract, see notes to financial statements number 8.

Interest payable increased by \$416. The interest amount due in July includes letter of credit fees which have increased from 0.40 basis points to 0.95 basis points. The total amount due represents June interest expense and April through June letter of credit and remarketing expenses payable in July 2010.

Current portion of long term debt increased \$440.2; the second payment of \$800 for 2006A capital appreciation bonds is due February 2011 and energy loan payments start in December 2010.

PCOC's Net Assets

Net assets represent the residual interest in PCOC's assets after all liabilities are deducted. PCOC's net assets at the end of 2010, totaling \$13.3 million declined \$7,975 during the year, primarily as a result of recording the deferred derivative liability – see note #6. These net assets are reported in three major categories: invested in capital assets, restricted and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and net of outstanding debt used to acquire these assets, increased \$3.2 million from \$12.6 million to \$15.8 million. A deferred refunding charge of \$8.4 million was recorded that increases net assets, this was offset by \$4.4 million increase in accumulated depreciation. These net assets at \$15.8 million represent 118% of total net assets. Although PCOC's net assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets grew from \$1.76 million to \$1.94 million or 14.6% of net assets. This represents an increase of \$175 in facility restoration fees collected during the year. These fees are collected per ticket for events in the Civic auditorium.

Unrestricted but designated assets remain at \$164; this represents funds remaining from a prior period facility improvement project. These funds are designated as resources for capital projects by the board of directors.

Unrestricted and undesignated funds decreased from \$6.7 million in 2009 to <\$4.6> million in 2010, or 34.7% of net assets. These funds may be used to support PCOC's ongoing operations and an undetermined percentage is to be designated for expansion related expenditures

PCOC's RESULTS OF OPERATIONS

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

A summarized comparison of the operating results for 2010 and 2009, arranged in an informative format is as follows:

These amounts listed in dollars

OPERATING REVENUES	<u>2010</u>	<u>2009</u>	change
Occupancy fees and commissions	\$ 3,603,091	\$ 2,445,634	\$ 1,157,457
Parking	1,270,158	987,376	282,782
<u>Facility restoration fees</u>	<u>174,827</u>	<u>199,323</u>	<u>(24,496)</u>
Total operating revenues	5,048,076	3,632,333	1,415,743
			-
OPERATING EXPENSES			
Pasadena Center	5,341,082	5,523,743	(182,661)
Parking garage	411,871	478,138	(66,267)
Convention and visitors bureau	<u>1,736,309</u>	<u>2,079,743</u>	<u>(343,434)</u>
Subtotal before depreciation	7,489,262	8,081,624	(592,362)
<u>Depreciation</u>	<u>4,421,360</u>	<u>2,759,133</u>	<u>1,662,227</u>
Total operating expenses	11,910,622	10,840,757	1,069,865
			-
Operating income / (loss)	(6,862,546)	(7,208,424)	345,878
			-
NONOPERATING REVENUES (EXPENSES)			
Transient occupancy taxes	4,701,040	5,002,327	(301,287)
Tourism business improvement district tax	1,989,897	2,131,649	(141,752)
Investment income	169,148	339,189	(170,041)
Interest expense	(7,229,092)	(2,564,209)	(4,664,883)
<u>Contribution to City</u>	<u>(442,913)</u>	<u>(3,433,086)</u>	<u>2,990,173</u>
Total non-operating expense	(811,921)	1,475,870	(2,287,791)
			-
Income / (loss) before other changes in net assets	(7,674,466)	(5,732,554)	(1,941,912)
Capital contributions	99,993	1,597,331	(1,497,338)
Increase / (decrease) in net assets	(7,574,473)	(4,135,223)	(3,439,250)
Net assets at beginning of year	20,490,131	25,026,311	(4,536,180)

Operating revenues increased \$1,415 from \$3.6 million in 2009 to \$5.0 million in 2010. This is the first full fiscal year of operation.

Operating expenses, aside from depreciation, decreased by \$592 from \$8.1 million in 2009 to \$7.5 million in 2010. Overall operating expenses increased \$1.1 million. This is primarily a result of increased depreciation of new buildings; this expense increased \$1.7 million from \$2.3 in 2009 to \$4.4 million in 2010.

Non-operating revenues declined \$613 from \$7.4 million in 2009 to \$6.8 million in 2010 as the recession caused corporate and independent travelers to reduce travel to local hotels. Transient occupancy tax (TOT) declined \$301 or 6.0% from 2009. TOT now includes July income for 2009 and 2010; previously this amount was not reported as the amount was withheld by City of Pasadena for repayment of 1991 loan. (See non-operating expenses). Tourism business improvement district tax declined \$142 or 6.6% from 2009. Also, investment pool earnings declined \$91 from \$339 in 2009 to \$169 in 2010.

Non-operating expenses increased \$1.67 million; of this amount \$443 is the contribution made by PCOC in 2010 to City of Pasadena as payment for 1991 loan, in 2009 PCOC contributed \$443 towards repayment of this loan. In 2009 PCOC contributed \$2.99 million to City of Pasadena for Ice Rink relocation expenses. The remainder expense of \$7.2 million represents debt service interest expense. This expense will continue in future years.

Capital contributions includes \$99.9 recognized as revenue from the \$1.0 million contribution paid by DGS /BCG as referenced above in the section PCOC Liabilities – deferred revenue. The remainder of the \$1 million paid by DGS/BCG will be recognized in equal monthly installments over the life of their agreement with PCOC.

The notes to the financial statements can be found on pages 12 through 25 of this report. These notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

INFORMATION REQUEST:

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

BASIC FINANCIAL STATEMENTS

PASADENA CENTER OPERATING COMPANY

Statement of Net Assets

June 30, 2010

(with comparative totals for 2009)

	2010	2009
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,556,249	2,339,878
Accounts receivable	313,481	332,837
Due from City of Pasadena (note 3)	501,575	518,909
Prepaid expenses	157,165	23,589
Total current assets	2,528,470	3,215,213
Noncurrent assets:		
Investments (note 2)	6,585,421	8,031,188
Cash and investments with fiscal agent (note 2)	14,700,201	14,858,881
Deferred outflows (note 6)	16,467,261	-
Unamortized bond costs	565,519	588,813
Deposits	-	4,000
Capital assets (note 4):		
Buildings and improvements	173,103,896	172,303,245
Machinery and equipment	1,219,256	998,105
Furniture and fixtures	266,582	232,385
Accumulated depreciation	(15,406,915)	(10,985,555)
Net depreciable assets	159,182,819	162,548,180
Land	2,423,473	2,423,473
Construction in progress	18,317	-
Property, plant and equipment, net	161,624,609	164,971,653
Total noncurrent assets	199,943,011	188,454,535
Total assets	202,471,481	191,669,748
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	363,631	706,280
Interest payable	833,245	417,277
Accrued salaries and benefits	512,781	539,387
Advance deposits payable	686,100	537,510
Deferred revenue (note 8)	866,609	966,602
Current portion of long-term debt (note 5)	2,123,536	482,240
Total current liabilities	5,385,902	3,649,296
Noncurrent liabilities:		
Derivative instrument liability (note 6)	25,402,874	-
Long-term debt (note 5)	158,366,089	166,728,407
Total noncurrent liabilities	183,768,963	166,728,407
Total liabilities	189,154,865	170,377,703
Net assets (note 7):		
Invested in capital assets, net of related debt	15,835,185	12,619,887
Restricted:		
Unrestricted:		
Designated	163,789	163,789
Undesignated	(4,620,167)	6,745,387
Total net assets	\$ 13,316,616	21,292,045

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, 2010
(with comparative totals for 2009)

	2010	2009
Operating revenues:		
Occupancy fees	\$ 2,652,599	1,988,843
Food services	612,714	247,770
Parking	1,270,158	987,376
Commissions	337,778	209,021
Total operating revenues	4,873,249	3,433,010
Operating expenses:		
Pasadena Center	5,341,082	5,523,743
Parking garage	411,871	478,138
Pasadena Convention and Visitors Bureau	1,736,309	2,079,743
Depreciation expense	4,421,360	2,358,176
Total operating expenses	11,910,622	10,439,800
Operating income (loss)	(7,037,373)	(7,006,790)
Nonoperating revenues (expenses):		
Transient occupancy taxes (note 3)	4,701,040	5,002,327
Tourism business improvement district tax (note 3)	1,989,897	2,131,649
Facility restoration fee	174,827	199,323
Contribution to City	(442,913)	(3,433,086)
Investment income	169,149	339,189
Interest expense	(7,229,092)	(2,564,209)
Total nonoperating revenues (expenses)	(637,092)	1,675,193
Capital contributions	99,993	1,597,331
Increase (decrease) in net assets	(7,574,472)	(3,734,266)
Net assets at beginning of year, as restated (note 10)	20,891,088	25,026,311
Net assets at end of year	\$13,316,616	21,292,045

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Statement of Cash Flows
Year ended June 30, 2010
(with comparative totals for 2009)

	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 4,945,202	4,383,899
Cash paid to employees for services	(4,638,170)	(5,077,406)
Cash paid to suppliers of goods and services	(3,353,923)	(2,384,725)
Net cash provided by (used for) operating activities	(3,046,891)	(3,078,232)
Cash flows from noncapital financing activities:		
Transient occupancy taxes from City of Pasadena	4,717,659	5,587,878
Tourism business improvement district taxes from City of Pasadena	1,990,612	2,183,171
Net cash provided by (used for) noncapital financing	6,708,271	7,771,049
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,074,316)	(62,795,888)
Proceeds of loan	494,800	2,505,200
Principal payments on long-term debt	(482,240)	(64,000)
Interest payments on long-term debt	(4,988,756)	(6,500,755)
Contribution to City of Pasadena	(442,913)	(3,433,086)
Capital grants and contributions	274,820	1,763,323
Net cash provided by (used for) capital and related financing activities	(6,218,605)	(68,525,206)
Cash flows from investing activities:		
Sale of investments	1,773,596	63,535,235
Investment income received	-	2,139,299
Net cash provided by (used for) investing activities	1,773,596	65,674,534
Net increase (decrease) in cash and cash equivalents	(783,629)	1,842,145
Cash and cash equivalents at beginning of year	2,339,878	497,733
Cash and cash equivalents at end of year	\$ 1,556,249	2,339,878

(Continued)

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Statement of Cash Flows
Year ended June 30, 2010
(Continued)

	2010	2009
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (7,037,373)	(7,006,790)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	4,421,360	2,358,176
(Increase) decrease in accounts receivable	19,356	(122,928)
(Increase) decrease in prepaid expenses	(133,576)	(17,280)
(Increase) decrease in deposits	4,000	-
Increase (decrease) in accounts payable and other liabilities	(342,649)	512,217
Increase (decrease) in accrued salaries and benefits	(26,606)	124,557
Increase (decrease) in deposits payable	148,590	107,214
Increase (decrease) in deferred revenue	(99,993)	966,602
Net cash provided by (used for) operating activities	\$ (3,046,891)	(3,078,232)

There were no significant noncash capital, financing or investing activities for the years ended June 30, 2010 and 2009.

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY
Notes to the Basic Financial Statements
Fiscal Year Ended June 30, 2010

(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 \$10,000 consistent with City of Pasadena practice. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

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

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, 2009 in the accompanying financial statements are included to provide a basis for comparison with 2010 and present summarized totals only. Accordingly, the 2009 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the entity's financial statements for the year ended June 30, 2009, 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, 2010 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 1,556,249
Investments	6,585,421
Cash and investments with fiscal agent	<u>14,700,201</u>
 Total cash and investments	 <u>\$22,841,871</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 10,300
Deposits with financial institutions	1,545,949
City of Pasadena Investment Pool	6,585,421
Cash and investments with fiscal agent:	
Federal agency securities	10,864,125
Money market mutual funds	<u>3,836,076</u>
 Total cash and investments	 <u>\$22,841,871</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	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment In One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

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)

<u>Authorized Investment Type</u>	<u>Maximum Maturity*</u>	<u>Minimum Rating</u>
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:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 60 Months</u>	<u>More than 60 Months</u>
City of Pasadena Pool	\$ 6,585,421	6,585,421	-	-
Federal agency securities	10,864,125	-	10,864,125	-
Money market funds	3,836,076	3,836,076	-	-
Total	<u>\$ 21,285,622</u>	<u>10,421,497</u>	<u>10,864,125</u>	<u>-</u>

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.

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

(2) Cash and Investments, (Continued)

<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	\$ 6,585,421	N/A	-	6,585,421
Federal agency securities	10,864,125	N/A	10,864,125	-
Money market funds	<u>3,836,076</u>	Aaa	<u>3,836,076</u>	<u>-</u>
Total	<u>\$21,285,622</u>		<u>14,700,201</u>	<u>6,585,421</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	\$10,864,125

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, 2010, net transient occupancy taxes received from the City were \$4,701,040 of which \$349,141 was payable to the Company at June 30, 2010.

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, 2010 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, 2010, the Company received \$1,989,897 of TBID from the City of which \$152,434 was payable at June 30, 2010.

(4) Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets being depreciated:				
Buildings and improvements	\$ 172,303,245	800,651	-	173,103,896
Machinery and equipment	998,105	221,151	-	1,219,256
Furniture and fixtures	232,385	34,197	-	266,582
Total depreciable capital assets	173,533,735	1,055,999	-	174,589,734
Less accumulated depreciation:				
Buildings and improvements	(10,456,229)	(4,362,406)	-	(14,818,635)
Machinery and equipment	(473,317)	(35,937)	-	(509,254)
Furniture and fixtures	(56,009)	(23,017)	-	(79,026)
Total accumulated depreciation	(10,985,555)	(4,421,360)	-	(15,406,915)
Net depreciable assets	162,548,180	(3,365,361)	-	159,182,819
Land	2,423,473	-	-	2,423,473
Construction in progress	-	18,317	-	18,317
Capital assets, net	\$ 164,971,653	(3,347,044)	-	161,624,609

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

(4) Capital Assets. (Continued)

Depreciation expense for the fiscal year ended June 30, 2010 was \$4,421,360.

(5) Long-Term Debt

Long-term liabilities for the year ended June 30, 2010 are as follows:

	Balance at June 30, 2009*	Additions / Accretion	Principal Repayments	Balance at June 30, 2010	Due in One Year
Conference Center Loan	\$ 902,624	-	(67,240)	835,384	70,644
COP 2006 Series A	30,191,149	1,369,878	(415,000)	31,146,027	800,000
Unamortized discount 2006 Series A	(118,950)	-	4,807	(114,143)	-
COP 2008 Series A	134,720,000	-	-	134,720,000	-
Unamortized discount 2008 Series A	(276,434)	-	10,735	(265,699)	-
Deferred Refunding Charge	(10,454,270)	-	421,238	(10,033,032)	-
Arbitrage Liability	1,206,672	-	(5,584)	1,201,088	1,201,088
Energy Conservation Loan	2,505,200	494,800	-	3,000,000	51,804
Total long-term liabilities	<u>\$ 158,675,991</u>	<u>1,864,678</u>	<u>(51,044)</u>	<u>160,489,625</u>	<u>2,123,536</u>

*As restated to reflect the beginning balance of the change in Deferred Refunding Charge in accordance with the adoption of GASB Statement No. 53.

Conference Center Loan

In September 1999, the Company entered into a loan agreement for \$1,400,000 with the City of Pasadena to provide funding of Conference Center maintenance and improvements. Interest accrues at a rate of 5.0% per annum. Principal and interest payments of \$57,981 are due semi-annually. The outstanding principal at June 30, 2010 is \$835,384.

The annual requirements to repay the outstanding loan at June 30, 2010 are as follows:

<u>June 30</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2011	\$ 70,644	40,897	111,541
2012	74,221	37,321	111,542
2013	77,978	33,563	111,541
2014	81,926	29,616	111,542
2015	86,073	25,468	111,541
2016-2020	<u>444,540</u>	<u>57,397</u>	<u>501,937</u>
	<u>\$835,384</u>	<u>224,260</u>	<u>1,059,644</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, 2010 are as follows:

<u>June 30</u>	<u>Principal Payment</u>	<u>Accretion</u>
2011	\$ 800,000	1,416,918
2012	1,095,000	1,449,590
2013	1,365,000	1,471,648
2014	2,560,000	1,482,810
2015	2,850,000	1,443,449
2016-2020	20,615,000	5,852,144
2021-2023	<u>16,485,000</u>	<u>1,507,414</u>
	<u>\$45,770,000</u>	<u>14,623,973</u>

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 were repaid in April 2008 and the liability has been removed from 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 City has a line of credit that is used to satisfy the reserve requirement.

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, 2010 are as follows:

<u>June 30</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
2011	\$ -	364,647	4,338,233	4,702,880
2012	-	364,647	4,338,233	4,702,880
2013	-	364,647	4,338,233	4,702,880
2014	-	364,647	4,338,233	4,702,880
2015	-	364,647	4,338,233	4,702,880
2016-2020	-	1,823,233	21,691,167	23,514,400
2021-2025	14,255,000	1,804,895	21,259,991	37,319,886
2026-2030	49,805,000	1,384,585	15,674,920	66,864,505
2031-2035	<u>70,660,000</u>	<u>577,554</u>	<u>5,337,107</u>	<u>76,574,661</u>
	<u>\$134,720,000</u>	<u>7,413,502</u>	<u>85,654,350</u>	<u>227,787,852</u>

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

Energy Conservation Retrofit

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

The annual requirements to repay the outstanding loan from the State of California Energy Conservation Commission at June 30, 2010 are as follows:

<u>June 30</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2011	\$ 51,804	269,769	321,573
2012	207,145	114,428	321,573
2013	215,408	106,165	321,573
2014	224,000	97,573	321,573
2015	232,936	88,637	321,573
2016-2020	1,311,694	296,170	1,607,864
2021-2023	<u>757,014</u>	<u>45,378</u>	<u>802,392</u>
	<u>\$3,000,000</u>	<u>1,018,120</u>	<u>4,018,120</u>

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

(6) Derivative Instrument Liability

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2010		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred outflow	\$(7,571,512)	Debt	\$(25,402,874)	\$133,000,000

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

Objective and Terms of Hedging Derivative Instruments

The following table displays the objective and terms of the Company's hedging derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty.

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

Credit risk. The Company is exposed to credit risk on hedging derivative instruments. The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2010, was \$25,402,874. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

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

Basis risk. The Company is exposed to basis risk on its pay-fixed interest rate swap because the variable-rate payments received by the Company on these hedging derivative instruments are based on a rate or index other than interest rates the Company pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2010, the weighted-average

(6) Derivative Instrument Liability, (Continued)

interest rate on the Company's hedged variable-rate debt is .27067%, while 64 percent of LIBOR is .2248%.

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

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

(7) Net Assets

Net assets at June 30, 2010 consisted of the following:

Invested in capital assets, net of related:	
Property, plant and equipment, net	\$ 161,624,609
Unspent bond proceeds	14,700,201
Less:	
Outstanding debt issued to construct capital assets	<u>(160,489,625)</u>
Total invested in capital assets, net of related debt	15,835,185
Restricted net assets:	
Facility Restoration Fee	1,934,746
Organ repair and maintenance	3,063
Unrestricted net assets:	
Designated for capital projects	163,789
Undesignated	<u>(4,620,167)</u>
Total net assets	<u>\$ 13,316,616</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.

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

(7) Net Assets, (Continued)

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.

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.

(8) Boston Culinary Group – Concession Agreement

In the fiscal year ended June 30, 2009 the Company entered into an agreement with Boston Culinary Group (BCG) that allows BCG exclusive right to operate the food services concession for the Company. The agreement covers the period March 1, 2009 through June 30, 2014. In exchange for this exclusive right, BCG agreed to contribute up to \$1,000,000 for capital asset purchases at the new kitchen in the Conference Center Expansion Project. As of June 30, 2010 BCG has contributed \$999,933. This has been recorded as deferred revenue and is being amortized over 120 months starting March 1, 2009. The sum of \$133,324 was recognized as capital contributions. The remaining \$866,609 is recorded as deferred revenue.

(9) 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 \$135,383 for the fiscal year ended June 30, 2010.

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

(10) Prior Period Adjustment

Net Assets at the beginning of the year have been restated to reflect the implementation of GASB Statement No. 53 related to Derivatives as follows:

Net assets at June 30, 2009, as previously reported	\$21,292,045
Accumulated amortization of deferred refunding charge on defeased debt due to implementation of GASB Statement No. 53	<u>(400,957)</u>
Net assets at June 30, 2009, as restated	<u>\$20,891,088</u>