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

FINANCIAL REPORT

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2020

PASADENA CENTER OPERATING COMPANY
Financial Report
For the Fiscal Year Ended June 30, 2020
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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, 2020, and the related notes to the financial statements, which collectively comprise the Company's 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pasadena Center Operating Company as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 January 25, 2021, 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 solely 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 the effectiveness of the Company's internal control over financial reporting or on compliance. The 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
January 25, 2021

As the Pasadena Center Operating Company (the PCOC) management, we offer readers of the PCOC's financial statements, this narrative overview, and an analysis of the financial activities for the year ended June 30, 2020. The PCOC's financial statements consist of management's discussion and analysis (MD&A), statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to the basic financial statements. We encourage readers to consider the information presented herein in conjunction with the accompanying basic financial statements and the accompanying notes.

BACKGROUND

The PCOC is a nonprofit 501(c) (4) corporation incorporated in 1973 to manage the Pasadena Convention Center, the Pasadena Civic Auditorium, the Pasadena Convention and Visitors Bureau, and the Pasadena Ice Skating Center. The PCOC was one of the first independent nonprofit organizations in the United States to combine its facility operations and destination marketing efforts.

The PCOC is funded by revenue from its facilities, proceeds from a Tourism Business Improvement District (2.9 percent), a self-imposed hotel assessment, and a 60 percent portion of the Transient Occupancy Tax (12.1 percent). In FY 2017, The City of Pasadena and the PCOC amended their operating agreement establishing a maximum amount of Transient Occupancy Tax revenue to be transferred to the PCOC annually. In FY 2018, the Pasadena Convention and Visitors Bureau converted the Pasadena TBID from the Parking and Business Area Law 1989 ('89 Law) to the Property and Business Improvement District Law of 1994 ('94 Law). The district assessment remained the same (2.89 percent) and was approved for a five-year term through June 30, 2023.

ABOUT OUR BUSINESS

The PCOC operates a world-class state of the art public assembly facilities that generate significant regional economic activity by attracting conventions, tradeshows, entertainment, and other events to Pasadena. Our facilities include a 55,000 square feet Exhibition Hall, 25,000 square feet Ballroom, 18 meeting rooms of varying sizes, the Historic Civic Auditorium that seats 3,000, the Gold Room, and a 17,000 square feet Exhibit Hall. The PCOC also manages a regulation-size skating rink onsite.

The Pasadena Convention and Visitor's Bureau (PCVB) attracts hundreds of thousands of people to the City annually, enriching the local economy with hotel and retail spending and other direct spending on goods and services.
PCVB promotes economic development, provides marketing support to the City's art, culture, innovation, and special events, including operating a Visitor Information Center opened year-round.

MANAGEMENT OBJECTIVE AND STRATEGY

The Company's mission is to promote Pasadena as a meeting and travel destination by attracting conventions, tradeshows, entertainment events, and tourism to its professionally managed facilities and first-class service. The Company's management operates the business consistent with strategic business principles for success in both the short term and over more extended periods. PCOC focuses on unifying the management team, dedicated employees, and third-party contractors to achieve its priority and remain competitive in the meeting industry.

OVERVIEW OF FINANCIAL STATEMENTS

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

The Statement of Net Position presents all PCOC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2020. 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 PCOC's net position changes 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 related cash flow timing. 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, and detail of noncash investing, capital and financing activities.

SUMMARY OF FINANCIAL PERFORMANCE

	2020	2019	Change
Cash and cash equivalents	$ 28,405,322	$ 29,680,303	$ (1,274,981)
Receivables and other assets	129,721,140	133,356,578	(3,635,438)
Total assets	158,126,462	163,036,881	(4,910,419)
Deferred outflows of resources	34,473,402	24,367,880	10,105,522
Total assets and deferred outflows of resourcees	192,599,864	187,404,760	5,195,104
Current liabilities	8,381,046	9,299,699	(918,653)
Noncurrent liabilities	178,440,296	172,955,375	5,484,921
Total liabilities	186,821,342	182,255,074	4,566,269
Deferred inflows of resources	5,322,458	5,608,320	(285,862)
Total liabilities and deferred inflows	192,143,800	187,863,393	4,280,407
Net position (deficit)	$ 456,064	$ (458,633)	$ 914,697

The COVID-19 pandemic impact on the Company's business resulted in a substantial reduction in operating revenues in the fiscal year 2020 compared to the previous year and recent trends.

Where the Company had achieved a record-high level of operating revenue in the fiscal year 2019; revenue fell by 19.4% in the fiscal year 2020. The corresponding reduction in expenses, while meaningful, did not offset the lost revenue.

In the fiscal year 2020, the Company's cash and investments decreased by $1.5 million to support its operation. However, this is offset by the increase in fiscal agent cash of $251,984 related to the changes in investments' market values. Capital assets also decreased by $3.1 million, mostly from depreciation expense of $4.2 million.

Deferred outflows of resources for PCOC is related to the accumulated decrease in fair value of hedging derivatives and amortization of deferred refunding charge. Deferred outflows of resources increased $10.1 million from 2019 to 2020, mainly due to the change in the derivatives' fair value at year-end.

The Company's current liabilities, including accounts payable, other accrued liabilities, accrued salaries and benefits, deposits decreased by $1.2 million compared to the fiscal year 2019. The current portion of long-term debt increased by $291,000.

Deferred inflows of resources for PCOC are 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 $285,862 from 2019 to 2020 due to recognizing these revenues due to the passage of time.

The 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 2020, totaling $456,064, increased by $914,697 during the year. Net position is reported in three major categories: net investment in capital assets, restricted, and unrestricted. A full explanation is in Note 7 to the basic financial statements.

The portion of net position classified as net investment in capital assets, represents capital assets net of accumulated depreciation and net of related outstanding liabilities and totaled $4.0 million at year end. Although PCOC's net investment in capital assets is net of related liabilities, the resources used to repay the debt must be from other sources; the capital assets cannot be used to liquidate these liabilities.

The restricted net position remained the same at $870 thousand in the fiscal year 2020. $867 thousand of this amount represents funds restricted for public art.

RESULTS OF OPERATIONS

	2020	2019	Change
Operating revenues	$ 8,506,912	$ 10,548,278	$ (2,041,366)
Operating expenses	14,083,681	16,498,628	2,414,947
Operating loss	(5,576,769)	(5,950,350)	373,581
Nonoperating revenues, net	6,433,441	9,254,339	(2,820,898)
Income before capital contributions	856,672	3,303,989	(2,447,317)
Capital Contributions	58,025	106,659	(48,634)
Change in net position	914,697	3,410,648	(2,495,951)
Net position, beginning of year	(458,633)	(3,869,281)	3,410,648
Net position, end of year	$ 456,064	$ (458,633)	$ 914,697

Operating Revenues

The fiscal year 2020 operating revenue equaled $8.5 million, representing a 19.4% decline compared to the previous fiscal year. As part of the emergency measures announced by the Governor of California in response to the COVID-19 pandemic, all large gatherings of individuals were prohibited beginning in mid-March 2020.

This resulted in all events contracted at the PCOC being canceled through the remainder of the fiscal year. Where revenues had been pacing above budget through February 2020, operating revenue dropped precipitously for the rest of the year. The Company did not earn any additional revenue in the remaining four months of the year compared to $2.5 million over the same four months in the fiscal year 2019. All major revenue categories decreased at PCOC.

Operating Expenses

In the fiscal year 2020, total operating expenses fell to $14.1 million from $16.5 million, a reduction of 14.6%. With the impacts of the COVID-19 pandemic beginning in March 2020, the Company experienced lower costs and reduced spending across most major categories.

Total salaries and benefits expenses in 2020 amount to $6.2 million, compared to $6.6 million, a decrease of 5.6%. Utility expenses decreased by 30.3% from $1.8 million to $1.2 million. Other categories, including administrative costs and repair and maintenance expenses, decreased by 11% from $1.7 million to $1.5 million. The substantial reduction in costs is a result of the lack of event business in the fourth quarter.

PCVB contracted and direct expenses in the fiscal year 2020 totaled $916 thousand, a decrease of 48.6% compared to $1.8 million in 2019. The reduction in PCVB spending directly results from the decline in TBID revenue for the four months remaining in the year.

Non-operating Revenues (Expenses), Net

The total fiscal year 2020 non-operating revenues fell by 17.8% from $15 million in 2019 to $12.2 million in 2020. This year-over-year change reflects the substantial decrease in transient occupancy tax revenue received for the last four months of the fiscal year. TOT revenue decreased by 15.8% from $10.3 million to $8.7 million in 2020, while interest expense increased 2.9% from $5.6 million to $5.8 million.

Capital Contributions

Capital contributions include $58,025, which is recognized as revenue from the $1.6 million contribution paid by Boston Culinary Group, now Centerplate. The remainder of the $282,250 unamortized amount paid by Boston Culinary Group will be recognized in equal monthly installments over the life of the agreement with PCOC.

CAPITAL ASSETS

PCOC's investment in capital assets as of June 30, 2020, and 2019, amounts to $128,748,847 and $131,839.912, 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. Additional information on PCOC's capital assets can be found in Note 4 of the financial statements.

Capital Assets (Net of Depreciation)

	June 30, 2020	June 30, 2019
Buildings and improvements	$ 125,122,552	$ 128,264,014
Machinery and equipment	823,062	737,121
Furniture and fixtures	79,497	92,622
Land	2,423,473	2,423,473
Construction in progress	300,263	322,682
Total	$ 128,748,847	$ 131,839,912

DEBT ADMINISTRATION

As of June 30, 2020, PCOC had long-term debt outstanding balance is $150,639,395, a decrease of $4.4 million from 2019 due to current year principal payments. 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 financial statements' notes.

Outstanding Debt

	June 30, 2020	June 30, 2019
Conference Center Loan	$ -	$ 54,411
COP 2006 Series A Capital Appreciation Bonds	14,977,587	18,884,698
COP 2008 Series A Capital Appreciation Bonds	134,720,000	134,720,000
Energy Conservation Loan	774,600	1,057,074
Ice Skating Loan 2012	167,208	330,338
Total	$ 150,639,395	$ 155,046,521

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

STATEMENT OF NET POSITION

June 30, 2020

ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	$ 16,915,616
Accounts receivables	350,232
Due from the City of Pasadena	504,008
Prepaid items	118,053
TOTAL CURRENT ASSETS	17,887,909
RESTRICTED CASH AND CASH EQUIVALENTS	11,489,706
NONCURRENT ASSETS:	
Capital assets, not depreciated	2,723,736
Capital assets, net of accumulated depreciation	126,025,111
TOTAL NONCURRENT ASSETS	128,748,847
TOTAL ASSETS	158,126,462
DEFERRED OUTFLOWS OF RESOURCES:	
Accumulated decrease in fair value of hedging derivatives	33,406,950
Deferred charges on refunding	1,066,452
TOTAL DEFERRED OUTFLOWS OF RESOURCES	34,473,402
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable and other liabilities	442,566
Interest payable	525,846
Accrued salaries and benefits	527,331
Advance deposits payable	1,279,254
Long-term debt - due within one year	5,606,049
TOTAL CURRENT LIABILITIES	8,381,046
NONCURRENT LIABILITIES:	
Derivative instruments liability	33,406,950
Long-term debt	145,033,346
TOTAL NONCURRENT LIABILITIES	178,440,296
TOTAL LIABILITIES	186,821,342
DEFERRED INFLOWS OF RESOURCES:	
Deferred charges on refunding	5,040,208
Service concession arrangement	282,250
TOTAL DEFERRED INFLOWS OF RESOURCES	5,322,458
NET POSITION:	
Net investment in capital assets	4,031,630
Restricted for public art	867,377
Restricted for organ repairs and maintenance project	2,863
Unrestricted	(4,445,806)
TOTAL NET POSITION	$ 456,064

See accompanying notes to financial statements.

PASADENA CENTER OPERATING COMPANY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2020

OPERATING REVENUES:	
Occupancy fees	$ 3,846,897
Ice skating center	1,820,015
Parking	861,900
Commissions	1,978,100
TOTAL OPERATING REVENUES	8,506,912
OPERATING EXPENSES:	
Pasadena center	5,963,933
Ice skating center	1,346,185
Pasadena convention and visitors bureau	2,614,854
Depreciation expense	4,158,709
TOTAL OPERATING EXPENSES	14,083,681
OPERATING INCOME (LOSS)	(5,576,769)
NONOPERATING REVENUES (EXPENSES)	
Transient occupancy taxes	8,683,933
Tourism business improvement district tax	2,960,623
Facility restoration fee	101,217
Investment income	960,008
Interest expense	(6,272,340)
TOTAL NONOPERATING REVENUES (EXPENSES)	6,433,441
INCOME BEFORE CAPITAL CONTRIBUTIONS	856,672
CAPITAL CONTRIBUTIONS	58,025
CHANGES IN NET POSITION	914,697
NET POSITION:	
BEGINNING OF YEAR	(458,633)
END OF YEAR	$ 456,064

See accompanying notes to financial statements.

PASADENA CENTER OPERATING COMPANY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 8,939,084
Cash payments to suppliers for goods and services	(5,264,748)
Cash payments to employees for services	(5,580,746)
NET CASH USED BY OPERATING ACTIVITIES	(1,906,410)
CASH FLOWS FROM NONCAPITAL FINANCE ACTIVITIES:	
Transient occupancy taxes from the City of Pasadena	8,319,142
Tourism business improvement district taxes from the City of Pasadena	3,232,566
NET CASH PROVIDED BY NONCAPITAL FINANCE ACTIVITIES	11,551,708
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(1,070,656)
Principal paid on long-term debt	(5,315,015)
Interest paid on long-term debt	(5,255,358)
Capital contributions	58,025
Facility restoration fee for capital improvements	101,217
NET CASH USED BY CAPITAL AND RELATED FINANCE ACTIVITIES	(11,481,787)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income received	561,508
NET CASH PROVIDED BY INVESTING ACTIVITIES	561,508
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,274,981)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,680,303
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 28,405,322
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (5,576,769)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities	
Depreciation	4,158,709
Loss on disposal of capital assets	3,012
(Increase) decrease in accounts receivables	613,751
(Increase) decrease in prepaid items	13,842
Increase (decrease) in accounts payable and other liabilities	(612,657)
Increase (decrease) in accrued salaries and benefits	(79,692)
Increase (decrease) in due to the City of Pasadena	(245,027)
Increase (decrease) in advance deposits payable	(303,845)
Increase (decrease) in deferred inflows - service concession arrangement	122,266
Total Adjustments	3,670,359
NET CASH USED BY OPERATING ACTIVITIES	$ (1,906,410)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Amortization of deferred refunding charges	$ 330,568
Accretion of interest on long-term debt	$ 907,889
Amortization of service concession arrangement	$ 122,266

See accompanying notes to financial statements.

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NOTE 1 - 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 (GAAP).

B. Basis of Presentation

The Company's 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 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 - 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 acquisition 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.

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 - 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. GASB Pronouncements

Current Year Standards

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance,* which was effective immediately. This Statement provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. GASB Pronouncements (Continued)

Current Year Standards (Continued)

In June 2020, GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. Paragraph 4 of this Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

Paragraph 5 of this Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

The requirements of paragraphs 4 and 5 of Statement No. 97 did not impact the Corporation.

Pending Accounting Standards

GASB has issued the following statements, which may impact the Corporation's financial reporting requirements in the future:

In June 2017, GASB issued Statement No. 87 – *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset for leases with a term of more than 12 months. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For leases with a term of 12 months or less, lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, early application is encouraged.

In May 2020, GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Early application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 16,915,616
Restricted cash and cash equivalents	11,489,706
Total cash and investments	$ 28,405,322

Cash and investments as of June 30, 2020, consist of the following:

Cash on hand	$ 11,100
Deposits with financial institutions	7,864,245
City of Pasadena Investment Pool	9,040,271
Cash and investments with fiscal agent:	
Money market mutual funds	11,489,706
Total cash and investments	$ 28,405,322

Deposits

At June 30, 2020, the carrying amount of the Company's deposits was $7,864,245 and the bank balance was $8,004,991. The $140,746 difference represents outstanding checks and other reconciling items. All of the Company's cash and cash equivalents as of June 30, 2020 were collateralized or insured with securities held by pledging financial institutions in the Company's name.

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)

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	15%	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%	5%
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.

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

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

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	Fair Value	12 Months or Less	12 to 60 Months
City of Pasadena Investment Pool	$ 9,040,271	$ 9,040,271	$ -
Fiscal agent:			
Money market mutual funds	11,489,706	11,489,706	-
Total	$ 20,529,977	$ 20,529,977	$ -

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	$ 9,040,271	N/A	$ -	$ 9,040,271
Fiscal agent:				
Money market mutual funds	11,489,706	Aaa	11,489,706	-
Total	$ 20,529,977		$ 11,489,706	$ 9,040,271

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

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.

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 quoted prices for similar assets in active markets; Level 3 inputs are significant unobservable inputs.

The Company's investments in the City investment pool and the fiscal agent money market mutual funds are not subject to the fair value hierarchy. Further details on the City's investment pool fair value hierarchy can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2020.

NOTE 3 - TRANSIENT OCCUPANCY TAXES AND TOURISM BUSINESS IMPROVEMENT DISTRICT TAXES

Transient Occupancy Taxes (TOT)

The Company receives support from the City equal to the sum of the annual debt service payments on the 2006A and 2008A expansion project bonds and an allowance of $500,000 to be used by the Company for maintenance, repairs, capital improvements and or debt service. A portion of this support is retained by the City to pay for the Company's insurance. Annual capital improvements to the Convention Center, Civic Auditorium and Ice Skating Center are approved by the City. For the year ended June 30, 2020, net TOT revenue was $8,683,933, of which $406,274 was due from the City at June 30, 2020.

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, 2020, the rate was set at 2.89%. The purpose of the TBID is to market Pasadena as a destination by funding activities, programs, expenses, and services of the Pasadena Convention & Visitors Bureau. Marketing activities of the Pasadena Convention & Visitors Bureau and the Pasadena Conference Center are financed by the TBID. For the year ended June 30, 2020, TBID revenue was $2,960,623, of which $60,685 was due from the City at June 30, 2020.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, is as follows:

	Balance at June 30, 2019	Additions	Transfers and Deletions	Balance at June 30, 2020
Capital assets being depreciated:				
Buildings and improvements	$ 182,242,159	$ 180,287	$ 740,220	$ 183,162,666
Machinery and equipment	1,711,885		169,556	1,881,441
Furniture and fixtures	366,934	-	-	366,934
Total depreciable capital assets	184,320,978	180,287	909,776	185,411,041
Less accumulated depreciation for:				
Buildings and improvements	(53,978,145)	(4,061,969)	-	(58,040,114)
Machinery and equipment	(974,764)	(83,615)		(1,058,379)
Furniture and fixtures	(274,312)	(13,125)	-	(287,437)
Total accumulated depreciation	(55,227,221)	(4,158,709)	-	(59,385,930)
Net depreciable assets	129,093,757	(3,978,422)	909,776	126,025,111
Land	2,423,473	-	-	2,423,473
Construction in progress	322,682	890,366	(912,785)	300,263
Capital assets, net	$ 131,839,912	$ (3,088,056)	$ (3,009)	$ 128,748,847

Depreciation expense for the year ended June 30, 2020, was $4,158,709.

NOTE 5 - LONG-TERM DEBT

Long-term debt for the year ended June 30, 2020, is as follows:

	Balance at June 30, 2019	Additions / Accretion	Principal Payments / Prepayments	Balance at June 30, 2020	Due in One Year
Conference Center Loan	$ 54,411	$ -	$ (54,411)	$ -	$ -
Certificates of Participation					
2006 Series A	21,300,000	-	(4,815,000)	16,485,000	5,145,000
Accreted Interest	(2,415,302)	907,889	-	(1,507,413)	-
Certificates of Participation					
2008 Series A	134,720,000	-	-	134,720,000	-
Energy Conservation Loan	1,057,074	-	(282,474)	774,600	293,841
Ice Skating Loan 2012	330,338	-	(163,130)	167,208	167,208
Total	$ 155,046,521	$ 907,889	$ (5,315,015)	$ 150,639,395	$ 5,606,049

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 $54,411 are due semiannually. The final payment on this loan was made during the fiscal year ended June 30, 2020.

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, 2020, are as follows:

June 30	Principal Payment	Accretion
2021	$ 5,145,000	$ (723,567)
2022	5,490,000	(512,288)
2023	5,850,000	(271,558)
	$ 16,485,000	$ (1,507,413)

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, 2020, are as follows:

June 30	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
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	7,480,000	350,825	4,002,359	11,833,184
2026-2030	49,805,000	1,402,642	15,646,864	66,854,506
2031-2035	70,660,000	585,088	5,361,299	76,606,387
	$ 134,720,000	$ 3,816,163	$ 42,244,616	$ 180,780,779

NOTE 5 - LONG-TERM DEBT (CONTINUED)

2008 Certificates of Participation (Continued)

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.

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 was $4,581,071; $1,560,000 was pledged by Pasadena Water and Power (PWP) as a rebate based on energy savings and $3,000,000 was 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, 2020, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2021	$ 293,841	$ 27,732	$ 321,573
2022	305,562	16,011	321,573
2023	175,197	3,822	179,019
	$ 774,600	$ 47,565	$ 822,165

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, 2020, are as follows:

June 30	Principal Payment	Interest Payment	Total Debt Service
2021	$ 167,208	$ 4,180	$ 171,388
	$ 167,208	$ 4,180	$ 171,388

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.

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.

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	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 ended 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, 2020, the balance was $5,040,208.

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
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		$ 1,337,164	$ (6,377,372)	

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 quoted prices in active markets for similar assets; Level 3 inputs are significant unobservable inputs.

The Company has the following recurring fair value measurements as of June 30, 2020:

Measurements by Fair Value Level	Total	Level 1	Level 2	Level 3
Derivative instrument liability	$ 33,406,950	$ -	$ 33,406,950	$ -

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2020, 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, 2020		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred outflow	$ 10,183,082	Liability	$ 33,406,950	$ 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, 2020, 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, 2020, the weighted-average interest rate on the Company's hedged variable-rate debt is .37013%, while 64% of LIBOR is .23688%.

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, 2020, the maximum exposure/loss would have been $40,745,758.

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, 2020, consisted of the following:

Net investment in capital assets:	
Property, plant, and equipment, net	128,748,847
Less:	
Net carrying value of capital-related debt	(124,717,217)
Total net investment in capital assets	4,031,630
Restricted net position:	
Public art	867,377
Organ repair and maintenance	2,863
Total restricted net position	870,240
Unrestricted net position:	
Undesignated	(4,445,806)
Total unrestricted net position	(4,445,806)
Total net position	$ 456,064

Net position restrictions are as follows:

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.

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, 2020 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, 2020. A second amendment to the agreement was entered into on June 28, 2019 to extend the agreement an additional five years expiring on June 30, 2024.

Prior to July 1, 2019, CP provided $975,000 for Kitchen space and $399,960 for Café space. For the year ended June 30, 2020, CP contributed $180,290 for the purchase of a commercial dishwasher. As of June 30, 2020, CP has contributed a total of $1,555,250. This has been recorded as advances on contracts and is being amortized over the lease period including extensions. The sum of $1,273,000 has been recognized as capital contributions to date. The remaining $282,250 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 be age 21 and have completed 90 consecutive days of employment. To be eligible for the employer's match, an employee must be age 21 and have completed one full year of employment and must have 1,000 hours of service in a twelve-month period.

Funding Policy

An employee may either defer an amount of their salary on a pre-tax basis, or contribute after tax dollars to a Roth 401k account up to the maximums allowed by federal law. The Company will make a contribution equal to 5% of eligible employees' pay regardless of whether an employee contributes to the plan. 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 $209,789 for the fiscal year ended June 30, 2020.

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 $1,703,469 and are included within general and administrative expenses. During the current year, the Company also paid City for police, fire, and public works services, primarily for events, amounting to $121,410, for a grand total of related party expenses of $1,825,303. At June 30, 2020, amounts payable to the City totaled $73,308.

In addition to the revenues and receivables described in Note 3, the Company has $37,049 due from the City related to interest earned on cash and investments pooled with the City at June 30, 2020.

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.

NOTE 13 – COVID-19 PANDEMIC

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of an outbreak of a new strain of coronavirus ("COVID-19"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase of the virus and its global exposure.

The State of California and the City of Pasadena, similar to other communities in the country, enacted a State of Emergency, issuing the Safer at Home order that limited face-to-face meetings, prohibited large gatherings, and banning non-essential travel, all critical components to the Company's operations. As a result, PCOC experienced significant cancellations of convention and consumer events, closure of the ice rink facility and civic auditorium. The Company's tax revenue from transient occupancy and tourism business district tax has been adversely affected. On a short-term basis, the Company has vital fiscal reserves, capable of providing a cushion for such a disruption and counterbalancing temporary losses. However, a prolonged situation of limited to no operations will significantly impede the Company's ability to meet debt obligations.

The effects of the pandemic on the economy continue to evolve. Industry reports have suggested a downturn in our economy. Sales, lodging, food and beverage, and other special tax revenue will become strained with continued weakness in spending and travel. The Company has implemented contingency planning, altering operations, and budget projection to anticipate an extended movement restriction. The Company reduced revenue in the fiscal year 2020 – 2021 by $6 million over pre-COVID-19 revenue projection.

The unprecedented uncertainty has been challenging in long-term planning and budgeting, but, management will continue to be proactive in monitoring and addressing the environment's changes to ensure financial stability.

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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
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 Pasadena Center Operating Company (the Company), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Company's financial statements, and have issued our report thereon dated January 25, 2021.

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 Company'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*.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
January 25, 2021