ROSE BOWL OPERATING COMPANY
(A COMPONENT UNIT OF THE
CITY OF PASADENA, CALIFORNIA)

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

ROSE BOWL OPERATING COMPANY
(A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA)
YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rose Bowl Operating Company

We have audited the accompanying financial statements of the business-type activities of the Rose Bowl 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 1, 2011, we expressed an unqualified opinion on those basic financial statements.

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. Those standards require that we plan and perform the audit 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 audit provides 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, 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 29, 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.

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 29, 2012

ROSE BOWL OPERATING COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

As management of the Rose Bowl Operating Company (RBOC), we offer readers of the RBOC's financial statements this narrative overview and analysis of the financial activities of the RBOC for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

The assets of the RBOC exceeded its liabilities at the close of the most recent fiscal year by $13,899,065 (net assets). Of this amount, $18,496,117 is invested in capital assets, net of related debt, with an additional $78,736,778 restricted, leaving an unrestricted balance of ($83,333,830).

Net assets decreased ($12,592,448) from the previous fiscal year.

The RBOC's total bonded debt decreased by $1,347,085 during the current fiscal year. The key factors are the $1,875,000 payment on the 2006 Variable Rate Demand Lease Revenue bonds (Locker Rooms and Media Center), net of $7,228 in amortization of the bond discount and refunding costs, and a net decrease in the derivative instrument deferred borrowing amount of $341,764, offset by accretion on the 2010A tax-except lease revenue bonds of $885,571.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the RBOC's basic financial statements. The RBOC's financial statements consist of two components: 1) fund financial statements and 2) notes to the financial statements.

BASIC FINANCIAL STATEMENTS

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

The ***statement of revenues, expenses, and changes in net assets*** presents information showing how the RBOC's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.*

The ***statement of cash flows*** presents information on the cash inflows and outflows of cash during the fiscal year, directly attributing cash flows to types of sources and uses and reconciling those cash flows to the changes in net assets for the fiscal year.

The basic financial statements can be found on pages 8-11 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12-28 of this report

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the RBOC, assets exceeded liabilities by $13,899,065 at the close of the most recent fiscal year. However, the RBOC's overall financial position decreased this fiscal year, largely due to increased interest expense and the unrecouped loss from the demolition of the old press box.

By far the largest portion of the RBOC's net assets reflects its investment in capital assets (e.g., buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The RBOC uses these capital assets to provide services to the public that use the facilities; consequently, these assets are not available for future spending. Although the RBOC's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt may be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Rose Bowl Operating Company's Net Assets

	June 30, 2012	June 30, 2011
Assets:		
Current and other assets	$ 100,508,820	$ 157,038,203
Capital assets	122,858,755	73,571,301
Total assets	223,367,575	230,609,504
Liabilities:		
Long-term liabilities outstanding	191,275,509	189,772,140
Other liabilities	18,193,001	14,345,851
Total liabilities	209,468,510	204,117,991
Net assets:		
Invested in capital assets, net of related debt	18,496,117	22,901,211
Restricted	78,736,778	136,091,370
Unrestricted	(83,333,830)	(132,501,068)
Total net assets	$ 13,899,065	$ 26,491,513

The RBOC's net assets decreased by $12,592,448 during the current fiscal year, most of which is directly related to increased interest expense and the unrecorded cost of the disposal of the old Press Box. This is due principally to the ongoing operating revenues net of operating expenses being lower than the previous fiscal year, which included three more major events and higher golf revenue. Nonoperating revenues (expenses) include investment income interest expense, and capital contributions which make-up the remaining balance. Due to the 2010 bonds, interest expense was much higher than the previous year. Conversely, investment income also increased due to the various debt service reserve funds and unspent bond proceeds corresponding to these same bonds. Contribution income for the previous fiscal year was much higher mostly due to the second of two $2,000,000 payments from the Pasadena Tournament of Roses Association. The unrestricted net deficit will continue to decline as the project is built and is placed into service and as the principal on dept is repaid.

Rose Bowl Operating Company
Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2012	June 30, 2011
Revenues:		
Green fees and other golf revenues	$ 1,597,196	$ 1,727,046
Parking revenue	793,446	1,014,221
Advertising revenue	1,375,655	974,518
Television revenue	156,516	129,138
Facility rentals and admission tax	4,180,864	4,744,230
Concessions	1,059,293	1,659,208
Pro Shop	45,836	44,495
Restaurant	381,841	374,916
Cost recoveries	1,957,826	2,031,566
Investment earnings	2,275,371	1,564,159
Other nonoperating revenues	4,775,672	761,268
Capital contributions	861,337	2,359,773
Total revenues	19,460,853	17,384,538
Expenses:		
Salaries and benefits	2,197,003	2,149,909
General and administrative	2,103,546	2,396,802
Depreciation	2,778,357	3,240,537
Events	3,971,238	4,844,392
Interest expense	11,739,301	7,714,436
Loss on disposal of capital assets	9,263,856	-
Total expenses	32,053,301	20,346,076
Decrease in net assets	(12,592,448)	(2,961,538)
Net assets at beginning of year	26,491,513	29,453,051
Net assets at end of year	$ 13,899,065	$ 26,491,513

There was an overall decrease of $1,150,865 in total operating revenues for the most recent fiscal year due mostly to lower facility rentals, admission tax, cost recoveries, concessions, and parking revenue. Additionally, unlike the current fiscal year, there were three soccer games during the previous fiscal year, two of them major. For the fourth consecutive year, the revenue generated by the Brookside Municipal Golf Course (Golf Course) decreased after increasing three years in a row prior to that. Although largely due to economic conditions in the previous years, this latest decrease was largely due to the new agreement with American Golf Corporation (American Golf) where the Company now receives 28.5% of all Golf Course income (gross), whereas before, American Golf had been effectively paying the Company 33.5%. This was a blended rate comprised of 35% on Green Fees and 40% on all other Golf Course income. In exchange, the Company's share of Golf Course parking income generated from stadium events increased. These amounts are reflected on the stadium's records and not on the Golf Course's. Conversely, restaurant revenue increased from the previous year, reversing the direction from fiscal year 2009 to fiscal year 2010, when there was a decrease for the first time in four years.

Interest expense rose by 52.1% from the previous year due to a full year of amortization of the 2010 bonds. As further discussed herein, the 2010 bonds are taxable bonds, eligible for subsidies from the federal government under the "Build America Bonds" program. The loss on disposal relates to a planned disposal of the press box in the Stadium that was not fully depreciated, but needed to be dismantled to comply with the Americans for Disabilities Act and was planned as part of the Stadium renovation project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The RBOC's investment in capital assets for its activities as of June 30, 2012, totals $122,858,755 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements and machinery and equipment. The total increase in the RBOC's investment in capital assets for the current fiscal year was $49,287,454, or 66.99 percent.

Major capital asset events and additions during the current fiscal year included the following:

• Fairways and Bunkers - Golf Course	$	141,656
• Clubhouse Maintenance	$	41,275
• Lake Water Tunnel Project	$	175,072
• Strategic Plan - Stadium	$	60,812,863
• Concessions Upgrades - Stadium	$	72,621

Rose Bowl Operating Company's Capital Assets

	June 30, 2012	June 30, 2011
Buildings and improvements	$ 53,509,466	$ 69,872,590
Machinery and equipment	5,020,177	5,386,220
Construction in progress	89,178,357	29,332,164
Sub-total	147,708,000	104,590,974
Less accumulated depreciation	(24,849,245)	(31,019,673)
Total	$ 122,858,755	$ 73,571,301

Additional information on the RBOC's capital assets can be found in Note 3 on pages 18-19 of this report.

Long-term debt

At the end of the current fiscal year, the RBOC had total debt outstanding of $187,934,065. All debt is backed by lease revenues. The aforementioned 2010 bonds for the Rose Bowl renovation project are split into four series. The largest series (2010B) are taxable "Build America Bonds" which include a cash subsidy from the United States Treasury representing 45% of the interest payable on the bonds. Series 2010D are also taxable, but are Recovery Zone Economic Development Bonds. These bonds are also subsidized by payments from the United States Treasury amounting to 35% of the interest payable. The interest subsidies do not offset interest expense and are not pledged as security for the bonds. The RBOC's debt is as follows:

Rose Bowl Operating Company's Debt

	June 30, 2012	June 30, 2011
2010 Revenue Bonds	$ 157,643,245	$ 156,780,794
Derivative Deferred Borrowing Amount	2,250,323	2,592,087
2006 Revenue Bond	28,040,497	29,908,269
Total	$ 187,934,065	$ 189,281,150

The RBOC's total debt decreased by $1,347,085 during the current fiscal year. As mentioned on Page 3, the key factors are the $1,875,000 payment on the 2006 Variable Rate Demand Lease Revenue bonds (Locker Rooms & Media Center), net of $7,228 in amortization of the bond discount and refunding costs, and a net decrease in the derivative instrument deferred borrowing amount of $341,764, offset by accretion on the 2010A tax-exempt lease revenue bonds of $885,571.

Additional information on the RBOC's long-term debt can be found in Notes 4 and 5 on pages 20-24 of this report.

CHANGE IN DEFINED BENEFIT PENSION REPORTING

During June of 2012, the Governmental Accounting Standards Board passed updated standards for defined benefit pension accounting and financial reporting. The new standards will be implemented for the fiscal year ending June 30, 2015. When implemented, the RBOC will be required to declare a liability for its unfunded pension liability in excess of any assets held at CALPERS. The RBOC cannot calculate what this liability would be at the time of implementation currently, but it is expected to be significant.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Rose Bowl Operating Company's finances for all those with an interest in the RBOC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the *Office of the Chief Financial Officer,* Rose Bowl Operating Company, 1001 Rose Bowl Drive, Pasadena, California 91103.

ROSE BOWL OPERATING COMPANY
STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	Rose Bowl	Golf Course	Totals 2012	Totals 2011
Assets:				
Current assets:				
Cash and investments (Note 2)	$ 6,494,684	$ 3,869,160	$ 10,363,844	$ 12,186,788
Cash and investments restricted (Note 2)	76,966,529	-	76,966,529	132,979,245
Accounts receivable, net	1,370,684	559,446	1,930,130	2,308,938
Prepaid assets	24,246	4,858	29,104	81,210
Due from other funds	-	-	-	1,060,549
Total current assets	84,856,143	4,433,464	89,289,607	148,616,730
Noncurrent assets:				
Cash and investments with fiscal agent (Note 2)	3,062,412	-	3,062,412	3,112,125
Unamortized bond issuance costs	2,365,110	-	2,365,110	2,379,016
Deferred outflow of resources (Note 5)	5,791,691	-	5,791,691	2,930,332
Capital assets (Note 3):				
Construction in progress	88,859,023	319,334	89,178,357	29,332,164
Other capital assets, net	29,102,776	4,577,622	33,680,398	44,239,137
Total noncurrent assets	129,181,012	4,896,956	134,077,968	81,992,774
Total assets	214,037,155	9,330,420	223,367,575	230,609,504
Liabilities:				
Current liabilities:				
Accounts payable and other liabilities	12,231,324	-	12,231,324	7,078,712
Accrued salaries and benefits	247,778	24,815	272,593	118,224
Interest payable	3,283,062	-	3,283,062	3,286,277
Due to other funds	-	-	-	1,060,549
Due to the City of Pasadena (Note 12)	1,287,250	-	1,287,250	1,325,091
Deposits	31,200	-	31,200	33,518
Deferred revenue	987,572	100,000	1,087,572	1,443,480
Current portion of compensated absences (Note 4)	41,903	6,938	48,841	51,988
Current portion of long-term debt (Note 4)	1,955,000	-	1,955,000	1,875,000
Total current liabilities	20,065,089	131,753	20,196,842	16,272,839
Noncurrent liabilities:				
Compensated absences (Note 4)	100,064	20,151	120,215	127,973
Derivative instrument liability (Note 5)	3,172,388	-	3,172,388	311,029
Long-term debt (Note 4)	185,979,065	-	185,979,065	187,406,150
Total noncurrent liabilities	189,251,517	20,151	189,271,668	187,845,152
Total liabilities	209,316,606	151,904	209,468,510	204,117,991
Net assets (Note 5):				
Invested in capital assets, net of related debt	13,599,161	4,896,956	18,496,117	22,901,211
Restricted	78,736,778	-	78,736,778	136,091,370
Unrestricted	(87,615,390)	4,281,560	(83,333,830)	(132,501,068)
Total net assets	$ 4,720,549	$ 9,178,516	$ 13,899,065	$ 26,491,513

See accompanying notes to the basic financial statements.

ROSE BOWL OPERATING COMPANY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

			Totals	
	Rose Bowl	Golf Course	2012	2011
Operating revenues:				
Green fees and other golf revenues	$ -	$ 1,597,196	$ 1,597,196	$ 1,727,046
Parking revenues	793,446	-	793,446	1,014,221
Advertising revenue	1,375,655	-	1,375,655	974,518
Television revenue	156,516	-	156,516	129,138
Facility rentals	4,047,383	-	4,047,383	4,362,035
Concessions	1,059,293	-	1,059,293	1,659,208
Pro shop	-	45,836	45,836	44,495
Restaurant	-	381,841	381,841	374,916
Admission tax	133,481	-	133,481	382,195
Cost recoveries	1,941,661	16,165	1,957,826	2,031,566
Total operating revenues	9,507,435	2,041,038	11,548,473	12,699,338
Operating expenses:				
Salaries and benefits	1,907,347	289,656	2,197,003	2,149,909
General and administrative	1,888,756	214,790	2,103,546	2,396,802
Depreciation	2,565,141	213,216	2,778,357	3,240,537
Loss on disposal of capital assets	9,263,856	-	9,263,856	-
Events	3,971,238	-	3,971,238	4,844,392
Total operating expenses	19,596,338	717,662	20,314,000	12,631,640
Operating income (loss)	(10,088,903)	1,323,376	(8,765,527)	67,698
Nonoperating revenues (expenses):				
Investment gain	2,152,721	122,650	2,275,371	1,564,159
Interest expense	(11,739,301)	-	(11,739,301)	(7,714,436)
Other nonoperating revenues	4,143,273	632,399	4,775,672	761,268
Total nonoperating revenues (expenses)	(5,443,307)	755,049	(4,688,258)	(5,389,009)
Income (loss) before transfers and capital contributions	(15,532,210)	2,078,425	(13,453,785)	(5,321,311)
Capital contributions (Note 13)	861,337	-	861,337	2,359,773
Increase (decrease) in net assets	(14,670,873)	2,078,425	(12,592,448)	(2,961,538)
Net assets at beginning of year	19,391,422	7,100,091	26,491,513	29,453,051
Net assets at end of year	$ 4,720,549	$ 9,178,516	$ 13,899,065	$ 26,491,513

See accompanying notes to the basic financial statements.

ROSE BOWL OPERATING COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	Rose Bowl	Golf Course	Totals 2012	Totals 2011
Cash flows from operating activities:				
Cash received from customers	$ 10,794,455	$ 2,648,940	$ 13,443,395	$ 12,026,502
Cash paid to employees for services	(1,783,881)	(269,658)	(2,053,539)	(2,053,260)
Cash paid to suppliers of goods and services	(667,057)	(240,850)	(907,907)	(1,155,333)
Net cash provided by operating activities	8,343,517	2,138,432	10,481,949	8,817,909
Cash flows from noncapital financing activities:				
Cash (paid) received to/from other funds	1,060,549	(1,060,549)	-	-
Net cash provided by (used for) noncapital financing activities	1,060,549	(1,060,549)	-	-
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(61,052,785)	(276,882)	(61,329,667)	(25,410,284)
Capital contributions	861,337	-	861,337	2,359,773
Federal interest subsidy on bonds payable	2,901,332	-	2,901,332	-
Proceeds from issuance of long-term debt and deferred borrowings	962,578	-	962,578	154,626,790
Principal payments on long-term debt	(2,295,757)	-	(2,295,757)	(1,812,720)
Interest payments on long-term debt	(11,742,516)	-	(11,742,516)	(4,578,106)
Net cash provided by (used for) capital and related financing activities	(70,365,811)	(276,882)	(70,642,693)	125,185,453
Cash flows from investing activities:				
Purchase of investments	49,713	-	49,713	(133,572)
Investment income	2,152,721	122,650	2,275,371	1,564,159
Net cash provided by investing activities	2,202,434	122,650	2,325,084	1,430,587
Net increase (decrease) in cash and cash equivalents	(58,759,311)	923,651	(57,835,660)	135,433,949
Cash and investments at beginning of year	142,220,524	2,945,509	145,166,033	9,732,084
Cash and investments at end of year	$ 83,461,213	$ 3,869,160	$ 87,330,373	$ 145,166,033

See accompanying notes to the basic financial statements.

ROSE BOWL OPERATING COMPANY
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	Rose Bowl	Golf Course	Totals 2012	Totals 2011
Reconciliation of cash and investments to amounts reported on the Statement of Net Assets:				
Cash and investments	$ 6,494,684	$ 3,869,160	$ 10,363,844	$ 12,186,788
Cash and investments restricted	76,966,529	-	76,966,529	132,979,245
Cash and investments with fiscal agent	3,062,412	-	3,062,412	3,112,125
Total reported on Statement of Net Assets	86,523,625	3,869,160	90,392,785	148,278,158
Less non-cash and investments	(3,062,412)	-	(3,062,412)	(3,112,125)
Cash and investments at end of year	$ 83,461,213	$ 3,869,160	$ 87,330,373	$ 145,166,033
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (10,088,903)	$ 1,323,376	$ (8,765,527)	$ 67,698
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Other nonoperating revenues	274,927	632,399	907,326	761,268
Loss on disposal of capital assets	9,263,856	-	9,263,856	-
Depreciation	2,565,141	213,216	2,778,357	3,240,537
(Increase) decrease in accounts receivable	1,470,319	(124,497)	1,345,822	(1,718,676)
(Increase) decrease in prepaid assets	56,964	(4,858)	52,106	(39,690)
Decrease in other receivable	-	-	-	55,397
Decrease in other receivable - noncurrent	-	-	-	9,233
Increase (decrease) in accounts payable and and other liabilities	5,163,740	(11,128)	5,152,612	5,230,715
Increase in accrued salaries and benefits	136,528	17,841	154,369	77,099
Increase (decrease) in Due to the City of Pasadena	(27,767)	(10,074)	(37,841)	894,836
Increase (decrease) in compensated absences	(13,062)	2,157	(10,905)	19,550
Increase (decrease) in deposits	(2,318)	-	(2,318)	(137,290)
Increase (decrease) in deferred revenue	(455,908)	100,000	(355,908)	357,232
Net cash provided by operating activities	$ 8,343,517	$ 2,138,432	$ 10,481,949	$ 8,817,909

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Rose Bowl Operating Company (the Company) was incorporated on January 18, 1994, as a legally separate entity with the primary purpose of returning economic and civic value to the City of Pasadena, California, (the City) by managing a world class stadium and a professional quality golf course complex, Brookside Municipal Golf Course (the Golf Course), in a residential open-space environment. A fourteen-member Board of Directors governs the Company. The Board of Directors consists of the City Manager, two members from the City Mayor's office, seven members appointed by the City, one member from the Pasadena Tournament of Roses Foundation (a separate not-for-profit entity unrelated either to the City or the Company), one member from UCLA, one member from the joint City Council, and one non-voting member from the Pasadena Center Operating Company. These 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. Revenues and expenses of the Company include direct revenues and expenses and certain allocations from the City.

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 recognized 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 contradicts GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

C. Classification of Revenues

Operating revenues consist of charges to customers for sales and use of the facilities. *Nonoperating revenues* consist of investment earnings 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.

D. Capital Assets

Capital assets are recorded at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. The Company capitalizes all assets with a historical cost of at least $10,000 consistent with City practice. The cost of normal maintenance and reports that do not add value to the assets or materially extend asset lives are not capitalized. Interest is capitalized on construction in progress in accordance with FASB Accounting Standards Codification Topic 835-20-30 and GASB Statement No. 20. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets (Continued)

The estimated useful lives of the assets are as follows:

Buildings and improvements	20-45 years
Machinery and equipment	4-10 years

E. Cash and Investments

For the purposes of the statement of cash flows, investments 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.

F. 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.

G. Compensated Absences

Only full-time employees accrue vacation. Vacation time is accrued two to four weeks per year, depending on how long an employee has been with the Company. The Company also grants employees personal paid time off. Regular full-time and part-time (24 hours per week minimum) employees are eligible to accrue personal time off with pay. Full-time employees may accrue up to 20 personal days per calendar year. Part-time employees who work 24 hours per week or more are eligible to accrue personal paid time off on a pro rata basis. It is the Company's policy to permit employees to accumulate earned but unused vacation benefits from year to year up to a maximum of two times a full-time employee's annual vacation amount. Personal paid time off is not accumulated from year to year.

All accumulated compensated absences are recorded as an expense and a liability at the time the benefit is earned.

H. Transfer Policy

The Company transfers unrestricted Golf Course Fund revenues to the Rose Bowl Fund to cover cash shortfalls and net asset deficits in the Rose Bowl Fund, determined annually by management. The transfer is not required to be paid back to the Golf Course Fund. There was no such transfer for the year ending June 30, 2012.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Company's prior year financial statements, from which this selected financial data was derived.

K. Accounting Standards Update

Recently released standards by GASB affecting 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.

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, 2013.

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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accounting Standards Update (Continued)

Additional standards were released by GASB during the year:

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:

Statement of net assets:	
Cash and investments	$ 10,363,844
Cash and investments restricted	76,966,529
Cash and investments held by fiscal agent	3,062,412
Total cash and investments	$ 90,392,785

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

Cash on hand	$ 1,000
Deposits with financial institutions	15,952,117
Investment in the City investment pool	71,377,256
Investments held by fiscal agent	3,062,412
Total cash and investments	$ 90,392,785

Investments Authorized by the California Government Code and the Company's Investment Policy

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. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Company, rather than the general provisions of the California Government Code or the Company's investment policy.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investment Types Authorized by State Law	Authorized by Investment Policy	* Maximum Maturity	* Maximum Percentage of Portfolio	* Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund	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 bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity *	Minimum Rating
U.S. Treasury Obligations	None	N/A
U.S. Agency Securities	None	N/A
State and Local Agency Bonds	None	Aa
Banker's Acceptances	180 days	N/A
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

* All maturity dates are limited by the maturity date of the related debt.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Company's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Company's investments by maturity:

Investment Type		Remaining Maturity (in Months) 12 Months or Less	13 to 60 Months	More than 60 Months
City of Pasadena Pool	$ 71,377,356	$ 71,377,356	$ -	$ -
Held by fiscal agent:				
Federal agency securities	3,002,502	-	3,002,502	-
Money market funds	59,910	59,910	-	-
Total	$ 74,439,768	$ 71,437,266	$ 3,002,502	$ -

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	Rating as of Year-End AAA	AA	Not Rated
City of Pasadena Pool	$ 71,377,356	N/A	$ -	$ -	$ 71,377,356
Held by fiscal agent:					
Federal agency securities	3,002,502	N/A	3,002,502	-	-
Money market funds	59,910	A	59,910	-	-
Total	$ 74,439,768		$ 3,062,412	$ -	$ 71,377,356

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 anyone 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	$ 3,002,502

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

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

NOTE 3 – CAPITAL ASSETS

Rose Bowl

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

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012
Buildings and improvements	$ 64,332,674	$ 729,055	$(17,802,393)	$ 47,259,336
Machinery and equipment	5,077,091	44,206	(410,249)	4,711,048
Total cost of depreciable assets	69,409,765	773,261	(18,212,642)	51,970,384
Less accumulated depreciation:				
Buildings and improvements	(25,645,822)	(2,365,838)	8,645,263	(19,366,397)
Machinery and equipment	(3,605,430)	(199,303)	303,522	(3,501,211)
Total accumulated depreciation	(29,251,252)	(2,565,141)	8,948,785	(22,867,608)
Net depreciable assets	40,158,513	(1,791,880)	(9,263,857)	29,102,776
Capital assets not depreciated:				
Construction in progress	28,579,498	60,980,165	(700,640)	88,859,023
Capital assets, net	$ 68,738,011	$ 59,188,285	$ (9,964,497)	$117,961,799

Depreciation expense for the year was $2,565,141.

NOTE 3 – CAPITAL ASSETS (Continued)

Golf Course

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

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012
Buildings and improvements	$ 5,539,916	$ 710,214	$ -	$ 6,250,130
Machinery and equipment	309,129	-	-	309,129
Total cost of depreciable assets	5,849,045	710,214	-	6,559,259
Less accumulated depreciation:				
Buildings and improvements	(1,501,347)	(208,708)	-	(1,710,055)
Machinery and equipment	(267,074)	(4,508)	-	(271,582)
Total accumulated depreciation	(1,768,421)	(213,216)	-	(1,981,637)
Net depreciable assets	4,080,624	496,998	-	4,577,622
Capital assets not depreciated:				
Construction in progress	752,666	358,003	(791,335)	319,334
Capital assets, net	$ 4,833,290	$ 855,001	$ (791,335)	$ 4,896,956

Depreciation expense for the year was $213,216.

NOTE 4 – LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2012, are as follows:

	Balance at June 30, 2011	Additions/ Accretions	Deletions/ Amortizations	Balance at June 30, 2012	Due in One Year
2006 Variable Rate Demand Lease Revenue Bonds	$ 29,995,000	$ -	$ (1,875,000)	$ 28,120,000	$ 1,955,000
2010A Tax-Exempt Lease Revenue Bonds	37,214,857	885,571	-	38,100,428	-
2010B Taxable Build America Lease Revenue Bonds	106,660,000	-	-	106,660,000	-
2010C Taxable Lease Revenue Bonds	5,005,000	-	-	5,005,000	-
2010D Taxable Recovery Zone Economic Development Lease Revenue Bonds	7,400,000	-	-	7,400,000	-
Derivative Instrument Deferred Borrowing Amount	2,592,087	63,101	(404,865)	2,250,323	
Unamortized Premium	500,937	-	(23,120)	477,817	
Unamortized Discounts and Refunding Costs	(86,731)	-	7,228	(79,503)	
Subtotal - Bonded Long-Term Liabilities	189,281,150	948,672	(2,295,757)	187,934,065	1,955,000
Compensated Absences	179,961	109,439	(120,344)	169,056	48,841
Total Long-Term Liabilities	$ 189,461,111	$ 1,058,111	$ (2,416,101)	$ 188,103,121	$ 2,003,841

NOTE 4 – LONG-TERM DEBT (Continued)

2006 Rose Bowl Variable Rate Demand Lease Revenue Bonds

On February 1, 2006, the City issued the 2006 Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) in the amount of $47,300,000. The Rose Bowl Operating Company received $36,945,000 of the proceeds from the bonds. The bonds were issued to refund the 1991 and 1996 Variable Rate Demand Certificates of Participation (Rose Bowl Improvement Projects) and to finance improvements to the Rose Bowl Stadium, City Hall, and related facilities. The reacquisition price exceeded the net carrying amount of the old debt by $412,010. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

Principal is payable in annual installments ranging from $2,100,000 to $3,600,000 commencing December 1, 2007, and ending December 1, 2023. The legal reserve requirement is $2,814,496. The balance held in the reserve account as of June 30, 2012, was $2,944,795.

The annual debt service requirements for the 2006 Revenue Bonds as of June 30, 2012, are as follows:

June 30	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
2013	$ 1,955,000	$ 245,817	$ 645,797	$ 2,846,614
2014	2,030,000	228,727	597,460	2,856,188
2015	2,110,000	210,981	547,212	2,868,193
2016	2,185,000	192,536	495,097	2,872,633
2017	2,185,000	173,435	442,356	2,800,791
2018 - 2022	12,110,000	566,812	1,363,949	14,040,761
2023 - 2024	5,545,000	73,037	110,417	5,728,454
Total	$ 28,120,000	$ 1,691,346	$ 4,202,289	$ 34,013,634

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 instrument will vary. Refer to Note 5 for additional information regarding the derivative instrument with the debt of the Company.

NOTE 4 – LONG-TERM DEBT (Continued)

2010 Rose Bowl Lease Revenue Bonds

On November 18, 2010, the City of Pasadena issued four series of lease revenue bonds, Series 2010A through D (Rose Bowl Renovation Project) in the aggregate amount of $155,873,265. Series A in the amount of $36,808,265 contain $25,220,000 of current interest bonds maturing between fiscal year 2019-2020 and fiscal year 2026-2027, with the remaining $11,588,265 in the form of capital appreciation bonds maturing serially from fiscal year 2026-2027 to 2032-2033. Series B contained $106,660,000 of taxable Build America Bonds. These bonds are in two coupons, the initial series maturing during fiscal year 2033-2034 and the final maturing during fiscal year 2042-2043. Series C contained $5,005,000 of taxable bonds. These bonds mature serially from fiscal year 2014-2015 to fiscal year 2019-2020. Finally, Series D contained $7,400,000 of taxable Recovery Zone Economic Development Bonds that have one maturity during fiscal year 2042-2043. Bonds, except for the capital appreciation bonds in Series 2010A, commenced interest payments on March 1, 2011, and are payable semiannually. The Company received $154,878,301 of the proceeds from the bonds. The bonds were issued to finance improvements to the Rose Bowl Stadium, to fund capitalized interest on a portion of the 2010 Bonds, to fund a Bond Reserve Fund, and to pay the costs of issuance of the 2010 Bonds. Renovations of the existing Rose Bowl Stadium are proposed to continue to allow use by the UCLA Bruins football team, the Rose Bowl Game, Bowl Championship Series (“BCS”) games, soccer matches, concerts, and special events as well as to bring certain building systems up to current City Building Code requirements and improve public safety.

The 2010B bonds were issued for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the “Recovery Act”). Pursuant to the Recovery Act, the City expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the City on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United State Government, but is required to be paid by the Treasury under the Recovery Act. Any cash subsidy payments received by the City do not constitute revenues that can offset interest expense and are not pledged under the indenture to secure the 2010 bonds.

The 2010D bonds were issued for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the “Recovery Act”). Pursuant to the Recovery Act, the City expects to receive a cash subsidy payment from the United States Treasury equal to 45% of the interest payable by the City on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United State Government, but is required to be paid by the Treasury under the Recovery Act. Any cash subsidy payments received by the City do not constitute revenues that can offset interest expense and are not pledged under the indenture to secure the 2010 bonds.

The total annual debt service requirements for the 2010 Lease Revenue Bonds including accretion as of June 30, 2012, are as follows:

	Principal Payments						
June 30	Series A	Series B	Series C	Series D	Accretion	Interest	Total
2013	$ -	$ -	$ -	$ -	$ 575,678	$ 9,611,632	$ 10,187,310
2014	-	-	-	-	914,787	9,611,632	10,526,419
2015	-	-	280,000	-	977,019	9,611,632	10,868,651
2016	-	-	605,000	-	1,043,540	9,603,413	11,251,953
2017	-	-	745,000	-	1,114,236	9,583,237	11,442,473
2018-2022	4,040,000	-	3,375,000	-	6,817,633	47,224,451	61,457,084
2023-2027	23,275,000	-	-	-	9,474,641	44,039,207	76,788,848
2028-2032	33,875,000	-	-	-	7,735,379	40,691,957	82,302,336
2033-2037	5,955,000	37,605,000	-	-	391,660	36,628,989	80,580,649
2038-2042	-	61,525,000	-	-	-	19,124,116	80,649,116
2043	-	7,530,000	-	7,400,000	-	1,067,196	15,997,196
Total	$ 67,145,000	$ 106,660,000	$ 5,005,000	$ 7,400,000	$ 29,044,573	$ 236,797,462	$ 452,052,035

NOTE 4 – LONG-TERM DEBT (Continued)

Pledge of Stadium Revenues

In accordance with the Company's bond Indenture, the Company has pledged all of the future Revenues to secure repayment of the aforementioned 2010 bonds. Proceeds from the bonds provided financing for the current construction at the Rose Bowl Stadium. The bonds are payable from net revenues and are payable through maturity. Annual principal and interest payments on the bonds are expected to require less than 67 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $452,052,034. Principal and interest paid for the current year and total net revenues were $10,216,411 and $11,548,473, respectively.

NOTE 5 – DERIVATIVE INSTRUMENT LIABILITY (2006 ROSE BOWL VARIABLE RATE DEMAND LEASE REVENUE BONDS)

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

	Changes in Fair Value		Fair Value at June 30, 2012		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred outflow	$ 2,861,359	Debt	$ (5,791,691)	$ 28,119,600

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

Objective and Terms of Hedging Derivative Instruments

The following table displays the objective and terms of the Company's hedging derivative instrument 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 2006 Bonds	$28,119,600	2/23/2006	12/1/2023	Pay 3.285%; receives 65% LIBOR index	A+/AA-

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 $5,791,691. 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 0.24%, while 65% of LIBOR is 0.19%.

NOTE 5 – DERIVATIVE INSTRUMENT LIABILITY (2006 ROSE BOWL VARIABLE RATE DEMAND LEASE REVENUE BONDS) (Continued)

Objective and Terms of Hedging Derivative Instruments (Continued)

Termination risk. The Company or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The derivative contract uses the International Swap Dealers Association Master Agreement which includes standard termination events such as failure to pay and bankruptcy. In addition, the Company may optionally terminate the agreement on any date. 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.

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.

Collateral requirements. There are no collateral requirements.

On May 3, 2011, the Company entered into a new agreement to take advantage of a more advantageous interest rate adjustment mode than the 2006 Bonds previously had. As a result, the former derivative instrument was 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 $2,619,308. As of the year ending June 30, 2012, the balance was $2,250,318.

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

June 30	Beginning Balance	Accrued Interest	Payment	Ending Balance
2013	$ 2,250,318	$ 54,447	$ (378,200)	$ 1,926,565
2014	1,926,565	46,278	(350,447)	1,622,396
2015	1,622,396	38,636	(321,606)	1,339,426
2016	1,339,426	31,564	(291,677)	1,079,313
2017	1,079,313	25,101	(261,203)	843,211
2018	843,211	19,272	(230,185)	632,298
2019	632,298	14,117	(198,079)	448,336
2020	448,336	9,683	(164,884)	293,135
2021	293,135	6,016	(130,601)	168,550
2022	168,550	3,166	(95,230)	76,486
2023	76,486	1,185	(58,226)	19,445
2024	19,445	145	(19,590)	-

Hedging derivative instruments and hedged debt. As of June 30, 2012, aggregate debt service payments for the Company's hedged debt and net receipts/payments on associated derivative instruments are as follows. The amounts assume current interest rates on variable 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.

NOTE 6 – NET ASSETS

Net assets for the Rose Bowl Stadium at June 30, 2012, consisted of the following:

Invested in capital assets, net of related:	
Property, plant, and equipment, net	$ 117,961,799
Unspent bond proceeds	80,028,941
Less:	
Outstanding debt issued to construct capital assets, adjusted for accretion on capital appreciation bonds of (1,292,163)	(184,391,579)
Total invested in capital assets, net of related debt	13,599,161
Restricted net assets:	
Capital projects - unspent bond proceeds and accretion on capital appreciation bonds	75,674,366
Cash held with fiscal agent	3,062,412
Total restricted net assets	78,736,778
Unrestricted net assets (designated):	
Designated for future CIP and major maintenance	356,788
Designated for strategic plan	4,520,154
Designated for equipment replacement	2,784
Total designated net assets	4,879,726
Undesignated net assets	(92,495,116)
Total unrestricted net assets	(87,615,390)
Total net assets	$ 4,720,549

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

Invested in capital assets, net of related:	
Property, plant, and equipment, net	$ 4,896,956
Less:	
Outstanding debt issued to construct capital assets	-
Total invested in capital assets, net of related debt	4,896,956
Unrestricted net assets (designated):	
Designated for golf course master plan	1,295,728
Designated for clubhouse maintenance	253,446
Total designated net assets	1,549,174
Undesignated net assets	2,732,386
Total unrestricted net assets	4,281,560
Total net assets	$ 9,178,516

NOTE 7 – DEFINED BENEFIT PENSION PLAN (PERS)

Plan Description

The Company contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publically available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Contributions

The Company is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS board of administration. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by PERS. Total contributions for the year amounted to 24.79% for the year ended June 30, 2012, with the Company contributing 20.79% and the employee 4%. Benefit provisions and all other requirements are established by state statute contracts with employee bargaining groups.

For the fiscal years shown below, the Company has contributed the actuarially determined rate provided by PERS actuaries. Under GASB Statement No. 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011, to June 30, 2012, has been determined by an actuarial valuation of the plan as of June 30, 2009. The Company's covered payroll for PERS was $1,543,824 for the year ended June 30, 2012, while the Company's total payroll for all employees was $1,725,713 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011, to June 30, 2012.

Three-Year Trend Information

Annual Pension Cost					
	Funded by Employer			Funded by Employee	
Fiscal Year	Employer Contribution Rate	Employee Contribution Rate	Sub-total	Employee Contribution Rate	Total
6/30/2010	11.77%	6.00%	17.77%	4.00%	21.77%
6/30/2011	11.97%	6.00%	17.97%	4.00%	21.97%
6/30/2012	14.79%	6.00%	20.79%	4.00%	24.79%

Annual Pension Cost (Employer Contribution)

Fiscal Year	Annual Pension Cost (Employer)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 282,567	100.00%	$ -
6/30/2011	263,737	100.00%	-
6/30/2012	246,515	100.00%	-

NOTE 8 – SELF-INSURANCE PROGRAM

The Company is part of the City's self-insurance program for general liability insurance. The City carries no excess liability insurance.

NOTE 9 – GOLF COURSE MANAGEMENT CONTRACT

The Golf Course is operated and maintained by American Golf Corporation (American Golf) under the terms of an agreement, effective February 1, 2011, set to expire on January 31, 2016. The agreement entitles the Golf Course to a fixed minimum yearly amount or contractually defined percentage of annual gross receipts from golf course operations, whichever is greater. Under the old agreement, American Golf had been paying the Company 30% on Green Fees and 40% on all other golf income (gross). When blended, this effectively amounted to 33.5%. With the new agreement, the Company now receives 28.5% on all golf income (gross). In exchange, the Company's share of Golf Course parking income generated during stadium events increases. For the year ended June 30, 2012, the Golf Course earned $1,597,196 from the agreement with American Golf

The Company and American Golf agreed to establish a capital improvement fund that is funded from each green fee paid. Until April 30, 2004, American Golf deducted one dollar from each round of golf and paid it to the Company biannually. Beginning May 1, 2004, American Golf paid 4% of gross golf revenue to the Company biannually. Under the new contract, effective February 1, 2011, the Company now receives 9.5% of gross golf revenue. Also, American Golf will pay the Company another $100,000 per year for the first five (5) years for capital improvements on either the golf courses or clubhouse.

NOTE 10 – OPERATING LEASE

On March 1, 2004, the Company entered into a 20-year agreement with the University of California, Los Angeles (UCLA) for use of the Rose Bowl Stadium and surrounding parking areas. UCLA is required to pay the Company an amount equal to eight percent (8%) of the sale of admission tickets and television revenues as rental consideration. In accordance with the contract, the Company is required to make certain improvements to the stadium as specified in the agreement.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the current year, the Company incurred charges for the use of the City's building maintenance (electricians, plumbers), locksmiths, printing, and mail services. These nonevent expenses totaled $538,472 and are included within general and administrative expenses. During the current year, the Company also paid the City for police, fire, and public works services, primarily for events, amounting to $1,464,920. At June 30, 2012, amounts payable to the City totaled $1,287,250.

NOTE 12 – CAPITAL CONTRIBUTIONS

Capital contributions represent contributions to the Company that are required to be spent on capital acquisitions or construction. During the year ended June 30, 2012, the Company received the following capital contributions:

Sodexo-Magic Johnson Concessionaire	$ 350,000
Other parties	511,337
Total capital contributions	$ 861,337

NOTE 13 – STRATEGIC PLAN

On October 7, 2010, the Board of Directors for the Company approved the Project and Financing Plan for the Stadium Renovation Project. The City Council, in turn, approved it on October 11, 2010.

As of June 30, 2012, the Company has spent $88,200,464 on the Renovation Project, of which $6,366,107 were on the preliminary phase, and $81,834,357 for the construction phase.

The total estimated cost of the proposed Rose Bowl Renovation Project was originally $152 million. The sources for these funds include the net project fund deposits of $127 million from the lease-revenue financing issued by the City (see further detail at Note 4); $15 million equity contribution from the Company, Pasadena Tournament of Roses Association, and the City of Pasadena; and $7.5 million of funding revenues from future expected events such as a 2014 Bowl Championship Series, and philanthropic efforts.

Towards the end of calendar year 2010, the City placed the bonds for the Renovation Project on the market, just as other government agencies were doing the same. This caused the bond market to become saturated and resulted in lower returns than the City and the Company had anticipated.

Construction has uncovered a number of unanticipated expenses relating to unknown conditions of the existing 90 year old facility. Also, subsequent to this and to fiscal year ended June 30, 2012, the Company has continued to receive bids that were less favorable than originally estimated, further increasing the gap in funding for this project and forcing a number of changes to the project scope. Some of these scope changes will require the consent of UCLA and the Pasadena Tournament of Roses (TOR) Association. Staff is currently negotiating with UCLA and TOR concerning these project scope changes, however, as of the date of this report, no agreement has been reached.

To help fund the gap, the Rose Bowl Legacy has the task in raising $20 million in private donations.

The Board of Directors and City are continuing to investigate both short and long-term additional funding. The options analyzed included a bank loan, use of the EB5 program, an internal loan from the City of Pasadena, a bank letter/line of credit, and restructure of the existing 2006 Rose Bowl debt. In analyzing the various options, the evaluation criteria included the processing time to complete the debt issuance, cash flow impact on the City and the Company, ease of administration of the debt, flexibility of proceed use, risks to the City and the Company, and cost of issuance of the debt. A financing option will need to be implemented prior to depletion of cash available for the project, which is anticipated to be January 2013, to meet applicable laws and maintain the construction schedule. City staff is recommending a structure that consists of restructuring the existing 2006 Rose Bowl debt with the addition of new debt necessary to net $30 million of construction proceeds and a temporary “bridge loan” from the City, which will be repaid from the new bond proceeds expected in late December 2012/early January 2013.

NOTE 14 – 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 generally accepted in the United States of America. These subsequent events have been evaluated through November 29, 2012, which is the date these financial statements were issued.

NOTE 15 – INCOME TAXES

The Company is exempt from federal incomes taxes under the Internal Revenue Code, as it is an instrument of the City of Pasadena, and treated as a governmental entity.

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.

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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*

To the Board of Directors
Rose Bowl Operating Company

We have audited the financial statements of the business-type activities of the Rose Bowl 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 29, 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.

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*.

We noted certain matters that we reported to management of the Company, in a separate letter dated November 29, 2012.

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 29, 2012