

**Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre**

*Consolidated Financial Statements*

*June 30, 2020*

## **CONTENTS**

	<b><u>Page(s)</u></b>
<b><i>Independent Auditors' Report</i></b>	1 - 2
<b><i>Management's Discussion and Analysis (Required Supplementary Information)</i></b>	3 - 7
<b><i>Consolidated Financial Statements</i></b>	
Consolidated statement of net position	8
Consolidated statement of revenues, expenses and change in net position	9
Consolidated statement of cash flows	10 - 11
Notes to consolidated financial statements	12 - 19
<b><i>Supplementary Information</i></b>	
Consolidated schedule of operating expenses	20
<b><i>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</i></b>	21 - 22



financial position and cash flows 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 and budgetary comparison information on pages 3 through 8 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated 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 Information*

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Facilities' basic consolidated financial statements. The consolidated schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of operating expenses is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2021, on our consideration of the Facilities' 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 Facilities' 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 Facilities' internal control over financial reporting and compliance.

**BARBICH HOOPER KING**

**DILL HOFFMAN**

**Accountancy Corporation**

*BARBICH HOOPER KING*

Bakersfield, California

January 11, 2021

*Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre*

*Management's Discussion and Analysis*



JULY 2019 TO JUNE 2020

**MECHANICS BANK ARENA, THEATER, CONVENTION CENTER, VALLEY CHILDREN'S  
ICE CENTER OF BAKERSFIELD AND DIGNITY HEALTH AMPHITHEATRE MANAGEMENT  
DISCUSSION AND ANALYSIS**

This section of Mechanics Bank Arena, Theater, Convention Center, Valley Children's Ice Center of Bakersfield and Dignity Health Amphitheatre's (the Facilities) annual financial report presents our discussion and analysis of the Facilities' financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the Facilities' consolidated financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- In FY 2019-2020 our top eight events were as follows:
  - Disney on Ice, Feld Entertainment, Net Income of \$153k
  - CIF State Wrestling Championship, CIF, Net Income of \$153k
  - Blake Shelton, Messina Group, Net Income of \$118k
  - Banda MS, Live Nation, Net Income \$73k
  - Ghost, FPC, Net Income \$68k
  - Toby Keith, Richter Entertainment, Net Income of \$67k
  - Jon Pardi, Live Nation, Net Income of \$65k
  - WWE Monday Night Raw, Net Income \$61k

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic consolidated financial statements of the Facilities.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the Facilities report information using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The Statement of Net Position includes all of the Facilities' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Facilities' creditors (liabilities). It also provides the basis for evaluating the Facilities' capital structure as well as assessing the liquidity and financial flexibility of the Facilities.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Change in Net Position. This statement measures the success of the Facilities'

*Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre*

*Management's Discussion and Analysis*

operations over the past year and can be used to determine whether the Facilities has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**FINANCIAL ANALYSIS OF THE FACILITIES**

One of the most important questions asked about the Facilities' finances is, "Are the Facilities as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Facilities' activities in a way that will help answer this question. These two statements report the net position of the Facilities and the changes in net position. One can think of the Facilities' net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Facilities' net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

***Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre***

***Management's Discussion and Analysis***

Below is a summary of the Consolidated Statements of Net Position, Table A-1:

***Table A-1  
Condensed Consolidated Statements of Net Position***

	<i><b>2020</b></i>	<i><b>2019</b></i>	<i><b>Dollar Change</b></i>	<i><b>Percentage Change</b></i>
Current assets	\$ 4,853,604	\$ 3,779,345	\$ 1,074,259	28%
Total assets	<u>\$ 4,853,604</u>	<u>\$ 3,779,345</u>	<u>\$ 1,074,259</u>	28%
Current liabilities	\$ 4,603,604	\$ 3,529,345	\$ 1,074,259	30%
Other liabilities	250,000	250,000	-	0%
Total liabilities	<u>4,853,604</u>	<u>3,779,345</u>	<u>1,074,259</u>	28%
Total net position	<u>-</u>	<u>-</u>	<u>-</u>	0%
	<u>\$ 4,853,604</u>	<u>\$ 3,779,345</u>	<u>\$ 1,074,259</u>	28%

Asset and liability balances both increased approx. \$1.1MM. The increase in current assets can be attributed to a higher receivable balances and cash in money market account. The increase in liabilities can be attributed to events that were on sale prior to COVID-19. Many of these ticketed events, have be rescheduled to new dates, subject to change pending pandemic regulations.

***Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre***

***Management's Discussion and Analysis***

***Table A-2  
Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position***

	<b><i>2020</i></b>	<b><i>2019</i></b>	<b><i>Dollar Change</i></b>	<b><i>Percentage Change</i></b>
Operating revenues	\$ 7,352,263	\$ 9,034,551	\$ (1,682,288)	-19%
Less direct event expenses	4,422,372	5,074,579	(652,207)	-13%
Gross profit	<u>2,929,891</u>	<u>3,959,972</u>	<u>(1,030,081)</u>	-26%
Operating expenses	<u>3,930,190</u>	<u>4,176,661</u>	<u>(246,471)</u>	-6%
Operating loss	(1,000,299)	(216,689)	(783,610)	362%
Nonoperating income (expense)	<u>584,581</u>	<u>(86,111)</u>	<u>670,692</u>	-779%
Change in net position	(415,718)	(302,800)	(112,918)	37%
Net position, beginning of year	-	-	-	0%
Contributions	<u>415,718</u>	<u>302,800</u>	<u>112,918</u>	37%
Net position, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	0%

As a direct result of COVID-19 operations were \$783k worse than the prior year. All operating revenues streams were severely impacted. Expenses for events decreased due to cancellations and postponements of events. Overall, gross profits on the events this fiscal year significantly declined over the prior year due to the pandemic.



***Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre***

***Management's Discussion and Analysis***

***Table A-3  
Change in Net Position, Actual to Budget***

	<b><i>Year Ended June 30, 2020</i></b>			
	<b><i>Actual</i></b>	<b><i>Budget</i></b>	<b><i>Over (Under) Budget</i></b>	<b><i>Percentage of Budget</i></b>
Operating revenues	\$ 7,352,263	\$ 8,829,311	\$ (1,477,048)	-17%
Less direct event expenses	4,422,372	3,982,560	439,812	11%
Gross profit	2,929,891	4,846,751	(1,916,860)	-40%
Operating expenses	3,930,190	5,634,631	(1,704,441)	-30%
Operating loss	(1,000,299)	(787,880)	(212,419)	27%
Nonoperating income (expense)	584,581	-	584,581	100%
Change in net position	<u>\$ (415,718)</u>	<u>\$ (787,880)</u>	<u>\$ 372,162</u>	-47%

Gross operating revenues for the year were less than budgeted. Decreases were found across revenues in rent, parking, ticket rebates, facility fees, merchandise, and concessions. The increase of direct event expenses over budget can be attributed to pay increases to part time staff. And for events that occurred but not budgeted for.

Operating expenses came in under budget overall, due to the government mandate to close the facilities during the pandemic.

**ECONOMIC FACTORS AND NEXT FISCAL YEAR**

Key factor expected to affect next fiscal year:

- COVID-19 will be the main factor of financial impact for the facilities.

**CONTACTING MECHANICS BANK ARENA**

This financial report is designed to provide a general overview of the finances and accountability of Mechanics Bank Arena, Theater, Convention Center, Valley Children's Ice Center of Bakersfield and Dignity Health Amphitheatre. If you have questions about this report contact Mechanics Bank Arena, Theater, Convention Center, Valley Children's Ice Center of Bakersfield and Dignity Health Amphitheatre, 1001 Truxtun Avenue, Bakersfield, California 93301, Attention Finance Manager.

***Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre***

***Consolidated Statement of Net Position  
June 30, 2020***

***ASSETS***

***Current Assets***

Cash	\$ 3,589,599
Accounts receivable, net of allowance for doubtful accounts of \$97,812	485,319
Accounts receivable, other	14,819
Accounts receivable, AEG Management	557,954
Net receivable from the City of Bakersfield	185,842
Prepaid expenses	20,071
	<u>4,853,604</u>
	<u><u>\$ 4,853,604</u></u>

***LIABILITIES AND NET POSITION***

***Current Liabilities***

Accounts payable, trade	\$ 222,921
Accounts payable, AEG Management	702,565
Accrued expenses	289,758
Deferred revenues	3,388,360
	<u>4,603,604</u>

***Other Liabilities***

250,000

***Net Position***

Unrestricted

\$ 4,853,604

*See Notes to Consolidated Financial Statements.*

***Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre***

***Consolidated Statement of Revenues, Expenses and Change in Net Position  
For the Year Ended June 30, 2020***

***Net revenues:***

Facilities rent	\$ 1,165,628
Recovered event expenses	1,551,652
Suites	1,052,863
Concession commissions	919,474
Signage and advertising	709,458
Ticketing fees	522,299
Facility fees	387,814
Parking	296,018
Ice Sports Center, other revenue	249,772
Ice Sports Center, general admissions	379,636
Merchandise	77,901
Other income	39,748
	<u>7,352,263</u>

***Direct event expenses:***

Event labor	2,568,616
Other direct event expenses	1,853,756
	<u>4,422,372</u>

Gross profit	2,929,891
--------------	-----------

<b><i>Operating expenses</i></b>	<u>3,930,190</u>
----------------------------------	------------------

Operating loss	(1,000,299)
----------------	-------------

***Nonoperating income (expense):***

Interest income	26,627
Management reimbursement of operating loss	557,954
	<u>584,581</u>

Change in net position	(415,718)
------------------------	-----------

<b><i>Net position, beginning of year</i></b>	-
---	---

Contributions received from the City of Bakersfield	415,718
	<u>415,718</u>

<b><i>Net position, end of year</i></b>	<u>\$ -</u>
---	-------------



***Reconciliation of operating loss to net cash provided by operating activities:***

Operating loss	\$ (1,000,299)
----------------	----------------

***Changes in operating assets and liabilities:***

Accounts receivable, net	127,848
Net receivable from the City of Bakersfield	288,811
Prepaid expenses	13,494
Accounts payable, trade	84,835
Accounts payable, AEG Management	208,048
Accrued expenses	(120,583)
Deferred revenues	<u>901,959</u>

Net cash provided by operating activities	<u>\$ 504,113</u>
---	-------------------

***Noncash investing and financing activities:***

Contribution to unrestricted net position of advances from the City of Bakersfield	<u>\$ 415,718</u>
--	-------------------

***Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre***

***Notes to Consolidated Financial Statements***

***Note 1. Nature of Business and Significant Accounting Policies***

***Nature of business:***

The City of Bakersfield (the City) owns the Mechanics Bank Arena, Theater, Convention Center, Valley Children's Ice Center of Bakersfield and Dignity Health Amphitheatre (the Facilities). The Mechanics Bank Arena was built by the City and began operations in October 1998. It is the only building of its kind in the Bakersfield area.

In December 2003, the City opened the Valley Children's Ice Center of Bakersfield (Ice Center). The Ice Center is used for public skating, hockey leagues, figure skating, and other community events.

In February 2007, the City opened the Dignity Health Amphitheatre (the Amphitheatre), an outdoor theatre located in Bakersfield.

The activities of the Arena, Theater, Convention Center, Ice Center and Amphitheatre (the Facilities) are recorded in a special revenue fund of the City's accounting records. The City owns all the assets of the Facilities, and accordingly, all amounts related to the operation of the Facilities belong to the City. The management company operating the Facilities has a fiduciary responsibility under the management agreement to maintain and operate the Facilities in the best interests of the City and the community.

In an agreement dated March 20, 2013, the City contracted with AEG Management Bakersfield, LLC and AEG Facilities, LLC (the Company or AEG) to begin overseeing the operation and management of the Facilities for a term of ten years, expiring on June 30, 2023. On mutual agreement between both parties, the term may be extended one five-year period.

AEG was hired by the City for its expertise in the management, operation and marketing of public assembly facilities.

***Principles of consolidation:***

The consolidated financial statements of the Facilities include the accounts of the Mechanics Bank Arena, Theater, Convention Center, Valley Children's Ice Center of Bakersfield and Dignity Health Amphitheatre after elimination of all significant inter-company accounts and transactions.

***Basis of accounting:***

The Facilities' basic consolidated financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Facilities utilize accrual basis accounting in which revenues are recognized when earned and expenses are recorded when a liability is incurred or economic assets are used. Proprietary funds distinguish operating revenues and expenses from

## *Notes to Consolidated Financial Statements*

nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

### ***Revenue recognition:***

#### ***Suite contracts***

Revenues from suites are recognized over the contract period per the contract terms. Contracts are billed throughout the year. The suite payments are recorded as deferred revenue until earned and are recognized over the contract period.

#### ***Naming rights, signage and advertising contracts***

Revenues from naming rights, signage and advertising contracts are recognized over the contract period per the contract terms. Contracts are billed according to the contract terms. Payments are recorded as deferred revenue until earned and recognized over the contract period.

#### ***Ticket sales***

The Facilities, through its contract with Outbox AXS, LLC, sells tickets to events as an agent of the event holder at the on-site box office location and through the telephone and internet. All proceeds from the sale of tickets belong to the event holder. The ticket sales are recorded as deferred revenue when sold. After the event has occurred, settlement with the event holder takes place. The net of total ticket sales less event expenses such as facility rent and reimbursement of direct event expenses is then paid to or received from the event holder. The event ticket proceeds are removed from the deferred revenue account in the month the event occurred.

The Facilities earn a ticketing fee on the sale of event tickets that take place through the telephone and internet. Revenues from these fees are recorded as deferred revenue at the time of sale and are recognized in the month the event occurred.

#### ***Event revenues***

Revenues from the Facilities' events such as facilities rent, direct event expense reimbursements, concession commissions, parking and merchandise are recognized in the month the event occurred.

### ***Net position:***

The Facilities utilize a net position presentation in accordance with GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. Net position is categorized as invested in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows:

## *Notes to Consolidated Financial Statements*

*Invested in capital assets, net of related debt* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted components of net position* - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted components of net position* - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

### *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 disclosures 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.

### *Cash and cash equivalents:*

For purposes of reporting cash flows, the Facilities considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include cash on hand and amounts deposited with banks.

### *Custodial credit risk:*

The California Government Code and the Facilities' investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Facilities' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.



## *Notes to Consolidated Financial Statements*

Cash funds deposited with various banks and savings and loans are covered by Federal depository insurance up to \$250,000. As of June 30, 2020, the Facilities has cash deposited with banks in excess of the related insurance coverage.

### ***Concentration of credit risk:***

Credit is extended, in the form of accounts receivable, to customers located primarily in the County of Kern, California.

### ***Accounts receivable:***

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessments of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that an allowance for doubtful accounts is necessary; therefore, an allowance of \$97,812 has been recorded as of June 30, 2020.

### ***Capital assets:***

The Facilities' capital assets are recorded at cost. Depreciation is computed using the straight line method over estimated useful lives of 3 - 10 years.

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in the consolidated statement of revenues and expenses.

The following is a summary of changes in the Facilities' capital assets for the year ended June 30, 2020:

<i>Assets - At Cost</i>			
	<i>Balance 6/30/19</i>	<i>Acquisitions</i>	<i>Balance 6/30/20</i>
Small equipment	\$ 18,896	\$ -	\$ 18,896
<i>Accumulated Depreciation</i>			
	<i>Balance 6/30/19</i>	<i>Depreciation Expense</i>	<i>Balance 6/30/20</i>
Small equipment	\$ 18,896	\$ -	\$ 18,896

## *Notes to Consolidated Financial Statements*

### **Note 2. Advance from City of Bakersfield**

During the normal course of business, the City pays expenses that are allocated to the operation of the Facilities. These expenses include payroll and related expenses for the City employees and equipment rent. The amount of the advance fluctuates throughout the year depending on allocated monthly expenses and additional cash flow needs. The advance is an intercompany account that is eliminated in the consolidation for the preparation of the City's financial statements. The amount charged by the City to the Facilities for the year ended June 30, 2020 was \$288,812.

### **Note 3. Deferred Revenue**

Deferred revenue at June 30, 2020 consists of the following:

Suite contracts	\$	725,520
Ticket sales, future events		1,804,578
Naming rights		267,434
Sponsorship agreements		296,098
Ticket rebates		178,938
Event deposits		115,792
		<hr/>
	\$	3,388,360

### **Note 4. Administrative Services Agreements**

AEG provides administrative services to the City for the Facilities. Compensation for these services is a base fee of \$400,000 for the first year, paid in equal monthly installments. The base fee will be adjusted annually (up or down) by the Consumer Price Index, but in no event will any increase or decrease exceed three percent. For the year ended June 30, 2020, AEG received \$455,974 in total management fees from the City for the three respective facilities.

In addition to the base fee, AEG receives an incentive equal to a percentage of the difference between the actual net operating profits or net operating losses for each facility and a benchmark. AEG receives an incentive of: 1) 25% of the difference between the actual net operating profit (loss) and a \$332,575 loss realized by the Arena, Theater and Convention Center; 2) 50% of the difference between the actual net operating profit (loss) and a \$20,785 loss realized by the Ice Center and 3) 50% of the difference between the actual net operating profit (loss) and a \$62,358 loss realized by the Amphitheater. The incentive fee was \$-0- for the year ended June 30, 2020.

The management agreement also includes a net loss guarantee where if the net operating loss in any given fiscal year for all of the Facilities taken in the aggregate exceeds a base amount of \$415,718, AEG will reimburse the Facilities in the amount the net operating loss exceeds \$415,718. For the year ended June 30, 2020, AEG reimbursed \$557,954 to the Facilities for net operating losses that exceeded the base amount.

## *Notes to Consolidated Financial Statements*

Per the management agreement, AEG was to make a one-time contribution of \$250,000, from its own monies, to an event development account and is to be utilized for future events. In the event of early termination, AEG is authorized to withdraw any amounts remaining in the event development account as of the date of the early termination. The City is entitled to any balance in the account upon the expiration of the management agreement. The contribution from AEG is included in other liabilities on the consolidated statement of net position.

### **Note 5. Commitments**

The Facilities have entered into various long-term contracts and leases. At June 30, 2020, outstanding commitments consist of the following:

#### ***Naming rights:***

The City and AEG have entered into licensing and naming rights agreements with Mechanics Bank, Valley Children's Healthcare (VCH), and Dignity Health for the exclusive naming rights of the Facilities. The agreements call for the City and AEG to use reasonable efforts to identify the Arena as the "Mechanics Bank Arena, Theater, Convention Center", the Ice Center as the "Valley Children's Ice Center of Bakersfield" and the Amphitheatre as the "Dignity Health Amphitheatre" in all official documents, press releases, advertising, announcements, answering of telephones, as well as all promotion and print material produced or disseminated by or for the account of the Facilities. During the year ended June 30, 2020, total revenue earned from these agreements amounted to \$449,500.

#### ***Ticket sales:***

The City and AEG have entered into a licensed user agreement with Outbox AXS, LLC (AXS), a related party to AEG through common ownership, to be the exclusive provider for ticket sales for any event presented at the Facilities. Under the agreement, AXS has the authority to act as an agent for the Facilities for ticket sales to the general public by any and all means including telephone and internet. AXS earns fees from the ticket sales such as inside ticket charges, customer convenience charges, credit card charges, handling charges and ticket sale royalties. AXS collects these fees as tickets are sold and the net amount is remitted to the Facilities weekly. This agreement began in July 2015 and is effective through the date which the AEG management agreement expires.

#### ***ARAMARK***

The Facilities is currently operating under a contract with ARAMARK to operate concession and catering services for the Arena, Theater and Convention Center (the Facilities), effective through June 30, 2023. On mutual agreement between both parties, the term may be extended one five-year period.

The Facilities is entitled to receive 35% of the first \$500,000 in gross concession receipts and 40% of receipts in excess of \$500,000 but less than \$2,000,000 and 45% of any amount

## *Notes to Consolidated Financial Statements*

exceeding \$2,000,000 annually. For the year ended June 30, 2020, the Facilities received \$911,533 in gross concession and catering receipts from ARAMARK.

### *Hockey lease:*

The City and AEG have entered into a lease agreement, which has been assigned to KG Oilers Corporation, for exclusive use of the Facilities for East Coast Hockey League (ECHL) games. KG Oilers Corporation has agreed to pay \$3,500 for each Preseason home game played, \$6,525 for each Regular Season home game played and \$1,525 for each Post Season home game played. The fees will be subject to change at two-year intervals beginning on February 1, 2016. The change in payment will be based on the changes in the Consumer Price Index. During the year ended June 30, 2020, fees under this agreement were \$3,803 for each Preseason home game, \$7,090 for each Regular Season home game and \$1,657 for each Post Season home game played. Fees are to remain unchanged until October 2020.

The KG Oiler Corp. (Tenant) receives \$5,370 per luxury suite leased by the Arena or \$145,000 if all twenty-seven suites are leased. In addition to the suite payment, on suite leases sold or renewed after the effective date, an advertising and promotional inventory package will be included that will be provided by the Tenant as part of each new sale or renewal of a suite lease. The suite lease pricing will be adjusted to incorporate the fair market value of the advertising and promotional inventory, which will be estimated to be 10% of the new suite lease price. Tenant will receive the entire amount of the portion of the advertising and promotional inventory package for each new sale or renewal of the suite lease after the effective date. In no case will Tenant receive a sum less than \$6,500 when combining the suite lease payment and suite advertising package payment for each suite lease sold or renewed after the effective date. The \$6,500 threshold will be subject to change at two-year intervals beginning February 1, 2016. The change in payment is to be based on the changes in the Consumer Price Index. During the year ended June 30, 2020, fees under this agreement were \$7,063 per suite leased. Fees are to remain unchanged until March 2020. For the year ended June 30, 2020, KG Oiler Corp. received \$149,501 for the twenty-two suites leased.

### *Concession and catering services:*

The City and AEG has entered into an agreement with Keith Barnes dba KB Concessions to provide concession and catering services for the Ice Center. The Facilities will receive 15% of gross concession receipts received from non-vending machine sales and 10% of gross concession receipts received from vending machine sales throughout the term of the new contract. This agreement is effective through September 6, 2021. For the year ended June 30, 2020, the Facilities received \$7,941 in concession commissions from KB Concessions.

### *Note 6. Insurance*

The Facility has insurance coverage for general liability, auto, crime and workers' compensation. The general liability insurance has a \$100,000 retention level per occurrence for all claims with the maximum amount of coverage being \$3,000,000. Workers

## *Notes to Consolidated Financial Statements*

compensation insurance has a \$250,000 retention level per occurrence with the combined maximum amount of coverage being \$1,000,000. The auto liability insurance has a \$50,000 retention level per accident for all claims with the maximum amount of coverage being \$1,000,000. The crime insurance has a \$250,000 retention level with the maximum amount of coverage being \$5,000,000. The Facility also has an umbrella policy, which has a \$25,000 retention level, which covers all claims up to a maximum amount of coverage of \$50,000,000. All buildings are covered under the City's insurance as the City owns all structures within the Facilities.

### ***Note 7. Subsequent Events***

The Facilities has evaluated events and transactions subsequent to June 30, 2020, through the date of the independent auditor's report. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could potentially have a negative impact on the Facilities' operations, though such impact is unknown at this time.

*Mechanics Bank Arena, Theater, Convention Center,  
Valley Children's Ice Center of Bakersfield  
and Dignity Health Amphitheatre*

*Consolidated Schedule of Operating Expenses  
For the Year Ended June 30, 2020*

Utilities	\$ 1,075,277
Salaries and wages	842,505
Management fees	455,974
Employee benefits	280,576
General and administrative	248,736
Equipment rental	207,482
Hockey premium	149,501
Bad debt expense	112,393
Insurance	78,291
Supplies	66,531
Bank fees	62,863
Payroll taxes	54,799
Waste disposal	47,954
Marketing	27,441
Professional fees	27,430
Office supplies	26,473
Meals and entertainment	21,790
Dues and subscriptions	21,678
Training	21,425
Repairs and maintenance	19,740
Telephone	15,947
Security	12,314
Travel	12,144
Miscellaneous	10,410
Computer expenses	9,850
Postage	8,354
Contract labor	5,857
Licenses and permits	4,262
Uniforms	1,393
Other taxes and licenses	800
	<hr/>
	\$ 3,930,190

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 Mechanics Bank Arena, Theater, Convention Center, Valley Children's Ice Center of Bakersfield and Dignity Health Amphitheatre's consolidated 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 consolidated 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BARBICH HOOPER KING**

**DILL HOFFMAN**

**Accountancy Corporation**

*Barbich Hooper King*

Bakersfield, California  
January 11, 2021