



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

Focused
on YOU



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

Financial Statements With
Independent Auditors' Report

For The Fiscal Year Ended June 30, 2023

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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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Pasadena Center Operating Company (the "Company"), a component unit of the City of Pasadena, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of June 30, 2023, and the changes in financial position, and cash flows thereof, as listed in the table of contents, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2023, the Company adopted new accounting guidance, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Component Unit Reporting

As discussed in Note 1, the financial statements of the Company are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City of Pasadena that is attributable to the transactions of the Company. They do not purport to, and do not, present fairly the financial position of the City of Pasadena, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, 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. 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.

Brea, California
December 21, 2023

Pasadena Center Operating Company
(A Component Unit of the City of Pasadena)

Management's Discussions and Analysis

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, 2023. 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, tradeshow, 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, tradeshow, 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, 2023. 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.

**Pasadena Center Operating Company
(A Component Unit of the City of Pasadena)**

Management's Discussions and Analysis

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.

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

Pasadena Center activity continues a positive momentum in fiscal year 2023 not only in the convention industry but in tourism in general.

In the fiscal year 2023, the Company's cash and cash equivalents increased by \$6.0 million related to the company's operation. Capital assets decreased by \$2.6 million, mostly from depreciation expense of \$4.0 million.

Deferred outflows of resources for PCOC are related to the accumulated decrease in fair value of hedging derivatives and amortization of deferred refunding charge. Deferred outflows of resources decreased \$6.4 million from 2022 to 2023, 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 increased by \$849,000 compared to the fiscal year 2022.

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 \$504,000 from 2022 to 2023.

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 2023 totaling \$4,107,984 increased by \$7,500,026 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 8 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 is \$4.7 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 increased to \$2,198,649 in the fiscal year 2023. \$2,195,786 of this amount represents funds restricted for public art.

Pasadena Center Operating Company
(A Component Unit of the City of Pasadena)

Management's Discussions and Analysis

	2023	2022
Cash and cash equivalents	\$ 25,315,089	\$ 19,315,503
Receivables and other assets	120,679,430	124,510,339
Total assets	145,994,519	143,825,842
Deferred outflows of resources	5,265,373	11,674,693
Current liabilities	9,985,742	9,136,456
Noncurrent liabilities	133,303,250	145,388,632
Total liabilities	143,288,992	154,525,087
Deferred inflows of resources	3,862,919	4,367,493
Net position (deficit)		
Net Investments in Capital Assets	11,703,124	2,432,565
Restricted	2,198,649	870,240
Unrestricted	(9,793,791)	(6,694,851)
Net position (deficit)	\$ 4,107,982	\$ (3,392,046)

RESULTS OF OPERATIONS-

Operating Revenues

The fiscal year 2023 operating revenue equaled \$12.7 million, representing a 50% increase from the previous fiscal year. During the year, revenues for the PCOC were recognized through space rental and all ancillary services (such as food & beverage, parking, etc.). Key revenue drivers were:

- Television production, Award shows, Conferences, and Conventions
- Pasadena Ice Skating Center skating classes and hockey league games
- Parking from events at the facility and short-term leases

Operating Expenses

In the fiscal year 2023, total operating expenses increased to \$15.8 million from \$12.5 million, an increase of 26.3%. The increase was driven by the return to hosting events and increase in occupancy related expenses. Depreciation expense, primarily for the convention center building, amounted to \$4.0 million.

PCVB contracted and direct expenses in the fiscal year 2023 totaled \$3.2 million, an increase of 40% compared to \$2.2 million in 2022. The increase in PCVB spending is a direct effort to refocus on maximizing the return of the tourism, meeting and conventions industry.

Non-operating Revenues (Expenses), Net

Non-operating revenues, mainly Transient Occupancy Tax and Tourism Business Improvement Tax revenue, totaled \$15.3 million; an increase of 18.5%. Interest expenses decreased by \$2.7 million and are offset by the decrease in other operating revenue of \$2.5 million compared to prior year. In fiscal year 2022, the company received a \$2.1 million Shuttered Venue Operator Grant.

Pasadena Center Operating Company
(A Component Unit of the City of Pasadena)

Management's Discussions and Analysis

Capital Contributions

Capital contributions include \$76,056, which is recognized as revenue from the \$1.6 million contribution paid by Boston Culinary Group, now Centerplate. The remainder of the \$117,462 unamortized amount paid by Centerplate will be recognized in equal monthly installments over the life of the agreement with PCOC.

	2023	2022
Operating revenues	\$ 12,745,844	\$ 8,494,453
Operating expenses	15,815,273	12,518,091
Operating loss	(3,069,429)	(4,023,638)
Nonoperating revenues, net	10,505,580	7,580,153
Income before capital contributions	7,436,151	3,556,515
Capital Contributions	76,056	76,055
Change in net position	7,512,207	3,632,570
Net position, beginning of year	(3,392,046)	(7,024,616)
Net position, end of year	\$ 4,120,161	\$ (3,392,046)

CAPITAL ASSETS

PCOC's investment in capital assets as of June 30, 2023, and 2022, amounts to \$118,983,852 and \$121,573,130, 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 \$2.6 million. Additional information on PCOC's capital assets can be found in Note 4 of the financial statements.

	June 30, 2023	June 30, 2022
Buildings and improvements	\$ 115,459,183	\$ 118,307,556
Machinery and equipment	655,556	683,623
Furniture and fixtures	40,120	53,246
Lease assets	83,722	54,403
Subscription assets	319,437	-
Land	2,423,473	2,423,473
Construction in progress	2,361	50,829
Total	\$ 118,983,852	\$ 121,573,130

Pasadena Center Operating Company
(A Component Unit of the City of Pasadena)

Management's Discussions and Analysis

DEBT ADMINISTRATION

As of June 30, 2023, PCOC had long-term debt outstanding balance is \$135,019,150, a decrease of \$5.5 million from 2022 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.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
COP 2006 Series A Capital Appreciation Bonds	\$ -	\$ 5,578,439
COP 2008 Series A Capital Appreciation Bonds	134,720,000	134,720,000
Energy Conservation Loan	-	175,197
Lease Payable	73,267	53,539
SBITA Payalbe	<u>225,883</u>	<u>-</u>
Total	<u>\$ 135,019,150</u>	<u>\$ 140,527,175</u>

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, 2023

Assets

Current:

Cash and cash equivalents	\$ 6,083,422
Investments	11,319,520
Accounts receivable	851,863
Due from the City of Pasadena	676,567
Prepaid assets	120,783
Leases receivable	17,917

Restricted:

Cash and investments with fiscal agent	7,912,147
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Total Current Assets	26,982,219
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Noncurrent:

Leases receivable	28,448
Capital assets not being depreciated	2,425,834
Capital assets, net of accumulated depreciation/amortization	116,558,018

Total Noncurrent Assets	119,012,300
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Total Assets	145,994,519
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Deferred Outflows of Resources

Accumulated decrease in fair value of hedging derivatives	4,431,602
Deferred charge on refunding	833,771

Total Deferred Outflows of Resources	5,265,373
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Liabilities

Current:

Accounts payable and other liabilities	1,053,239
Interest payable	482,519
Accrued salaries and benefits	730,741
Advance deposits payable	1,571,739
Leases payable	62,056
Subscriptions payable	89,021
Long-term debt - due within one year	6,775,000

Total Current Liabilities	10,764,315
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Noncurrent:

Leases payable	11,211
Subscriptions payable	136,862
Derivative instrument liability	4,431,602
Long-term debt	127,945,000

Total Noncurrent Liabilities	132,524,675
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Total Liabilities	143,288,990
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Deferred Inflows of Resources

Leases	46,348
Deferred charge on refunding	3,699,109
Service concession arrangement	117,463

Total Deferred Inflows of Resources	3,862,920
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Net Position

Net investment in capital assets	11,703,124
Restricted	2,198,649
Unrestricted	(9,793,791)

Total Net Position	\$ 4,107,982
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The accompanying notes are an integral part of these financial statements.

PASADENA CENTER OPERATING COMPANY
Statement of Revenues, Expenses,
And Changes in Net Position
For the Year Ended June 30, 2023

Operating Revenues	
Occupancy fees	\$ 5,659,800
Ice skating center	3,164,566
Parking	2,027,934
Commissions	<u>1,893,544</u>
Total Operating Revenues	<u>12,745,844</u>
Operating Expenses	
Pasadena center	6,846,218
Ice skating center	1,755,335
Pasadena convention and visitors bureau	3,235,433
Depreciation/amortization expense	<u>3,990,466</u>
Total Operating Expenses	<u>15,827,452</u>
Operating Loss	<u>(3,081,608)</u>
Nonoperating Revenues (Expenses)	
Grant income	66,738
Transient occupancy taxes	11,300,045
Tourism business improvement district tax	4,029,636
Facility restoration fee	137,040
Lease income	16,459
Investment income	367,694
Interest expense	<u>(5,412,032)</u>
Total Nonoperating Revenues (Expenses)	<u>10,505,580</u>
Income before Capital Contributions	<u>7,423,972</u>
Capital contributions	<u>76,056</u>
Changes in Net Position	7,500,028
Net Position, Beginning of Year	<u>(3,392,046)</u>
Net Position, End of Year	<u>\$ 4,107,982</u>

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

PASADENA CENTER OPERATING COMPANY
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash Flows from Operating Activities	
Cash received from customers	\$ 13,010,070
Cash paid to suppliers of goods and services	(4,668,071)
Cash paid to employees for services	(6,619,990)
Net Cash Provided by Operating Activities	1,722,009
Cash Flows from Non-Capital Financing Activities	
Receipt of grants	66,738
Contributions from the City of Pasadena (Transient Occupancy Taxes)	12,488,286
Receipt of Tourism Business Improvement District Taxes	4,050,119
Net Cash Provided by Non-Capital Financing Activities	16,605,143
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(999,788)
Principal paid on long-term debt	(6,188,454)
Interest paid on long-term debt	(5,843,925)
Facility restoration fee for capital improvements	137,040
Net Cash Used in Capital and Related Financing Activities	(12,895,127)
Cash Flows from Investing Activities	
Investment income received	(5,432,025)
Change in fair value of cash equivalents	5,999,586
Net Cash Provided by (Used in) Investment Activities	567,561
Net Increase in Cash and Cash Equivalents	5,999,586
Cash and Cash Equivalents at Beginning of Year	19,315,503
Cash and Cash Equivalents at End of Year	\$ 25,315,089
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (3,081,608)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation and amortization	3,990,466
Amortization of deferred inflows related to lease	38,860
(Increase) decrease in accounts receivable	20,953
(Increase) decrease in lease receivable	70,920
Increase (decrease) in prepaid items	(4,183)
Increase (decrease) in accounts payable and other liabilities	288,020
Increase (decrease) in salaries and benefits	226,228
Increase (decrease) in advance deposits payable	172,353
Net Cash Provided by Operating Activities	\$ 1,722,009
Non-Cash Investing, Capital, and Financing Activities:	
Amortization of deferred refunding charges	\$ 389,817
Accretion of interest on long-term debt	271,561
Amortization of service concession arrangement	76,056

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.

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.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Lease/Subscription Assets

Lease/subscription assets are reported in the applicable enterprise fund column in the financial statements. Such assets are recorded at the present value of the lease/subscription liability, including expenses to place the asset into service, and are amortized over the lesser of the lease/subscription term or the asset's useful life.

I. 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
Lease and subscription assets	2 to 5 years

J. 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.

K. 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.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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.

M. New Accounting Pronouncements

The following Government Accounting Standards Board (GASB) pronouncements were effective for and/or early implemented for the fiscal year ended June 30, 2023:

1. *GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

The requirements of this Statement will improve financial reporting by establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs.

2. *GASB Statement No. 96, Subscription-Based Information Technology Arrangements*

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

3. *GASB Statement No. 100, Accounting Changes and Error Corrections*

The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Company has two items that qualify for reporting in this category:

1. The deferred accumulated decrease in fair value of hedging derivatives represents the negative fair value of the Company's hedging interest rate swap.
2. The deferred charge on refunding results in the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Company has three items that qualify for reporting in this category. These items relate to leases, the deferred inflows for deferred charge on the refunding of debt, and service concession arrangements, and are reported in the statement of net position for business-type activities.

NOTE 2: CASH AND INVESTMENTS

A. Summary of Cash and Investments

Cash and investments as of June 30, 2023, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 6,083,422
Investments	11,319,520
Cash and investments with fiscal agent	<u>7,912,147</u>
 Total cash and investments	 <u><u>\$ 25,315,089</u></u>

Cash and investments as of June 30, 2023, consist of the following:

Cash on hand	\$ 13,900
Deposits with financial institutions	6,069,522
City of Pasadena Investment Pool	11,319,520
Cash and investments with fiscal agent:	
Federal agency securities	7,653,619
Money market mutual funds	<u>258,528</u>
 Total cash and investments	 <u><u>\$ 25,315,089</u></u>

B. Deposits

At June 30, 2023, the carrying amount of the Company's deposits were \$6,083,422 and the bank balance was \$6,508,754. The \$425,332 difference represents outstanding checks and other reconciling items. All of the Company's cash and cash equivalents as of June 30, 2023 were collateralized or insured with securities held by pledging financial institutions in the Company's name.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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.

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.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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 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:

Investment Type	Remaining Maturity (in Months)		Total	Concentration of Credit Risk
	12 Months or Less	12 Months to 60 Months		
City of Pasadena Investment Pool	\$ 11,319,520	\$ -	\$ 11,319,520	58.86%
Fiscal Agent:				
Federal Agency Securities	-	7,653,619	7,653,619	39.80%
Money Market Mutual Fund	258,528	-	258,528	1.34%
Total Investments	<u>\$ 11,578,048</u>	<u>\$ 7,653,619</u>	<u>\$ 19,231,667</u>	100.00%

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.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings at End of Year</u>	
			<u>Aaa</u>	<u>Not Rated</u>
City of Pasadena Investment Pool	\$ 11,319,520	N/A	\$ -	\$ 11,319,520
Fiscal Agent:				
Federal Agency Securities	7,653,619	N/A	7,653,619	-
Money Market Mutual Fund	<u>258,528</u>	Aaa	<u>-</u>	<u>258,528</u>
Total Investments	<u>\$ 19,231,667</u>		<u>\$ 7,653,619</u>	<u>\$ 11,578,048</u>

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal National Mortgage Association	Federal Agency Securities	\$ 7,653,619

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, 2023:

<u>Investments by fair value level</u>	<u>Totals</u>	<u>Level 2</u>
City of Pasadena Investment Pool	\$ 11,319,520	\$ 11,319,520
Cash with Fiscal Agents		
U.S. Federal Agency Securities	7,653,619	7,653,619
Totals	<u>18,973,139</u>	<u>\$ 18,973,139</u>
<u>Investments measured at amortized cost</u>		
Cash with Fiscal Agents		
Money Market Funds	258,528	
Totals	<u>258,528</u>	
Total Investments	<u>\$ 19,231,667</u>	

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.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

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, 2023, net TOT revenue was \$11,300,045, of which \$283,128 was due from the City at June 30, 2023.

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, 2023, 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, 2023, TBID revenue was \$4,029,636 of which \$359,715 was due from the City at June 30, 2023.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, is as follows:

	Balance at June 30, 2022	Additions	Transfers and Deletions	Balance at June 30, 2023
Capital Assets, Not Depreciated/Amortized:				
Land	2,423,473	-	-	2,423,473
Construction in Progress	50,829.00	974,348	(1,022,816)	2,361
Total Capital Assets, Not Depreciated/Amortized	2,474,302	974,348	(1,022,816)	2,425,834
Capital Assets Being Depreciated/Amortized:				
Buildings and improvements	184,325,151	-	979,974	185,305,125
Machinery and equipment	1,881,441	-	35,374	1,916,815
Furniture and fixtures	366,934	-	-	366,934
Subscription assets	-	355,461	-	355,461
Lease assets	81,274	78,847	(4,465)	155,656
Total Capital Assets Being Depreciated/Amortized	186,654,800	434,308	1,010,883	188,099,991
Less Accumulated Depreciation/Amortization:				
Buildings and improvements	(66,017,595)	(3,828,347)	-	(69,845,942)
Machinery and equipment	(1,197,818)	(63,441)	-	(1,261,259)
Furniture and fixtures	(313,688)	(13,126)	-	(326,814)
Subscription assets	-	(36,024)	-	(36,024)
Lease assets	(26,871)	(49,528)	4,465	(71,934)
Total Accumulated Depreciation/Amortization	(67,555,972)	(3,990,466)	4,465	(71,541,973)
Net Depreciable/Amortizable Assets	119,098,828	(3,556,158)	1,015,348	116,558,018
Capital Assets, Net	\$ 121,573,130	\$ (2,581,810)	\$ (7,468)	\$ 118,983,852

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 5: LONG-TERM DEBT

Long-term debt for the year ended June 30, 2023, is as follows:

	Balance at June 30, 2022	Additions / Accretion	Principal Payments/ Prepayments	Balance at June 30, 2023	Due in One Year
Certificates of Participation					
2006 Series A	\$ 5,850,000	\$ -	\$(5,850,000)	\$ -	\$ -
Accreted Interest	(271,561)	271,561	-	-	-
Certificates of Participation					
2008 Series A	134,720,000	-	-	134,720,000	6,775,000
Energy Conservation Loan	175,197	-	(175,197)	-	-
Subscriptions payable	-	330,961	(105,078)	225,883	89,021
Leases Payable	53,539	77,907	(58,179)	73,267	62,056
Total Long-Term Liabilities	<u>\$ 140,527,175</u>	<u>\$ 680,429</u>	<u>\$(6,188,454)</u>	<u>\$ 135,019,150</u>	<u>\$ 6,926,077</u>

A. 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 remaining balance of the 2006 Series A Certificates of Participation was paid in full as of June 30, 2023.

B. 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.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 5: LONG-TERM DEBT (CONTINUED)

The annual requirements to repay the outstanding Certificates of Participation 2008 Series A at June 30, 2023, are as follows:

June 30	Principal Payment	Interest Payment	Hedging Derivative, Net	Total
2024	\$ 6,775,000	\$ 1,055,177	\$ 3,547,885	\$ 11,378,062
2025	7,480,000	998,627	3,354,557	11,833,184
2026	8,260,000	936,187	3,141,263	12,337,450
2027	9,045,000	867,490	2,906,822	12,819,312
2028	9,900,000	792,280	2,650,384	13,342,664
2029-2033	63,715,000	2,572,417	8,511,690	74,799,107
2033-2035	29,545,000	229,437	388,628	30,163,065
	<u>\$ 134,720,000</u>	<u>\$ 7,451,615</u>	<u>\$ 24,501,229</u>	<u>\$ 166,672,844</u>

The above table incorporates the net receipts/payments of the hedging derivative instrument associated with this debt issue. These amounts assume that current interest rates on variable rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 6 for additional information regarding the derivative instruments associated with the debt of the Company.

C. 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. The remaining balance of the Energy Conservation Loan was paid in full as of June 30, 2023.

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.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 6: DERIVATIVE INSTRUMENT LIABILITY (CONTINUED)

A. Objective and Terms

The following table displays the objective and terms of PCOC's hedging derivative instruments outstanding at June 30, 2023, along with the credit rating of the associated counterparty:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay fixed interest rate swap	Hedge of changes in cash flows on the 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, 2023, the balance was \$3,669,109.

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 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
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	95,455	(522,410)	1,880,507
2028	1,880,507	76,649	(477,171)	1,479,985
2029	1,479,985	59,153	(427,720)	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	17,259	(251,141)	261,136
2033	261,136	7,876	(181,804)	87,208
2034	87,208	1,487	(88,695)	-
Total	<u>\$ 18,079,769</u>	<u>\$ 739,123</u>	<u>\$ (4,438,232)</u>	<u>\$ 14,380,660</u>

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 6: DERIVATIVE INSTRUMENT LIABILITY (CONTINUED)

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, 2023:

Measurements by fair value level	Total	Level 2
Derivative instrument liability	\$ 4,431,602	\$ 4,431,602

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2023, 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, 2023		Notional
Classification	Amount		Classification	Amount	
Cash flow hedge:					
Pay-fixed interest					
rate swaps	Deferred outflow	\$(6,331,760)	Liability	\$ 4,431,602	\$ 133,000,000

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

Credit risk: The Company is exposed to credit risk on hedging derivative instruments to the extent the value of the swap is positive from the Company's perspective. The aggregate fair value of hedging derivative instruments was negative as of June 30, 2023, 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, 2023, 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, 2023, the maximum exposure/loss would have been \$8,337,993.

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.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7: NET POSITION

Net position at June 30, 2023, consisted of the following:

Net investment in capital assets:

Capital assets, net of accumulated depreciation/amortization	\$ 118,983,852
Plus:	
Bond reserve account - cash held with fiscal agent	6,527,450
Less:	
Accounts payable related to capital assets	(2,361)
Leases and subscriptions payable	(299,150)
Outstanding debt issued to construct capital assets	<u>(113,506,666)</u>

Total net investment in capital assets	<u>11,703,125</u>
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Restricted net position:

Public art	2,195,786
Organ repair and maintenance	<u>2,863</u>

Total restricted net position	<u>2,198,649</u>
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Unrestricted net position	<u>(9,793,791)</u>
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Total net position	<u>\$ 4,107,983</u>
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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.

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, 2023 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, 2023. 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, 2023, CP has contributed a total of \$1,580,184. This has been recorded as advances on contracts and is being amortized over 120 months starting March 1, 2009. The sum of \$1,462,721 has been recognized as capital contributions to date. The remaining \$117,463 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 100% of compensation into the Plan, subject to certain limitations. The Company makes contributions each payroll period equal to 5% of eligible employees' compensation. Employee contributions are vested immediately. Employer 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 contributions after July 1, 2004, are vested immediately. The Company paid \$267,834 for the fiscal year ended June 30, 2023.

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 \$1,773,375 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 \$136,701, for a grand total of related party expenses of \$1,910,076. At June 30, 2023, amounts payable to the City totaled \$151,151.

In addition to the revenues and receivables described in Note 3, the Company has \$33,724 due from the City related to interest earned on cash and investments pooled with the City at June 30, 2023.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

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, 2023.

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

NOTE 13: LEASES

The financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement was to enhance the relevance and consistency of information about governments' leasing activities. This statement established a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Leases Payable

The Company entered into lease agreements as lessee for the use of various equipment. As of June 30, 2023, the value of the lease liability was \$73,267. The leases have an interest rate ranging from 0.185% to 2.024%.

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 62,056	\$ 600	\$ 62,656
2025	8,070	42	8,113
2026	3,140	13	4,095
Total	<u>\$ 73,267</u>	<u>\$ 654</u>	<u>\$ 74,864</u>

The value of the lease assets as of June 30, 2023 of \$155,656 with accumulated amortization of \$71,934 is included on the Capital Assets activities table found in note 4.

PASADENA CENTER OPERATING COMPANY
Notes to the basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13: LEASES (CONTINUED)

Leases Receivable

The Company entered into a lease agreement as lessor for the use of office space .As of June 30, 2023, the value of the lease receivable was \$46,365. The lease has an interest rate of 0.218%. The value of the deferred inflow of resources as of June 30, 2023 was \$46,348, and the Company recognized lease revenue of \$16,459 during the fiscal year.

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 17,917	\$ 83	\$ 18,000
2025	17,956	44	18,000
2026	10,492	8	10,500
	<u>\$ 46,365</u>	<u>\$ 135</u>	<u>\$ 46,500</u>

NOTE 14: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

For the year ended June 30, 2023, the financial statements include the adoption of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The primary objective of this statement was to enhance the relevance and consistency of information about governments' subscription activities. This statement established a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible subscription asset.

The Company entered into subscription agreements for the use of various information technology systems and program. As of June 30, 2023, the value of the subscription liability was \$225,883. The subscriptions have interest rates ranging from 0.000% to 2.656%.

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 89,021	\$ 2,653	\$ 91,674
2025	60,677	1,364	62,041
2026	51,097	691	51,788
2027	25,087	-	25,088
Total	<u>\$ 225,883</u>	<u>\$ 4,707</u>	<u>\$ 230,591</u>

The value of the subscription assets as of June 30, 2023 of \$355,461 with accumulated amortization of \$36,024 is included on the Capital Assets activities table found in note 4.



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 Pasadena Center Operating Company (the "Company"), component unit of the City of Pasadena, California (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated December 21, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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*.



To the Board of Directors
Pasadena Center Operating Company
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.

Brea, California
December 21, 2023