

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

**Director Jaymie Bradford, Chair
Director Shawn VanDiver
Director Will Rodriguez-Kennedy**

**MONDAY, OCTOBER 17, 2022, 10:00 A.M.
111 W. Harbor Drive, Executive Boardroom
San Diego, California 92101**

AGENDA

Pursuant to Government Code section 54953(e)(1)(B), City of San Diego City Council Resolution R-2022-396, and San Diego Convention Center Corporation Resolution No. 2022-14 approved on September 23, 2022, members of the San Diego Convention Center Corporation Board and all of its legislative bodies may participate in public meetings via teleconference or video conference. In the interest of reducing the spread of COVID-19, in-person public participation is prohibited at this time. Board meetings are held live via teleconference at the number indicated at the top of the agenda. Members of the public may participate live in the Board meeting and submit comments live on this teleconference line.

**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:** Jaymie Bradford, 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 13, 2022 Audit Committee Meeting**

4. **Chair's Report**

5. **Action Item:**

**A. Recommendation to Authorize Acceptance of Audited Annual Financial Report
for the Fiscal Year Ended June 30, 2022**

**B. Recommendation to Authorize the Addition of June 19th (“Juneteenth”) to
Current SDCCC Employee Holidays**

6. Staff Updates:

 A. Management Update – Rip Rippetoe

 B. CFO/Finance Update – Mardeen Mattix

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

 (2) SDCCC Fraud/Complaints Update

 C. Human Resources Executive Director Update – Michael Milligan

 (1) Review of Employment of Relative Policy (No. 215)
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 13, 2022, 10:00 A.M.
111 W. Harbor Drive, 2nd Floor, Executive Boardroom
San Diego, California 92101**

**Director Jaymie Bradford, Chair
Director Shawn VanDiver
Director Wil Rodriguez-Kennedy**

BOARD MEMBERS PRESENT: Chair Jaymie Bradford and Directors Shawn VanDiver
BOARD MEMBERS ABSENT: Director Will Rodriguez-Kennedy
STAFF PRESENT: Rip Rippetoe, Mardeen Mattix, Anastasia Rollins and Pat Evans (Recorder)
ALSO PRESENT: Mia Harenski, Considine & Considine, LLP

1. Call to Order:

Chair Jaymie Bradford called the meeting to order at 10:02 a.m. in the Executive Conference Room of the San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, California.

Chair Bradford announced that since this meeting is being conducted via teleconference, the first action is to perform a roll call to determine which Board members are present on this call.

Director Jaymie Bradford - Present
Director Shawn VanDiver – Present
Director Will Rodriguez-Kennedy - Absent

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

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

3. **Approve minutes of Audit Committee Meeting of April 18, 2022.**

Directors VanDiver and Bradford moved and seconded, respectively, to approve the minutes of the meeting of April 18, 2022.

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

Vote unanimous.

AYES: 2 NAYS: 0 ABSTENTIONS: 0

4. **Chairs Report:** None

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

Chair Bradford 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.

(A) Recommendation to Accept 2021 Pension Audit Results

Directors Van Diver and Bradford moved and seconded, respectively, to recommend Acceptance of the 2021 Pension Audit Results

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

Vote unanimous.

AYES: 2 NAYS: 0 ABSTENTIONS: 0

Chair Bradford inquired if any member of the public wished to comment on Agenda Item 5.B. No members of the public responded to the request for comment.

(B) Recommendation to Approve Revised/New People & Culture Policies:

- **Motor Vehicle Policy**
- **Drug Free Workplace**

- Accommodation for Employees Seeking Treatment/Rehabilitation
- San Diego Convention Center Employee Handbook (Condensed)

Directors Van Diver and Bradford moved and seconded, respectively, to recommend approval of the Revised/New People & Culture policies as set forth hereinabove.

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

Vote unanimous:

AYES: 2 NAYS: 0 ABSTENTIONS: 0

6. Staff Updates:

a. Management Update – None

b. SDCCC Fraud/Complaints Update – Ms. Mattix reported:

- The “fraud line” has received no complaints related to SDCCC; however, the line did receive a complaint related to one of the Corporation’s business partners. Ms. Mattix is following up with the business partner regarding that complaint.
- Ms. Mattix reviewed the line’s recordings for the past two years to ensure there were no outstanding issues with the complaint line and to ensure that the complaints were being properly relayed to the intended staff and Audit Committee members. In the past, complaints were relayed to the H.R. Director and the Audit Committee Chair. The line will now be set up to relay complaints to the Executive Director of Human Resources and all members of the Audit Committee.
- Going forward, the newly hired Executive Director of Human Resources will oversee the complaint line. The Human Resources Executive Director and the Audit Committee Directors will discuss any employee complaints with Officers of the Corporation.
- Staff also intends to submit a revised “whistleblower” policy to the Committee because the current SDCCC policy is convoluted and in need of streamlining.

a. Finance Update – Ms. Mattix reported the following:

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

- Staff is in the process of finalizing the May financials and they have not been forwarded for Committee review; however, the financial results are a lot better than staff expected from a revenue standpoint.

- In reviewing F&B orders with Centerplate, staff has found that clients are waiting until the last minute to increase orders and then those orders are substantially exceeding original expectations. Ancillary services spending in F&B and telecommunications is exceeding budget and forecast.
- While negotiating and finalizing our fiscal year 2023 budget with the City, the Corporation had originally planned to ask for \$6 million of the \$10.2 million the City had allocated for SDCCC. However, after discussions, the City decided to give the Corporation the entire \$10.2 allocation based on upcoming capital needs.
- This infusion of funds will boost the Corporation's reserves to approximately \$24 million which allow the Corporation some flexibility regarding funding existing capital projects. However, the City will not subsidize a capital request in the next fiscal year. The City will continue to subsidize the SDTA pass-through payment for SDCCC sales and marketing costs.
- Staff has received a preliminary Facility Condition Report and, after review, will publish the report within the next few months.
- Staff will also continue to work with the City while we investigate how to establish a financing/funding mechanism for future capital projects.
- Right now, financially, everything is tracking on target with forecast.
- In terms of the budget, the Corporation will see the largest discrepancy in the personnel line-item because we are still struggling with recruitment and onboarding. Our hiring partner, Ignite, is finding candidates but due a shortage of SDCCC H.R. personnel, we are experiencing difficulties with the onboarding process. We plan to augment our H.R. staff by temporarily using Ignite staff to assist with onboarding until the newly hired H.R. Director can complete his team.
- Staff anticipates we will exceed the budget and repair and maintenance line-item because we have an opportunity to expedite a few projects that were budgeted in Fiscal Year 23, or projects that spanned a two-year period and we're getting them all done this year. We anticipate we will exceed budget by approximately \$250,000 and will probably exceed the forecast by \$400,000 to \$500,000.
- Everything else in the budget line-items look pretty close to where we expected them to be.

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 10:42 a.m.

CERTIFICATION

I, Jaymie Bradford, 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 13, 2022.

Jaymie Bradford, Chair

Agenda Item 5.A

**SAN DIEGO CONVENTION CENTER CORPORATION
M E M O R A N D U M**

TO: Audit Committee

FROM: Mardeen Mattix, Chief Financial Officer

DATE: For the Agenda of October 17, 2022

RE: Review Draft FY 2022 Audited Annual Financial Report

BACKGROUND

The City Charter requires an annual independent audit of all accounts and books of the City of San Diego and its related entities, including the San Diego Convention Center Corporation. By agreement with the City, the Corporation is required to present its audited financial statements annually to its Board of Directors.

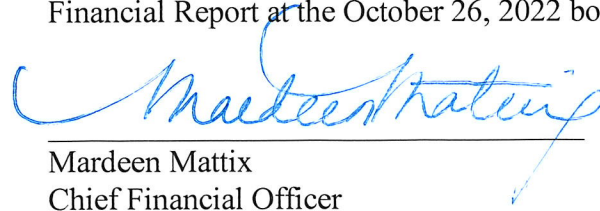
San Diego City Council awarded a contract for FY2019 – FY2023 financial audit services to Macias Gini & O’Connell, LLP (MGO). To maintain consistency of reporting and to piggyback on the City of San Diego contract, SDCC also engaged in a single source contract for the period May 1, 2019 – April 30, 2024 (FY2019 – FY2023).

DISCUSSION

MGO is in the final review stages of the audit for the year ended June 30, 2022. The draft FY2022 Audited Financial Report is included with this communication. The supplemental SAS 114 “Communication to the Board” Letter will follow and be attached with the Board materials once MGO completes their final review. The audit engagement partner, Peter George, is scheduled to attend the Audit Committee Meeting (via videoconference) to review the audit results with the Committee as well as attend the scheduled board meeting at the end of the month.

RECOMMENDATION:

Audit Committee recommends to the Board of Directors acceptance of the FY2022 Audited Financial Report at the October 26, 2022 board meeting.



Mardeen Mattix
Chief Financial Officer

Agenda Item 5.A

SAN DIEGO CONVENTION CENTER CORPORATION

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

2022 Annual Financial Report

As of and for the Year Ended June 30, 2022

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
2022 Annual Financial Report
As of and for the Year Ended June 30, 2022

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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

Opinions

We have audited the basic 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, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the SDCCC] as of June 30, 2022, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. 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 opinions.

Responsibilities of Management for the Financial Statements

SDCCC's 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 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, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October XX, 2022 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.

[*Signature of the auditor's firm*]

San Diego, California
October XX, 2022

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, 2022
(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, 2022. 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, 2022. 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. SDCCC did not have any deferred outflows or deferred inflows of resources as of June 30, 2022.

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

In March 2020, the World Health Organization declared coronavirus (COVID-19) a global pandemic. The outbreak of COVID-19 resulted in government actions including the State of California issuing mandated shelter in place executive orders limiting social gatherings, have had an unprecedented and significantly negative impact on SDCCC's financial position for the fiscal years ended June 30, 2021 and June 30, 2020. By August 2021, restrictions were reduced to the extent that SDCCC was able to reopen for event activity – although at reduced volume and attendance at first. Core business has substantially returned to near pre-pandemic levels as of June 30, 2022. SDCCC continues to re-build staffing levels to support the activity that has been renewed.

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, 2022
(Unaudited)

Management Financial Statement Analysis

The following is a summary of SDCCC's assets, liabilities and net position as of June 30, 2022 and 2021.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Percentage Increase (Decrease)</u>
Assets			
Cash and cash equivalents	\$ 7,929,634	\$ 2,860,730	177%
Investments	16,466,808	11,132,294	48%
Accounts receivable, net	6,721,602	3,642,804	85%
Intergovernmental receivable, net	10,196,440	21,974,904	-54%
Prepaid expenses	942,609	789,832	19%
Deposits with others	194,548	177,893	9%
Inventory	55,176	55,176	0%
Note receivable	374,556	374,556	0%
Capital assets, net	33,230,671	35,386,904	-6%
Total assets	<u>\$ 76,112,042</u>	<u>\$ 76,395,093</u>	0%
Liabilities			
Accounts payable	\$ 1,140,413	\$ 1,270,343	-10%
Accrued liabilities and compensated absences	2,499,360	2,487,874	0%
Accrued I-Bank interest and loan administrative fees	411,264	425,173	-3%
Loan payable: PPP	-	6,387,000	-100%
Retention payable	27,300	9,245	195%
Unearned income	4,777,261	5,559,733	-14%
Current portion of long-term debt	815,318	787,669	4%
Long-term portion of unearned income	3,192,384	3,499,305	-9%
Long-term debt	22,410,635	23,225,953	-4%
Total liabilities	<u>35,273,936</u>	<u>43,652,295</u>	-19%
Net position			
Net investment in capital assets	11,503,488	12,871,129	-11%
Unrestricted	29,334,618	19,871,669	48%
Total net position	<u>40,838,106</u>	<u>32,742,798</u>	25%
Total liabilities and net position	<u>\$ 76,112,042</u>	<u>\$ 76,395,093</u>	0%

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, 2022

(Unaudited)

Assets

Total assets for fiscal year 2022 remained unchanged with a nominal decrease of \$.3 million, to \$76.1 million from \$76.4 million in fiscal year 2021, due to offsetting category fluctuations. Combined increases in cash and cash equivalents as well as investments totaled \$10.4 million, or 225% related to payments received in FY2022 for Emergency Intake Shelter services from the prior year. Directly offsetting that increase was a decrease in accounts receivable of \$8.7 million, or 31%, as well as decreased net capital assets of \$2.2 million - primarily the result of current year depreciation.

Liabilities

Total liabilities for fiscal year 2022 decreased by \$8.4 million, or 19%, to \$35.3 million as compared to \$43.7 million for fiscal year 2021. The decrease in liabilities was primarily due to Paycheck Protection Program (PPP) loan forgiveness totaling \$6.4 million (see note 5). In addition, total unearned income decreased by \$1.1 million, or 23%, and total long-term debt decreased by \$.8 million, or 3% related to principal payment made in July of 2022.

Net Position

Total net position for fiscal year 2022 increased by \$8.1 million, or 25%, to \$40.8 million as compared to \$32.7 million for fiscal year 2021. Unrestricted net position increased due to net operating revenues exceeding expenses by \$3.2 million, in addition to \$6.4 million of inflows related to PPP loan forgiveness (which was partially offset by a paid debt obligation of \$1.7 million). Investment in capital assets decreased by a total of \$1.4 million, primarily due to \$2.8 million in asset depreciation (offset by \$.8 million of principle payments and \$.6M invested in capital asset additions).

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, 2022
(Unaudited)

The following table summarizes SDCCC's changes in net position for the years ended June 30, 2022 and 2021.

	Year ended June 30, 2022	Year ended June 30, 2021	Percentage Increase (Decrease)
Operating revenues			
Rental	\$ 8,192,149	\$ 1,261,614	549%
Food and beverage	5,418,998	730,445	642%
Ancillary services	11,690,987	1,061,045	1002%
Contributions from the City of San Diego	10,196,440	20,333,943	-50%
HHS Emergency Intake	2,452,255	19,703,136	-88%
TMD - San Diego Tourism Authoity	99,075	-	100%
Business development and sponsorship	501,182	168,747	197%
Other revenues	8,402	30,675	-73%
Total operating revenues	<u>38,559,488</u>	<u>43,289,605</u>	-11%
Operating expenses			
Salaries and wages	16,122,495	11,043,566	46%
Fringe benefits	3,771,856	4,534,346	-17%
Utilities	4,394,250	3,496,151	26%
Services and supplies	6,407,954	4,872,127	32%
Depreciation	2,801,304	3,110,448	-10%
Marketing contract	1,900,000	1,500,000	27%
Total operating expenses	<u>35,397,859</u>	<u>28,556,638</u>	24%
Operating income	<u>3,161,629</u>	<u>14,732,967</u>	-79%
Non-operating revenues (expenses)			
Forgiveness of Debt - PPP Loan	6,387,000	-	100%
Investment asset depreciation	(773,967)	(9,401)	8133%
Interest expense	(836,102)	(864,219)	-3%
Loan administrative fees	(69,869)	(72,219)	-3%
Other income	226,618	324,631	-30%
Total non-operating revenue (expenses), net	<u>4,933,680</u>	<u>(621,208)</u>	-894%
Income before capital contributions	<u>8,095,309</u>	<u>14,111,759</u>	-43%
Capital contributions			
Change in net position	8,095,309	14,111,759	-43%
Net position - beginning of year	32,742,798	18,631,039	76%
Net position - end of year	<u>\$ 40,838,107</u>	<u>\$ 32,742,798</u>	25%

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, 2022
(Unaudited)

Operating Revenue

Total operating revenues generated in fiscal year 2022 amounted to \$38.6 million as compared to \$43.3 million for fiscal year 2021, a decrease of \$4.7 million, or 11%. The change was the result of a gradual return to core business practices (with lower volumes and attendance at first) replacing prior year revenue generated for hosting Operation Shelter to Home and the Emergency Intake Center for unaccompanied minors.

Operating Expenses

Total operating expenses incurred during fiscal year 2022 amounted to \$35.4 million, as compared to \$28.6 million for fiscal year 2021, an increase of \$6.8 million, or 24%. The change was primarily the result of increased salary and wage expenses of \$5.1 million, or 46%, due to re-staffing for core business needs - along with other expense increases related to a return to hosting events.

Non-operating Revenue and Expenses, net

Non-operating revenue, net for fiscal year 2022 was \$4.9 million as compared to expenses of \$.6 million for fiscal year 2021, an increase of \$5.6 million. The change was due to forgiveness of \$6.4 million in debt for the loans received under the Paycheck Protection Program.

Capital Assets Analysis

As of June 30, 2022, SDCCC had a net capital asset book value of \$33.2 million, as compared to \$35.4 million as of June 30, 2021, a decrease of \$2.2 million, or 6%. Capital assets are spread across a broad range of computer, office and operating equipment, telecommunications, and leasehold improvements. Net capital assets decreased due to depreciation of \$2.8 million, with nominal purchases made in fiscal year 2022 totaling \$645 thousand.

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, 2022, SDCCC had outstanding balance of \$23.2 million, of which a total of \$1.7 million (including principal, interest, and loan administrative fee) was repaid in July 2022.

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, 2022
(Unaudited)

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, 2022, SDCCC paid \$2,197 in principal payments on the warehouse loan. The note is due to be paid in full by March 2023.

In April 2020, SDCCC was approved for a \$4.4 million loan through the PPP to assist with expenses resulting from the COVID-19 pandemic. An additional \$2 million was received in February 2021. SDCCC has received full forgiveness for these loans as of June 2022.

Economic Factors and Next Year's Budget

Operational contributions from the City for fiscal year 2022 were \$10.2 million as compared to \$20.3 million for fiscal year 2021, a decrease of \$10.1 million.

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, 2022, SDCCC paid \$1.9 million, which was \$.3 million less than the value stated under the marketing and sales contract.

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.

BASIC FINANCIAL STATEMENTS

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Net Position
June 30, 2022

Assets

Current assets:

Cash and cash equivalents	7,929,634
Investments	16,466,808
Accounts receivable, net	5,721,602
Intergovernmental receivable, net	10,196,440
Note receivable	374,556
Prepaid expenses	942,608
Deposits with others	194,548
Inventory	55,176
Total current assets	<u>41,881,372</u>

Noncurrent assets:

Accounts receivable	1,000,000
Capital assets:	
Construction in progress	609,726
Furniture, equipment and software	6,186,389
Leasehold improvements	64,816,402
Less: Accumulated depreciation	<u>(38,381,846)</u>
Total capital assets, net	<u>33,230,671</u>
Total non-current assets	<u>34,230,671</u>

Total assets

76,112,043

Liabilities

Current liabilities:

Accounts payable	1,140,199
Accrued liabilities	1,335,481
Accrued I-Bank interest and loan administrative fee	411,264
Retention payable	27,300
Unearned income	4,777,261
Compensated employee absences	1,164,094
Current portion of long-term debt	<u>815,318</u>
Total current liabilities	<u>9,670,917</u>

Noncurrent liabilities:

Long-term debt	22,410,635
Long-term portion of unearned income	<u>3,192,384</u>
Total noncurrent liabilities	<u>25,603,019</u>

Total liabilities

35,273,936

Net position

Net investment in capital assets	11,503,488
Unrestricted	<u>29,334,619</u>
Total net position	<u>\$ 40,838,107</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 Revenue, Expenditure and Change in Net Position
For the year ended June 30, 2022

Operating revenues

Rental revenue:	
Convention and trade shows	6,292,237
Corporate/incentive events	41,550
Consumer shows	223,798
Meetings and seminars	187,872
Cancelled events	1,092,873
Community events	197,296
Local trade shows	156,523
Food and beverage revenue	5,418,998
Ancillary service revenue:	
Utilities	4,248,997
Telecommunications	3,954,029
Event and cleaning services	2,625,871
Audio visual	862,090
Contributions:	
City of San Diego	10,196,440
Business development and sponsorship	501,182
HHS Emergency Intake	2,452,255
TMD - San Diego Tourism Authority	99,075
Other revenue	8,402
Total operating revenues	<u>38,559,488</u>

Operating expenses

Salaries and wages	16,122,495
Fringe benefits	3,771,856
Utilities	4,394,250
Repairs and maintenance	3,492,913
General expenses	1,182,055
Depreciation	2,801,304
Contractual marketing and sales	1,900,000
Contracted services	696,032
Supplies	415,240
Insurance	543,856
Sales and marketing	16,924
Travel and transportation	24,826
Telecommunications	36,108
Total operating expenses	<u>35,397,859</u>

Operating income	<u>3,161,629</u>
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Non-operating revenues (expenses)

Forgiveness of Debt - PPP Loan	6,387,000
Investment loss	(773,967)
Interest expense	(836,102)
Loan administrative fee	(69,869)
Other income	226,618
Total non-operating revenues, net	<u>4,933,680</u>

Change in net position	8,095,309
Net position - beginning of year	32,742,798
Net position - end of year	<u><u>\$40,838,107</u></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, 2022

Cash flows from operating activities

Receipts from customers	\$ 36,199,939
Payments to suppliers for goods and services	(13,748,614)
Payments to employees for services	(19,131,669)
Contributions received from the City of San Diego	10,097,365
Other contributions	99,075
	<u>13,516,096</u>
Net cash provided by operating activities	

Cash flows from capital and related financing activities

Acquisition and construction of capital assets	(645,071)
Repayment of long-term debt	(787,669)
Interest and loan administrative fees paid on long-term debt	(905,971)
	<u>(2,338,711)</u>
Net cash used in capital and related financing activities	

Cash flows from investing activities

Purchases of short term investments	(5,334,516)
Investment loss	(773,967)
	<u>(6,108,483)</u>
Net cash provided by investing activities	

Net increase in cash and cash equivalents	5,068,902
Cash and cash equivalents - beginning of year	2,860,730
	<u>\$ 7,929,634</u>
Cash and cash equivalents - end of year	

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 (Continued)
For the Year Ended June 30, 2022

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 3,161,629
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,801,304
Other income (expense)	226,618
Changes in operating assets and liabilities:	
Decrease in receivables	8,699,666
Increase in prepaid expenses	(152,776)
Increase in deposits with others	(16,655)
Decrease in accounts payable	(130,144)
Increase in compensated employee absences	(354,703)
Decrease in accrued liabilities	(13,909)
Increase in retention payable	18,055
Decrease in unearned income	(1,089,393)
Changes in long-term assets and liabilities	366,404
Net cash provided by operating activities	<u><u>\$ 13,516,096</u></u>

Noncash capital and financing activities

Forgiveness of Debt	(6,387,000)
Acquisition of capital assets included in accounts payable and accrued liabilities	111,453

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, 2022

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, 2022

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 no uncollectible amounts at June 30, 2022, using its allowance calculation methodology based on 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. *Intergovernmental Receivable*

Intergovernmental receivable in the amount of \$10,196,440 represents outstanding payment from the City, which is one-time transfer for operational support. Also refer to Note 7.

E. *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, 2022 is due and payable in full by Centerplate no later than June 30, 2023, 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.

F. *Prepaid Expenses*

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

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, 2022

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, 2023 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).

Represented part-time employees are paid their annual leave balance 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, 2022 was \$11,503,488.

Restricted – This amount consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2022, there were no restricted amounts.

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, 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. *Components of Net Position (Continued)*

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 were implemented for the year ended June 30, 2022 and resulted no significant impacts to the basic financial statements:

- GASB Statement No. 87, *Leases*
- GASB Statement No. 92, *Omnibus 2020*, effective upon issuance for the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*

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, 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. New accounting pronouncements (continued)

The following GASB Statements have been issued but are not yet effective for the year ended June 30, 2022. SDCCC is assessing what financial statement impact, if any, these Statements will have:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 100; *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, effective for the fiscal year ending June 30, 2024.
- GASB Statement No. 101; *Compensated Absences*, effective for the fiscal year ending June 30, 2024.

NOTE 3. CASH AND INVESTMENTS

Cash and investments as reported in the statement of net position are categorized as follows at June 30, 2022:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Cash on hand	\$ 6,217	\$ -
Bank checking and savings deposits	3,730,509	-
Bank money market account deposits	22,338	-
Fixed income investments	<u>4,170,570</u>	<u>16,466,808</u>
Total	<u>\$ 7,929,634</u>	<u>\$ 16,466,808</u>

At June 30, 2022, the book balance of SDCCC's cash on hand and deposits was \$3,759,064 and the bank balance was \$3,966,326. 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, 2022

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, 2022:

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, 2022

NOTE 3. CASH AND INVESTMENTS (Continued)

The table below represents SDCCC's fair value hierarchy for reporting its investments as of June 30, 2022:

	<u>Fair Value</u>	<u>Level 2</u>
Investments at fair value level		
U.S. Treasury Bills	\$ 1,449,732	\$ 1,449,732
U.S. Agency Bonds	4,983,223	4,983,223
Corporate Bonds	6,527,714	6,527,714
Commercial Paper	839,792	839,792
Negotiable Certificates of Deposit	<u>2,666,347</u>	<u>2,666,347</u>
Total investments at fair value	<u>16,466,808</u>	<u>16,466,808</u>
 Investments measured at amortized cost		
Cash equivalent investment contracts	3,295,570	
Repurchase Agreements	<u>875,000</u>	
Total investments measured at amortized cost	4,170,570	
 Investments measured at the net asset value (NAV)		
Bank money market funds	<u>22,338</u>	
 Total investments	<u><u>\$ 20,659,716</u></u>	<u><u>\$ 16,466,808</u></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, 2022

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, 2022, 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	\$ -	\$ -	\$ -	\$ 1,449,732	1,449,732
U.S. Agency Bonds	-	-	-	4,983,223	4,983,223
Commercial Paper	-	-	839,792	-	839,792
Corporate Bonds	-	-	495,198	6,032,516	6,527,714
Negotiable Certificates of Deposit	-	2,045,234	621,113	-	2,666,347
Bank Money Market Funds	22,338	-	-	-	22,338
Cash equivalent investment contracts	1,647,253	1,648,317	-	-	3,295,570
Repurchase Agreements	875,000	-	-	-	875,000
	<u>\$ 2,544,591</u>	<u>\$ 3,693,551</u>	<u>\$ 1,956,103</u>	<u>\$ 12,465,471</u>	<u>\$20,659,716</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, 2022, SDCCC's investment and corresponding credit ratings are follows:

	<u>Fair Value</u>	<u>Credit Rating</u>
Commercial Paper	\$ 839,792	A-1
Corporate Bonds	923,135	A
Corporate Bonds	3,277,946	A-
Corporate Bonds	929,810	A+
Corporate Bonds	461,633	AA+
Corporate Bonds	935,190	BBB-
Bank Money Market Funds	22,338	N/A
Negotiable Certificates of Deposit	2,666,347	A-1
Cash equivalent investment contracts	2,472,632	A-1
Cash equivalent investment contracts	822,938	A-1+
Repurchase Agreements	875,000	N/A
U.S. Agency Bonds	4,983,223	AA+
U.S. Treasury Bills	1,449,732	AA+
	<u>\$ 20,659,716</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, 2022

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, 2022, 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.

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, 2022

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2022, is as follows:

	<u>Beginning Balance</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u> <u>In/Out</u>	<u>Ending Balance</u> <u>June 30, 2022</u>
Non-Depreciable Capital Assets:					
Construction in Progress	\$ 173,073	\$ 645,071		\$ (208,418)	\$ 609,726
Depreciable Capital Assets					
Furniture, Equipment and Software	6,010,689			175,700	6,186,389
Leasehold Improvements	64,783,684	-	-	32,718	64,816,402
Total Depreciable Capital Assets	70,794,373	-	-	208,418	71,002,791
Less Accumulated Depreciation:					
Furniture, Equipment and Software	(3,807,097)	(444,818)			(4,251,915)
Leasehold Improvements	(31,773,445)	(2,356,485)			(34,129,930)
Total Accumulated Depreciation	(35,580,542)	(2,801,304)	-	-	(38,381,846)
Total Depreciable Capital Assets, Net	35,213,831				35,213,831
Capital Assets, Net	\$ 35,386,904	\$ (2,156,233)	\$ -	\$ -	\$ 33,230,671

Depreciation expense for the year ended June 30, 2022 was \$2,801,304.

NOTE 5. FORGIVENESS OF DEBT – PPP LOAN

SDCCC applied for a United States Small Business Administration Loan and was approved for the Paycheck Protection Program (PPP) in April 2020 to pursue funding for payroll costs. SDCCC received loan proceeds in the amount of \$4,387,000 in May 2020. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of qualifying business. An additional loan of \$2,000,000 was obtained in February 2021 as part of the PPP second draw opportunity. Both loan installments have since been confirmed as fully forgiven.

NOTE 6. LONG-TERM LIABILITIES

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2022 is as follows:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Current</u> <u>Portion</u>
Compensated Employee Absences	\$ 797,689	\$ 1,390,095	\$ (1,023,690)	\$ 1,164,094	\$ 1,164,094

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, 2022

NOTE 6. LONG-TERM LIABILITIES (Continued)

B. Notes Payable and Financing Lease

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.

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.

A summary of changes in notes payable and the financing lease for the year ended June 30, 2022, is as follows:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Current</u> <u>Portion</u>
CG 7600 LP	\$ 3,846	\$ -	\$ (2,197)	\$ 1,649	\$ 1,649
iBank Financing Lease	24,009,776	-	(785,472)	23,224,304	813,669
	<u>\$ 24,013,622</u>	<u>\$ -</u>	<u>\$ (787,669)</u>	<u>\$ 23,225,953</u>	<u>\$ 815,318</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, 2022

NOTE 6. LONG-TERM LIABILITIES (Continued)

B. Notes Payable and Financing Lease

Annual requirements to amortize the notes payable as of June 30, 2022, including interest payments to maturity, are as follows:

Year Ending June 30,	Principal	Interest	Annual Fee	Total
2023	\$ 815,318	\$ 819,147	\$ 69,673	\$ 1,704,138
2024	842,881	789,412	67,232	1,699,525
2025	873,140	758,610	64,703	1,696,453
2026	904,486	726,701	62,084	1,693,271
2027	936,957	693,647	59,370	1,689,974
2028-2032	5,214,148	2,929,372	252,616	8,396,136
2033-2037	6,219,744	1,905,725	168,582	8,294,051
2038-2042	7,419,279	684,659	68,343	8,172,281
	<u>\$ 23,225,953</u>	<u>\$ 9,307,273</u>	<u>\$ 812,603</u>	<u>\$ 33,345,829</u>

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, 2022, SDCCC recognized \$10,196,440 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.

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, 2022

NOTE 8. DEFINED CONTRIBUTION PLAN (Continued)

Part-time employees 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, 2022, pension expense amounted to \$1,120,988 with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$85,944. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

During fiscal year 2022, a non-qualified supplemental catch-up contribution of \$6,775 was made to the 457b plan for CEO Clifford Rippetoe. This was to make up pension shortfalls for calendar year 2021. This catch-up contribution was part of the pension expense amount described above.

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. Future minimum annual rental lease revenues are as follows:

Year Ending June 30,	Amount
2023	\$ 120,369

Rental income related to the sublease was \$168,993 for the year ended June 30, 2022.

SDCCC as Lessee

SDCCC has one noncancelable operating lease with terms greater than one year for the truck marshal yard and warehouse space. The lease commitments are as follows:

Year Ending June 30,	Amount
2023	\$ 181,631

Lease expense for the year ended June 30, 2022 was \$235,794.

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, 2022

NOTE 9. COMMITMENTS

Construction Commitments

As of June 30, 2022, SDCCC has begun work for roof replacement and carpet modernization projects. For the roof replacement, only the discover and design has been contracted to date (for a total project cost estimated at \$5 million). This has been committed for \$213,310. Milliken has been engaged for the carpet modernization with a contracted amount of \$534,190.

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 disaster.

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.

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**Independent Auditor’s 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***

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, the basic 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, 2022, and the related notes to the financial statements, which collectively comprise SDCCC’s basic financial statements, and have issued our report thereon dated October XX, 2022.

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 opinions 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.

[Signature of the firm]

San Diego, California
October XX, 2022

Agenda Item 5.B

SAN DIEGO CONVENTION CENTER CORPORATION
M E M O R A N D U M

TO: Audit Committee

FROM: Mardeen Mattix, Chief Financial Officer

DATE: For the Agenda of October 17, 2022

RE: Addition of Juneteenth holiday to employee handbook

BACKGROUND

The Corporation offers ten (10) paid holidays as part of the full-time employee benefit package. The Federal government observes twelve (12) holidays, including the most recent addition in 2021 of “Juneteenth” which celebrates the end of slavery in the United States. California recognizes twelve (12) holidays as state-paid holidays, including the most recently enacted Assembly Bill 1655 to adopt Juneteenth as a state-paid holiday on September 29, 2022 to join the other 21 states that have already enacted this holiday.

DISCUSSION

Corporation does not offer all twelve (12) federally observed holiday’s as paid days off (excludes Veteran’s Day, Columbus Day and Inauguration Day every 4 years). California does not recognize the same twelve (12) holidays as the Federal government (eliminates Columbus Day but observes Cesar Chavez Day). The Corporation offers a blend of some state and federal paid holidays:

New Year’s Day
Martin Luther King Day
President’s Day
Cesar Chavez Day
Memorial Day
Independence Day
Labor Day
Thanksgiving Day
Day after Thanksgiving Day
Christmas Day

Corporation requests to add Juneteenth to the list of paid holiday’s beginning in 2023 for full-time staff benefits only, for a total of eleven (11) paid holidays. The additional cost of adding this benefit is estimated at \$55,000 annually.

RECOMMENDATION:

Audit Committee recommends that the Board of Directors adopt Juneteenth as a recognized paid holiday as an update to the employee handbook.



Mardeen Mattix
Chief Financial Officer