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

BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

PASADENA CENTER OPERATING COMPANY
(A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA)
JUNE 30, 2013

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pasadena Center Operating Company
Pasadena, California

Report on the Financial Statements

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, 2013, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, 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* in considering the Company's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 8, 2013

PASADENA CENTER OPERATING COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012

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, 2013, with selected comparative information for the year ended June 30, 2012. This discussion should be read in conjunction with the financial statements. Unless otherwise indicated, years (2013, 2012) in this discussion refer to the fiscal year ended June 30.

PCOC FINANCIAL HIGHLIGHTS

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

The major components of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, compared to the prior year, are as follows:

	2013	2012	Change
ASSETS			
Cash, cash equivalents, and investments	$ 5,491,238	$ 5,643,082	$ (151,844)
Accounts receivable and prepaid expenses	1,431,893	1,326,159	105,734
Fiscal agent cash and investments	10,518,564	11,178,319	(659,755)
Capital assets	153,552,165	157,192,852	(3,640,687)
Other assets	2,438,218	2,700,045	(261,827)
Total assets	$ 173,432,078	$ 178,040,457	$ (4,608,379)
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	$ 18,899,923	$ 32,567,482	$ (13,667,559)
LIABILITIES			
Accounts payable and accrued salaries and benefits	$ 1,015,816	$ 803,600	$ 212,216
Interest payable	543,253	554,165	(10,912)
Deposits	912,126	672,200	239,926
Current potion of long-term debt	3,006,063	1,795,111	1,210,952
Long-term liabilities	187,218,161	202,435,550	(15,217,389)
Total liabilities	$ 192,695,419	$ 206,260,626	$ (13,565,207)
DEFERRED INFLOWS OF RESOURCES			
Deferred refunding charge	$ 7,545,131	$ 7,842,591	$ (297,460)
Service concession agreement	566,629	666,622	(99,993)
Total deferred inflows of resources	$ 8,111,760	$ 8,509,213	$ (397,453)
NET POSITION			
Net investment in capital assets	$ (17,772,136)	$ (14,470,327)	$ (3,301,809)
Restricted	13,944,179	14,464,425	(520,246)
Unrestricted	(4,647,221)	(4,155,998)	(491,223)
Total net position	$ (8,475,178)	$ (4,161,900)	$ (4,313,278)

PCOC's Assets

Cash, cash equivalents, and investments decreased $151,844 from 2012 to 2013. In February 2013, PCOC paid the third payment due on the 2006A Capital Appreciation Bonds in the amount of $1,365,000.

Accounts receivable, prepaid expenses, and due from the City of Pasadena decreased $39,686 from 2012 to 2013.

Fiscal agent cash and investments decreased $659,755 related to changes in the market values of these assets.

Capital assets decreased by $3,640,687. This is despite acquisition of assets totaling $733,474 during the fiscal year. Acquisitions included $375,660 as the initial deposit for fiscal year (FY) 2014 projects and $283,460 for various improvements to the physical plant. However, this was offset by depreciation expense of $4,374,161 recognized during the year.

Other assets decreased $116,407 from 2012 to 2013 as a result of the recognition of unamortized bond costs.

PCOC's Deferred Outflows of Resources

Deferred outflows of resources for PCOC relate to the accumulated decrease in fair value of hedging derivatives. Deferred inflows of resources decreased $13,667,559 from 2012 to 2013 due to the change in fair value of the derivatives at year-end.

PCOC's Liabilities

Accounts payable consist of amounts due to vendors. This increased by $192,672. Invoices for fees related to the Historic Ballroom renovation in the amount of $54,593 and workers' compensation in the amount of $28,721 were received late.

Accrued salaries and benefits increased $19,544 from 2012 to 2013, largely related to an increase in paid time off (PTO) by $23,878 and termination expenses.

Deposits increased by $239,926. A television award show to be broadcast in September 2013 had placed deposits in advance.

Interest payable decreased by $10,912 between fiscal years 2012 and 2013. Loan amortizations have reduced the level of accrued interest by $5,864 and June interest on the 2008A Capital Appreciation Bonds was lower than last year by $5,048.

The current portion of long-term debt increased by $1,210,952. The 2006A Capital Appreciation Bonds payment increases by $1,195,000 in 2014.

PCOC's Deferred Inflows of Resources

Deferred inflows of resources for PCOC relate to the upfront payment received from entering into an interest rate swap and an upfront amount received as part of a service concession agreement with Centerplate. Deferred inflows of resources decreased $397,453 from 2012 to 2013 as a result of recognizing these revenues due to the passage of time.

PCOC's Net Position

Net position represents the residual interest in PCOC's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. PCOC's net position at the end of FY 2013, totaling $(8.5) 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. Net position is reported in three major categories: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets decreased $3.3 million from $(14.5) million to $(17.7) million. Although PCOC's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position decreased from approximately $14.5 million to $13.9 million. Of this amount, $138,871 represents an increase in facility restoration fees collected during the year; these fees are collected per ticket for events in the Pasadena Civic Auditorium. $1.0 million represents funds restricted for public art, and $10.5 million represents funds restricted as bond reserve accounts, as held by fiscal agents per bond indentures.

Included in the unrestricted net position are unrestricted but designated assets of $166,689. 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 position 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 $3,328,829. 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 net position will subside.

PCOC'S RESULTS OF OPERATIONS

The Statement of Revenues, Expenses, and Changes in Net Position 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 transient occupancy taxes (TOT), tourism business improvement district (TBID) tax, and earnings on funds invested with the City of Pasadena's (City) investment pool.

A summarized comparison of the operating results for 2013 and 2012, arranged in an informative format, is as follows:

	2013	2012	Change
OPERATING REVENUES			
Occupancy fees and commissions	$ 3,057,485	$ 2,861,233	$ 196,252
Ice skating center	2,240,998	1,639,026	601,972
Parking	1,101,600	1,080,000	21,600
Commissions	1,213,790	1,099,659	114,131
Total operating revenues	7,613,873	6,679,918	933,955
OPERATING EXPENSES			
Pasadena Center	5,518,362	4,990,667	527,695
Ice skating center	1,449,232	947,259	501,973
Parking garage	-	88	(88)
Pasadena Convention and Visitors Bureau	2,014,707	1,729,094	285,613
Subtotal before depreciation	8,982,301	7,667,108	1,315,193
Depreciation	4,374,161	4,387,913	(13,752)
Total operating expenses	13,356,462	12,055,021	1,301,441
Operating loss	(5,742,589)	(5,375,103)	(367,486)
NONOPERATING REVENUES (EXPENSES)			
Transient occupancy taxes	6,267,505	5,697,466	570,039
Tourism business improvement district tax	2,626,962	2,392,014	234,948
Facility restoration fees	138,871	151,892	(13,021)
Investment income	515,213	811,917	(296,704)
Interest expense	(7,828,191)	(7,458,969)	(369,222)
Contribution to the City	(439,570)	(443,870)	4,300
Total nonoperating revenues (expenses)	1,280,790	1,150,450	130,340
Loss before other changes in net position	(4,461,799)	(4,224,653)	(237,146)
Capital contributions	148,521	99,993	48,528
Decrease in net position	(4,313,278)	(4,124,660)	(188,618)
Net position at beginning of year, as previously stated	(4,161,900)	5,926,384	(10,088,284)
Prior period adjustments (Note 14)	-	(5,963,624)	5,963,624
Net position at beginning of year, as restated	(4,161,900)	(37,240)	(4,124,660)
Net position at end of year	$ (8,475,178)	$ (4,161,900)	$ (4,313,278)

Operating revenues increased $933,955 from $6,679,918 in 2012 to $7,613,873 in 2013 due to slightly improving business in events and the ice skating center.

Operating expenses, before depreciation, increased 17.2% or $1,315,193 from $7,667,108 in 2012 to $8,982,301 in 2013 due to the additional ice skating center expenses, offset by tight controls on administrative expenses. Depreciation decreased from $4,387,913 in 2012 to $4,374,161 in 2013; some in-use assets have been fully depreciated.

Nonoperating revenues increased $495,262 from $9,053,289 in 2012 to $9,548,551 in 2013. Room taxes (TOT and TBID) increased a combined $804,987 or 10% from 2012. Also, investment pool earnings decreased $296,704 from $811,917 in 2012 to $515,213 in 2013.

Nonoperating expenses increased $364,924 from $7,902,839 in 2012 to $8,267,763 in 2013. Of this amount, $1,471,648 is accretion interest on the 2006A Capital Appreciation Bonds, $77,561 is amortization on refunding charges, and the remaining $6,278,982 is interest on the long-term debt of PCOC.

Capital contributions include $148,521; of this, $48,528 is a grant from the City to offset investments in energy efficient lighting and $99,993 recognized as revenue from the $1.0 million contribution paid by Boston Culinary Group, now Centerplate. The remainder of the $566,629 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 following the basic financial statements included in this report. These notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

PCOC's investment in capital assets as of June 30, 2013 and 2012, amounts to $153,552,165 and $157,192,852, respectively (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, machinery and equipment, furniture and fixtures, land, and construction in progress. The net decrease in PCOC's investment in capital assets, net of depreciation, for the current fiscal year was $3,640,687.

There were no major capital asset events during the current fiscal year.

PASADENA CENTER OPERATING COMPANY
Capital Assets (Net of Depreciation)

	June 30, 2013	June 30, 2012
Buildings and improvements	$ 149,737,530	$ 153,945,589
Machinery and equipment	866,136	651,409
Furniture and fixtures	118,507	141,522
Land	2,423,473	2,423,473
Construction in progress	406,519	30,859
Total	$ 153,552,165	$ 157,192,852

Additional information on PCOC's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

As of June 30, 2013, PCOC had a long-term debt outstanding of $171,324,301, a decrease of $338,878 from 2012 as a result of current year principal payments.

PASADENA CENTER OPERATING COMPANY
Outstanding Debt

	June 30, 2013	June 30, 2012
Conference Center Loan	$ 612,541	$ 690,519
Certificates of Participation 2006 Series A Capital Appreciation Bonds	32,224,183	32,117,536
Certificates of Participation 2008 Series A Capital Appreciation Bonds	134,720,000	134,720,000
Arbitrage Liability	-	15,413
Energy Conservation Loan	2,538,701	2,753,599
Ice Skating Loan 2012	1,228,876	1,366,112
Total	$ 171,324,301	$ 171,663,179

There were no major debt events during the current fiscal year.

For additional information on PCOC's long-term debt activity, refer to Note 5 of the notes to the financial statements.

ECOMONIC FACTORS AND NEXT YEAR'S BUDGET

In FY 2014, PCOC is budgeting $7,952,000 in operating revenue (including Facility Restoration Fees), an increase of $199,619 or 2.6% above FY 2013.

It is anticipated that nonoperating revenues (TOT and TBID) will increase from $8,894,467 to $9,719,116 or 8.3% before changes related to receiving additional TOT from the retirement of Plaza Las Fuentes Garage Bonds. Unfortunately, we have learned that the Dusit 2 Hotel will not be opening in December 2013 but may open in April of 2014. Budgeted TOT is expected to fall short as much as $280,000 with the change in the Dusit 2 Hotel opening.

PCOC believes the additional Weston Hotel TOT may add as much as $1,200,000 in additional nonoperating revenue which will offset the additional bond payment of $1,200,000.

On the expense side, PCOC is aggressively monitoring all controllable expenses to prevent expenses from growing faster than revenues.

PRIOR PERIOD ADJUSTMENT

As discussed in Note 14 to the financial statements, PCOC had a prior period adjustment due to incorrect treatment of certain derivative transactions. The beginning fund balance, as restated, reflects all necessary adjustments.

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 POSITION
JUNE 30, 2013 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2012)

	2013	2012
Assets:		
Current and other assets:		
Cash and cash equivalents (Note 2)	$ 1,920,700	$ 1,343,718
Cash and investments with fiscal agent (Note 2)	10,518,564	11,178,319
Investments (Note 2)	3,570,538	4,299,364
Accounts receivable	542,456	464,674
Due from City of Pasadena (Note 3)	755,369	861,485
Prepaid expense	134,068	145,420
Unamortized bond costs	2,438,218	2,554,625
Total current and other assets	19,879,913	20,847,605
Capital assets (Note 4):		
Buildings and improvements	177,292,973	177,218,619
Machinery and equipment	1,561,443	1,277,983
Furniture and fixtures	266,582	266,582
Accumulated depreciation	(28,398,825)	(24,024,664)
Net depreciable assets	150,722,173	154,738,520
Land	2,423,473	2,423,473
Construction in progress	406,519	30,859
Property, plant, and equipment, net	153,552,165	157,192,852
Total assets	$ 173,432,078	$ 178,040,457
Deferred Outflows of Resources:		
Accumulated decrease in fair value of hedging derivatives (Note 6)	$ 18,899,923	$ 32,567,482

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF NET POSITION (Continued)
JUNE 30, 2013 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2012)

	2013	2012
Liabilities:		
Long-term debt outstanding:		
Derivative instrument liability (Note 6)	$ 18,899,923	$ 32,567,482
Current portion of long-term debt (Note 5)	3,006,063	1,795,111
Long-term debt (Note 5)	168,318,238	169,868,068
Total long-term debt outstanding	190,224,224	204,230,661
Other liabilities:		
Accounts payable and other liabilities	459,237	350,682
Due to the City of Pasadena	265,181	181,064
Interest payable	543,253	554,165
Accrued salaries and benefits	291,398	271,854
Advance deposits payable	912,126	672,200
Total other liabilities	2,471,195	2,029,965
Total liabilities	$ 192,695,419	$ 206,260,626
Deferred Inflows of Resources:		
Deferred refunding charge (Note 6)	$ 7,545,131	$ 7,842,591
Service concession agreement (Note 8)	566,629	666,622
Total deferred inflows of resources	$ 8,111,760	$ 8,509,213
Net Position (Note 7):		
Net investment in capital assets	$ (17,772,136)	$ (14,470,327)
Restricted	13,944,179	14,464,425
Unrestricted	(4,647,221)	(4,155,998)
Total net position	$ (8,475,178)	$ (4,161,900)

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
Operating revenues:		
Occupancy fees	$ 3,057,485	$ 2,861,233
Ice skating center	2,240,998	1,639,026
Parking	1,101,600	1,080,000
Commissions	1,213,790	1,099,659
Total operating revenues	7,613,873	6,679,918
Operating expenses:		
Pasadena Center	5,518,362	4,990,667
Ice skating center	1,449,232	947,259
Parking garage	-	88
Pasadena Convention and Visitors Bureau	2,014,707	1,729,094
Depreciation expense	4,374,161	4,387,913
Total operating expenses	13,356,462	12,055,021
Operating loss	(5,742,589)	(5,375,103)
Nonoperating revenues (expenses):		
Transient occupancy taxes (Note 3)	6,267,505	5,697,466
Tourism business improvement district tax (Note 3)	2,626,962	2,392,014
Facility restoration fee	138,871	151,892
Investment income	515,213	811,917
Interest expense	(7,828,191)	(7,458,969)
Contribution to the City of Pasadena	(439,570)	(443,870)
Total nonoperating revenues (expenses)	1,280,790	1,150,450
Capital contributions	148,521	99,993
Decrease in net position	(4,313,278)	(4,124,660)
Net position at beginning of year, as previously stated	(4,161,900)	5,926,384
Prior period adjustments (Note 14)	-	(5,963,624)
Net position at beginning of year, as restated	(4,161,900)	(37,240)
Net position at end of year	$ (8,475,178)	$ (4,161,900)

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

PASADENA CENTER OPERATING COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 7,676,024	$ 6,247,292
Cash paid to employees for services	(5,339,819)	(4,971,309)
Cash paid to suppliers of goods and services	(3,503,031)	(3,071,887)
Net cash used for operating activities	(1,166,826)	(1,795,904)
Cash flows from noncapital financing activities:		
Transient occupancy taxes from the City of Pasadena	6,333,491	5,622,286
Tourism business improvement district taxes from the City of Pasadena	2,655,067	2,359,844
Net cash provided by noncapital financing	8,988,558	7,982,130
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(733,474)	(2,893,687)
Proceeds of loan and borrowings	-	3,637,544
Principal payments on long-term debt	(1,810,525)	(2,469,277)
Interest payments on long-term debt	(6,251,049)	(7,392,501)
Contribution to the City of Pasadena	(355,453)	(443,870)
Capital grants and contributions	287,392	251,885
Net cash used for capital and related financing activities	(8,863,109)	(9,309,906)
Cash flows from investing activities:		
Sale of investments	1,388,581	2,696,725
Investment income received	229,778	914,378
Net cash provided by investing activities	1,618,359	3,611,103
Net increase in cash and cash equivalents	576,982	487,423
Cash and cash equivalents at beginning of year	1,343,718	856,295
Cash and cash equivalents at end of year	$ 1,920,700	$ 1,343,718
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (5,742,589)	$ (5,375,103)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,374,161	4,387,913
Increase in accounts receivable	(77,782)	(211,491)
(Increase) decrease in prepaid expenses	11,352	(15,585)
Increase (decrease) in accounts payable and other liabilities	108,555	(258,833)
Increase (decrease) in accrued salaries and benefits	19,544	(101,670)
Increase (decrease) in deposits payable	239,926	(73,440)
Decrease in advances on contracts	(99,993)	(147,695)
Net cash used for operating activities	$ (1,166,826)	$ (1,795,904)

There were no significant noncash capital, financing, or investing activities for the years ended June 30, 2013 and 2012.

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

PASADENA CENTER OPERATING COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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 income* 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	3-30 years
Machinery and equipment	3-30 years
Furniture and fixtures	10 years

F. Compensated Absences

The Company has a paid time off (PTO) 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, 2012, in the accompanying financial statements are included to provide a basis for comparison with 2013 and present summarized totals only. Accordingly, the 2012 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, 2012, from which the summarized information was derived.

I. Prior Period Adjustment

As discussed in Note 14 to the financial statements, the Company had a prior period adjustment due to incorrect treatment of certain derivative transactions. The beginning fund balance, as restated, reflects all necessary adjustments.

J. Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2013.

NOTE 1 – <u>NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

K. <u>Accounting Standards Update</u>

During the fiscal year ended June 30, 2013, the Company implemented the following Governmental Accounting Standards Board (GASB) standards:

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 implemented this change for the current fiscal year.

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. The overall impact of implementation of GASB Statement No. 61 had no effect on the Company, which has no component units.

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 – Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) 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 was 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 was the replacement of the Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the Statement of Changes in Net Assets. This statement is effective for periods beginning after December 15, 2011. The Company implemented this change for the current fiscal year.

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. The Company implemented this change for the fiscal year ended June 30, 2013.

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

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were 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 has not fully judged the effect of the implementation of GASB Statement No. 65 as of the date of the basic financial statements.

NOTE 1 – <u>NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

K. <u>Accounting Standards Update</u> (Continued)

GASB Statement No. 66 – *Items Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. The Company has not fully judged the effect of the implementation of GASB Statement No. 66 as of the date of the basic financial statements.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The Company does not anticipate for this standard to have an effect on the Company.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. 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.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Company has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of GASB Statement No. 70 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. 70 as of the date of the basic financial statements.

NOTE 2 – <u>CASH AND INVESTMENTS</u>

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 1,920,700
Investments	3,570,538
Cash and investments with fiscal agent	10,518,564
Total cash and investments	$ 16,009,802

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash and investments as of June 30, 2013, consist of the following:

Cash on hand	$ 11,100
Deposits with financial institutions	1,909,600
City of Pasadena Investment Pool	3,570,538
Cash and investments with fiscal agent:	
Federal agency securities	10,184,724
Money market mutual funds	333,840
Total cash and investments	$ 16,009,802

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
Bankers' Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
Joint Powers Agency (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.

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
Bankers' 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 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:

		Remaining Maturity (in Months)		
Investment Type		12 Months or Less	13 to 60 Months	More than 60 Months
City of Pasadena Investment Pool	$ 3,570,538	$ 3,570,538	$ -	$ -
Federal agency securities	10,184,724	-	10,184,724	-
Money market mutual funds	333,840	333,840	-	-
Total	$ 14,089,102	$ 3,904,378	$ 10,184,724	$ -

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.

			Ratings at End of Year	
Investment Type		Minimum Legal Rating	AA+	Not Rated
City of Pasadena Investment Pool	$ 3,570,538	N/A	$ -	$ 3,570,538
Federal agency securities	10,184,724	N/A	10,184,724	-
Money market mutual funds	333,840	Aaa	-	333,840
Total	$ 14,089,102		$ 10,184,724	$ 3,904,378

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	$ 10,184,724

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 fair 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 TOT are used to repay the Certificates of Participation that were issued to fund prior improvements. For the year ended June 30, 2013, net TOT revenue was $6,267,505, of which $503,702 was payable to the Company at June 30, 2013.

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, 2013, 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, 2013, TBID revenue was $2,626,962, of which $214,682 was payable at June 30, 2013.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, is as follows:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets being depreciated:				
Buildings and improvements	$ 177,218,619	$ 74,354	$ -	$ 177,292,973
Machinery and equipment	1,277,983	283,460	-	1,561,443
Furniture and fixtures	266,582	-	-	266,582
Total depreciable capital assets	178,763,184	357,814	-	179,120,998
Less accumulated depreciation:				
Buildings and improvements	(23,273,030)	(4,282,413)	-	(27,555,443)
Machinery and equipment	(626,574)	(68,733)	-	(695,307)
Furniture and fixtures	(125,060)	(23,015)	-	(148,075)
Total accumulated depreciation	(24,024,664)	(4,374,161)	-	(28,398,825)
Net depreciable assets	154,738,520	(4,016,347)	-	150,722,173
Land	2,423,473	-	-	2,423,473
Construction in progress	30,859	375,660	-	406,519
Capital assets, net	$ 157,192,852	$ (3,640,687)	$ -	$ 153,552,165

Depreciation expense for the fiscal year ended June 30, 2013, was $4,374,161.

NOTE 5 – LONG-TERM DEBT

Long-term debt for the year ended June 30, 2013, is as follows:

	Balance at June 30, 2012	Additions/ Accretion	Principal Prepayments	Balance at June 30, 2013	Due in One Year
Conference Center Loan	$ 690,519	$ -	$ (77,978)	$ 612,541	$ 81,926
Certificates of Participation 2006 Series A	32,117,536	1,471,647	(1,365,000)	32,224,183	2,560,000
Certificates of Participation 2008 Series A	134,720,000	-	-	134,720,000	-
Arbitrage Liability	15,413	-	(15,413)	-	-
Energy Conservation Loan	2,753,599	-	(214,898)	2,538,701	223,471
Ice Skating Loan 2012	1,366,112	-	(137,236)	1,228,876	140,666
Total Long-Term Liabilities	$ 171,663,179	$ 1,471,647	$ (1,810,525)	$ 171,324,301	$ 3,006,063

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, 2013, is $612,541.

The annual requirements to repay the outstanding loan at June 30, 2013, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
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	99,819	11,723	111,542
2019-2020	159,283	830,828	990,111
	$ 612,541	$ 935,279	$ 1,547,820

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 accretes at a yield ranging from 3.85% to 4.81%. By their nature, there are no regular interest payments associated with capital appreciation certificates 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, 2013, are as follows:

June 30	Principal Payment	Accretion
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	4,125,000	1,192,789
2019-2023	25,705,000	3,476,994
	$ 42,510,000	$ 10,285,817

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 position. 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, 2013, are as follows:

June 30	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
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	-	364,647	4,338,233	4,702,880
2019-2023	-	1,823,233	21,691,167	23,514,400
2024-2028	41,460,000	1,619,946	18,630,726	61,710,672
2029-2033	63,715,000	942,202	10,141,905	74,799,107
2034-2035	29,545,000	110,947	484,686	30,140,633
	$ 134,720,000	$ 6,319,563	$ 72,639,649	$ 213,679,212

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 and 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, 2013, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
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	261,310	60,263	321,573
2019-2023	1,328,807	136,503	1,465,310
	$ 2,538,701	$ 534,473	$ 3,073,174

Ice Skating Loan 2012

The Company borrowed $1,500,000 per City Council Action in August 2012 for construction of the new Ice Skating Center. The term of the loan is ten years with a fixed interest rate of 2.5%. The principal and interest payment of $171,388 is due annually in March.

The annual requirements to repay the outstanding ice skating loan at June 30, 2013, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2014	$ 140,666	$ 30,722	$ 171,388
2015	144,183	27,205	171,388
2016	147,787	23,601	171,388
2017	151,482	19,906	171,388
2018	155,269	16,119	171,388
2019-2021	489,489	24,676	514,165
	$ 1,228,876	$ 142,229	$ 1,371,105

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY

The Company has entered into a floating to fixed interest rate swap in order to hedge the change in cash flows with respect to certain variable debt as described below. This structure results in a lower borrowing cost by accessing interest rate markets more attractive than traditional fixed rate debt structures of the time. The greater liquidity and flexibility of the swap market has offered the Company significant cost savings opportunities in the swap the Company has engaged in.

NOTE 6 – DERIVATIVE INSTRUMENT LIABILITY (Continued)

Conference Center Variable Rate Demand Refunding Certificates of Participation (COP)

On September 18, 2006, the Company entered into an interest rate swap agreement with DEPFA Bank related to the $135,500,000 Conference Center Auction Rate Certificates Series 2006B. The objective was to effectively change the Company's variable interest rate to a synthetic fixed rate of 3.536%. Under the terms of the swap, the Company pays the counterparty the fixed rate of 3.536% and receives a floating rate equal to 64% of the one month LIBOR rate. The swap has a notional amount of $133,000,000 representing a hedge ratio of 98.5% and declines according to the schedule set forth in the contract until the final principal payment on the certificates in 2034.

Objective and Terms

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 2008A COPs	$ 133,000,000	9/18/2006	2/1/2034	Pay 3.536%; receives 64% LIBOR index	Aa3/AA-

Note, in 2011, due to its declining credit ratings, DEPFA Bank was replaced by RBC as the counterparty for the swap. Pursuant to GASB Statement No. 64, the replacement did not require any change in accounting treatment.

On April 15, 2008, the Company issued the 2008 Refunding Certificates of Participation, Series 2008A in the amount of $134,720,000. These certificates were issued to refund the Company's Certificates of Participation (Conference Center Project), Series 2006B and finance the cost of execution of the 2008A Certificates of Participation backed by a letter of credit from Bank of America. The final maturity on the 2008A COPs was extended by one year to 2035 in order to reduce the reserve requirement and consequently, reduce the size of the issue by approximately $800,000. The refunded certificates are considered to be defeased and the liability has been removed from the component unit's column of the statement of net position and recorded as a deferred amount upon a refunding. The deferred amount is amortized over the life of the swap using the effective interest method for the life of the swap with adjustments to interest expense during each fiscal year as follows:

June 30	Beginning Balance	Accrued Interest	Payment	Ending Balance
2014	$ 7,545,131	$ 335,170	$ (646,380)	$ 7,233,921
2015	7,233,921	320,786	(646,380)	6,908,327
2016	6,908,327	305,736	(646,380)	6,567,683
2017	6,567,683	289,991	(646,380)	6,211,294
2018	6,211,294	273,518	(646,380)	5,838,432
2019	5,838,432	256,284	(646,380)	5,448,336
2020	5,448,336	238,252	(646,380)	5,040,208
2021	5,040,208	219,387	(646,380)	4,613,215
2022	4,613,215	199,651	(646,380)	4,166,486
2023	4,166,486	179,003	(646,380)	3,699,109
2024	3,699,109	157,461	(635,404)	3,221,166
2025	3,221,166	136,068	(601,344)	2,755,890
2026	2,755,890	115,332	(563,760)	2,307,462
2027	2,307,462	95,454	(522,409)	1,880,507
2028	1,880,507	76,649	(477,171)	1,479,985
2029	1,479,985	59,154	(427,721)	1,111,418
2030	1,111,418	43,226	(373,774)	780,870
2031	780,870	29,157	(315,009)	495,018
2032	495,018	17,258	(251,140)	261,136
2033	261,136	7,877	(181,805)	87,208
2034	87,208	1,487	(88,695)	-
Total		$ 3,356,901	$ (10,902,032)	

NOTE 6 – <u>DERIVATIVE INSTRUMENT LIABILITY</u> (Continued)

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred Inflow	$ 13,667,559	Debt	$ (18,899,923)	$ 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.

Credit risk: The Company is exposed to credit risk on hedging derivative instruments to the extent the value of the swap is positive from the Company's perspective. The aggregate fair value of hedging derivative instruments was negative as of June 30, 2013, and therefore the Company had no credit risk exposure.

Interest rate risk: The purpose of the swap is to eliminate interest rate risk on the associated hedged bonds and therefore the swap, in combination with related bonds does not create interest rate risk for the Company.

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 typically remarketed every 7 days. As of June 30, 2013, the weighted-average interest rate on the Company's hedged variable-rate debt is 0.1040%, while 64% of LIBOR is 0.124576%.

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 a termination, the Company may be required to make a termination payment to its counterparty. If the Company had to terminate the Swap for any reason on June 30, 2013, the maximum exposure/loss would have been $27,611,680.

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 prior to the maturity of the related debt, the Company will be re-exposed to the risks being hedged by the hedging derivative instrument.

NOTE 7 – NET POSITION

Net position at June 30, 2013, consisted of the following:

Net investment in capital assets:	
Property, plant, and equipment, net	$ 153,552,165
Less:	
Outstanding debt issued to construct capital assets	(171,324,301)
Total net investment in capital assets	(17,772,136)
Restricted net position:	
Bond reserve account - cash held with fiscal agent	10,518,564
Facility Restoration Fee	2,395,786
Public art	1,026,766
Organ repair and maintenance	3,063
Total restricted net position	13,944,179
Unrestricted net position:	
Designated for capital projects	163,789
Undesignated	(4,811,010)
Total unrestricted net position	(4,647,221)
Total net position	$ (8,475,178)

Net position restrictions and designations are as follows:

Bond Reserve Account - Cash Held with Fiscal Agent – This is the amount 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 position.

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 position is 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, 2013, CP has contributed $1,000,000. This has been recorded as advances on contracts and is being amortized over 120 months starting March 1, 2009. The sum of $333,310 has been recognized as capital contributions. The remaining $566,629 is recorded as a deferred inflow of resources.

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, 2013. 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 the Company for early termination of lease.

In the fiscal year ended June 30, 2013, 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 2013 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 $112,052 for the fiscal year ended June 30, 2013.

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 $1,671,190 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 $82,980, for a grand total of related party expenses of $1,754,170. Total expenses related to the City amounted to $544,658. Total expenses related to the PWP amounted to $1,209,512. At June 30, 2013, amounts payable to the City totaled $265,181.

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 8, 2013, 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. 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 the fiscal year ending June 30, 2013.

The Company files Form 990 in the U.S. federal jurisdiction and Form 199 in the State of California. The Company is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Information obtained and analysis performed, during the 2013 fiscal year, required restatements to the June 30, 2011 net position. These restatements are fully described as follows:

Net position at June 30, 2011, as previously stated	$ 5,926,384
Adjustment to correct deferred outflows of resources	(3,866,743)
The derivative liability did not agree to the deferred outflow balance at June 30, 2011. GASB Statement No. 53 requires these amounts to equal and offset. Accordingly, an adjustment of $(3,866,743) is required.	
Adjustment to correct deferred inflows of resources	(8,126,909)
Deferred refunding charges to be received in the future are required to be treated as deferred inflows which are "amortized" during the time period the related refunding transaction remains outstanding. These deferred refunding charges were not reflected in the June 30, 2011 financial statements. Accordingly, an adjustment of $(8,126,909) is required.	
Adjustment to correct swap borrowing amounts	6,030,028
During the fiscal year ending June 30, 2011, the Company entered into a new derivative instrument thereby terminating the former one. GASB Statement No. 63 defines this as a substitution. In a substitution, the Company receives and also makes a payment of substantially equal amounts. In addition, any deferred refunding charges are treated as deferred outflows. The Company incorrectly recorded the substitution transaction by reflecting $13,877,329 as long-term debt, and by reflecting an offset of $7,847,301 to this same long-term debt. Accordingly, an adjustment of $6,030,028 is required.	
Sum of adjustments to beginning net position	(5,963,624)
Net position at July 1, 2012, as restated	$ (37,240)

OTHER REPORT

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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, 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, 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, 2013, which collectively comprise the Company's basic financial statements and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and is not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing* Standards in considering the Company's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 8, 2013