CPAs AND ADVISORS

PASADENA CENTER OPERATING COMPANY (A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA

FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

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(A COMPONENT UNIT OF THE
CITY OF PASADENA, CALIFORNIA)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pasadena Center Operating Company
Pasadena, California

We have audited the accompanying financial statements 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, 2019, and the related notes to the financial statements, which collectively comprise the City'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pasadena Center Operating Company as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lance, Soll & Lunghard, LLP 203 N. Brea Blvd., Suite 203 | Brea, CA 92821 | Phone: 714.672.0022

To the Board of Directors
Pasadena Center Operating Company
Pasadena, California

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–9 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.

Prior Year Comparative Information

The financial statements include (partial or summarized) prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Company's financial statements for the year ended June 30, 2018, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2020, 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.

Lance, Soll & Lunghard, LLP

Brea, California
January 16, 2020

As management of the Pasadena Center Operating Company (PCOC), we offer readers of PCOC's financial statements this narrative overview and analysis of the financial activities of PCOC for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to PCOC's basic financial statements. The annual financial report is comprised of three components: management's discussion and analysis, the financial statements, and the notes to the financial statements.

The Statement of Net Position presents information of all PCOC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2019. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of PCOC is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing changes in PCOC's net position during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused paid time off).

The Statement of Cash Flows presents information showing cash receipts and cash payments during the fiscal year, a reconciliation of operating income to net cash provided by operating activities as well as detail of noncash investing, capital and financing activities.

PCOC FINANCIAL STATEMENT ANALYSIS

The following is a summary of PCOC's assets, liabilities and net position comparing FY 2019 with FY 2018.

	2019	2018	Change
ASSETS			
Cash, cash equivalents, and investments	$ 18,442,581	$ 15,580,511	$ 2,862,070
Accounts receivable, prepaid expenses and due from City of Pasadena	1,516,666	2,317,389	(800,722)
Fiscal agent cash and investments	11,237,722	11,275,639	(37,917)
Capital Assets	131,839,912	134,790,968	(2,951,057)
Total assets	$ 163,036,881	$ 163,964,507	$ (927,626)
DEFERRED OUTFLOWS OF RESOURCES			
Accummulated decrease in fair value of hedging derivatives	$ 23,223,868	$ 15,773,256	$ 7,450,612
Deferred refunding charges	1,144,012	1,221,572	(77,560)
Total deferred outflows of resources	$ 24,367,880	$ 16,994,828	$ 7,373,052
LIABILITIES			
Accounts payable and accrued salaries and benefits	$ 1,907,273	$ 2,356,575	$ (449,303)
Interest payable	494,313	524,050	(29,737)
Deposits	1,583,099	1,144,074	439,025
Current portion of long-term debt	5,315,014	4,940,757	374,257
Long-term liabilities	172,955,375	169,758,085	3,197,290
Total liabilities	$ 182,255,074	$ 178,723,541	$ 3,531,533
DEFERRED INFLOWS OF RESOURCES			
Deferred refunding charge	$ 5,448,336	$ 5,838,432	$ (390,097)
Service concession agreement	159,984	266,643	(106,659)
Total deferred inflows of resources	$ 5,608,320	$ 6,105,075	$ (496,755)
NET POSITION			
Net investment in capital assets	$ (11,968,887)	$ (12,858,979)	$ 890,092
Restricted	2,986,026	3,065,415	(79,389)
Unrestricted	8,524,228	5,924,283	2,599,945
Total net position	$ (458,633)	$ (3,869,281)	$ 3,410,648

PCOC's Assets

Total assets of $163.0 million at FY 2019 year end decreased by $928 thousand or 0.6%. Cash, cash equivalents, accounts receivable, and other short-term assets increased by $2.1 million or 6.9%. The increase in cash and cash equivalents was due to positive operating performance in the year. However, this was offset by the decrease in capital assets of $3.0 million; mostly from depreciation expense of $4.6 million. Fiscal agent cash decreased $37,917 related to the changes in the market values of the investments.

PCOC FINANCIAL STATEMENT ANALYSIS (continued)

PCOC's Deferred Outflows of Resources

Deferred outflows of resources for PCOC related to the accumulated decrease in fair value of hedging derivatives and amortization of deferred refunding charge. Deferred outflows of resources increased $7.4 million or 43.4% from 2018 to 2019 mainly due to the change in fair value of the derivatives at year-end.

PCOC's Liabilities

Accounts payable and other accrued liabilities consist of amounts due to vendors. This decreased by $564,178 or 23.9%.

Accrued salaries and benefits increased by $85,140 or 16.3% from 2018 to 2019, related to an increase in accrued year end payroll expenses.

Deposits increased by $439,025 or 38.4% due to timing of events scheduled for fiscal 2020.

The current portion of long-term debt increased by $374,257 or 7.6%. The 2006A Capital Appreciation Bonds payment increased by $410,000 in 2020.

PCOC's Deferred Inflows of Resources

Deferred inflows of resources for PCOC related to the deferred refunding charges and an upfront amount received as part of a service concession agreement with Centerplate. Deferred inflows of resources decreased by $496,755 or 8.1% from 2018 to 2019 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 2019, totaling $(458,633), increased $3.4 million during the year. Net position is reported in three major categories: net investment in capital assets, restricted, and unrestricted. This is more fully explained in Note 7 to the basic financial statements.

The portion of net assets invested in capital assets, net of accumulated depreciation and net of outstanding debt and restricted cash used to acquire these assets, increased $890 thousand from $(12.9) million to $(12.0) 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 by $80,000 2018 to 2019 due to public arts spending to restore Civic Auditorium historic fire curtain. Of the $3.0 million at the end of fiscal 2019, $2.2 million represents funds restricted for facility restoration services and $787 thousand in public art fund.

Unrestricted net position increased by $2.6 million compared to prior year due to excess of revenues over expenses of $2.6 million. Included in the unrestricted net position are unrestricted but designated assets of $163,789. These amounts represent funds remaining from prior period facility improvement project. These funds are designated as resources for capital projects by the Board of Directors.

PCOC FINANCIAL STATEMENT ANALYSIS (continued)

The following table summarizes the changes in net position for PCOC comparing FY 2019 with FY 2018.

	2019	2018	Change
OPERATING REVENUES			
Occupancy fees and commissions	$ 4,790,055	$ 4,877,018	$ (86,963)
Ice skating center	2,604,057	2,583,528	20,529
Parking	1,191,365	1,168,981	22,384
Commissions	1,962,801	2,033,220	(70,419)
Total operating revenues	10,548,278	10,662,747	(114,469)
OPERATING EXPENSES			
Pasadena Center	6,774,293	6,454,425	497,020
Ice skating center	1,622,192	1,791,388	(169,196)
Pasadena Convention and Visitors Bureau	3,537,192	3,179,505	180,535
Subtotal before depreciation	11,933,677	11,425,318	508,359
Depreciation	4,564,951	4,580,376	(15,425)
Total operating expenses	16,498,628	16,005,694	492,934
Operating loss	(5,950,350)	(5,342,947)	(607,403)
NONOPERATING REVENUES (EXPENSES)			
Transient occupancy taxes	10,311,367	10,390,826	(79,459)
Tourism business improvement district tax	3,828,741	3,712,079	116,662
Facility restoration fee	154,786	199,339	(44,553)
Investment income	583,684	207,427	376,257
Interest expense	(5,624,239)	(6,599,864)	975,625
Total nonoperating revenues (expenses)	9,254,339	7,909,807	1,344,532
Income (Loss) before other changes in net position	3,303,989	2,566,860	737,129
Capital contribution	106,659	139,989	(33,330)
Increase (Decrease) in net position	3,410,648	2,706,849	703,799
Net position at beginning of year	(3,869,281)	(6,576,130)	2,706,850
Net position at end of year	$ (458,633)	$ (3,869,281)	$ 3,410,648

PCOC FINANCIAL STATEMENT ANALYSIS (continued)

PCOC's Operating Revenues

Total operating revenues generated in FY 2019 amount to $10.5 million, a $114 thousand or 1% decrease compared to the prior year's total of $10.7 million. The company's year over year revenue performance remains strong.

PCOC's Operating Expenses

Total operating expenses incurred before depreciation during FY 2019 amounted to $11.9 million, a $0.5 million, or 4.4% increase compared to prior year's total of $11.4 million. The year over year increase of expenses of 4.9% at the center is primarily due to additional repair and maintenance around the facility and other administrative expenses. CVB expenses also increased by 11.2% compared to last year as we expand the efforts of sales and marketing initiatives through updating collateral materials, sponsorships, visual assets and advertising.

PCOC's Nonoperating Revenues and Expenses

During FY 2019, nonoperating revenues and expenses produced $9.3 million of net revenues compared to $7.9 million of net revenues in the prior year. The increase is in investment income of $376,257 and a decrease in interest expense of $975,625.

PCOC's Capital Contributions

Capital contributions include $106,659; which is recognized as revenue from $1.4 million contribution paid by Boston Culinary Group, now Centerplate. The remainder of the $159,984 unamortized amount paid by Boston Culinary Group will be recognized in equal monthly installments over the life of the agreement with PCOC.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

PCOC's investment in capital assets as of June 30, 2019 and 2018, amounts to $131,839,912 and $134,790,968 respectively (net of accumulated depreciation). This investment in capital assets includes building 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 $3.0 million.

PASADENA CENTER OPERATING COMPANY
Capital Assets (Net of Depreciation)

	June 30, 2019	June 30, 2018
Buildings and improvements	$ 128,264,014	$ 131,429,574
Machinery and equipment	737,121	651,518
Furniture and fixtures	92,622	26,760
Land	2,423,473	2,423,473
Construction in progress	322,682	259,642
Total	$ 131,839,912	$ 134,790,968

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, 2019, PCOC had long-term debt outstanding of $155,046,521, a decrease of $3.9 million from 2018 as a result of current year principal payments.

PASADENA CENTER OPERATING COMPANY
Outstanding Debt

	June 30, 2019	June 30, 2018
Conference Center Loan	$ 54,411	$ 159,283
Certificates of Participation 2006 Series A Capital Appreciation Bonds	18,884,698	22,228,007
Certificates of Participation 2008 Series A Capital Appreciation Bonds	134,720,000	134,720,000
Energy Conservation Loan	1,057,074	1,328,807
Ice Skating Loan 2012	330,338	489,489
Total	$ 155,046,521	$ 158,925,586

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 of the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of PCOC's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Pasadena Center Operating Company, 300 E. Green Street, Pasadena, California 91101.

PASADENA CENTER OPERATING COMPANY

STATEMENTS OF NET POSITION
JUNE 30, 2019 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2018)

	2019	2018
Assets		
Current:		
Cash and cash equivalents	$ 5,492,160	$ 5,116,131
Investments	12,950,421	10,464,380
Accounts receivable	963,983	824,706
Due from the City of Pasadena	420,788	1,352,932
Prepaid assets	131,895	139,751
Restricted:		
Cash and investments with fiscal agent	11,237,722	11,275,639
Total Current Assets	**31,196,969**	**29,173,539**
Noncurrent:		
Capital assets not being depreciated	2,746,155	2,683,116
Capital assets, net of accumulated depreciation	129,093,757	132,107,852
Total Noncurrent Assets	**131,839,912**	**134,790,968**
Total Assets	**163,036,881**	**163,964,507**
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	23,223,868	15,773,256
Deferred charge on refunding	1,144,012	1,221,572
Total Deferred Outflows of Resources	**24,367,880**	**16,994,828**
Liabilities		
Current:		
Accounts payable and other liabilities	1,055,223	1,437,981
Interest payable	494,313	524,050
Accrued salaries and benefits	607,023	521,884
Due to the City of Pasadena	245,027	396,710
Advance deposits payable	1,583,099	1,144,074
Long-term debt - due within one year	5,315,015	4,940,757
Total Current Liabilities	**9,299,700**	**8,965,456**
Noncurrent:		
Derivative instrument liability	23,223,868	15,773,256
Long-term debt	149,731,506	153,984,829
Total Noncurrent Liabilities	**172,955,374**	**169,758,085**
Total Liabilities	**182,255,074**	**178,723,541**
Deferred Inflows of Resources		
Deferred charge on refunding	5,448,336	5,838,432
Service concession arrangement	159,984	266,643
Total Deferred Inflows of Resources	**5,608,320**	**6,105,075**
Net Position		
Net investment in capital assets	(11,968,887)	(12,858,979)
Restricted	2,986,026	3,065,415
Unrestricted	8,524,228	5,924,283
Total Net Position	**$ (458,633)**	**$ (3,869,281)**

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, 2019 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	2019	2018
Operating Revenues		
Occupancy fees	$ 4,790,055	$ 4,877,018
Ice skating center	2,604,057	2,583,528
Parking	1,191,365	1,168,981
Commissions	1,962,801	2,033,220
Total Operating Revenues	**10,548,278**	**10,662,747**
Operating Expenses		
Pasadena center	6,774,293	6,454,425
Ice skating center	1,622,192	1,791,388
Pasadena convention and visitors bureau	3,537,192	3,179,505
Depreciation expense	4,564,951	4,580,376
Total Operating Expenses	**16,498,628**	**16,005,694**
Operating Loss	**(5,950,350)**	**(5,342,947)**
Nonoperating Revenues (Expenses)		
Transient occupancy taxes	10,311,367	10,390,826
Tourism business improvement district tax	3,828,741	3,712,079
Facility restoration fee	154,786	199,339
Investment income	583,684	207,427
Interest expense	(5,624,239)	(6,599,864)
Total Nonoperating Revenues (Expenses)	**9,254,339**	**7,909,807**
Income before Capital Contributions	**3,303,989**	**2,566,860**
Capital contributions	106,659	139,989
Changes in Net Position	**3,410,648**	**2,706,849**
Net Position, Beginning of Year	(3,869,281)	(6,576,130)
Net Position, End of Year	**$ (458,633)**	**$ (3,869,281)**

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, 2019
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	2019	2018
Cash Flows from Operating Activities		
Cash received from customers	$ 10,848,026	$ 10,263,667
Cash paid to suppliers of goods and services	(5,685,969)	(4,590,670)
Cash paid to employees for services	(6,689,154)	(6,446,004)
Net Cash Used in Operating Activities	**(1,527,097)**	**(773,007)**
Cash Flows from Non-Capital Financing Activities		
Transient occupancy taxes from the City of Pasadena	11,246,053	10,262,409
Tourism business improvement district taxes from the City of Pasadena	3,846,580	3,661,265
Net Cash Provided by Non-Capital Financing Activities	**15,092,633**	**13,923,674**
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,613,895)	(752,307)
Principal paid on long-term debt	(4,940,756)	(4,641,398)
Interest paid on long-term debt	(4,904,821)	(5,731,787)
Facility restoration fee for capital improvements	154,786	199,339
Net Cash Used in Capital and Related Financing Activities	**(11,304,686)**	**(10,926,153)**
Cash Flows from Investing Activities		
Purchase of investments	(2,448,124)	(1,836,078)
Investment income received	563,303	202,053
Net Cash Used in Investing Activities	**(1,884,821)**	**(1,634,025)**
Net Increase in Cash and Cash Equivalents	**376,029**	**590,489**
Cash and Cash Equivalents at Beginning of Year	5,116,131	4,525,642
Cash and Cash Equivalents at End of Year	**$ 5,492,160**	**$ 5,116,131**
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	$ (5,950,350)	$ (5,342,947)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities		
Depreciation	4,564,951	4,580,376
(Increase) decrease in accounts receivable	(139,277)	(201,138)
(Increase) decrease in prepaid assets	7,856	(10,393)
Increase (decrease) in accounts payable and other liabilities	(382,758)	258,986
Increase (decrease) in accrued salaries and benefits	85,139	8,421
Increase (decrease) in due to the City of Pasadena	(151,683)	131,630
Increase (decrease) in advance deposits payable	439,025	(197,942)
Total Adjustments	**4,423,253**	**4,569,940**
Net Cash Used in Operating Activities	**$ (1,527,097)**	**$ (773,007)**
Non-Cash Investing, Capital, and Financing Activities:		
Amortization of deferred refunding charges	$ 312,536	$ 295,302
Accretion of interest on long-term debt	1,061,691	1,192,790
Amortization of service concession arrangement	106,659	139,989

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

Note 1: Organization and Summary of Significant Accounting Policies

a. Reporting Entity

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 Presentation

The Company's basic financial statements are presented in conformance with Governmental Accounting Standards Board (GASB) Statement No. 34, which established standards for external financial reporting for all state and local governmental entities. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

c. 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.

d. Classification of Revenues and Expenses

The Company classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, nonoperating revenues, and nonoperating expenses.

Operating revenues consist of charges to customers for sales and use of the facilities, with the relating costs considered operating expenses. 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.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

e. 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.

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. Prepaid Assets

Certain payments to vendors, which reflect costs applicable to future accounting periods are recorded as prepaid assets.

h. 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 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

i. 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 benefits upon termination. All accumulated PTO is recorded as an expense and a liability at the time the benefit is earned. This is included in accrued salaries and benefits on the Statements of Net Position.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

j. Net Position

Net position represents the difference between assets and liabilities on the Statement of Net Position. Net positions were classified in the following categories: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of the cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, as applicable.

Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the Company's Board of Directors, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

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.

k. 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, and 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.

l. Comparative Data

The amounts shown for the year ended June 30, 2018, in the accompanying financial statements are included to provide a basis for comparison with June 30, 2019 and present summarized totals only. Certain amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation. Accordingly, the June 30, 2018 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, 2018, from which the summarized information was derived.

Note 2: Cash and Investments

a. Summary of Cash and Investments

Cash and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$	5,492,160
Investments		12,950,421
Cash and investments with fiscal agent		11,237,722
Total cash and investments	$	29,680,303

Note 2: Cash and Investments (Continued)

Cash and investments as of June 30, 2019, consist of the following:

Cash on hand	$	11,900
Deposits with financial institutions		5,480,260
City of Pasadena Investment Pool		12,950,421
Cash and Investments with fiscal agent:		
Federal agency securities		10,726,884
Money market mutual funds		510,838
Total cash and investments	$	29,680,303

b. Deposits

At June 30, 2019, the carrying amount of the Company's deposits was $5,480,260 and the bank balance was $5,453,775. The $26,485 difference represents outstanding checks and other reconciling items. All of the Company's cash and cash equivalents as of June 30, 2019 were collateralized or insured with securities held by pledging financial institutions in the Company's name.

c. 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 does 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 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 the Company's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Note 2: Cash and Investments (Continued)

d. Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Company by the California Government Code. Other than what is in the Government Code, the Company has no other investment policy.

Investment Types Authorized by the California Government Code	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%	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
Joint Power Agency Pools (other investment pools)	Yes	N/A	None	None

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

e. 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
Investments Contracts	None	Aa

f. 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

Note 2: Cash and Investments (Continued)

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	Fair Value	12 Months or Less	12 to 60 Months
City of Pasadena Investment Pool	$ 12,950,421	$ 12,950,421	$ -
Fiscal agent:			
Federal agency securities	10,726,884	-	10,726,884
Money market mutual funds	510,838	510,838	-
Total	$ 24,188,143	$ 13,461,259	$ 10,726,884

g. 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	Fair Value	Minimum Legal Rating	Aaa	Not Rated
City of Pasadena Investment Pool	$ 12,950,421	N/A	$ -	$ 12,950,421
Fiscal agent:				
Federal agency securities	10,726,884	N/A	10,726,884	-
Money market mutual funds	510,838	Aaa	-	510,838
Total	$ 24,188,143		$ 10,726,884	$ 13,461,259

h. 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 National Mortgage Association	Federal Agency Securities	$ 10,726,884

Note 2: Cash and Investments (Continued)

i. Fair Value Hierarchy

The Company categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Company has the following recurring fair value measurements as of June 30, 2019:

		Level		
Investments by fair value level	Totals	1	2	3
Investments in the City investment pool	$ 12,950,421	$ -	$ 12,950,421	$ -
Cash with fiscal agent:				
U.S. Federal Agency Securities	10,726,884	-	10,726,884	-
Totals	23,677,305	$ -	$ 23,677,305	$ -

Investments measured at amortized cost	
Cash with Fiscal Agents	
Money Market Funds	510,838
Total Investments	$ 24,188,143

Investments in the City investment pool are valued by the underlying assets in the investment pool. The underlying assets include Local Agency Investment Funds, money market funds, municipal bonds, federal agency issues, treasury securities, corporate bonds and supranationals, all of which are Level 2 or better.

Note 3: Transient Occupancy Taxes and Tourism Business Improvement District Taxes

a. 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, 2019, net TOT revenue was $10,311,367, of which $41,483 was due from the City at June 30, 2019.

b. 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, 2019, 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, 2019, TBID revenue was $3,828,741 of which $332,628 was due from the City at June 30, 2019.

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2019, is as follows:

	Balance at June 30, 2018	Additions	Transfers and Deletions	Balance at June 30, 2019
Capital assets being depreciated:				
Buildings and improvements	$ 181,336,774	$ -	$ 905,385	$ 182,242,159
Machinery and equipment	1,617,512	-	94,373	1,711,885
Furniture and fixtures	294,829	-	72,105	366,934
Total depreciable capital assets	183,249,115	-	1,071,863	184,320,978
Less accumulated depreciation:				
Buildings and improvements	(49,907,200)	(4,474,173)	403,228	(53,978,145)
Machinery and equipment	(965,994)	(84,535)	75,765	(974,764)
Furniture and fixtures	(268,069)	(6,243)	-	(274,312)
Total accumulated depreciation	(51,141,263)	(4,564,951)	478,993	(55,227,221)
Net depreciable assets	132,107,852	(4,564,951)	1,550,856	129,093,757
Land	2,423,473	-	-	2,423,473
Construction in progress	259,642	1,613,895	(1,550,855)	322,682
Capital assets, net	$ 134,790,967	$ (2,951,056)	$ 1	$ 131,839,912

Depreciation expense for the year ended June 30, 2019, was $4,564,951.

Note 5: Long-term Debt

Long-term debt for the year ended June 30, 2019, is as follows:

	Balance at June 30, 2018	Additions / Accretion	Principal Payments/ Prepayments	Balance at June 30, 2019	Due in One Year
Conference Center Loan	$ 159,283	$ -	$ (104,872)	$ 54,411	$ 54,411
Certificates of Participation					
2006 Series A	25,705,000	-	(4,405,000)	21,300,000	4,815,000
Accreted Interest	(3,476,993)	1,061,691	-	(2,415,302)	-
Certificates of Participation					
2008 Series A	134,720,000	-	-	134,720,000	-
Energy Conservation Loan	1,328,807	-	(271,733)	1,057,074	282,474
Ice Skating Loan 2012	489,489	-	(159,151)	330,338	163,130
Total Long-Term Liabilities	$ 158,925,586	$ 1,061,691	$ (4,940,756)	$ 155,046,521	$ 5,315,015

a. 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 $55,771 are due semiannually. The outstanding principal at June 30, 2019, was $54,411.

Note 5: Long-term Debt (Continued)

The annual requirements to repay the outstanding loan at June 30, 2019, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2020	$ 54,411	$ 1,360	$ 55,771

b. 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.

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, 2019, are as follows:

June 30	Principal Payment	Accretion
2020	$ 4,815,000	$ (907,889)
2021	5,145,000	(723,567)
2022	5,490,000	(512,288)
2023	5,850,000	(271,558)
	$ 21,300,000	$ (2,415,302)

Note 5: Long-term Debt (Continued)

c. 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, 2019, are as follows:

June 30	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
2020	$ -	$ 369,402	$ 4,333,478	$ 4,702,880
2021	-	369,402	4,333,478	4,702,880
2022	-	369,402	4,333,478	4,702,880
2023	-	369,402	4,333,478	4,702,880
2024	6,775,000	369,402	4,233,660	11,378,062
2025-2029	45,495,000	1,527,390	17,200,445	64,222,835
2030-2034	71,005,000	779,784	7,788,754	79,573,538
2035-2039	11,445,000	31,382	-	11,476,382
	$ 134,720,000	$ 4,185,566	$ 46,556,771	$ 185,462,337

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.

d. Energy Conservation Loan

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.

Note 5: Long-term Debt (Continued)

The annual requirements to repay the outstanding loan from the State of California Energy Conservation Commission at June 30, 2019, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2020	$ 282,474	$ 39,099	$ 321,573
2021	293,841	27,732	321,573
2022	305,562	16,011	321,573
2023	175,197	3,822	179,019
	$ 1,057,074	$ 86,664	$ 1,143,738

e. 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, 2019, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2020	$ 163,130	$ 8,258	$ 171,388
2021	167,208	4,180	171,388
	$ 330,338	$ 12,438	$ 342,776

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 98.7% and declines according to the schedule set forth in the contract until the final principal payment on the certificates in 2034.

a. Objective and Terms

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Couterparty Credit Rating
Pay fixed interest rate swap	Hedge of changes in cash flows on the 2008A COPs	$ 133,000,000	4/1/2011	2/1/2034	Pay 3.536% receives 64% LIBOR index	A1/AA-

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 COPs, 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 Company's Statement of Net Position and recorded as a deferred amount upon refunding. During the fiscal year ending June 30, 2011, the Company entered into a new agreement to take advantage of a more advantageous interest rate adjustment mode than the 2008 Series Bonds previously had. As a result, the former derivative instrument terminated, and the new instrument has off-market terms. As a result, an up-front payment was received. The up-front payment is reported as a borrowing. The borrowing is amortized over the life of the swap and amortizes using the effective interest method for the life of the swap with adjustments to interest expense during each fiscal year. The original balance of the borrowing was $8,935,613. As of the year ended June 30, 2019, the balance was $5,448,336.

Note 6: Derivative Instrument Liability (Continued)

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
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	$ 37,348,014	$ 1,575,416	$ (7,023,752)	$ 31,899,678

The Company categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Company has the following recurring fair value measurements as of June 30, 2019:

Measurements by fair value level	Total	Level 1	Level 2	Level 3
Derivative instrument liability	$ 23,223,868	$ -	$ 23,223,868	$ -

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2019, 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, 2019		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred outflow	$ 7,450,612	Liability	$ 23,223,868	$ 133,000,000

Note 6: Derivative Instrument Liability (Continued)

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, 2019, 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, 2019, the weighted-average interest rate on the Company's hedged variable-rate debt is 2.48588%, while 64% of LIBOR is 1.59096%.

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, 2019, the maximum exposure/loss would have been $30,041,421.

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, 2019, consisted of the following:

Net investment in capital assets:	
Property, plant, and equipment, net	$ 131,839,912
Less:	
Bond reserve account - cash held with fiscal agent	11,237,722
Less:	
Outstanding debt issued to construct capital assets	(155,046,521)
Total net investment in capital assets	(11,968,887)
Restriced net position:	
Facility restoration fee	2,195,786
Public art	787,377
Organ repair and maintenance	2,863
Total restricted net position	2,986,026
Unrestriced net position:	
Designated for capital projects	163,789
Undesignated	8,360,439
Total unrestricted net position	8,524,228
Total net position	$ (458,633)

Net position restrictions and designations are as follows:

Facility Restoration Fee – This ticket surcharge is restricted to restoration of the facility. The restriction was in place at the time the fee was established; thus, the unspent amounts are reported as restricted net position.

Public Art – The $1.2 million capital public art project was originally appropriated for the development of onsite public art. The funds, less monies spent on artist selection, were reallocated for permanent public art in the Civic Center area through the 2013 Public Art Master Plan, which also established the Civic Center Public Art Advisory Group comprised of arts and historic preservation professionals.

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: Service Concession Arrangements

Centerplate

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 the exclusive right to operate the food services concession for the Company. The agreement covered 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. An amendment to the agreement was made and entered into on January 6, 2012 to extend the term of the agreement for five years, expiring on June 30, 2019 with an additional five-year extension that is eligible, contingent upon mutual agreement between CP and the Company.

With the amended agreement, CP was additionally granted the exclusive right to operate a Starbucks Café at the Pasadena Center in the space formerly leased by Lovebirds Café & Bakery. CP's ability to operate the Starbucks Café runs concurrently with the initial agreement entered into on March 1, 2009 and covers the period through June 30, 2019. Prior to July 1, 2015, CP provided capital improvements to the café space totaling $975,000. For the year ended June 30, 2016, CP provided capital improvements to the café space in the amount of $399,960.

As of June 30, 2019, CP has contributed a total of $1,374,960. This has been recorded as advances on contracts and is being amortized over 120 months starting March 1, 2009. The sum of $1,214,976 has been recognized as capital contributions to date. The remaining $159,984 is recorded as a deferred inflow of resources.

Note 9: 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 $153,727 for the fiscal year ended June 30, 2019.

Note 10: 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 $2,236,469 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 $102,683, for a grand total of related party expenses of $2,339,151. At June 30, 2019, amounts payable to the City totaled $245,027.

In addition to the revenues and receivables described in Note 3, the Company has $46,677 due from the City related to interest earned on cash and investments pooled with the City at June 30, 2019..

Note 11: Risk Management

The Company is entitled to indemnity from the City; however, the Company purchases a Special Liability Insurance Program (SLIP) for general liability and employment practice coverage. The City manages the Company's claims and tenders to the insurance carrier third party administrator. The Company carries statutory workers' compensation insurance with no retention. The company requires licensees to provide insurance or purchase Special Events Liability Insurance from the Company. The City buys liability insurance on the parking structures at the Convention Center. The Company buys separate liability insurance on the ice rink. There are lawsuits pending that are being defended by an insurance company without a reservation of rights.

Note 12: 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, 2019.

The Company files Form 990 in the U.S. federal jurisdiction and Form 199 in the State of California.

LSL

INDEPENDENT AUDITORS' 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
Pasadena Center Operating Company
City of Pasadena, California

We have audited, in accordance with the 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) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated January 16, 2020.

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. 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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 from 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*.

CPAs AND ADVISORS

To the Board of Directors
Pasadena Center Operating Company
City of Pasadena, California

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 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 communication is not suitable for any other purpose.

Lance, Soll & Lunghard, LLP

Brea, California
January 16, 2020