

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

Fiscal Year ended June 30, 2009

PASADENA CENTER OPERATING COMPANY

Basic Financial Statements

Fiscal Year ended June 30, 2009

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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, 2009 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, 2008 and, in our report dated December 1, 2008 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, 2009 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  
October 16, 2009

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, 2009, with selected comparative information for the year ended June 30, 2008. This discussion should be read in conjunction with the financial statements. Unless otherwise indicated, years (2008, 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>2009</u>          | <u>2008</u>          | <u>change</u>         |
|---|----------------------|----------------------|-----------------------|
| <b>ASSETS</b>                                   |                      |                      |                       |
| Cash & short term investments                   | \$ 10,371,066        | \$ 10,312,696        | \$ 58,370             |
| Accounts receivable & prepaid expenses          | 875,335              | 1,372,200            | (496,865)             |
| Fiscal agent cash                               | 14,858,881           | 76,610,341           | (61,751,460)          |
| Capital assets                                  | 164,971,653          | 112,828,942          | 52,142,711            |
| <u>Other assets</u>                             | <u>592,813</u>       | <u>525,181</u>       | <u>67,632</u>         |
| Total assets                                    | 191,669,748          | 201,649,360          | (9,979,612)           |
| <b>LIABILITIES</b>                              |                      |                      |                       |
| Accounts payable & accrued expenses             | 706,280              | 12,212,487           | (11,506,207)          |
| Accrued salaries & benefits                     | 539,387              | 414,830              | 124,557               |
| Deposits  | 537,510              | 430,296              | 107,214               |
| Deferred revenue                                | 966,602              | -                    | 966,602               |
| Interest payable                                | 417,277              | 13,998               | 403,279               |
| Current portion of long term debt               | 482,240              | 64,000               | 418,240               |
| <u>Long term debt</u>                           | <u>166,728,407</u>   | <u>163,487,438</u>   | <u>3,240,969</u>      |
| Total liabilities                               | 170,377,703          | 176,623,049          | (6,245,346)           |
| <b>NET ASSETS</b>                               |                      |                      |                       |
| Invested in capital assets, net of related debt | 12,619,887           | 14,448,855           | (1,828,968)           |
| Restricted                                      | 1,762,982            | 1,563,658            | 199,324               |
| Unrestricted                                    | -                    | -                    | -                     |
| Designated                                      | 163,789              | 163,789              | -                     |
| <u>Undesignated</u>                             | <u>6,745,387</u>     | <u>8,850,009</u>     | <u>(2,104,622)</u>    |
| Total net assets                                | <u>\$ 21,292,045</u> | <u>\$ 25,026,311</u> | <u>\$ (3,734,266)</u> |

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

### PCOC's Assets

Cash and short term investments remained essentially unchanged from 2008 to 2009.

Accounts receivable and prepaid expenses decreased \$497 from 2008 to 2009. During 2009, TOT earnings were transferred into the investment pool on monthly basis and used for debt service payments. TBID earnings were drawn monthly and continued to be used for Convention and Visitors Bureau (CVB) related expenses related to marketing Pasadena as a destination.

Fiscal agent cash declined \$61.7million as the project construction invoices were paid. The remainder reflects debt service reserve funds held by fiscal agent.

Capital assets increased by \$52.1million as the project was moved from the 'construction in progress' phase to operating assets.

Other assets increase of \$67 from 2008 to 2009. During 2009 additional bond issuance expenses of \$89 were incurred.

#### PCOC's Liabilities

Accounts payable consists of amounts due vendors and invoices related to the capital project. This decreased by \$11.5million as project invoices outstanding at the end of 2008 were paid with fiscal agent funds in 2009.

Accrued salaries and benefits increased \$124 from 2008 to 2009. This is related to staffing adjustments made at end of fiscal year.

Deposits increased by \$107; completion of the center brought increased public interest in renting space for future events.

Deferred revenue increased by \$967. Boston Culinary Group contributed \$1 million for purchase of new kitchen equipment in the expansion exhibit hall. \$33 was recognized in 2009 and the remainder will be recognized over the life of their contract, see notes to financial statements number 7.

Interest payable increased by \$403 as this is now an expense of the operation, was previously capitalized during construction phase of the project. This amount represents June interest expense payable in July 2009.

Current portion of long term debt increased \$418; the first payment of \$415 for 2006A capital appreciation bonds is due February 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 2009, totaling \$21.4 million declined slightly during the year. 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, declined from \$14.4 million to \$12.6 million. \$1.7 million reflects increase in accumulated depreciation. These net assets at \$12.6 million represent 59.4% 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 \$1.56 million to \$1.76 million or 8.2% of net assets. This represents an increase of \$199 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 \$8.8 million in 2008 to \$6.7 million in 2009, or 31.6% 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 2009 and 2008, arranged in an informative format is as follows:

These amounts listed in dollars

| OPERATING REVENUES                                 | <u>2009</u>          | <u>2008</u>          | <u>change</u>         |
|--|----------------------|----------------------|-----------------------|
| Occupancy fees and commissions                     | \$ 2,445,634         | \$ 2,021,624         | \$ 424,010            |
| Parking  | 987,376              | 1,040,512            | (53,136)              |
| Facility restoration fees                          | <u>199,323</u>       | <u>185,468</u>       | <u>13,855</u>         |
| Total operating revenues                           | 3,632,333            | 3,247,604            | 384,729               |
| <b>OPERATING EXPENSES</b>                          |                      |                      |                       |
| Pasadena Center                                    | 5,523,743            | 4,909,803            | 613,940               |
| Parking garage                                     | 478,138              | 453,082              | 25,056                |
| Convention and visitors bureau                     | 2,079,743            | 2,251,051            | (171,308)             |
| Depreciation expense                               | <u>2,358,176</u>     | <u>611,559</u>       | <u>1,746,617</u>      |
| Total operating expenses                           | 10,439,800           | 8,225,495            | 2,214,305             |
| Operating income / (loss)                          | (6,807,467)          | (4,977,891)          | (1,829,576)           |
| <b>NONOPERATING REVENUES (EXPENSES)</b>            |                      |                      |                       |
| Transient occupancy taxes                          | 4,559,501            | 5,553,914            | (994,413)             |
| Tourism business improvement district tax          | 2,131,649            | 2,542,671            | (411,022)             |
| Investment income                                  | 339,189              | 430,825              | (91,636)              |
| Interest expense                                   | (2,564,209)          | (49,743)             | (2,514,466)           |
| Contribution to City (Ice rink project)            | <u>(2,990,260)</u>   | <u>-</u>             | <u>(2,990,260)</u>    |
| Total non-operating expense                        | 1,475,870            | 8,477,667            | (7,001,797)           |
| Income / (loss) before other changes in net assets | (5,331,597)          | 3,499,776            | (8,831,373)           |
| Capital contributions                              | <u>1,597,331</u>     | <u>772,637</u>       | <u>824,694</u>        |
| Increase / (decrease) in net assets                | (3,734,266)          | 4,272,413            | (8,006,679)           |
| Net assets at beginning of year                    | <u>25,026,311</u>    | <u>20,753,898</u>    | <u>4,272,413</u>      |
| Net assets at end of year                          | <u>\$ 21,292,045</u> | <u>\$ 25,026,311</u> | <u>\$ (3,734,266)</u> |

Operating revenues increased \$385 from \$3.2 million in 2008 to \$3.6 million in 2009. This is primarily attributable to the opening of the expanded center on March 1<sup>st</sup> and strong subsequent demand for rental space.

Operating expenses increased by \$2.1 million from \$8.2million in 2008 to \$10.3 million in 2009. This is primarily a result of increased depreciation of new buildings; this expense increased \$1.6 million from \$646 in 2008 to \$2.3 million in 2009.

Non-operating revenues declined \$1.5 million from \$8.5 million in 2008 to \$7.0 million in 2009 as the recession caused corporate and independent travelers to reduce travel to local hotels. Transient occupancy tax declined \$994 or 18% from 2008. Tourism business improvement district tax declined \$411 or 16.2% from 2008. Included in this \$1.5 million decline is a decrease in investment pool earnings of \$91 from \$431 in 2008 to \$339 in 2009.

Non-operating expenses increased \$5.5 million; of this amount \$3.0 million is the contribution made by PCOC to the City of Pasadena to offset expenses related to the new ice rink project. This is a non-recurring expense. The remainder expense of \$2.5 million represents debt service interest expense. This expense will continue in future years.

Capital contributions includes \$1,564 received from Pasadena Water and Power as a grant towards expenses incurred on the energy conservation project and \$33 recognized as revenue from the \$1.0 million contribution paid by BCG as referenced above in the section PCOC Liabilities – deferred revenue. The remainder of the \$1 million paid by BCG will be recognized in equal monthly installments over the life of their agreement with PCOC. In 2008 PCOC received \$773 from the HUD grant. The original amount of this grant was \$925 and PCOC received an initial payment of \$152 in 2007. This \$773 is the final amount due from HUD on this grant.

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.

#### 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, 2009

(with comparative totals for 2008)

|   | <u>2009</u>          | <u>2008</u>        |
|---|----------------------|--------------------|
| Assets:   |                      |                    |
| Current assets:                                 |                      |                    |
| Cash and cash equivalents (note 2)              | \$ 2,339,878         | 497,733            |
| Accounts receivable                             | 332,837              | 209,909            |
| Due from City of Pasadena (note 3)              | 518,909              | 1,155,982          |
| Prepaid expenses                                | <u>23,589</u>        | <u>6,309</u>       |
| Total current assets                            | <u>3,215,213</u>     | <u>1,869,933</u>   |
| Noncurrent assets:                              |                      |                    |
| Investments (note 2)                            | 8,031,188            | 9,814,963          |
| Cash and investments with fiscal agent (note 2) | 14,858,881           | 76,610,341         |
| Unamortized bond costs                          | 588,813              | 521,181            |
| Deposits  | 4,000                | 4,000              |
| Capital assets (note 4):                        |                      |                    |
| Buildings and improvements                      | 172,303,245          | 21,041,006         |
| Machinery and equipment                         | 998,105              | 468,277            |
| Furniture and fixtures                          | 232,385              | 36,412             |
| Accumulated depreciation                        | <u>(10,985,555)</u>  | <u>(8,627,378)</u> |
| Net depreciable assets                          | 162,548,180          | 12,918,317         |
| Land  | 2,423,473            | 2,423,473          |
| Construction in progress                        | <u>-</u>             | <u>97,487,152</u>  |
| Property, plant and equipment, net              | <u>164,971,653</u>   | <u>112,828,942</u> |
| Total noncurrent assets                         | <u>188,454,535</u>   | <u>199,779,427</u> |
| Total assets                                    | <u>191,669,748</u>   | <u>201,649,360</u> |
| Liabilities:                                    |                      |                    |
| Current liabilities:                            |                      |                    |
| Accounts payable and other liabilities          | 706,280              | 12,212,487         |
| Interest payable                                | 417,277              | 13,998             |
| Accrued salaries and benefits                   | 539,387              | 414,830            |
| Advance deposits payable                        | 537,510              | 430,296            |
| Deferred revenue (note 7)                       | 966,602              | -                  |
| Current portion of long-term debt (note 5)      | <u>482,240</u>       | <u>64,000</u>      |
| Total current liabilities                       | <u>3,649,296</u>     | <u>13,135,611</u>  |
| Noncurrent liabilities:                         |                      |                    |
| Long-term debt (note 5)                         | <u>166,728,407</u>   | <u>163,487,438</u> |
| Total noncurrent liabilities                    | <u>166,728,407</u>   | <u>163,487,438</u> |
| Total liabilities                               | <u>170,377,703</u>   | <u>176,623,049</u> |
| Net assets (note 7):                            |                      |                    |
| Invested in capital assets, net of related debt | 12,619,887           | 14,448,855         |
| Restricted                                      | 1,762,982            | 1,563,658          |
| Unrestricted:                                   |                      |                    |
| Designated                                      | 163,789              | 163,789            |
| Undesignated                                    | <u>6,745,387</u>     | <u>8,850,009</u>   |
| Total net assets                                | <u>\$ 21,292,045</u> | <u>25,026,311</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, 2009  
(with comparative totals for 2008)

|  | 2009         | 2008        |
|--|--------------|-------------|
| Operating revenues:                                |              |             |
| Occupancy fees                                     | \$ 1,988,843 | 1,693,458   |
| Food services                                      | 247,770      | 248,506     |
| Parking  | 987,376      | 1,040,512   |
| Commissions  | 209,021      | 79,660      |
| Total operating revenues                           | 3,433,010    | 3,062,136   |
| Operating expenses:                                |              |             |
| Pasadena Center                                    | 5,523,743    | 4,909,803   |
| Parking garage                                     | 478,138      | 453,082     |
| Pasadena Convention and Visitors Bureau            | 2,079,743    | 2,251,051   |
| Depreciation expense                               | 2,358,176    | 611,559     |
| Total operating expenses                           | 10,439,800   | 8,225,495   |
| Operating income (loss)                            | (7,006,790)  | (5,163,359) |
| Nonoperating revenues (expenses):                  |              |             |
| Transient occupancy taxes, net (note 3)            | 4,559,501    | 5,553,914   |
| Tourism business improvement district tax (note 3) | 2,131,649    | 2,542,671   |
| Facility restoration fee                           | 199,323      | 185,468     |
| Contribution to City                               | (2,990,260)  | -           |
| Investment income                                  | 339,189      | 430,825     |
| Interest expense                                   | (2,564,209)  | (49,743)    |
| Total nonoperating revenues (expenses)             | 1,675,193    | 8,663,135   |
| Capital contributions                              | 1,597,331    | 772,637     |
| Increase (decrease) in net assets                  | (3,734,266)  | 4,272,413   |
| Net assets at beginning of year                    | 25,026,311   | 20,753,898  |
| Net assets at end of year                          | \$21,292,045 | 25,026,311  |

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY  
Statement of Cash Flows  
Year ended June 30, 2009  
(with comparative totals for 2008)

|  | 2009         | 2008          |
|--|--------------|---------------|
| Cash flows from operating activities:                                    |              |               |
| Cash received from customers   | \$ 4,383,899 | 3,364,222     |
| Cash paid to employees for services                                      | (5,077,406)  | (4,482,722)   |
| Cash paid to suppliers of goods and services                             | (2,384,725)  | (2,734,792)   |
| Net cash provided by (used for) operating activities                     | (3,078,232)  | (3,853,292)   |
| Cash flows from noncapital financing activities:                         |              |               |
| Transient occupancy taxes from City of Pasadena                          | 5,145,052    | 5,292,127     |
| Tourism business improvement district taxes from City of Pasadena        | 2,183,171    | 2,604,471     |
| Net cash provided by (used for) noncapital financing                     | 7,328,223    | 7,896,598     |
| Cash flows from capital and related financing activities:                |              |               |
| Acquisition and construction of capital assets                           | (62,795,888) | (55,147,707)  |
| Proceeds of loan   | 2,505,200    | 134,720,000   |
| Refunding of bonds   | -            | (135,500,000) |
| Principal payments on long-term debt                                     | (64,000)     | (60,917)      |
| Interest payments on long-term debt                                      | (6,500,755)  | (9,810,537)   |
| Contribution to City of Pasadena   | (2,990,260)  | -             |
| Capital grants and contributions   | 1,763,323    | 958,105       |
| Net cash provided by (used for) capital and related financing activities | (68,082,380) | (64,841,056)  |
| Cash flows from investing activities:                                    |              |               |
| Purchase of investments  | -            | (1,092,616)   |
| Sale of investments  | 63,535,235   | 54,104,366    |
| Investment earnings  | 2,139,299    | 7,097,203     |
| Net cash provided by (used for) investing activities                     | 65,674,534   | 60,108,953    |
| Net increase (decrease) in cash and cash equivalents                     | 1,842,145    | (688,797)     |
| Cash and cash equivalents at beginning of year                           | 497,733      | 1,186,530     |
| Cash and cash equivalents at end of year                                 | \$ 2,339,878 | 497,733       |

(Continued)

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY  
Statement of Cash Flows  
Year ended June 30, 2009  
(Continued)

|   | 2009           | 2008           |
|---|----------------|----------------|
| Reconciliation of operating income to net cash provided by<br>(used for) operating activities:        |                |                |
| Operating income (loss)   | \$ (7,006,790) | (5,163,359)    |
| Adjustments to reconcile operating income to<br>net cash provided by (used for) operating activities: |                |                |
| Depreciation  | 2,358,176      | 611,559        |
| (Increase) decrease in accounts receivable  | (122,928)      | 215,965        |
| (Increase) decrease in prepaid expenses   | (17,280)       | 12,610         |
| Increase (decrease) in accounts payable and other liabilities   | 512,217        | 252,316        |
| Increase (decrease) in accrued salaries and benefits  | 124,557        | 131,496        |
| Increase (decrease) in deposits payable   | 107,214        | 86,121         |
| Increase (decrease) in deferred revenue   | 966,602        | -              |
| Net cash provided by (used for) operating activities  | \$ (3,078,232) | \$ (3,853,292) |

There were no significant noncash capital, financing or investing activities for the years ended June 30, 2009 and 2008.

See accompanying notes to the basic financial statements

PASADENA CENTER OPERATING COMPANY  
Notes to the Basic Financial Statements  
Fiscal Year Ended June 30, 2009

(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. The total interest expense incurred by the Company during the fiscal year ended June 30, 2009 (including arbitrage) was \$6,742,980. Of this amount, \$4,178,771 was included as part of the cost of capital assets under construction in connection with the Convention Center Expansion Project.

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.

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

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

Comparative Data

The amounts shown for the year ended June 30, 2008 in the accompanying financial statements are included to provide a basis for comparison with 2009 and present summarized totals only. Accordingly, the 2008 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, 2008, from which the summarized information was derived.

(2) Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

|  |                         |
|--|-------------------------|
| Cash and cash equivalents              | \$ 2,339,878            |
| Investments                            | 8,031,188               |
| Cash and investments with fiscal agent | <u>14,858,881</u>       |
| <br>Total cash and investments         | <br><u>\$25,229,947</u> |

Cash and investments as of June 30, 2009 consist of the following:

|   |                         |
|---|-------------------------|
| Cash on hand                            | \$ 10,300               |
| Deposits with financial institutions    | 2,329,578               |
| City of Pasadena Investment Pool        | 8,031,188               |
| Cash and investments with fiscal agent: |                         |
| Federal agency securities               | 11,695,530              |
| Money market mutual funds               | <u>3,163,351</u>        |
| <br>Total cash and investments          | <br><u>\$25,229,947</u> |



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

(2) Cash and Investments, (Continued)

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.

| Investment Types Authorized by State<br>Law | Authorized<br>By<br>Investment<br>Policy | *Maximum<br>Maturity | *Maximum<br>Percentage of<br>Portfolio | *Maximum<br>Investment In<br>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<br>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     | \$ 8,031,188                          | 8,031,188              | -                          |
| Federal agency securities | 11,695,530                            | -                      | 1,501,905                  |
| Money market funds        | 3,163,351                             | 3,163,351              | -                          |
| Total                     | <u>\$ 22,890,069</u>                  | <u>11,194,539</u>      | <u>1,501,905</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<br/>Legal Rating</u> | <u>Ratings at end of year</u> |                  |
|---------------------------|----------------------|---------------------------------|-------------------------------|------------------|
|                           |                      |                                 | <u>AAA</u>                    | <u>Not Rated</u> |
| City of Pasadena Pool     | \$ 8,031,188         | N/A                             | -                             | 8,031,188        |
| Federal agency securities | 11,695,530           | N/A                             | 11,695,530                    | -                |
| Money market funds        | <u>3,163,351</u>     | Aaa                             | <u>3,163,351</u>              | -                |
| Total                     | <u>\$ 22,890,069</u> |                                 | <u>14,858,881</u>             | <u>8,031,188</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 | \$11,695,530           |

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 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.

(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, 2009, net transient occupancy taxes received from the City were \$4,559,501 of which \$365,760 was payable to the Company at June 30, 2009.

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, 2009 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, 2009, the Company received \$2,131,649 of TBID from the City of which \$153,149 was payable at June 30, 2009.

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

(4) Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

|                                   | <u>Balance at<br/>June 30, 2008</u> | <u>Additions</u>   | <u>Deletions</u>     | <u>Balance at<br/>June 30, 2009</u> |
|-----------------------------------|-------------------------------------|--------------------|----------------------|-------------------------------------|
| Capital assets being depreciated: |                                     |                    |                      |                                     |
| Buildings and improvements        | \$ 21,041,007                       | 151,262,238        |                      | 172,303,245                         |
| Machinery and equipment           | 468,277                             | 529,828            |                      | 998,105                             |
| Furniture and fixtures            | <u>36,412</u>                       | <u>195,973</u>     | -                    | <u>232,385</u>                      |
| Total depreciable capital assets  | <u>21,545,696</u>                   | <u>151,988,039</u> | -                    | <u>173,533,735</u>                  |
| Less accumulated depreciation:    |                                     |                    |                      |                                     |
| Buildings and improvements        | (8,154,945)                         | (2,301,284)        |                      | (10,456,229)                        |
| Machinery and equipment           | (436,022)                           | (37,295)           |                      | (473,317)                           |
| Furniture and fixtures            | <u>(36,412)</u>                     | <u>(19,597)</u>    | -                    | <u>(56,009)</u>                     |
| Total accumulated depreciation    | <u>(8,627,379)</u>                  | <u>(2,358,176)</u> | -                    | <u>(10,985,555)</u>                 |
| Net depreciable assets            | 12,918,317                          | 149,629,863        | -                    | 162,548,180                         |
| Land                              | 2,423,473                           | -                  | -                    | 2,423,473                           |
| Construction in progress          | <u>97,487,152</u>                   | <u>41,875,636</u>  | <u>(139,362,788)</u> | <u>-</u>                            |
| Capital assets, net               | <u>\$ 112,828,942</u>               | <u>191,505,499</u> | <u>(139,362,788)</u> | <u>164,971,653</u>                  |

Depreciation expense for the fiscal year ended June 30, 2009 was \$2,358,176.

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

(5) Long-Term Debt

Long-term liabilities for the year ended June 30, 2009 are as follows:

|                                    | Balance at<br>June 30, 2008 | Additions /<br>Accretion | Principal<br>Repayments | Balance at<br>June 30, 2009 | Due in One<br>Year |
|------------------------------------|-----------------------------|--------------------------|-------------------------|-----------------------------|--------------------|
| Conference Center Loan             | \$ 966,624                  | -                        | 64,000                  | 902,624                     | 67,240             |
| COP 2006 Series A                  | 28,879,718                  | 1,311,431                | -                       | 30,191,149                  | 415,000            |
| Unamortized discount 2006 Series A | (123,756)                   |                          | 4,806                   | (118,950)                   | -                  |
| COP 2008 Series A                  | 134,720,000                 | -                        | -                       | 134,720,000                 |                    |
| Unamortized discount 2008 Series A | (275,497)                   | (11,768)                 | 10,831                  | (276,434)                   |                    |
| Deferred Refunding Charge          | (1,997,174)                 | 77,560                   | -                       | (1,919,614)                 |                    |
| Arbitrage Liability                | 1,381,523                   | -                        | ( 174,851)              | 1,206,672                   |                    |
| Energy Conservation Loan           | -                           | 2,505,200                | -                       | 2,505,200                   | -                  |
| Total long-term liabilities        | <u>\$ 163,551,438</u>       | <u>3,882,828</u>         | <u>(223,214)</u>        | <u>167,210,647</u>          | <u>482,240</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 \$57,981 are due semi-annually. The outstanding principal at June 30, 2009 is \$902,624.

The annual requirements to repay the outstanding loan at June 30, 2009 are as follows:

| <u>June 30</u> | <u>Principal<br/>Payment</u> | <u>Interest<br/>Payment</u> | <u>Total Debt<br/>Service</u> |
|----------------|------------------------------|-----------------------------|-------------------------------|
| 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           | 81,926                       | 29,616                      | 111,542                       |
| 2015-2019      | 476,204                      | 81,503                      | 557,707                       |
| 2020           | <u>54,411</u>                | <u>1,360</u>                | <u>55,771</u>                 |
|                | <u>\$902,624</u>             | <u>268,561</u>              | <u>1,171,185</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, 2009 are as follows:

| <u>June 30</u> | <u>Principal<br/>Payment</u> | <u>Accretion</u>  |
|----------------|------------------------------|-------------------|
| 2010           | \$ 415,000                   | 1,369,878         |
| 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         |
| 2015-2019      | 18,650,000                   | 6,387,704         |
| 2020-2023      | <u>21,300,000</u>            | <u>2,415,302</u>  |
|                | <u>\$46,185,000</u>          | <u>15,993,850</u> |

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

(5) Long-Term Debt (Continued)

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.

The annual requirements to repay the outstanding certificates of participation 2008 Series A at June 30, 2009 are as follows

| <u>June 30</u> | <u>Principal Payment</u> | <u>Interest Payment</u> | <u>Total Debt Service</u> |
|----------------|--------------------------|-------------------------|---------------------------|
| 2010           | \$ -                     | 4,763,699               | 4,763,699                 |
| 2011           | -                        | 4,763,699               | 4,763,699                 |
| 2012           | -                        | 4,763,699               | 4,763,699                 |
| 2013           | -                        | 4,763,699               | 4,763,699                 |
| 2014           | -                        | 4,763,699               | 4,763,699                 |
| 2015-2019      | -                        | 23,818,495              | 23,818,495                |
| 2020-2024      | 6,775,000                | 23,818,495              | 30,593,495                |
| 2025-2029      | 45,495,000               | 19,696,758              | 65,191,758                |
| 2030-2034      | 71,005,000               | 10,055,854              | 81,060,854                |
| 2035           | <u>11,445,000</u>        | <u>404,695</u>          | <u>11,849,695</u>         |
| Total          | <u>\$ 134,720,000</u>    | <u>101,612,792</u>      | <u>236,332,792</u>        |



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

(5) Long-Term Debt (Continued)

Energy Conservation Retrofit

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

As of June 30, 2009 the Company has received \$2,505,200 from the State of California Energy Conservation Commission and has received \$1,564,000 from PWP.

The annual requirements to repay the outstanding loan from the State of California Energy Conservation Commission at June 30, 2009 are as follows:

| <u>June 30</u> | <u>Principal<br/>Payment</u> | <u>Interest<br/>Payment</u> | <u>Total Debt<br/>Service</u> |
|----------------|------------------------------|-----------------------------|-------------------------------|
| 2010           | \$ -                         | 118,500                     | 118,500                       |
| 2011           | 69,446                       | 180,200                     | 249,646                       |
| 2012           | 217,176                      | 113,945                     | 331,121                       |
| 2013           | 226,144                      | 105,066                     | 331,210                       |
| 2014           | 235,165                      | 95,955                      | 331,120                       |
| 2015-2019      | 1,324,020                    | 331,582                     | 1,655,602                     |
| 2020-2022      | <u>433,249</u>               | <u>65,310</u>               | <u>498,559</u>                |
|                | <u>\$2,505,200</u>           | <u>1,010,558</u>            | <u>3,515,756</u>              |

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

(6) Net Assets

Net assets at June 30, 2009 consisted of the following:

|   |                |
|---|----------------|
| Invested in capital assets, net of related:           |                |
| Property, plant and equipment, net                    | \$ 164,971,653 |
| Bond proceeds   | 14,858,881     |
| Less:   |                |
| Outstanding debt issued to construct capital assets   | (167,210,647)  |
| Total invested in capital assets, net of related debt | 12,619,887     |
| Restricted net assets:                                |                |
| Facility Restoration Fee                              | 1,759,919      |
| Organ repair and maintenance                          | 3,063          |
| Unrestricted net assets:                              |                |
| Designated for capital projects                       | 163,789        |
| Unreserved  | 6,745,387      |
| Total net assets                                      | \$ 21,292,045  |

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, 2009, 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) 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, 2009 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 \$33,331 was recognized as capital contributions. The remaining \$966,602 is recorded as deferred revenue.

(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 \$133,002 for the fiscal year ended June 30, 2009.

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