

**SAN DIEGO CONVENTION CENTER CORPORATION
AUDIT COMMITTEE MEETING
OF THE BOARD OF DIRECTORS**

**Director Will Rodriguez-Kennedy, Chair
Director Jaymie Bradford
Director Alyssa Turowski**

**WEDNESDAY, OCTOBER 18, 2023, 10:00 A.M.
111 W. Harbor Drive, Executive Boardroom
San Diego, California 92101**

AGENDA

**Telephone number for members of the public
to observe, listen, and address the meeting telephonically:
1(888) 251-2909 – Access code is 6724115#**

1. Call to order: Will Rodriguez-Kennedy, Chair

2. Non-Agenda Public Comment:

This portion of the agenda provides an opportunity for members of the public to address the Board on items of interest within the jurisdiction of the Board that have not previously been before the Board. Pursuant to the Brown Act, no discussion or action shall be taken by the Board on items not posted on the agenda.

3. Approve Minutes of June 21, 2023, Audit Committee Meeting

4. Chair's Report

5. Action Item(s):

**A. Recommendation to Authorize Acceptance of Audited Annual Financial Report
for the Fiscal Year Ended June 30, 2023**

6. Staff Updates:

A. Management Update – Rip Rippetoe

B. CFO/Finance Update – Mardeen Mattix

(1) Review of Year- to-Date Financial Variances

C. Human Resources Executive Director Update – Michael Milligan

(1) SDCCC Fraud/Complaints Update

7. Urgent non-agenda items (must meet the requirements of Government Code, Section 54954.2)

8. **Audit Committee Comment** [Govt. Code §54954.2(a)(2)]

Adjournment

This information is available in alternative formats upon request. To request an agenda in an alternative format, or to request a sign language or oral interpreter, or an Assistive Listening Device ("ALD") for the meeting, please call Pat Evans at (619) 525-5131 at least five working days prior to the meeting to ensure availability. **Audio copies of Board of Director meetings are available upon request. Please contact Pat Evans at (619)525-5131 or pat.evans@visitsandiego.com to request a copy.**

In compliance with Government Code section 54957.5, non-exempt written material that is distributed to the Board prior to the meeting will be available at the meeting or it may be viewed in advance of the meeting at the corporation's offices at 111 West Harbor Drive, San Diego, CA. Materials distributed to the board after the posting of this agenda also will be available. Please contact Pat Evans at (619)525-5131 or pat.evans @ visitsandiego.com if you would like to pick up a copy of any material related to an item on this agenda.

Action items on this agenda may be consolidated for voting purposes into a single vote of the Board, to the extent they are routine or otherwise do not require further deliberation. A Board member may comment on an action item before it is voted upon as part of the consolidated vote; however, if a Board member wishes to discuss an action item, that item will not be included in the consolidated vote. If a member of the public wishes to comment upon an action item, they should so advise the Board chair at or before the public comment portion of the meeting, in which case that item will not be included in any consolidated vote.

Agenda Item 3

MINUTES

**SAN DIEGO CONVENTION CENTER CORPORATION
AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS**

**MONDAY, JUNE 21, 2023, 10:00 A.M.
111 W. Harbor Drive, 2nd Floor, Executive Boardroom
San Diego, California 92101**

**Director Will Rodriguez-Kennedy, Chair
Director Jaymie Bradford
Director Alyssa Turowski**

BOARD MEMBERS PRESENT: Chair Will Rodriguez-Kennedy and Director Jaymie Bradford

BOARD MEMBERS ABSENT: Director Alyssa Turowski

STAFF PRESENT: Rip Rippetoe, Mardeen Mattix, Michael Milligan, and Pat Evans (Recorder)

ALSO PRESENT: Raylene Weiss and Mia Harenski, Considine & Considine Representatives

1. Call to Order:

Chair Will Rodriguez-Kennedy called the meeting to order at 10:00 a.m. in the Executive Conference Room of the San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, California.

Chair Rodriguez-Kennedy announced that since this meeting is being conducted on site with an open telephone line to the public, the first action is to perform a roll call to determine which Board members are present on this call.

Director Rodriguez-Kennedy - Present
Director Bradford- Present
Director Turowski – Absent

Chair Rodriguez-Kennedy noted that all of the Committee members were present except Director Turowski and all votes taken at today's meeting will be recorded via roll-call vote.

2. **Non-Agenda Public Comment** – Chair Rodriguez-Kennedy requested public comment regarding any non-agenda items. Hearing none, the meeting proceeded.

3. **Approve minutes of Audit Committee Meeting of April 24, 2023.**

Chair Rodriguez-Kennedy inquired if any member of the public wished to comment on Agenda Item 3. No members of the public responded to the request for comment.

Directors Bradford and Rodriguez-Kennedy moved and seconded, respectively, to approve the minutes of the meeting of April 24, 2023.

**Director Rodriguez-Kennedy – Aye
Director Bradford – Aye
Director Turowski - Absent**

Vote unanimous.

AYES: 2

NAYS: 0

ABSTENTIONS: 0

4. **Chairs Report:** None

5. **Action Item(s):**

(A) Recommendation to Authorize Acceptance of 2022 MPPP Audited Pension Financial Statements

Chair Rodriguez-Kennedy called for a staff report regarding this item. After staff submitted its report, Chair Rodriguez-Kennedy inquired if any member of the public wished to comment on Agenda Item 5.A. No members of the public responded to the request for comment.

After presentations by Staff, Directors Bradford and Rodriguez-Kennedy moved and seconded, respectively, to recommend Authorizing Acceptance of 2022 MPPP Audited Pension Financial Statements.

**Director Rodriguez-Kennedy – Aye
Director Bradford – Aye
Director Turowski – Absent**

Vote unanimous.

AYES: 2

NAYS: 0

ABSTENTIONS: 0

6. Staff Updates:

A. Management Update

- Mr. Rippetoe reported that the staff is in the process of planning for the ESRI and Comic-Con Events and the planning is going well.
- He also noted that ESRI's pre-registration is significantly greater than last year and is rivaling pre-pandemic 2019 registration.
- ESRI will also have registration at the airport which will alleviate on-site registration crowds.
- The Comic-Con event may be impacted by the writer's strike (celebrity attendance and panel make-up) and Comic-Con representatives are making contingency plans in the event the strike is still on-going.
- The Program of Work from SDTA has been completed and it will be presented to the full Board next week.
- The Corporation is seeking a General Manager position which will oversee client-driven departments. An outside search firm (Searchwide Global) will assist with recruitment.
- Mr. Rippetoe will be on vacation from June 22nd through July 6th, and he will delegate authority to oversee operations to Ms. Mattix and Mr. Albright in his absence.

B. CFO/Finance Update– Ms. Mattix reported:

(1) Review of Year- to-Date Financial Variances

- CFO Mattix reported on the Corporation's April financial performance:
 - April financials have not been finalized or published yet. Staff has engaged with a consultant who is assisting with recreating the Corporation's financials in a new "business intelligence" format. The process is almost complete, and the staff hopes to present the April financials in the newly streamlined format by the end of the week.
 - The month of April outperformed expectations primarily due to the Dream Hack event. Staff had planned for an event during April; however, Dream Hack turned out to be much more lucrative than expected, generating almost \$1 million in revenue that was not anticipated.
 - All of the April events outperformed expectations.
 - Ms. Mattix introduced Shannon Teem, the Corporation's new Controller. Ms. Teem will oversee the Corporation's Finance Department.

C. H.R. Executive Director Update – Michael Milligan

(1) SDCCC Fraud/Complaint Update

- Mr. Milligan reported that the Corporation has had no current activity since the last meeting.

In response to comments made by Ms. Mattix during the staff report for approval of Corporation's MPPP Audited Financial Statements, a member of the public requested information regarding the amount of funds rolled over from the Corporation's pension fund into personal IRA accounts by retiring employees. Ms. Mattix responded that the amount of the overall pension plan value at the end of December of 2021 was nearly \$26 million, and the current ending value is approximately \$22 million. The difference in the balances was not only attributed to distributions to employees who retired during 2022 and moved their (previously funded) monies out of the Corporation's plan and into personal IRAs but also to market fluctuations. Ms. Mattix did not have the exact amount of employee rolled-over funds. She also noted that the Corporation's plan is a defined "contribution" plan and not a defined "benefit" plan.

7. **Urgent non-agenda items** (must meet the requirements of Government Code, Section 54954.2) - **None**
8. **Audit Committee Comment:** **None**

There being no further business, the meeting adjourned at 10:16 a.m.

CERTIFICATION

I, Will Rodriguez-Kennedy, Chair of the Audit Committee of the Board of Directors of San Diego Convention Center Corporation, Inc., do hereby certify that the foregoing is a true and correct copy of the minutes of the business transacted by the Audit Committee of the Board of Directors of the San Diego Convention Center Corporation, Inc. at a duly noticed meeting held on June 21, 2023.

Will Rodriguez-Kennedy, Chair

Agenda Item 5.A

SAN DIEGO CONVENTION CENTER CORPORATION

(A Component Unit of the City of San Diego,
California)

Annual Financial Report

As of and for the Year Ended June 30, 2023

DRAFT

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Annual Financial Report
As of and for the Year Ended June 30, 2023

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Independent Auditor's Report

To the Board of Directors
San Diego Convention Center Corporation
City of San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, 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 SDCCC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the SDCCC as of June 30, 2023, and the changes in financial position and its cash flows 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 SDCCC 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.

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 SDCCC'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 GAAS 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 the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS 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 SDCCC'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 SDCCC'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 GAAS, 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 October 26, 2023 on our consideration of SDCCC'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 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 SDCCC's internal control over financial reporting and compliance.

San Diego, California

October 26, 2023

DRAFT

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023
(Unaudited)

As management of the San Diego Convention Center Corporation ("SDCCC"), we offer readers of SDCCC's financial statements this narrative overview and analysis of the financial activities of SDCCC for the year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the basic financial statements and the accompanying notes to those statements appearing in this report.

Overview of the Financial Statements

This discussion and analysis is to serve as the introduction to SDCCC's basic financial statements. We report our financial information using accounting methods similar to those used by private-sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net Position presents information on all SDCCC'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 SDCCC is improving or deteriorating.

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

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

Highlights to Financial Results

SDCCC business activity continues to reshape post-COVID-19 pandemic not only in the convention industry but in tourism in general. The core business has substantially returned to near pre-pandemic revenue levels as of June 30, 2023, with a focus on re-building staffing levels to support activity. Additionally, SDCCC has been building a robust maintenance department including long-term capital planning in coordination with City of San Diego team to ensure the building maintains the necessary infrastructure and functionality to continue to welcome guests to the destination that generates tax revenue and economic impact for the region.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023
(Unaudited)

Management Financial Statement Analysis

The following is a summary of SDCCC's assets, liabilities and net position as of June 30, 2023 and 2022.

	June 30, 2023	June 30, 2022	Percentage Increase (Decrease)
Assets			
Cash and cash equivalents	\$ 12,226,115	\$ 7,929,634	54%
Investments	22,745,894	16,466,808	38%
Accounts receivable, net	6,316,905	6,721,602	-6%
Intergovernmental receivable, net	-	10,196,440	-100%
Prepaid expenses	1,147,357	942,608	22%
Deposits with others	135,504	194,548	-30%
Inventory	53,081	55,176	-4%
Note receivable	374,556	374,556	0%
Capital assets, net	33,488,593	33,230,671	1%
Total assets	<u>\$ 76,488,005</u>	<u>\$ 76,112,043</u>	0%
Liabilities			
Accounts payable	\$ 1,184,431	\$ 1,140,413	4%
Accrued liabilities and compensated absences	3,400,643	2,499,360	36%
Accrued I-Bank interest and loan administrative fee	396,855	411,264	-4%
Retention payable	22,473	27,300	-18%
Unearned income	7,334,168	7,969,645	-8%
Long-term debt	23,406,337	23,225,953	1%
Total liabilities	<u>35,744,907</u>	<u>35,273,936</u>	1%
Net position			
Net investment in capital assets	11,580,103	11,503,488	1%
Unrestricted	29,162,995	29,334,619	-1%
Total net position	<u>40,743,098</u>	<u>40,838,107</u>	0%
Total liabilities and net position	<u>\$ 76,488,005</u>	<u>\$ 76,112,043</u>	

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023
(Unaudited)

Assets

Total assets for fiscal year 2023 remained unchanged with a nominal increase of \$.4 million, to \$76.5 million from \$76.1 million in fiscal year 2022, due to direct offsetting category fluctuations. Combined increases in cash and cash equivalents as well as investments totaled \$10.6 million, or 43%, related to the receipt of a large invoice receivable in the prior year of \$10.5M that directly reduced accounts receivables by 63%. Additionally, net capital assets increased by \$.3 million, or 1%, primarily the result of purchases slightly exceeding depreciation and amortization for the year.

Liabilities

Total liabilities for fiscal year 2023 increased by \$.5 million, or 1%, to \$35.7 million as compared to \$35.3 million for fiscal year 2022 with offsetting category fluctuations. Total unearned income decreased by \$.6 million, or 8%, and total long-term debt increased by \$.2 million, or 1%, related to net impact of a principal payments and a new lease payable for the truck marshal yard. Accrued liabilities and compensated absences increased \$.9 million, or 36%, due to payroll activities and contract services incurred in June 2023 to be paid in early July 2023.

Net Position

Total net position for fiscal year 2023 remained virtually unchanged. Net investment in capital assets nominally increased by \$.1 million, or 1%. Unrestricted net position nearly decreased by \$.2 million due to increase of liabilities, mainly in accrued liabilities and compensated absences and long-term debt.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023
(Unaudited)

The following table summarizes SDCCC's changes in net position for the years ended June 30, 2023 and 2022.

	Period ended 6/30/2023	Period ended 6/30/2022	Percentage Increase (Decrease)
Operating revenues			
Rental	\$ 9,936,614	\$ 8,192,149	21%
Food and beverage	12,782,573	5,418,998	136%
Ancillary services	18,612,383	11,690,987	59%
Contributions from the City of San Diego	2,655,000	10,196,440	-74%
HHS Emergency Intake	-	2,452,255	-100%
TMD - San Diego Tourism Authority	-	99,075	-100%
Business development and sponsorship	693,552	501,182	38%
Other revenue	4,599	8,402	-45%
Total operating revenues	<u>44,684,721</u>	<u>38,559,488</u>	16%
Operating expenses			
Salaries and wages	20,374,538	16,122,495	26%
Fringe benefits	4,897,999	3,771,856	30%
Utilities	5,934,973	4,394,250	35%
Services and supplies	7,949,661	6,407,954	24%
Depreciation & amortization	2,921,622	2,801,304	4%
Marketing contract	2,655,000	1,900,000	40%
Total operating expenses	<u>44,733,793</u>	<u>35,397,859</u>	26%
Operating income	<u>(49,072)</u>	<u>3,161,629</u>	-102%
Non-operating revenues (expenses)			
Forgiveness of Debt - PPP Loan	-	6,387,000	-100%
Interest income	632,338	(773,967)	-182%
Interest expense	(831,283)	(836,102)	-1%
Loan administrative fee	(67,435)	(69,869)	-3%
Other income	220,443	226,618	-3%
Total non-operating revenue (expenses), net	<u>(45,937)</u>	<u>4,933,680</u>	-101%
Change in net position	(95,009)	8,095,309	-101%
Net position - beginning of year	40,838,107	32,742,798	25%
Net position - end of year	<u>\$ 40,743,098</u>	<u>\$ 40,838,107</u>	0%

Operating Revenue

Total operating revenues generated in fiscal year 2023 amounted to \$44.7 million as compared to \$38.6 million for fiscal year 2022, an increase of \$6.1 million, or 16%. The change was the result of core business operation categories rebounding post-pandemic due to a concentrated sales effort to book more corporate, technology, and medical shows that typically yield better business opportunities for internal partners and the surrounding businesses while maximizing hotel occupancy to generate a greater regional impact and produce tax revenue for the City of San Diego.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023
(Unaudited)

Operating Expenses

Total operating expenses incurred during fiscal year 2023 amounted to \$44.7 million, compared to \$35.4 million for fiscal year 2022, an increase of \$9.3 million, or 26% in nearly all categories. Increased salary and fringe benefit expenses totaled \$5.4 million, or 27%, due to increased wages to maintain competitive salaries to retain the workforce as well as creating a new engineering and capital planning department to address long-term building rehabilitation and maintenance needs. Additionally, utilities increased by \$1.5 million, or 35%, followed by an increase of \$1.5 million in service and supplies primarily related to repairs and maintenance and small equipment purchases. Additionally, the San Diego Tourism Authority marketing agreement increased by nearly \$.8 million, or 40%, by resuming full contractual obligations after being reduced during the pandemic.

Non-operating Revenue and Expenses, net

Non-operating expenses, net for fiscal year 2023 was \$45.9 thousand compared to non-operating revenues of \$4.9 million in the prior year, a decrease of \$5.0 million. The change was due to offsetting category fluctuations related to prior year debt forgiveness of \$6.4 million for the loans received under the Paycheck Protection Program that was not applicable to fiscal year 2023 offset by a \$1.4 million increase in interest income due to increased market interest rates.

Capital Assets Analysis

As of June 30, 2023, SDCCC had a net capital asset book value of \$33.5 million, as compared to \$33.2 million as of June 30, 2022, an increase of \$.3 million, or 1%. Capital assets are spread across a broad range of computer, office and operating equipment, telecommunications, and leasehold improvements. Net capital assets increased due to purchases of nearly \$3.2 million exceeding depreciation and amortization made in fiscal year 2023 totaling \$2.9 million.

Debt Analysis

Effective December 6, 2016, SDCCC and the City of San Diego, as co-lessees entered into a financing lease agreement with the I-Bank to finance capital infrastructure improvement projects valued at \$25.5 million ("Facility Fund"). The agreement calls for the Facility Fund to be amortized over 25 years at a 3.59% interest rate and 0.3% loan administrative fee of the outstanding principal balance. As of June 30, 2023, SDCCC had an outstanding balance of \$22.8 million, of which a total of \$1.7 million (including principal, interest, and loan administrative fee) was repaid in fiscal year 2023.

Effective April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC to finance a warehouse capital improvement for SDCCC valued at \$21,972 with an option to extend. The agreement calls for the loan to be amortized over 10 years at zero percent interest. SDCCC exercised its option to extend for an additional five years effective April 1, 2018. For the year ended June 30, 2023, SDCCC paid \$1,648 in principal payments on the warehouse loan. The note was paid in full in March 2023.

Effective February 3, 2023, SCCC entered into a noncancelable lease agreement with Ward and Burke Tunneling Inc. to lease a truck marshal yard and warehouse space. The lease commenced April 1, 2023 and expires March 31, 2025. The total principal and interest payments are \$1,231,644 with an implicit rate of 9%.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2023
(Unaudited)

Economic Factors and Next Year's Budget

Operational contributions from the City for fiscal year 2023 were \$2.7 million as compared to \$10.3 million for fiscal year 2022, a decrease of \$7.6 million. In fiscal year 2024 SDCCC is expecting the City to contribute \$2.7 million for SDTA marketing efforts and \$5.0 million to support operations and debt service obligations.

Effective July 1, 2012, the San Diego City Council approved for the long-term sales, marketing and promotional activities of the convention center to be transferred to a third party contractor, the San Diego Tourist Authority ("SDTA"). Effective July 1, 2017, SDCCC entered into a marketing and sales contract with SDTA. The marketing and sales contract was renegotiated and approved by City Council detailing the terms set forth by the City. For the year ended June 30, 2023, SDCCC paid \$2.7 million, or nearly \$.8 more than the prior year after resuming full contractual obligations that had been reduced during the pandemic.

Request for Information

This financial report is designed to provide a general overview of SDCCC's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the CFO at the San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, CA 92101.

DRAFT

BASIC FINANCIAL STATEMENTS

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Net Position
June 30, 2023

Assets

Current assets:

Cash and cash equivalents	\$	12,226,115
Investments		22,745,894
Accounts receivable, net		5,316,905
Prepaid expenses		1,147,357
Deposits with others		135,504
Inventory		53,081
Total current assets		41,624,856

Noncurrent assets:

Accounts receivable		1,000,000
Note receivable		374,556
Capital assets:		
Construction in progress		709,092
Furniture, equipment and software		6,964,940
Leasehold improvements		65,995,699
Right-to-Use leased asset		1,122,331
Less: Accumulated depreciation and amortization		(41,303,469)
Total capital assets, net		33,488,593
Total non-current assets		34,863,149

Total assets

76,488,005

Liabilities

Current liabilities:

Accounts payable		1,184,431
Accrued liabilities		1,920,745
Accrued I-Bank interest and loan administrative fee		396,855
Retention payable		22,473
Unearned income		4,240,986
Compensated employee absences		1,479,898
Current portion of long-term debt		1,384,843
Total current liabilities		10,630,231

Noncurrent liabilities:

Long-term debt		22,021,494
Long-term portion of unearned income		3,093,182
Total noncurrent liabilities		25,114,676

Total liabilities

35,744,907

Net position

Net investment in capital assets		11,580,103
Unrestricted		29,162,995
Total net position		\$ 40,743,098

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023

Operating revenues	
Rental revenue:	
Convention and trade shows	\$ 7,980,439
Corporate/incentive events	612,046
Consumer shows	402,140
Meetings and seminars	339,696
Cancelled events	407,431
Community events	9,360
Local trade shows	185,502
Food and beverage revenue	12,782,573
Ancillary service revenue:	
Utilities	6,510,726
Telecommunications	5,816,188
Event and cleaning services	4,306,092
Audio visual	1,979,377
Contributions:	
City of San Diego	2,655,000
Business development and sponsorship	693,552
Other revenue	4,599
Total operating revenues	<u>44,684,721</u>
Operating expenses	
Salaries and benefits	20,374,538
Fringe benefits	4,897,999
Utilities	5,934,973
Repairs and maintenance	3,818,476
General expenses	1,927,978
Depreciation and amortization	2,921,622
Contractual marketing and sales	2,655,000
Contracted services	781,331
Supplies	640,351
Insurance	623,835
Sales and marketing	42,888
Travel and transportation	67,883
Telecommunications	46,919
Total operating expenses	<u>44,733,793</u>
Operating income	<u>(49,072)</u>
Non-operating revenues (expenses)	
Investment Income	632,338
Interest expense	(831,283)
Loan administrative fee	(67,435)
Other income	220,443
Total non-operating revenues, net	<u>(45,937)</u>
Change in net position	(95,009)
Net position - beginning of year	40,838,107
Net position - end of year	<u>\$ 40,743,098</u>

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities	
Receipts from customers	\$ 42,019,384
Payments to suppliers for goods and services	(16,295,441)
Payments to employees for services	(24,721,962)
Contributions received from the City of San Diego	2,655,000
Other contributions	10,196,440
Net cash provided by operating activities	<u>13,853,421</u>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(2,055,118)
Repayment of long-term debt	(941,947)
Interest and loan administrative fees paid on long-term debt	(913,127)
Net cash used in capital and related financing activities	<u>(3,910,192)</u>
Cash flows from investing activities	
Purchases of investments	(10,949,305)
Sales of investments	4,670,219
Proceed from restricted investments	632,338
Net cash used in investing activities	<u>(5,646,748)</u>
Net increase in cash and cash equivalents	4,296,481
Cash and cash equivalents - beginning of year	<u>7,929,634</u>
Cash and cash equivalents - end of year	<u>\$ 12,226,115</u>

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION

(A Component Unit of the City of San Diego, California)

Statement of Cash Flow (Continued)

For the Year Ended June 30, 2023

Reconciliation of operating income to net cash provided by operating activities

Receipts from customers	\$ (49,072)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	2,921,622
Other income (expense)	220,443
Changes in operating assets and liabilities:	
Decrease in receivables	404,697
Decrease in other contribution receivable	10,196,440
Increase in prepaid expenses	(204,749)
Decrease in deposits with others	59,044
Increase in accounts payable	44,232
Increase in compensated employee absences	315,804
Increase in accrued liabilities	585,264
Decrease in retention payable	(4,827)
Decrease in unearned income	(635,477)
Net cash provided by operating activities	<u>\$ 13,853,421</u>

Noncash capital and related financing activities

Acquisition of capital assets included in accounts payable and accrued liabilities	\$ 22,275
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See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1. REPORTING ENTITY

San Diego Convention Center Corporation (SDCCC) is a not-for-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center (Convention Center).

SDCCC acts in accordance with its By-Laws, the City of San Diego's (City) Charter, and the City's Municipal Code. The City is the sole member of SDCCC and appoints seven voting members to the Board of Directors of SDCCC. Since the City appoints the voting members of the Board of Directors of SDCCC and is able to impose its will on the SDCCC, the City, as the primary government, is financially accountable for SDCCC. In accordance with accounting principles generally accepted in the United States, SDCCC is a blended component unit of the City.

The Convention Center was constructed by the San Diego Unified Port District (District) on land owned by the District. Construction was completed in the fall of 1989 and the Convention Center opened in November 1989. An expansion of the Convention Center that roughly doubled the size of the facility was constructed by the City and completed in September 2001. The City has an agreement with the District to manage the Convention Center.

SDCCC has a management agreement with the City to provide sales and marketing, operating and maintenance services for the Convention Center. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center (refer to Note 7).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting and Measurement Focus*

The financial transactions of SDCCC are reported using the economic resources measurement focus and the full accrual basis accounting under which revenues are recognized as earned and expenses are recognized as incurred. SDCCC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing event meeting space, goods and services in connection with SDCCC's principal ongoing operations. SDCCC's principal operating revenues include event meeting space rental revenues, food and beverage commissions, event and cleaning service revenues, other ancillary service revenues and contributions from the City that are used to fund marketing, promotion and capital projects. SDCCC's principal operating expenses includes salaries and wages, fringe benefits, utilities, repairs & maintenance, contractual marketing & sales, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is SDCCC's policy to use restricted resources first, then unrestricted resources as they are needed.

B. *Cash and Cash Equivalents*

SDCCC's cash and cash equivalents for purposes of the statement of cash flows are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Accounts Receivable*

Accounts receivable is reported net of an allowance for estimated uncollectible amounts. Management estimates an uncollectible amount of \$82,750 at June 30, 2023, using its allowance calculation methodology based on collection activity, historical write-off rates and comparable industry standards.

Long-term receivables in the amount of \$1,000,000 represent incentive payments to be received by SDCCC in equal installments of \$500,000 on July 1, 2024 and July 1, 2026 from Centerplate in consideration of the SDCCC's extension of Centerplate's exclusive food and beverage contract through June 30, 2026. This agreement was amended on October 2, 2020 to further extend the remaining incentive payment amortization period to June 30, 2028.

D. *Note Receivable*

In January 2018, SDCCC entered into a non-interest-bearing agreement with Centerplate for SDCCC to fund the purchase of food service equipment in the principal amount of \$574,556. The remaining principal balance of \$374,556 as of June 30, 2023 is due and payable in full by Centerplate no later than June 30, 2025, unless the contract is terminated prior to the due date. Centerplate has the right to fully pay the principal amount owed to SDCCC prior to the due date with no prepayment penalty. If the contract is terminated prior to the due date, the remaining principal amount owed to SDCCC becomes due and payable within 30 days from the date of termination.

E. *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

F. *Leases*

At the commencement of a lease with contractual terms longer than 12 months, SDCCC initially measures the lease payable at the present value of payments expected to be made during the lease term. Subsequently the lease payable is reduced by the principal portion of lease payments received.

Key estimates and judgements include how SDCCC determines (1) interest rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- The interest rate is based on the rate stated in the lease agreement, if not stated, then SDCCC estimates in incremental borrowing rate based on the prime rate plus 1%.
- The lease term includes the non-cancellable period of the lease.

G. *Inventory*

Inventory consists of spare parts that will be used and capitalized or expensed (according to capitalization policy thresholds) when the assets are placed into service.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. *Capital Assets*

Capital assets are reported at cost. Capital assets are defined as assets with an initial cost of more than \$15,000 per item and a useful life of greater than one year. Recurring normal maintenance and repair costs are charged to operation, whereas major repairs, improvements and replacements that extend the asset’s useful life or service utility are capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Data processing equipment and software	3-10
Telecommunication equipment	5
Office furniture and operating equipment	7 – 15
Leasehold improvements	10 – 30

I. *Unearned Income*

Unearned income represents funds received from customers that pertain to enforceable future contractual obligations. Building rent deposits, revenue contract incentive payments and advertising payments are recognized once the event has occurred, or the contractual obligation has been fulfilled. The future events scheduled after June 30, 2024 are reported as noncurrent unearned income.

J. *Compensated Employee Absences*

Accumulated annual leave (PTO) is compensated time off for eligible employees who are absent from work and is recorded in the Statement of Net Position. The amount recorded is expected to be used in accordance with SDCCC’s personnel guidelines for vacation, illness, and personal business, with a maximum accumulation of 480 hours per employee. Until March 31, 2020, full-time employees were allowed up to 120 hours paid compensation in lieu of annual leave provided they maintained a minimum balance of 40 hours and had taken a minimum of 80 hours of paid leave during the prior twelve-month period. This program was subsequently suspended for expense reduction purposes, with occasional time-restricted windows having taken place for payouts for balances meeting certain criteria (typically to reduce risk of accrual cap-outs for employees with higher balances).

SEIU represented part-time employees are paid their annual leave balance that exceeds 40 hours within 30 days of fiscal year-end. Teamster represented part-time employees are paid their annual leave balance that exceeds 8 hours within 30 days of fiscal year-end.

K. *Components of Net Position*

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets, net of any unspent loan proceeds, which as of June 30, 2023 was \$11,580,103.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Components of Net Position (Continued)

Restricted – This amount consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2023, there were no restricted amounts.

Unrestricted – This amount is the portion of net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

L. Income Taxes

SDCCC has received notice from the Internal Revenue Service that it is exempt from federal income taxes pursuant to Section 501 (c) (3) of the Internal Revenue Code. SDCCC is also exempt from state franchise taxes on related income pursuant to California Revenue and Taxation Code Section 23701(d). However, the Corporation is subject to income taxes on any net income that is derived from a trade or business carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the accompanying financial statements.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management believes that the estimates made are reasonable.

N. New accounting pronouncements

The following GASB Statements have been issued and are effective for the year ended June 30, 2023.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending June 30, 2023. The implementation of GASB Statement No. 94 did not have a material impact on the financial statements.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending June 30, 2023. Management evaluates the Corporation’s existing subscription-based information technology arrangements and chose not to apply this pronouncement to the Corporation’s financial statements since there is no material subscription-based information technology arrangements. Hence, the implementation of GASB No. 96 did not have a material impact in the financial statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. *New accounting pronouncements (Continued)*

The following GASB Statements have been issued but not yet effective for the year ended June 30, 2023. SDCCC is assessing what financial statement impact, if any, these Statements will have:

- GASB Statement No. 99, *Omnibus 2022*, effective for the fiscal year ending June 30, 2024.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*, effective for the fiscal year ending June 30, 2024.
- GASB Statement No. 101, *Compensated Absences*, effective for the fiscal year ending June 30, 2025.

NOTE 3. CASH AND INVESTMENTS

Cash and investments as reported in the statement of net position are categorized as follows at June 30, 2023:

	Cash and Cash Equivalents	Investments
Cash on hand	\$ 12,062	\$ -
Bank checking and saving deposits	6,412,702	-
Bank money market account deposits	4,201,351	-
Fixed income investments	1,600,000	22,745,894
Total cash book balance	\$ 12,226,115	\$ 22,745,894

At June 30, 2023, the book balance of SDCCC's cash on hand and deposits was \$10,626,115 and the bank balance was \$11,904,383. Of the bank balance, \$250,000 was covered by Federal depository insurance. The remaining uninsured balance is collateralized, with the collateral held by an affiliate of the counterparty's financial institution.

A formal deposit and investment policy was approved in August 2010 and amended in December 2017 by SDCCC's Board of Directors, which addresses custodial credit risk, interest rate risk, credit quality risk and allowable investments. SDCCC is provided a broad spectrum of eligible investments under California Government Code (CGC) 53600 which includes: obligations of the U.S. government, its agencies and instrumentalities; investment grade state and local government securities; certificates of deposit; bankers' acceptances; commercial paper; repurchase agreements; and money market mutual funds whose portfolios consist only of domestic securities.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 3. CASH AND INVESTMENTS (Continued)

SDCCC’s Investment Policy is governed by the California Government Code (CGC), 56000 et seq. The following table represents the authorized investments, requirements and restrictions per the CGC and the SDCCC investment policy:

Investment Type	Maximum Maturity		Maximum % of Portfolio		Minimum Rating	
	CGC	SDCCC Policy ¹	CGC	SDCCC Policy	CGC	SDCCC Policy
Local Agency Bonds	5 years	5 years	None	None	None	None
U.S. Treasury Obligations (bills, notes, or bonds)	5 years	5 years	None	None	None	None
State Obligations – CA and Others	5 years	5 years	None	None	None	None
CA Local Agency Obligations	5 years	5 years	None	None	None	None
U.S. Agency Obligations	5 years	5 years	None	None	None	None
Bankers’ Acceptances	180 days	180 days	40%	40%	None	None
Commercial Paper – Non-Pooled Funds	270 days	270 days	25%	25%	Highest letter and number rating	Highest letter and number rating
Negotiable Certificates of Deposit	5 years	5 years	30%	30%	None	None
Non-Negotiable Certificates of Deposit	5 years	5 years	None	None	None	None
CD Placement Service	5 years	5 years	30%	30%	None	None
Repurchase Agreements	1 year	1 year	None	None	None	None
Reverse Repurchase Agreements	92 days	92 days	20%	20%	None	None
Medium-Term Notes	5 years	5 years	30%	30%	A	A
Money Market Mutual Funds	None	None	20%	20%	AAA	AAA
Collateralized Bank Deposits	5 years	5 years	None	None	None	None
Mortgage Pass-Through Securities	5 years	5 years	20%	20%	AA	AA
Local Agency Investment Fund	None	None	None	None	None	None
Supranational Obligations	5 years	5 years	30%	30%	AA	AA
Insured Savings & Bank Money Market Accounts	N/A	N/A	N/A	N/A	N/A	N/A

¹ In the absence of a specified maximum, the maximum is 5 years.

Investments as reported in the statement of net position are categorized as follows at June 30, 2023:

Fair Value Measurements

GASB Statement No. 72 requires that investments be categorized within a fair value hierarchy based upon fair value measurements. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: Inputs are quoted prices in an active market that are accessible at the measurement date for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are either directly or indirectly observable;
- Level 3: Significant unobservable inputs are used when little or not market activity is available.

Fair value is defined as the quoted market value on the last trading day of the period, obtained from various pricing sources by our custodian bank. SDCCC does not value any of its investments using Level 1 and Level 3 inputs. Investment in repurchase agreements are valued at amortized cost and is exempt from the fair value hierarchy. Investments that are measured at fair value using the net asset value per share (or its equivalent) are not classified in the fair value hierarchy. SDCCC values investments in government money market mutual funds at NAV, and therefore are not subject to the fair value hierarchy.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 3. CASH AND INVESTMENTS (Continued)

The table below represents SDCCC's fair value hierarchy for reporting its investments as of June 30, 2023:

	Fair Value	Level 2
Investment at fair value		
U.S. Treasury Bills	\$ 2,433,090	\$ 2,433,090
U.S. Agency Bonds	4,917,314	4,917,314
Corporate Bonds	7,362,952	7,362,952
Commercial Paper	2,315,248	2,315,248
Negotiable CD	5,717,290	5,717,290
	<u>22,745,894</u>	<u>\$ 22,745,894</u>
 Investment measured at amortized cost		
Repo Agreements	<u>1,600,000</u>	
 Investment measured at the net asset value (NAV)		
Bank money market funds	<u>4,201,351</u>	
	<u>\$ 28,547,245</u>	

GASB Statement No. 40 requires that risks for deposits and investments with fair values as it relates to credit risk, concentration of credit risk, and interest rate risk be disclosed. SDCCC minimizes exposure by limiting investments to short-term, safe securities such as mutual funds or similar investment pools to ensure preservation of capital as well as pre-qualifying brokers and diversification of the investment portfolio. In order to maintain proper cash flow requirements, funds are continuously invested in readily available securities to ensure appropriate liquidity is maintained.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 3. CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDCCC mitigates this risk by investing a portion of funds in short-term securities of less than a year in order to meet operational cash requirements, and structuring the investment portfolio to allow securities to mature to avoid selling on the open market. As of June 30, 2023, SDCCC's investment interest rate risk by maturity is as follows:

	Investment Maturity in Months				Fair Value
	Under 1	1 - 6	6 - 12	> 1 year	
U.S. Treasury Bills	\$767,012	\$ -	\$ -	\$ 1,666,078	\$ 2,433,090
U.S. Agency Bonds	-	-	-	4,917,314	4,917,314
Commercial Paper	1,146,194	1,169,054	-	-	2,315,248
Corporate Bonds	1,349,316	-	452,250	5,561,386	7,362,952
Negotiable Certificates of Deposit	3,418,866	2,298,424	-	-	5,717,290
Bank Money Market Funds	4,201,351	-	-	-	4,201,351
Repurchase Agreement	1,600,000	-	-	-	1,600,000
	<u>\$ 12,482,739</u>	<u>\$ 3,467,478</u>	<u>\$ 452,250</u>	<u>\$ 12,144,778</u>	<u>\$ 28,547,245</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill their obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). SDCCC mitigates credit risk through its Investment Policy. Section I of the Investment Policy outlines the authorized investments, requirements, and investment restrictions. As of June 30, 2023, SDCCC's investment and corresponding credit ratings are follows:

	Fair Value	Credit Rating
Commercial Paper	\$ 1,169,054	A-1+
Commercial Paper	1,146,194	A-1
Corporate Bonds	892,260	A
Corporate Bonds	4,198,707	A-
Corporate Bonds	447,746	A+
Corporate Bonds	447,808	AA+
Corporate Bonds	459,639	AA-
Corporate Bonds	916,792	BBB+
Bank Money Market Funds	4,201,351	N/A
Negotiable Certificates of Deposit	4,567,267	A-1
Negotiable Certificates of Deposit	1,150,023	N/A
Repurchased Agreements	1,600,000	N/A
U.S. Agency Bonds	4,917,314	AA+
U.S. Treasury Bills	2,433,090	AA+
	<u>\$ 28,547,245</u>	

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 3. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

GASB Statement No. 40 also requires disclosure of investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments. For the fiscal year ended June 30, 2023, no investments made up 5% or more of the total funds invested.

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 and SDCCC's investment policy do 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 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 SDCCC deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2023, is as follows:

	Beginning Balance			Transfers	Ending Balance
	June 30, 2022	Additions	Deletions	In/Out	June 30, 2023
Non-Depreciable Capital Assets:					
Construction in Progress	\$ 609,726	\$ 2,057,214	\$ -	\$ (1,957,848)	\$ 709,092
Depreciable Capital Assets					
Furniture, Equipment and Software	6,186,389	-	-	778,551	6,964,940
Leasehold Improvements	64,816,402	-	-	1,179,297	65,995,699
Right-to-use Leased Asset	-	1,122,331	-	-	1,122,331
Total Depreciable Capital Assets	71,002,791	1,122,331	-	1,957,848	74,082,970
Less Accumulated Depreciation:					
Furniture, Equipment and Software	(4,251,915)	(470,934)	-	-	(4,722,849)
Leasehold Improvements	(34,129,932)	(2,310,397)	-	-	(36,440,329)
Right-to-use Leased Asset Amortization	-	(140,291)	-	-	(140,291)
Total Accumulated Depreciation	(38,381,847)	(2,921,622)	-	-	(41,303,469)
Total Depreciable Capital Assets, Net	32,620,944	(1,799,291)	-	1,957,848	32,779,501
Capital Assets, Net	\$ 33,230,670	\$ 257,923	\$ -	\$ -	\$ 33,488,593

Depreciation and amortization expenses for the year ended June 30, 2023, was \$2,921,622.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 5. CURRENT LIABILITIES

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2023, is as follows:

	<u>Balance 6/30/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2023</u>	<u>Current Portion</u>
Compensated Employee Absences	\$ 1,164,094	\$ 1,717,168	\$ (1,401,364)	\$ 1,479,898	\$ 1,479,898

NOTE 6. LONG-TERM LIABILITIES

A. *Notes Payable, Financing Lease, and Lease Payable*

Notes Payable

On April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LP (lessor) in which the lessor financed a warehouse capital improvement for SDCCC valued at \$21,972. The agreement calls for the loan to be amortized as part of SDCCC’s monthly rent over 10 years at a zero percent per annum rate. The note payable was paid in full as of March 31, 2023.

Financing Lease

On December 6, 2016, SDCCC (lessee) and the City, as co-lessees entered into a Financing Lease agreement with the California Infrastructure and Economic Development Bank (I-Bank), as the lessor for a loan amount of \$25,500,000 (the “Facility Funds”). Under the Financing Lease agreement, the Facility Funds were used to pay the convention center building (the “Leased Asset”) improvement costs. The City and SDCCC are jointly and severally liable for all rental payment obligations under the Financing Lease agreement. The Facility Funds are secured by the Leased Asset. In addition, the Financing Lease agreement contains certain customary representations and warranties, affirmative covenants, and events of default. If such an event of default were to occur, the lessor under the Financing Lease agreement would be entitled to take various actions, including without termination of the Financing Lease, collect all amounts owing under the Financing Lease until maturity.

The Facility Funds bear a 3.59% annual interest rate and a .3% loan administrative fee based upon the outstanding principal balance. The Financing Lease requires annual principal repayment commencing on August 1, 2019 and ending on August 1, 2041. Per agreement with the City, SDCCC has budgeted for and made payments on the full amount due under the Financing Lease beginning on August 1, 2019. In any given year, to the extent that rental payment obligations, infrastructure capital, and operations and maintenance expenditures exceed SDCCC’s available funding, SDCCC will seek further budgetary allocation from the City.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 6. LONG-TERM LIABILITIES (continued)

A. Notes Payable and Financing Lease (continued)

Lease Payable

SDCCC entered into a noncancelable lease with effective April 1, 2023, through March 31, 2025, for the truck marshal yard and warehouse space. The total of principal and interest payments are \$ 1,231,644 with an implicit rate of 9%.

A summary of changes in notes payable, the financing lease, and lease payable for the year ended June 30, 2023, is as follows:

	<u>Balance</u> <u>6/30/2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2023</u>	<u>Current</u> <u>Portion</u>
CG 7600 LP	\$ 1,648	\$ -	\$ (1,648)	\$ -	\$ -
iBank Financing Lease	23,224,305	-	(813,670)	22,410,635	842,881
Lease payable	-	1,122,331	(126,629)	995,702	541,962
	<u>\$ 23,225,953</u>	<u>\$ 1,122,331</u>	<u>\$ (941,947)</u>	<u>\$ 23,406,337</u>	<u>\$ 1,384,843</u>

B. Amortization Requirements

Annual requirements to amortize the financing lease and lease payable as of June 30, 2023, including interest payments to maturity, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Financing Lease</u>			<u>Lease Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Fee</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 842,881	\$ 789,412	\$ 67,232	\$ 541,962	\$ 67,821
2025	873,140	758,610	64,703	453,740	17,185
2026	904,486	726,701	62,084	-	-
2027	936,957	693,647	59,370	-	-
2028	970,594	659,407	56,560	-	-
2029 - 2033	5,401,336	2,738,824	236,973	-	-
2034 - 2038	6,443,033	1,678,428	149,923	-	-
2039 - 2043	6,038,208	443,097	46,085	-	-
	<u>\$ 22,410,635</u>	<u>\$ 8,488,126</u>	<u>\$ 742,930</u>	<u>\$ 995,702</u>	<u>\$ 85,006</u>

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 7. ECONOMIC DEPENDENCY

SDCCC receives contributions from the City as specified in a management agreement between SDCCC and the City. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center. During the year ended June 30, 2023, SDCCC received \$2,655,000 from the City as unrestricted funding to support operations.

NOTE 8. DEFINED CONTRIBUTION PLAN

The San Diego Convention Center Corporation's Money Purchase Pension Plan (Plan) is a governmental plan under section 414(d) of the Internal Revenue Code, which was established effective January 1, 1986, by SDCCC's Board of Directors. The Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the Plan. Any recommended Plan amendments are subject to the approval and adoption by SDCCC's Board of Directors. As part of the Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer Plan assets subject to the terms of the Plan. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The Plan covers all employees who have completed at least 1,000 hours of service in one year and are not covered through a union retirement plan. Full-time employees are eligible to participate in the plan on the first day of the month after completing 1,000 hours of service and receive contributions on a bi-weekly basis thereafter.

Part-time employees not covered through a union retirement plan are eligible to participate in the plan after completion of 1,000 hours and receive contributions annually once they meet the 1,000 hours threshold requirement each year. For each Plan year, SDCCC contributes 10% of compensation paid after the employee becomes an eligible participant, which is transferred to the trustee on behalf of each qualifying individual.

A Plan year is defined as a calendar year. The balance in the Plan for each eligible employee is vested gradually over five years of continuing service, with an eligible employee becoming fully vested after five years. Forfeitures and Plan expenses are allocated in accordance with Plan provisions.

For the year ended June 30, 2023, pension expense amounted to \$1,288,763 with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$139,165. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

During fiscal year 2023, a non-qualified supplemental catch-up contributions of \$3,101 were made to the 457b plan for CEO Clifford Rippetoe. This was to make up pension shortfalls for calendar year 2022. These catch-up contributions of retirement expense were included as a part of the pension expense amount described above.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

NOTE 9. COMMITMENTS

SDCCC as Lessor

Effective March 22, 2013, SDCCC entered into a sublease agreement for truck marshal yard space for an initial term of 60 months, from April 1, 2013, through March 31, 2018, and exercised its option to extend for an additional five years effective April 1, 2018 – March 31, 2023. The agreement was not renewed and continues on a month-to-month basis.

Rental income related to the sublease was \$180,940 for the year ended June 30, 2023.

Construction Commitments

As of June 30, 2023, SDCCC has begun work for electrical infrastructure upgrade and repair, and fire pump replacement projects. Chula Vista Electric Company has been contracted to conduct the electrical infrastructure upgrade work and started during fiscal year 2023 with a remaining commitment of \$446,775. Bradshaw Engineering has been engaged for the fire pump replacement with a contracted amount of \$363,043.

NOTE 10. CONTINGENT LIABILITIES

SDCCC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SDCCC is subject to various lawsuits as well as grievances by labor unions. SDCCC's management believes, based upon consultation with SDCCC attorneys, that any unasserted claims, in the aggregate, will not result in a material adverse financial impact on SDCCC.

SDCCC is covered by various insurance policies, the largest of which include property, liability and workers' compensation, with deductibles that vary from \$5,000 to \$250,000. SDCCC management believes that SDCCC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize. There have been no insurance claim settlements that exceeded insurance coverage during the past five fiscal years.

NOTE 11. EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated the financial statements for subsequent events through October XX, 2023, the date the financial statements were available to be issued. Management is not aware of any subsequent events which would require recoding or disclosure in the financial statements.

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**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 Audit Standards***

Independent Auditor's Report

To the Board of Directors
San Diego Convention Center Corporation
City of San Diego, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise SDCCC's basic financial statements, and have issued our report thereon dated October 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SDCCC's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SDCCC's internal control. Accordingly, we do not express an opinion on the effectiveness of SDCCC'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 SDCCC'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*.

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.

San Diego, California
October 26, 2023

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