

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

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012 AND 2011

**PASADENA CENTER OPERATING COMPANY
JUNE 30, 2012 AND 2011**

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**BROWN
ARMSTRONG**

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pasadena Center Operating Company
Pasadena, California

We have audited the accompanying financial statements of the business-type activities of the Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2012, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative data has been derived from the basic financial statements of the Company for the year ended June 30, 2011, and, in our report dated November 9, 2011, we expressed an unqualified opinion on those basic financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Company, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MAIN OFFICE

4200 TRUXTON AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE

SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.

SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833



REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Pasadena, California
November 19, 2012

**PASADENA CENTER OPERATING COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

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, 2012, with selected comparative information for the year ended June 30, 2011. This discussion should be read in conjunction with the financial statements. Unless otherwise indicated, years (2012, 2011) 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:

	2012	2011	Change
ASSETS			
Cash and short-term investments	\$ 5,643,082	\$ 7,981,243	\$ (2,338,161)
Accounts receivable and prepaid expenses	1,471,579	1,239,614	231,965
Fiscal agent cash	11,178,319	11,049,460	128,859
Capital assets	157,192,852	158,687,078	(1,494,226)
Other assets	75,415,498	25,294,436	50,121,062
	\$ 250,901,330	\$ 204,251,831	\$ 46,649,499
LIABILITIES			
Accounts payable and accrued salaries	\$ 803,600	\$ 1,164,103	\$ (360,503)
Interest payable	554,165	607,043	(52,878)
Deposits	672,200	745,640	(73,440)
Deferred revenue	666,622	814,317	(147,695)
Current portion of long-term debt	1,795,111	1,375,579	419,532
Long-term liabilities	244,768,633	193,618,765	51,149,868
	\$ 249,260,331	\$ 198,325,447	\$ 50,934,884
NET ASSETS			
Invested in capital assets, net of related debt	\$ 6,262,722	\$ 9,504,991	\$ (3,242,269)
Restricted	14,464,425	14,090,026	374,399
Unrestricted	(19,086,148)	(17,668,633)	(1,417,515)
	\$ 1,640,999	\$ 5,926,384	\$ (4,285,385)

PCOC's Assets

Cash and short-term investments decreased \$2,338,161 from 2011 to 2012. In the first quarter, PCOC invested \$1,500,000 in the Ice Skating Center project, and in February 2012 PCOC paid the third payment due on the 2006A Capital Appreciation Bonds in the amount of \$1,095,000.

Accounts receivable and prepaid expenses increased \$231,965 from 2011 to 2012. Of this amount, \$107,350 represents increases in Transient Occupancy Taxes (TOT) and Transient Business Improvement District taxes (TBID) (both forms of room taxes) receivable from the City of Pasadena (the City). The remaining \$124,615 represents an increase in general accounts receivable, offset by a decrease in interest receivable from the City.

Fiscal agent cash and investments increased \$128,859 related to interest earnings on these restricted funds.

Capital assets decreased by \$1,494,226. This is despite acquisition of assets totaling \$2,893,687 during the fiscal year. Acquisitions included \$2,881,625 for the Ice Skating Center related to construction in process. However, this was offset by depreciation expense of \$4,387,913 recognized during the year.

Other assets increased \$50,121,062 from 2011 to 2012. During 2012 derivative swap transactions in the amount of \$50,144,355 were recorded, due to current year valuation of the fair value of deferred outflows. This was offset by a decrease of \$23,293 in unamortized bond costs due to continued amortization.

PCOC's Liabilities

Accounts payable consists of amounts due to vendors. This decreased by \$258,833.

Accrued salaries and benefits decreased \$101,670 from 2011 to 2012, largely related to a decline in paid time off (PTO) by \$56,431 and termination expenses.

Deposits decreased by \$73,440. The Salvation Army had a deposit of \$93,046 at June 2011 and used that deposit during their event in June 2012.

Deferred revenue decreased by \$147,695. Of this, \$99,993 is for annual amortization of the \$1 million contributed by Boston Culinary Group, now called Centerplate. \$47,702 for Lovebirds Café & Bakery at June 2011 was refunded to the lessee as their lease was terminated December 2011.

Interest payable decreased by \$52,878 between fiscal years 2011 and 2012. Letter of credit fees due at June 2011 was \$186,925 representing a fee of 0.95%; at June 2012 this fee was at an average 0.65%. The impact is a reduction in fees of \$103,026 per quarter.

The current portion of long-term debt increased by \$419,532. The 2006A Capital Appreciation Bonds payment increases by \$270,000 in 2013 and the Ice Skating Center loan did not exist in 2011. The current amount due is \$137,235.

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 2012, totaling \$1.6 million declined \$4.3 million during the year, primarily as a result of recording the deferred derivative liability. This is more fully explained in Note 6 to the basic financial statements. These net assets are reported in three major categories: invested in capital assets, net of related debt; 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, decreased \$3.2 million from \$9.5 million to \$6.3 million. 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 approximately \$374 thousand to \$14.4 million. Of this amount, \$151,892 represents an increase in facility restoration fees collected during the year; these fees are collected per ticket for events in the Pasadena Civic Auditorium. \$1,026,766 represents funds restricted for public art, and \$11,178,319 represents funds restricted as a bond reserve accounts, as held by fiscal agents per bond indentures.

Included in the unrestricted net deficit are unrestricted but designated assets for \$163,789. These amounts represent funds remaining from a prior period facility improvement project. These funds are designated as resources for capital projects by the Board of Directors.

PCOC shows a continuing unrestricted net deficit because of a number of factors. PCOC has undertaken a large capital improvement program recently. Capital assets, representing construction in process and finished capital assets, are less than outstanding debts by \$89,370,892. In addition, a large portion is also related to a derivative instrument liability, reflecting the fair value of a swap transaction. Even though the fair value is negative, PCOC's annual interest expense benefits from the swap transaction as the swap inflows partially offset interest expense, thereby lowering the cost of borrowing for PCOC in comparison to fixed rate debt. The swap's fair value fluctuates constantly with changing interest rates. Finally, as the economy improves and the results of operations improve, unrestricted deficits will subside.

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 Governmental Accounting Standard Board requirements, certain significant revenues relied upon and budgeted for fundamental operational support of PCOC are mandated to be reported as nonoperating revenues, including TOT, TBID, and earnings on funds invested with the City's investment pool.

A summarized comparison of the operating results for 2012 and 2011, arranged in an informative format is as follows:

	2012	2011	Change
OPERATING REVENUES			
Occupancy fees and commissions	\$ 3,960,892	\$ 3,651,201	\$ 309,691
Ice skating center	1,639,026	-	1,639,026
Parking	1,080,000	1,325,344	(245,344)
Total operating revenues	<u>6,679,918</u>	<u>4,976,545</u>	<u>1,703,373</u>
OPERATING EXPENSES			
Pasadena Center	4,990,667	4,887,732	102,935
Ice skating center	947,259	-	947,259
Parking garage	88	467,734	(467,646)
Convention and visitors bureau	1,729,094	1,794,066	(64,972)
Subtotal before depreciation	7,667,108	7,149,532	517,576
Depreciation	4,387,913	4,229,836	158,077
Total operating expenses	<u>12,055,021</u>	<u>11,379,368</u>	<u>675,653</u>
Operating income (loss)	(5,375,103)	(6,402,823)	1,027,720
NONOPERATING REVENUES (EXPENSES)			
Transient occupancy taxes	5,697,466	5,165,432	532,034
Tourism business improvement district tax	2,392,014	2,153,155	238,859
Facility restoration fees	151,892	170,277	(18,385)
Investment income	811,917	746,877	65,040
Interest expense	(7,619,694)	(8,895,121)	1,275,427
Contribution to City	(443,870)	(441,651)	(2,219)
Total nonoperating revenue (expenses)	<u>989,725</u>	<u>(1,101,031)</u>	<u>2,090,756</u>
Income (loss) before other changes in net assets	(4,385,378)	(7,503,854)	3,118,476
Capital contributions	99,993	113,622	(13,629)
Increase (decrease) in net assets	(4,285,385)	(7,390,232)	3,104,847
Net assets at beginning of year	<u>5,926,384</u>	<u>13,316,616</u>	<u>(7,390,232)</u>
Net assets at end of year	<u>\$ 1,640,999</u>	<u>\$ 5,926,384</u>	<u>\$ (4,285,385)</u>

Operating revenues increased \$1.7 million from \$5.0 million in 2011 to \$6.7 million in 2012, due to slightly improving business in events and the ice skating center.

Operating expenses, before depreciation, increased 7% or \$517,576 from \$7,149,532 in 2011 to \$7,667,108 in 2012 due to the additional ice skating center expenses, offset by tight controls on administrative expenses. Overall operating expenses increased \$675,653. Depreciation increased from \$4,229,836 in 2011 to \$4,387,913 in 2012, the result of additional depreciation on the new Ice Skating Center.

Nonoperating revenues increased \$817,548 from \$8,235,741 in 2011 to \$9,053,289 in 2012. Room taxes (TOT and TBID) increased a combined \$770,893 or 10.53% from 2011. Also, investment pool earnings increased \$65,040 from \$746,877 in 2011 to \$811,917 in 2012; \$171,121 was earned on funds invested with the City, \$467,270 on the amortization of the deferred borrowing, and \$173,526 on fiscal agent investments.

Nonoperating expenses decreased \$1,273,208 from \$9,336,772 in 2011 to \$8,063,564. Of this amount, \$1,449,590 is accretion interest on the 2006A Capital Appreciation Bonds, \$343,677 is amortization on the deferred refunding changes, and the remaining \$5,826,427 is interest on long term debt of PCOC.

Capital contributions include \$99,993 recognized as revenue from the \$1 million contribution paid by Boston Culinary Group, now Centerplate. The remainder of the \$666,622 unamortized amount paid by Boston Culinary Group will be recognized in equal monthly installments over the life of the agreement with PCOC.

The notes to the financial statements can be found on pages 11 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
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,343,718	\$ 856,295
Accounts receivable	464,674	253,183
Due from City of Pasadena (Note 3)	861,485	856,596
Prepaid expense	145,420	129,835
Total current assets	2,815,297	2,095,909
Noncurrent assets:		
Investments (Note 2)	4,299,364	7,124,948
Cash and investments with fiscal agent (Note 2)	11,178,319	11,049,460
Deferred outflows (Note 6)	74,896,566	24,752,211
Unamortized bond costs	518,932	542,225
Capital assets (Note 4):		
Buildings and improvements	177,218,619	173,333,555
Machinery and equipment	1,277,983	1,219,256
Furniture and fixtures	266,582	266,582
Accumulated depreciation	(24,024,664)	(19,636,751)
Net depreciable assets	154,738,520	155,182,642
Land	2,423,473	2,423,473
Construction in progress	30,859	1,080,963
Property, plant, and equipment, net	157,192,852	158,687,078
Total noncurrent assets	248,086,033	202,155,922
Total assets	\$ 250,901,330	\$ 204,251,831
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	\$ 350,682	\$ 667,613
Due to City of Pasadena	181,064	122,966
Interest payable	554,165	607,043
Accrued salaries and benefits	271,854	373,524
Advance deposits payable	672,200	745,640
Deferred revenue (Note 8)	666,622	814,317
Current portion of long-term debt (Note 5)	1,795,111	1,375,579
Total current liabilities	4,491,698	4,706,682
Noncurrent liabilities:		
Derivative instrument liability (Note 6)	71,029,823	20,885,468
Long-term debt (Note 5)	173,738,810	172,733,297
Total noncurrent liabilities	244,768,633	193,618,765
Total liabilities	\$ 249,260,331	\$ 198,325,447
Net assets (Note 7):		
Invested in capital assets, net of related debt	\$ 6,262,722	\$ 9,504,991
Restricted	14,464,425	14,090,026
Unrestricted	(19,086,148)	(17,668,633)
Total net assets	\$ 1,640,999	\$ 5,926,384

The accompanying notes are an integral part of these financial statements.

**PASADENA CENTER OPERATING COMPANY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Operating revenues:		
Occupancy fees	\$ 2,861,233	\$ 2,735,958
Ice skating center	1,639,026	-
Parking	1,080,000	1,325,344
Commissions	1,099,659	915,243
	6,679,918	4,976,545
Operating expenses:		
Pasadena Center	4,990,667	4,887,732
Ice skating center	947,259	-
Parking garage	88	467,734
Pasadena Convention and Visitors Bureau	1,729,094	1,794,066
Depreciation expense	4,387,913	4,229,836
	12,055,021	11,379,368
Operating loss	(5,375,103)	(6,402,823)
Nonoperating revenues (expenses):		
Transient occupancy taxes (Note 3)	5,697,466	5,165,432
Tourism business improvement district tax (Note 3)	2,392,014	2,153,155
Facility restoration fee	151,892	170,277
Contribution to the City of Pasadena	(443,870)	(441,651)
Investment income	811,917	746,877
Interest expense	(7,619,694)	(8,895,121)
	989,725	(1,101,031)
Total nonoperating revenues (expenses)	989,725	(1,101,031)
Capital contributions	99,993	113,622
Decrease in net assets	(4,285,385)	(7,390,232)
Net assets at beginning of year	5,926,384	13,316,616
Net assets at end of year	\$ 1,640,999	\$ 5,926,384

The accompanying notes are an integral part of these financial statements.

**PASADENA CENTER OPERATING COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 6,247,292	\$ 5,044,091
Cash paid to employees for services	(4,971,309)	(4,415,744)
Cash paid to suppliers of goods and services	(3,071,887)	(2,418,767)
Net cash used for operating activities	(1,795,904)	(1,790,420)
Cash flows from noncapital financing activities:		
Transient occupancy taxes from City of Pasadena	5,622,286	5,020,065
Tourism business improvement district taxes from City of Pasadena	2,359,844	2,094,972
Net cash provided by noncapital financing	7,982,130	7,115,037
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,893,687)	(1,292,305)
Proceeds of loan and deferred borrowings	3,637,544	1,264,940
Principal payments on long-term debt	(2,469,277)	(2,301,743)
Interest payments on long-term debt	(7,392,501)	(7,244,331)
Contribution to City of Pasadena	(443,870)	(441,651)
Capital grants and contributions	251,885	283,899
Net cash used for capital and related financing activities	(9,309,906)	(9,731,191)
Cash flows from investing activities:		
Sale of investments	2,696,725	3,111,214
Investment income received	914,378	595,406
Net cash provided by investing activities	3,611,103	3,706,620
Net increase (decrease) in cash and cash equivalents	487,423	(699,954)
Cash and cash equivalents at beginning of year	856,295	1,556,249
Cash and cash equivalents at end of year	\$ 1,343,718	\$ 856,295
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (5,375,103)	\$ (6,402,823)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,387,913	4,229,836
(Increase) decrease in accounts receivable	(211,491)	60,298
(Increase) decrease in prepaid expenses	(15,585)	27,330
Increase (decrease) in accounts payable and other liabilities	(258,833)	426,948
Decrease in accrued salaries and benefits	(101,670)	(139,257)
Increase (decrease) in deposits payable	(73,440)	59,540
Decrease in deferred revenue	(147,695)	(52,292)
Net cash used for operating activities	\$ (1,795,904)	\$ (1,790,420)

There were no significant noncash capital, financing, or investing activities for the years ended June 30, 2012 and 2011.

The accompanying notes are an integral part of these financial statements.

**PASADENA CENTER OPERATING COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. 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 (the City) whereby the Company maintains and operates the Pasadena Center and the Pasadena 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 accounting principles generally accepted in the United States of America.

B. 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 Governmental Accounting Standards Board (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 (ARBs) of the American Institute of Certified Public Accountants' Committee on Accounting Procedure.

C. 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.

D. Investments

Investments are reported in the accompanying statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 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

F. 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.

G. 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, and then restricted resources as they are needed.

H. Comparative Data

The amounts shown for the year ended June 30, 2011, in the accompanying financial statements are included to provide a basis for comparison with 2012 and present summarized totals only. Accordingly, the 2011 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 Company's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

I. Accounting Standards Update

During the fiscal year ended June 30, 2012, the Company did not implement any new GASB standards:

Additional standards released by GASB impacting future fiscal years are as follows:

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public - private and public - public partnerships. The statement is effective for periods beginning after December 15, 2011. The Company has not fully judged the effect of the implementation of GASB Statement No. 60 as of the date of the basic financial statements.

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accounting Standards Update (Continued)

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the basic financial statements, the Company has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements - FASB Statements and Interpretations, APB Opinions and ARBs of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the Company's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net (Plan, if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net Position instead of the current Statement of Changes in (Plan) Net Assets upon implementation for periods beginning after December 15, 2011. The Company will implement this change for the fiscal year ended June 30, 2012.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, the Company has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The Company will implement this change for the fiscal year ended June 30, 2013.

GASB Statement No. 66 – *Items Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. As of the date of the basic financial statements, the Company has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The Company has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Company has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 1,343,718
Investments	4,299,364
Cash and investments with fiscal agent	<u>11,178,319</u>
Total cash and investments	<u>\$ 16,821,401</u>

Cash and investments as of June 30, 2012, consist of the following:

Cash on hand	\$ 11,100
Deposits with financial institutions	1,332,618
City of Pasadena Investment Pool	4,299,364
Cash and investments with fiscal agent:	
Federal agency securities	10,841,904
Money market mutual funds	<u>336,415</u>
Total cash and investments	<u>\$ 16,821,401</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 Company's investment policy. The table also identifies certain provisions of the California Government Code (or the Company's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk.

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
			20% of base	
Reverse Repurchase Agreements	Yes	92 days	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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

<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 short-term and long-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 Investment Pool	\$ 4,299,364	\$ 4,299,364	\$ -
Federal agency securities	10,841,904	-	10,841,904
Money market mutual funds	336,415	336,415	-
Total	<u>\$ 15,477,683</u>	<u>\$ 4,635,779</u>	<u>\$ 10,841,904</u>

NOTE 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.

Investment Type		Minimum Legal Rating	Ratings at End of Year	
			AA+	Not Rated
City of Pasadena Investment Pool	\$ 4,299,364	N/A	\$ -	\$ 4,299,364
Federal agency securities	10,841,904	N/A	10,841,904	-
Money market mutual funds	336,415	Aaa	-	336,415
Total	<u>\$ 15,477,683</u>		<u>\$ 10,841,904</u>	<u>\$ 4,635,779</u>

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal Agency Securities	\$ 10,841,904

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.

NOTE 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. For operations support, the Company receives an allocation of the TOT collected by the City. A portion of this support is retained by the City to pay for the Company's insurance. The remaining allocation is not designated as to its use. Annual capital improvements to the Conference Center and the Pasadena Civic Auditorium are approved by the City. 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, 2012, net TOT received from the City were \$5,697,466, of which \$569,688 was payable to the Company at June 30, 2012.

Tourism Business Improvement District (TBID)

The TBID was established in March 2003. The TBID is an assessment levied against each hotel and motel business in the City. The assessment is calculated as a percentage of each day's Gross Occupancy Revenue and is passed through to guests. The rate of assessment is set annually by resolution of the City Council, but cannot exceed 2.89%. For the fiscal year ended June 30, 2012, the rate was set at 2.89%. The purpose of the TBID is to fund activities, programs, expenses, and services to market the City 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, 2012, the Company received \$2,392,014 of TBID from the City, of which \$242,787 was payable at June 30, 2012.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, is as follows:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets being depreciated:				
Buildings and improvements	\$ 173,333,555	\$ 3,885,064	\$ -	\$ 177,218,619
Machinery and equipment	1,219,256	58,727	-	1,277,983
Furniture and fixtures	266,582	-	-	266,582
Total depreciable capital assets	<u>174,819,393</u>	<u>3,943,791</u>	<u>-</u>	<u>178,763,184</u>
Less accumulated depreciation:				
Buildings and improvements	(18,962,705)	(4,310,325)	-	(23,273,030)
Machinery and equipment	(572,003)	(54,571)	-	(626,574)
Furniture and fixtures	(102,043)	(23,017)	-	(125,060)
Total accumulated depreciation	<u>(19,636,751)</u>	<u>(4,387,913)</u>	<u>-</u>	<u>(24,024,664)</u>
Net depreciable assets	155,182,642	(444,122)	-	154,738,520
Land	2,423,473	-	-	2,423,473
Construction in progress	<u>1,080,963</u>	<u>30,859</u>	<u>(1,080,963)</u>	<u>30,859</u>
Capital assets, net	<u>\$ 158,687,078</u>	<u>\$ (413,263)</u>	<u>\$ (1,080,963)</u>	<u>\$ 157,192,852</u>

Depreciation expense for the fiscal year ended June 30, 2012, was \$4,387,913.

NOTE 5 – LONG-TERM DEBT

Long-term debt for the year ended June 30, 2012, is as follows:

	Balance at June 30, 2011	Additions/ Accretion	Principal Prepayments	Balance at June 30, 2012	Due in One Year
Conference Center Loan	\$ 764,740	\$ -	\$ (74,221)	\$ 690,519	\$ 77,978
COP 2006 Series A	31,762,946	1,449,590	(1,095,000)	32,117,536	1,365,000
Unamortized discount 2006 Series A	(109,337)	-	4,805	(104,532)	-
COP 2008 Series A	134,720,000	-	-	134,720,000	-
Unamortized discount 2008 Series A	(254,964)	-	10,736	(244,228)	-
Deferred Refunding Charge	(9,611,794)	-	421,237	(9,190,557)	-
Arbitrage Liability	-	15,413	-	15,413	-
Energy Conservation Loan	2,959,957	-	(206,358)	2,753,599	214,898
Ice Skating Loan 2012	-	1,500,000	(133,888)	1,366,112	137,235
Derivative Deferred Borrowing	13,877,328	672,541	(1,139,810)	13,410,059	-
Total Long-Term Liabilities	\$ 174,108,876	\$ 3,637,544	\$ (2,212,499)	\$ 175,533,921	\$ 1,795,111

Conference Center Loan

In September 1999, the Company entered into a loan agreement for \$1,400,000 with the City to provide funding of Pasadena Conference Center maintenance and improvements. Interest accrues at a rate of 5.0% per annum. Principal and interest payments of \$57,981 are due semiannually. The outstanding principal at June 30, 2012, is \$690,519.

The annual requirements to repay the outstanding loan at June 30, 2012, are as follows:

June 30:	Principal Payment	Interest Payment	Total Debt Service
2013	\$ 77,978	\$ 33,563	\$ 111,541
2014	81,926	29,616	111,542
2015	86,073	25,468	111,541
2016	90,431	21,111	111,542
2017	95,009	16,533	111,542
2018-2020	259,102	19,752	278,854
	\$ 690,519	\$ 146,043	\$ 836,562

2006 Certificates of Participation

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

2006 Series A of the Certificates of Participation were issued as Capital Appreciation Certificates. These certificates of participation 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 of participation appreciating to its maturity value on its final maturity date. Accretion will commence on August 23, 2006. Interest accrues at a yield ranging from 3.85% to 4.81%. By their nature, there are no regular interest payments associated with capital appreciation certificates of participation; 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 certificates of participation. Principal on the 2006 Series A Certificates of Participation is payable in annual installments ranging from \$415,000 to \$5,850,000 commencing February 2010 and ending February 2023.

NOTE 5 – LONG-TERM DEBT (Continued)2006 Certificates of Participation (Continued)

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

The annual requirements to repay the outstanding certificates of participation 2006 Series A at June 30, 2012, are as follows:

<u>June 30:</u>	<u>Principal Payment</u>	<u>Accretion</u>
2013	\$ 1,365,000	\$ 1,471,648
2014	2,560,000	1,482,810
2015	2,850,000	1,443,449
2016	3,460,000	1,388,328
2017	3,810,000	1,301,447
2018-2022	23,980,000	4,398,224
2023	5,850,000	271,558
	<u>\$ 43,875,000</u>	<u>\$ 11,757,464</u>

2008 Certificates of Participation

On April 15, 2008, the City issued the 2008 Refunding Certificates of Participation, 2008 Series A in the amount of \$134,720,000. These certificates of participation were issued to refund the City's Certificates of Participation (Conference Center Project), 2006 Series B Certificates of Participation and finance the costs of execution of the 2008 Series A Certificates of Participation. The refunded certificates of participation were repaid in April 2008 and the liability has been removed from the statement of net assets. Interest on 2008 Series A Certificates of Participation 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, 2012, are as follows:

<u>June 30:</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Hedging Derivative, Net</u>	<u>Total</u>
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	-	364,647	4,338,233	4,702,880
2017	-	364,647	4,338,233	4,702,880
2018-2022	-	1,823,233	21,691,167	23,514,400
2023-2027	31,560,000	1,705,370	19,805,518	53,070,888
2028-2032	59,265,000	1,102,615	12,145,745	72,513,360
2033-2035	43,895,000	229,758	1,644,286	45,769,044
	<u>\$ 134,720,000</u>	<u>\$ 6,684,211</u>	<u>\$ 76,977,881</u>	<u>\$ 218,382,092</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.

NOTE 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 the 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, 2012, are as follows:

<u>June 30:</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2013	\$ 214,898	\$ 106,674	\$ 321,572
2014	223,471	98,102	321,573
2015	232,385	89,188	321,573
2016	241,442	80,130	321,572
2017	251,286	70,287	321,573
2018-2022	1,414,920	192,944	1,607,864
2023	175,197	3,822	179,019
	<u>\$ 2,753,599</u>	<u>\$ 641,147</u>	<u>\$ 3,394,746</u>

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2012</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash flow hedge:					
Pay-fixed interest					
rate swaps	Deferred outflow	\$ 50,144,355	Debt	\$ 71,029,823	\$ 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.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

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, 2012, 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, 2012, was \$74,896,566. 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, 2012, the weighted-average interest rate on the Company's hedged variable-rate debt is 0.2707%, while 64% of LIBOR is 0.4669%.

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.

During the fiscal year ending June 30, 2011, the Company entered into a new agreement to take advantage of a more advantageous interest rate adjustment mode than the 2008 Series Certificates of Participation previously had. As a result, the former derivative instrument terminated and the new instrument has off-market terms. As a result, an up-front payment was received. The up-front payment is reported as a borrowing. The borrowing is amortized over the life of the swap and amortizes using the effective interest method for the life of the swap with adjustments to interest expense during each fiscal year. The original balance of the borrowing was \$13,877,329. As of the year ended June 30, 2012, the balance was \$12,919,266.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

The annual amortization and balance of the borrowing as of June 30, 2012, are as follows:

<u>June 30</u>	<u>Beginning Balance</u>	<u>Accrued Interest</u>	<u>Payment</u>	<u>Ending Balance</u>
2012	\$ 13,410,059	\$ 649,017	\$ (1,139,810)	\$ 12,919,266
2013	12,919,266	624,309	(1,139,810)	12,403,765
2014	12,403,765	598,358	(1,139,810)	11,862,313
2015	11,862,313	571,101	(1,139,810)	11,293,604
2016	11,293,604	542,471	(1,139,810)	10,696,265
2017	10,696,265	512,400	(1,139,810)	10,068,855
2018	10,068,855	480,815	(1,139,810)	9,409,860
2019	9,409,860	447,641	(1,139,810)	8,717,691
2020	8,717,691	412,796	(1,139,810)	7,990,677
2021	7,990,677	376,197	(1,139,810)	7,227,064
2022	7,227,064	337,755	(1,139,810)	6,425,009
2023	6,425,009	297,498	(1,120,456)	5,602,051
2024	5,602,051	257,409	(1,060,395)	4,799,065
2025	4,799,065	218,464	(994,120)	4,023,409
2026	4,023,409	181,047	(921,204)	3,283,252
2027	3,283,252	145,571	(841,431)	2,587,392
2028	2,587,392	112,491	(754,231)	1,945,652
2029	1,945,652	82,314	(659,104)	1,368,862
2030	1,368,862	55,598	(555,479)	868,981
2031	868,981	32,956	(442,855)	459,082
2032	459,082	15,062	(320,589)	153,555
2033	<u>153,555</u>	<u>2,848</u>	<u>(156,403)</u>	<u>-</u>
Total:	<u>\$ 147,515,729</u>	<u>\$ 6,954,118</u>	<u>\$ (20,364,177)</u>	<u>\$134,105,670</u>

NOTE 7 – NET ASSETS

Net assets at June 30, 2012, consisted of the following:

Invested in capital assets, net of related:	
Property, plant, and equipment, net	\$ 157,192,852
Unspent bond proceeds	11,178,319
Less:	
Outstanding debt issued to construct capital assets	<u>(162,108,449)</u>
Total invested in capital assets, net of related debt	6,262,722
Restricted net assets:	
Bond reserve account - cash held with fiscal agent	11,178,319
Facility Restoration Fee	2,256,277
Public Art	1,026,766
Organ repair and maintenance	<u>3,063</u>
Total restricted net assets:	14,464,425
Unrestricted net assets:	
Designated for capital projects	163,789
Undesignated	<u>(19,249,937)</u>
Total unrestricted net assets:	<u>(19,086,148)</u>
Total net assets	<u><u>\$ 1,640,999</u></u>

Net asset restrictions and designations are as follows:

Bond Reserve Account - Cash Held with Fiscal Agent – This is the amount as held with fiscal agents, that is restricted for use per bond indentures, as a reserve account for future bond payments.

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.

Public Art – This is the amount as earmarked by the City which is to be used for the purchase and contributions of Public Arts with the Pasadena Convention Center.

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.

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.

NOTE 8 – CENTERPLATE – CONCESSION AGREEMENT

In the fiscal year ended June 30, 2009, the Company entered into an agreement with Boston Culinary Group, which then changed to Distinctive Gourmet Services, but is now called Centerplate (CP), that allows CP 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, CP 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, 2012, CP 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 \$333,310 has been recognized as capital contributions. The remaining \$666,623 is recorded as deferred revenue.

NOTE 9 – LOVEBIRDS CAFÉ & BAKERY – CONCESSION AGREEMENT

In the fiscal year ended June 30, 2010, the Company entered into an agreement with Lovebirds Café & Bakery (LCB) that allows LCB exclusive right to operate a Café for the Company at the Pasadena Center. The agreement covers the period March 1, 2010, through June 30, 2012. In December 2011, LCB terminated its agreement with the Company in exchange for \$50,000 and vacated the space. One-half of this amount (\$25,000) was paid by CP for purchase of existing equipment on site. The remainder \$25,000 was paid by PCOC, for early termination of lease.

In the fiscal year ended June 30, 2012, the Company entered into an agreement with CP that allows CP exclusive right to operate a Starbucks Café at the Pasadena Center in the space formerly leased by Lovebirds Café & Bakery. The agreement covers the period January 1, 2012, through June 30, 2019. In exchange for this exclusive right, CP agreed to an initial capital investment of \$400,000 for interior improvements to the café space in fiscal years 2012 and 2013, then an additional \$175,000 in 2014. The Company has not contributed any capital to this project in 2012 and is not obligated to do so per the agreement.

NOTE 10 – DEFINED CONTRIBUTION RETIREMENT PLAN

Plan Description

Eligible employees of the Company participate in the Pasadena Center Operating Company 401 (k) Profit Sharing Plan (the Plan), which is a defined contribution retirement plan covering all employees except those whose employment is governed by a collective bargaining agreement. To be eligible to participate in the Plan, an employee must have completed 90 days of employment. To be eligible for the employer's match, an employee must have completed one full year of employment and must have 1,000 hours of service in a twelve-month period.

Funding Policy

The employee may defer up to 15% of compensation into the Plan, subject to certain limitations. The Company is required to match 100% of the employee's contribution, up to 5% of compensation. Employee contributions are vested immediately. Employer match contributions prior to July 1, 2004, are subject to vesting on a graduating basis, beginning at two years and becoming fully vested after five years of service. Employer match contributions after July 1, 2004, are vested immediately. The Company matched \$111,276 for the fiscal year ended June 30, 2012.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Company remitted to the City a total of \$1,731,064 for all services, fees, and loans. Of this amount, \$1,653,937 is for non-event charges and \$77,127 is for event related charges. The non-event charges include \$195,943 for Facility Restoration Fees collected (see Note 7), \$111,541 for loan repayment, \$28,413 for various City fees, and \$1,318,040 for the City Water and Power department. The event charges of \$77,127 relate to the use of police and fire department services and parking fees, all of which were charged to clients using the Company's facilities.

NOTE 12 – SUBSEQUENT EVENTS

In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if those events are required to be disclosed in these financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through November 19, 2012, which is the date these financial statements were issued.

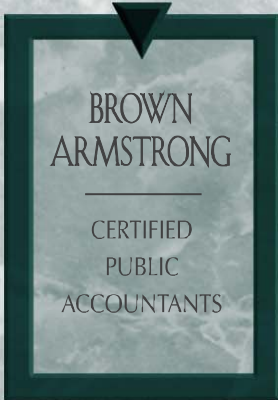
NOTE 13 – INCOME TAXES

The Company is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and applicable state law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Company and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year ending June 30, 2012.

The Company files forms 990 in the U.S. federal jurisdiction and the State of California. The Company is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Pasadena Center Operating Company
Pasadena, California

We have audited the financial statements of the business-type activities of the Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2012, which collectively comprise the Company’s basic financial statements and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

MAIN OFFICE **4200 TRUXTUN AVENUE**

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE

SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.

SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the Company, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Pasadena, California
November 19, 2012