

Your San Diego

CONVENTION CENTER

FY18 ANNUAL REPORT



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YOUR SAN DIEGO CONVENTION CENTER, WHICH OPENED ITS DOORS IN 1989, IS A PUBLIC-BENEFIT, NON-PROFIT CORPORATION.

The Corporation was created by the City of San Diego to manage, market and operate the Convention Center. The building is owned by the Port of San Diego.

Our
PURPOSE...

The San Diego Convention Center is the region's premier gathering place, hosting conventions, trade shows and community events that economically benefit the City of San Diego and advances our convention and tourism industry.

Our
PROMISE...

To provide our clients and guests outstanding service, consistently exceeding expectations, so that they want to come back over and over again, to invest further in San Diego.



Your Convention Center's FY18

ECONOMIC IMPACT >>>

*Your San Diego Convention Center helps drive business to local retailers, attractions and special event venues, hotels, bars and restaurants. We are an economic engine that produces a **RIPPLE EFFECT** into the economy that reaches across the county. The employees that work at our neighboring businesses are able to take their income and reinvest it throughout the County of San Diego, further benefiting the community.*

Economic Impact results are based on information and research provided by San Diego-based CIC Research, Inc. and by Destination Marketing Association International.



Regional impact is the total value of an event to the local economy, including direct and indirect spending by visitors.

\$1.1B
REGIONAL IMPACT

REGIONAL IMPACT

HOTEL & SALES TAX REVENUE
\$24.7M

The sales taxes generated by visitors provides funding to the City that can be used to pave our roads, maintain parks and libraries, and fund salaries for firefighters and police officers.



HOTEL & SALES TAX REVENUE

\$651.9M
DIRECT ATTENDEE SPENDING



Your Convention Center turns into an economic engine. This stimulates spending in our hotels, restaurants and attractions.

DIRECT ATTENDEE SPENDING

694,074
HOTEL ROOM NIGHTS

Our guests stay in hotel rooms in a destination that is walkable.



HOTEL ROOM NIGHTS

785,460
ATTENDEES

People come from around the world to meet in San Diego.

ATTENDANCE

133
EVENTS

Our job is to host conventions, meetings and community events.

EVENTS



Letter from your

PRESIDENT & CEO

*I am proud to be the President and CEO
of your San Diego Convention Center.*

Recognized as an award-winning destination in the United States, it is our job to support our region's strong tourism industry and generate economic impact for all of San Diego.

When I'm asked what we do, I explain it this way: We build, or facilitate the building of a "small city" for probably the most important week of an organization's year. Their events often serve as their major annual fundraiser, funding important education activities and advocacy initiatives year-round. Attendees benefit from continuing education for their industry, as well as a fundamental need to gather in-person to work, to create or to innovate. Then we break it down, only to do it again the next week, and the next week, and so on.

These tradeshow and events—the "small cities"—benefit our San Diego neighborhoods.

"How?" you may ask.

Visitors come to our destination, stay in local hotels, dine in our restaurants and visit our attractions. They pay a tourism occupancy tax (TOT) and a sales tax. The more tourists we have in San Diego, the more this TOT is generated. Conventions help drive the economy this way. And those TOT and sales tax dollars are returned to the City of San Diego's general fund, which is used to reinvest in our streets, build parks and maintain libraries. These funds also pay salaries for firefighters and police officers.



Our employees take their paychecks and reinvest them in the neighborhoods they live in. Retail establishments across the region benefit as well—part of the economic “ripple effect” created by conventions.

The San Diego Convention Center is a part of your community. Your neighbors work here. Your businesses benefit. Jobs are generated. All because the San Diego Convention Center is the premier gathering place in our region.

We are grateful to those who helped us achieve this status. Thank you to our clients, customers, exhibitors, attendees and marketing organizations who continue to bring their business to our destination.

Clifford Rippetoe
CLIFFORD “RIP” RIPPETOE, CVE



Letter from the **CHAIR**

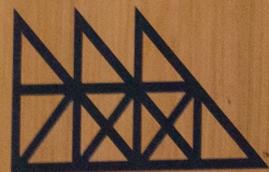
Our success is your success.

It has been an honor to serve as the Chair of the Board of Directors for the San Diego Convention Center this year. It is with great pride that I present to you our fiscal year in review. This report highlights many notable achievements, such as a record in spending per attendee for our medical meetings. I invite you to celebrate these achievements and take pride as we do in your San Diego Convention Center.

This year was a year to connect. We've focused on building partnerships that will have a lasting and positive impact for our city. Our team created new ways to welcome our neighbors into the building, such as inviting the public to our back terrace on the 4th of July. Our staff has rolled up their sleeves to volunteer in the community, like cleaning up San Diego Bay with our fellow Port tenants, protecting one of our most precious assets as a destination.

In the coming year, we are excited to continue to open our doors to the community. Please contact us if you would like a tour of the facility and stay tuned for our public events throughout the year.

GIL CABRERA



SAN DIEGO
convention center



BOARD OF DIRECTORS

The San Diego Convention Center Board of Directors sets policy for the public benefit corporation that was created by the City of San Diego to exclusively manage, market and operate the 2.6 million-square-foot waterfront facility.



GIL CABRERA
Chair



XEMA JACOBSON
Vice Chair



JAYMIE BRADFORD
Secretary



LAURIE COSKEY
Member



CAROL KIM
Member

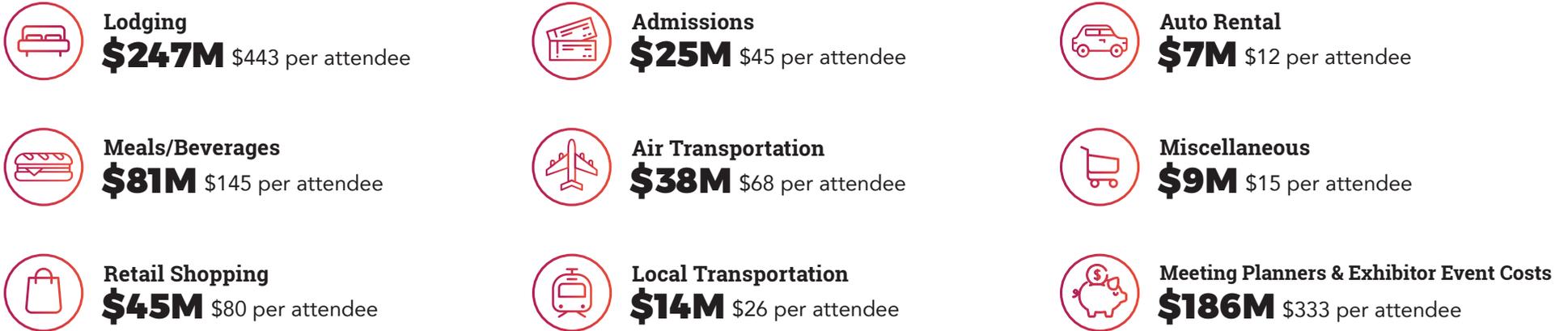


ELVIN LAI
Member

ATTENDEE SPENDING

When we host a convention or meeting, attendees go out into the surrounding neighborhoods and create a “ripple effect” of spending that reaches across the county.

FY18 Average Spending of Convention Attendees*



*The results are based on information and research provided by San Diego-based CIC Research, Inc. and by Destination Marketing Association International.



“It’s all about jobs. When there’s no convention, we may have five servers and two bartenders on. When there is a convention, we can bring in 10 servers, three bartenders, 12 cooks, both day and night. The San Diego Convention Center brings us thousands and thousands of dollars every single year in revenue, and without it there is no way we could survive.”

—Jamie Houtman | Regional Manager
Union Kitchen & Tap



Total Average Spending throughout FY18:

\$652M \$1,167 per attendee





MEDICAL MEETINGS

Medical meetings are a core component of the San Diego Convention Center's business model. On average, attendees of these events spend twice as much as an average attendee.

Thirteen medical meetings accounted for nearly 18 percent of your Convention Center's overall attendance and 38 percent of total regional impact.



24 Years in the Making

In October 2017, your San Diego Convention Center hosted the prestigious American College of Surgeons (ACS) Clinical Conference. It took 24 years to get the event to come to San Diego.

Rotational Information

- + Many annual events are on a rotation where they cycle through different regions every year, returning to a region every four to six years.
- + It took 10 years for the ACS to consider changing their Clinical Congress rotation to bring them to San Diego.

FY18 Average Spending of Medical Convention Attendees*



Lodging
\$93M \$663 per attendee



Local Transportation
\$6M \$39 per attendee



Meals/Beverages
\$30M \$216 per attendee



Auto Rental
\$3M \$17 per attendee



Retail Shopping
\$17M \$120 per attendee



Miscellaneous
\$3M \$23 per attendee



Admissions
\$9M \$67 per attendee



Meeting Planners & Exhibitor Event Costs
\$72M \$512 per attendee



Air Transportation
\$14M \$102 per attendee



Total Average Spending throughout FY18:

\$247M
\$1,759 per attendee

**The results are based on information and research provided by San Diego-based CIC Research, Inc. and by Destination Marketing Association International.*



1993 • Introductions were made and the first conversations were held.

2008 • Contracts were signed for the 2017 convention.

2003 • Serious discussions began about bringing ACS to your San Diego Convention Center.

2017 • The ACS Convention was held at your San Diego Convention Center.

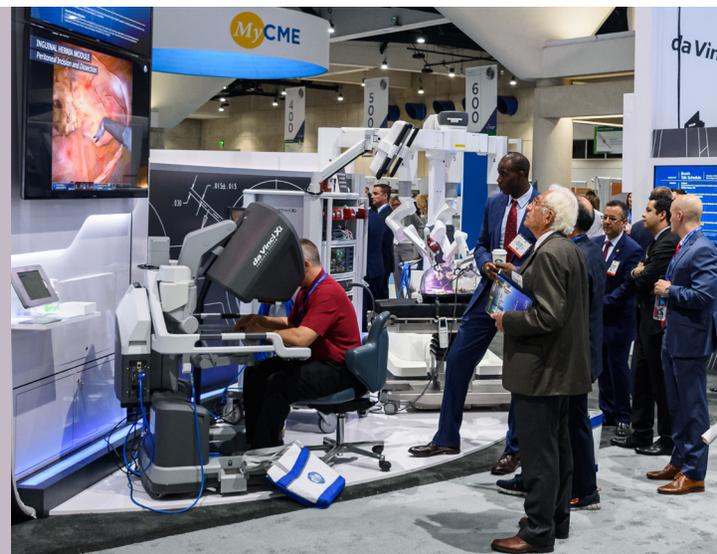
Top 10 Economic Generator in FY18



12,012 Attendees



\$35.6M Economic Impact



Citywides

TOP 10 ECONOMIC GENERATORS

Citywides bring San Diego greater economic benefits as they consist of out-of-town attendees here for conventions, tradeshows and corporate meetings that require overnight stays. Take a look at the highest economic generators of FY18.



COMIC-CON INTERNATIONAL

\$147.1M
Economic Impact

135,000
Attendees



2 AMERICAN ASSOCIATION FOR CLINICAL CHEMISTRY



\$60.4M
Economic Impact

21,314
Attendees

3 esri



\$58.2M
Economic Impact

17,980
Attendees

4 AMERICAN ACADEMY OF DERMATOLOGY



\$54.9M
Economic Impact

18,500
Attendees

5 CEDIA



\$51.7M
Economic Impact

20,051
Attendees

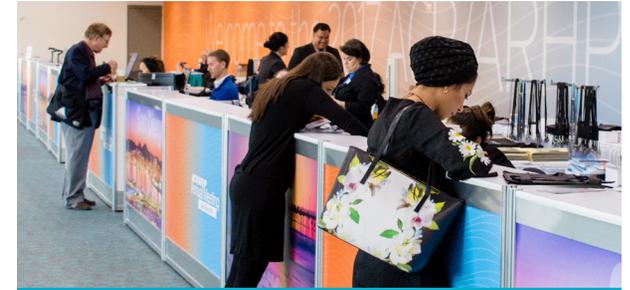
6 AMERICAN THORACIC SOCIETY



\$51.2M
Economic Impact

16,900
Attendees

7 AMERICAN COLLEGE OF RHEUMATOLOGY



\$50.6M
Economic Impact

15,000
Attendees

“The San Diego Convention Center is a major driver of business for us throughout the entire year. The visitors we get from the conventions, tradeshow and events are a big contributor to our ability to run a successful business.”

—Tony Wang | General Manager
Cat Café

8 THE OPTICAL SOCIETY



Photo Credit: Press Coriant

\$43.0M
Economic Impact

15,498
Attendees

9 EXPERIMENTAL BIOLOGY



\$41.7M
Economic Impact

14,000
Attendees

10 AMERICAN COLLEGE OF SURGEONS



\$35.6M
Economic Impact

12,012
Attendees

FY18

REVENUE

\$39.1M

TOTAL FY18 REVENUE

\$35.1M

TOTAL FY18 OPERATING EXPENSES

Three primary drivers of revenue:

\$9.15M

BUILDING RENT

\$9.49M

FOOD AND BEVERAGE COMMISSIONS

From our in-house catering partner, Centerplate

\$15.80M

ANCILLARY REVENUES

Revenues generated from utilities, audio-visual, telecommunications, booth & cleaning services, advertising and business development

\$16.7M

TOTAL CITY OF SAN DIEGO INVESTMENT

The City of San Diego funding breakdown:

\$3.44M

SALES & MARKETING

\$12.56M

EXPANSION BONDS

\$752,250

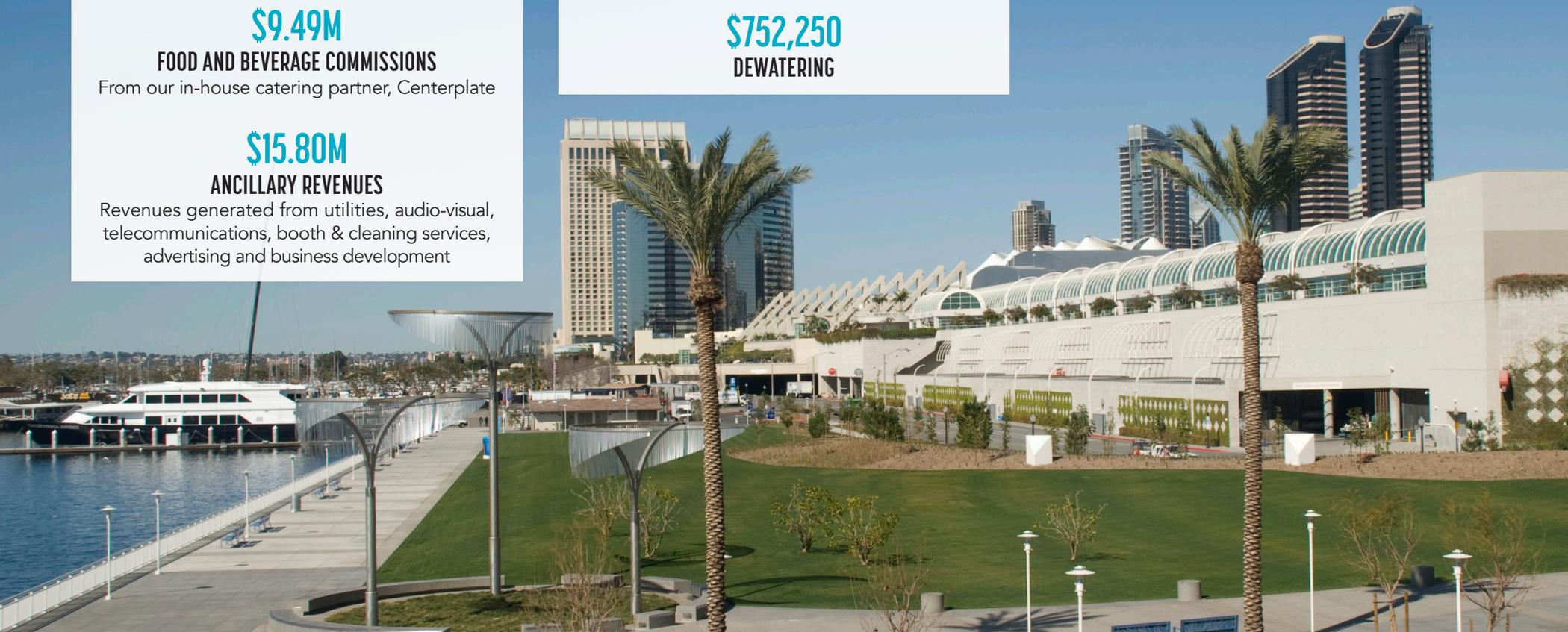
DEWATERING

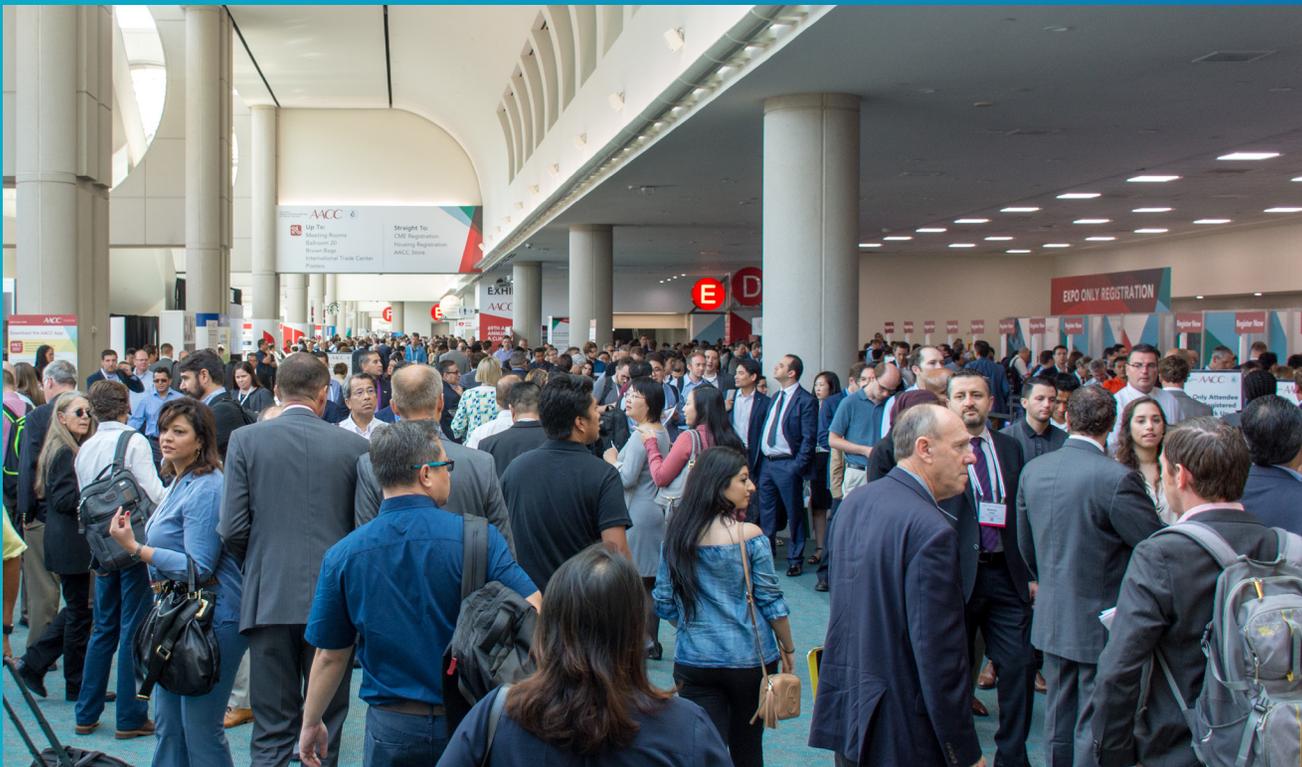


For each \$1 the City of San Diego invests, we return \$1.47

\$24.7M

TAXES GENERATED TO THE CITY OF SAN DIEGO GENERAL FUND





WHAT IS REGIONAL IMPACT AND HOW IS IT CALCULATED?

Regional impact is the total value of an event to the local economy including direct and indirect spending.

STEP 1

Direct Attendee Spending Factor



An average attendee length of stay of just less than four days

Figure varies depending on actual event duration and attendee length of stay.

STEP 2

Direct Attendee Spending



Direct spending factor per attendee

Total number of event attendees

Attendance projections are provided to the Corporation by the event planner or show manager

STEP 3

Regional Impact



Direct attendee spending

Industry Factor

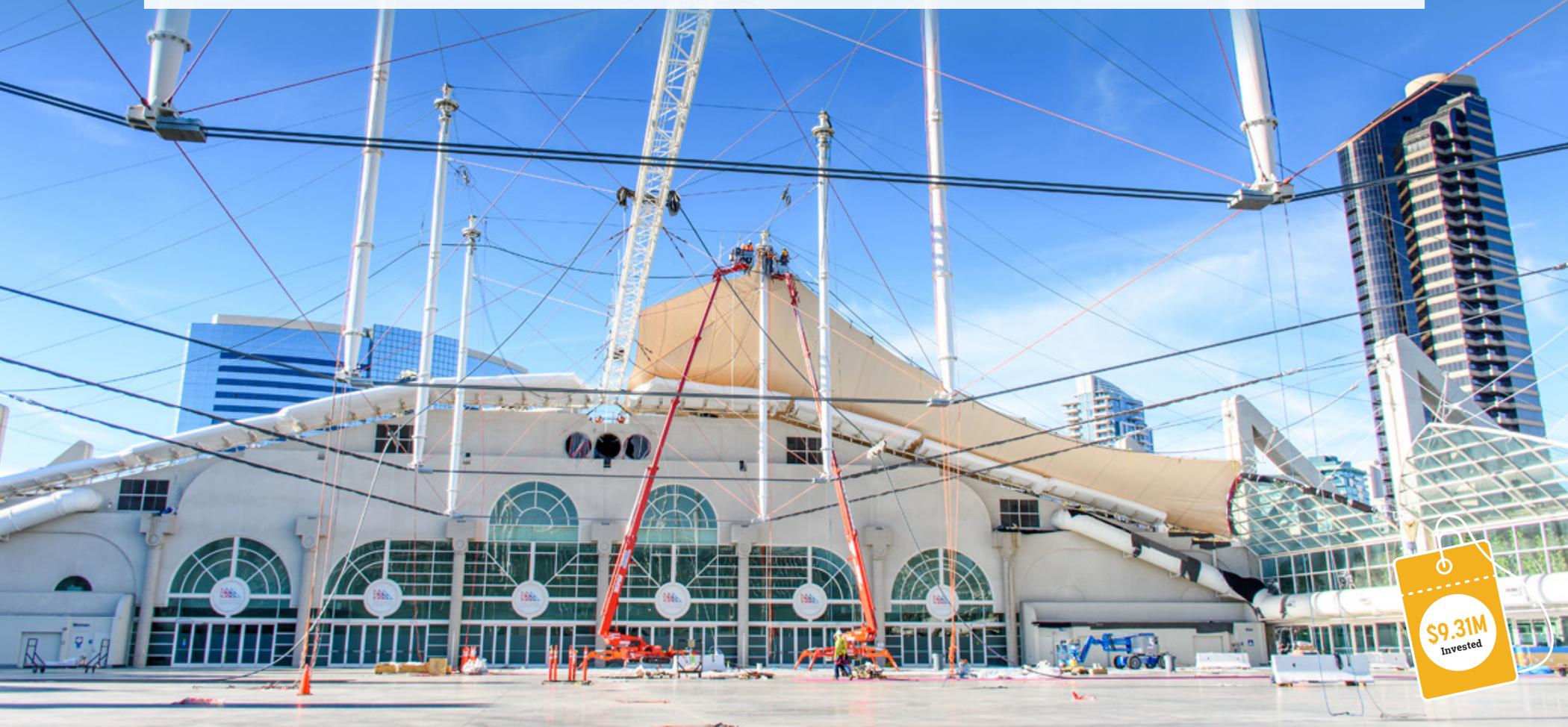
Industry factor based on information and research provided by CIC Research, Inc.

Capital Improvement Projects

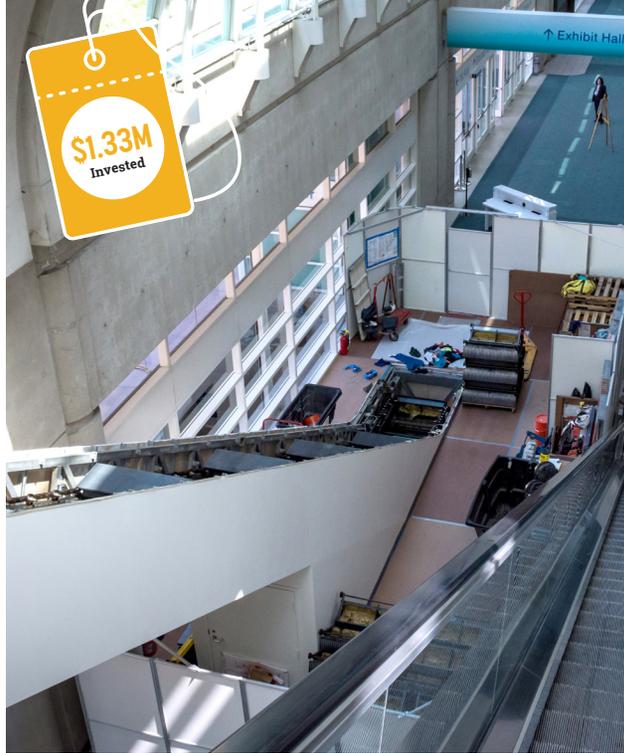
INVESTING IN THE FACILITY

Your San Diego Convention Center is wrapping up its largest series of upgrades in the building's history. In FY18, we invested \$13.1 million in improvements throughout the building funded from a state loan provided by the California Economic Infrastructure Bank. Another \$2.2 million from Convention Center reserves were invested in capital improvements.

- + Sails Pavilion Fabric Roof Replacement
- + Escalator Retrofit
- + Elevator Modernization
- + Fire Water Cannon Replacement
- + Fire Life Safety System



\$9.31M
Invested



ILLUMINATING SAN DIEGO'S SKYLINE



In FY18, your San Diego Convention Center debuted its newest feature: LED colored lights that illuminate the newly renovated iconic fabric roof and the downtown skyline.

The colored lighting feature can also be synchronized to music. Since the installation, it has allowed our team to add a new community engagement opportunity. We have "lit the Sails" during community events such as the Big Bay Boom 4th of July fireworks viewing party, San Diego Pride and Comic-Con. We also partner with local non-profits to commemorate causes and build awareness.



ENVIRONMENTAL LEADERSHIP

Sustainability is in our DNA. It's just the right thing to do. In fiscal year 2018, the San Diego Convention Center earned the following awards:

- City of San Diego Top Recycler of the Year
- Port of San Diego Overall Sustainable Achievement Award for Large Business
- APEX/ASTM Sustainability Certification



SUSTAINABILITY SUPERHEROES

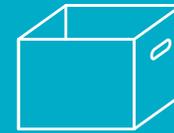
Your San Diego Convention Center is a proud industry leader in sustainability. Our business practices are recognized for going above and beyond in our efforts to promote environmental responsibility in operating and managing our venue.



WASTE MINIMIZATION

1,278 TONS

of waste generated was diverted from landfills



CARDBOARD RECYCLING

189 TONS

of cardboard was recycled



MATERIAL RECYCLING

1,274 TONS

of materials were recycled



ENERGY CONSERVATION

100%

of lights used to illuminate the Sails Pavilion are LEDs



LOCALLY-SOURCED

100 MILE

radius in which produce and protein is purchased whenever possible



FOOD COMPOSTING

125 TONS

of non-edible food was composted



The San Diego Convention Center's food & beverage team, Centerplate, puts an emphasis on buying from local farmers.

"We at Mocerri Produce believe that the Convention Center is a prime example of a way that local institutions and businesses can support local farms. By supporting the local economy with food purchases, this helps regional farmers practice their trade. And it enables the stewardship of the land, water, labor and environmental resources in order to create healthy, local food options for the guests at the convention center."

**—Robert Farmer | Purchasing Agent,
Salesperson and Program Manager
Morcerri Farms**

In the **COMMUNITY**

Your San Diego Convention Center is part of your community. We are committed to donating our time through volunteerism. We proudly support local organizations by donating untouched food and unused conference materials. In addition, we participated in the San Diego LGBT Pride Parade, volunteered for the Port Tenants Association's Operation Clean Sweep and welcomed our community to the first Big Bay Boom 4th of July fireworks viewing party.



FURNITURE DONATIONS

3,300 CHAIRS

donated to 20 non-profits
throughout Southern California



EDUCATIONAL DONATIONS

"We have had a great partnership with the Convention Center for the past few years. Our Logan community is very lucky to benefit from the convention items that we are able to put to good use here at school."

—Antonio Villar | Principal
Logan K-8 School



1,294 BACKPACKS

donated to 6 elementary schools
in underserved areas of San Diego





AWARDS



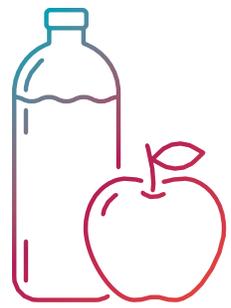
& ACHIEVEMENTS

We were honored to be recognized as leaders within the industry.

- **Rip Rippetoe, President & CEO**
Catalyst for Change Award by Connected Women of Influence
- **Karen Totaro, COO**
Tribute to Women & Industry Awards Honoree by YWCA of San Diego County
- **Mardeen Mattix, CFO**
The Corporation appointed its first female CFO in its 28-year history
- **Barbara Moreno, Executive Director of Communications**
Top Woman in PR by PR News
- **IAVM Venue Excellence Award**
- **Best Conference/Convention Center Over 100,000 sq. ft.**
California Meetings + Events Magazine



FOOD DONATIONS



In FY18, we donated **72 TONS** of untouched food to the San Diego Rescue Mission - enough to plate...

115,000 MEALS



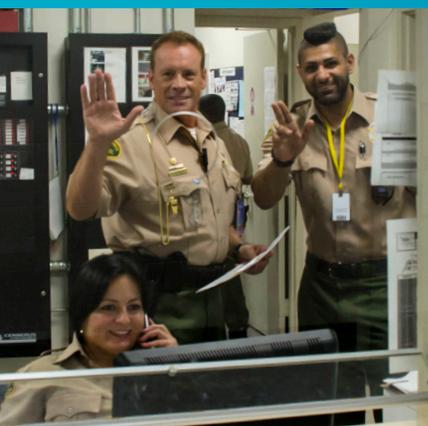


"For an entire year, the American Thoracic Society staff, vendors and attendees all told me how happy they were to be in your fine city. I often heard the phrase 'I love San Diego' during the months leading up to and throughout the conference... I consider you all to be some of the best partners to work with in the world."

—Emily Catanzaro, CMP
Senior Director of Meeting Services
American Thoracic Society

Your SAN DIEGO CONVENTION CENTER

The team behind-the-scenes takes great pride in their work. In fact, we do our jobs so well, you probably don't even notice us. And that's ok. But you can count on us to be there when you need us.





And **WE'RE HERE FOR YOU...**

The San Diego Convention Center is here for you to connect, learn and enjoy. In FY18, we made a commitment to open our doors more often and build relationships with our neighbors throughout San Diego County.



FY18

FINANCIAL STATEMENTS





**SAN DIEGO CONVENTION CENTER
CORPORATION**

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

Annual Financial Report

For the Year Ended June 30, 2018



Certified
Public
Accountants

SAN DIEGO CONVENTION CENTER CORPORATION
Annual Financial Report
For the Year Ended June 30, 2018

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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 Financial Statements

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the SDCCC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Convention Center Corporation as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, 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 29, 2018, on our consideration of the 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 the SDCCC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SDCCC's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
October 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN DIEGO CONVENTION CENTER CORPORATION

Management's Discussion and Analysis

For the Year Ended June 30, 2018

(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, 2018. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to SDCCC's basic financial statements. The financial statements of SDCCC report information about SDCCC 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 and liabilities as of June 30, 2018, with the difference 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 Changes 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, and detail of noncash investing, capital and financing activities.

SAN DIEGO CONVENTION CENTER CORPORATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2018
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net position comparing FY 2018 with FY 2017.

	<u>FY 2018</u>	<u>FY 2017</u>	Percentage Increase (Decrease)
ASSETS:			
Cash and cash equivalents	\$ 13,780,846	\$ 10,951,043	26%
Investments	3,544,159	--	--
Accounts receivable	6,546,869	8,373,155	(22%)
Prepaid expenses	596,518	630,506	(5%)
Deposits with others	131,072	124,702	5%
Inventory	38,416	38,416	--
Restricted cash - I-Bank contingency	826,954	826,954	--
Restricted investment - I-Bank construction fund	2,384,060	19,128,822	(88%)
Note receivable	574,556	--	--
Capital assets, net	<u>36,571,170</u>	<u>23,589,252</u>	55%
Total assets	<u>64,994,620</u>	<u>63,662,850</u>	2%
LIABILITIES:			
Accounts payable	2,209,370	1,068,083	107%
Accrued liabilities and compensated absences	3,167,794	4,108,732	(23%)
Retention payable	883,250	--	--
Unearned income	5,327,048	5,741,756	(7%)
Current portion of long-term debt	2,197	2,197	--
Long-term portion of unearned income	4,404,764	4,874,725	(10%)
Long-term debt	<u>25,508,240</u>	<u>25,510,437</u>	0%
Total liabilities	<u>41,502,663</u>	<u>41,305,930</u>	0%
NET POSITION:			
Net investment in capital assets	13,647,288	16,898,738	(19%)
Restricted – I-Bank contingency	826,954	826,954	--
Unrestricted	<u>9,017,715</u>	<u>4,631,228</u>	95%
Total net position	<u>\$ 23,491,957</u>	<u>\$ 22,356,920</u>	5%

SAN DIEGO CONVENTION CENTER CORPORATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2018
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Assets

Total Assets of \$65.0 million at FY 2018 year-end increased by \$1.3 million, or 2%, from the prior year-end balance of \$63.7 million. The changes were primarily due to an increase in cash and cash equivalents and investments of \$6.4 million, or 58%, as well as an increase in capital assets, net of depreciation of \$13.0 million, or 55%, offset by a decrease in restricted investment of \$16.7 million, or 88% related to capital infrastructure projects. The net increase in cash and equivalents and investments was primarily due to the timing of FY2017 year-end capital purchases of \$3.6 million reimbursed from restricted cash from I-Bank loan proceeds during September 2017, as well as \$1.8 million of payments received in July 2017 related to food and beverage and utility commissions invoiced for an event hosted in June 2017. An increase in capital assets, net of depreciation, for capital improvement projects purchases of \$13.0 million, or 55%, was directly offset by a decrease in I-Bank restricted investment of \$16.7 million related to earmarked capital infrastructure projects.

Liabilities

Total Liabilities of \$41.5 million at FY 2018 year-end increased by \$0.2 million from a balance of \$41.3 million in FY 2017 with significant offsetting category fluctuations. The changes were due to a decrease in accrued liabilities of \$0.9 million, or 23%, a decrease in unearned income of \$0.9 million, or 8%, offset by an increase in accounts payable of \$1.1 million, or 107% as well as \$0.9 million related to retention payable. The decrease in accrued liabilities was substantially due to \$0.9 million reclassification of retention payments to a separate reporting category as well as a reduction in accrued payroll related expenses and note payable interest due in August 2018 compared to prior year. The increase in accounts payable related to \$0.5 million payroll taxes due in July 2018, as well as \$0.7 million for large construction progress payments due.

Net Position

Total Net Position of \$23.5 million at FY 2018 year-end increased by \$1.1 million, or 5%, compared to the prior year balance of \$22.4 million. Unrestricted net position increased by \$4.4 million compared to the prior due to excess revenues over expenses of \$1.1 million, as well as net I-Bank capital infrastructure projects reimbursements exceeding capital purchases of \$3.3 million directly offset by a decrease in net investment in capital assets of \$3.2 million compared to the prior year.

SAN DIEGO CONVENTION CENTER CORPORATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2018
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The following table summarizes the changes in net position for SDCCC comparing FY 2018 with FY 2017.

	<u>FY 2018</u>	<u>FY 2017</u>	Percentage Increase (Decrease)
Operating Revenues:			
Rental	\$ 9,150,619	\$ 9,178,411	0%
Food and beverage	9,486,165	11,330,266	(16%)
Ancillary services	15,619,060	15,997,246	(2%)
Contributions from the City of San Diego	3,436,000	3,436,000	0%
Business development	204,382	--	--
Other revenue	30,175	83,445	(64%)
Total operating revenues	<u>37,926,401</u>	<u>40,025,368</u>	(5%)
Operating Expenses:			
Salaries and benefits	21,701,984	21,468,463	1%
Services and supplies	11,419,373	11,012,446	4%
Depreciation	2,315,400	1,778,470	30%
Marketing contract	1,971,000	1,931,000	2%
Total operating expenses	<u>37,407,757</u>	<u>36,190,379</u>	3%
Operating Income	<u>518,644</u>	<u>3,834,989</u>	
Nonoperating Revenues (Expenses):			
Interest income	165,690	77,791	113%
Interest expense	(572,190)	(151,469)	278%
Loan origination fee	--	(255,000)	--
Loss on disposal of capital assets	(6,276)	(418,255)	(98%)
Other income	811,113	791,631	2%
Total nonoperating revenues, net	<u>398,337</u>	<u>44,698</u>	791%
Income before capital contributions	916,980	3,879,687	
Capital Contributions	<u>218,056</u>	<u>168,551</u>	29%
Change in net position	1,135,037	4,048,238	
Net position - beginning of year	<u>22,356,920</u>	<u>18,308,682</u>	
Net position - end of year	<u>\$ 23,491,957</u>	<u>\$ 22,356,920</u>	5%

SAN DIEGO CONVENTION CENTER CORPORATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2018
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Operating Revenues

Total operating revenues generated in FY 2018 amounted to \$37.9 million, a \$2.1 million, or 5% decrease compared to the prior year's total of \$40.0 million. The change was primarily the result of overall less event activity, primarily in decreased food and beverage commissions of \$1.8 million, or 16%, as well as decreased ancillary services of \$0.4 million, or 2%, compared to prior year.

Operating Expenses

Total operating expenses incurred during FY 2018 amounted to \$37.4 million, a \$1.2 million, or 3% increase compared to the prior year's total of \$36.2 million. Depreciation expense increased by \$0.5 million, or 30%, compared to the prior year due to nearly \$22 million of I-Bank funded capital infrastructure projects placed in service over the last eighteen months. Additionally, increased repair and maintenance projects of \$0.4 million, or 4% as well as salary and fringe benefit expenses of \$0.2 million, or 1% related to increased worker's compensation claims.

Nonoperating Revenues and Expenses

During FY 2018, nonoperating revenues and expenses produced \$0.4 million with offsetting category fluctuations compared to virtually zero net revenues produced in the prior year. The change was due to \$0.8 million in food and beverage incentives and procurement card and recycling rebate programs as well as \$0.1 million increase in interest income, offset by \$0.5 million increase in I-Bank loan interest expense related to earmarked capital infrastructure projects.

CAPITAL ASSET ANALYSIS

As of June 30, 2018, SDCCC had a capital asset book value of \$36.6 million, net of accumulated depreciation of \$28.0 million, or 55% more than the prior year figure of \$23.6 million. Capital assets spread across a broad range of computer, office and operating equipment, telecommunications and leasehold improvements. The gross value of capital purchases in FY 2018 of \$15.3 million increased compared to prior year additions of \$13.9 million due to infrastructure capital improvements purchased of \$13.3 million.

Major capital asset additions during FY 2018 included:

- \$9,314,866 for Sail Pavilion roof fabric replacement
- \$1,571,591 for fire water cannon replacements
- \$1,330,234 for escalator retrofit work
- \$854,212 for fire alarm system replacement
- \$435,105 for elevator modernization work

SAN DIEGO CONVENTION CENTER CORPORATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2018
(Unaudited)

DEBT ANALYSIS

Effective December 6, 2016, SDCCC and the City of San Diego entered into a financing lease agreement with the California Infrastructure and Economic Development Bank to finance capital infrastructure improvement projects valued at \$25,500,000. The agreement calls for the loan to be amortized after two years at a 3.59 percent interest rate. For the year ended June 30, 2018, SDCCC incurred \$915,450 in interest expense, \$381,438 due payable in August 2018.

Effective April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC in which the Lessor financed a warehouse capital improvement for SDCCC valued at \$21,972. The agreement calls for the loan to be amortized in the Lessee's monthly rent over 10 years at zero percent interest. SDCCC exercised an option to extend for an additional five years effective April 1, 2018. For the year ended June 30, 2018, SDCCC paid \$2,197 in principal payments on the warehouse loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2018 operational contributions from the City remained at \$3,436,000 compared to prior year contributions. As described in Note 6, contributions from the City funded marketing, promotion and capital projects for the Convention Center. During FY 2018, total expenses on marketing, promotion and capital projects exceeded the City's contributions.

Effective July 1, 2012, approved San Diego City Council action provided 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, a marketing and sales contract between SDCCC and SDTA was renegotiated and approved by City Council detailing the terms set forth by the City. For the year ended June 30, 2018, SDCCC paid \$1.9 million in marketing contract payments related to SDTA.

Management is anticipating an increase in financial performance during FY 2019 as compared to FY 2018 due to record breaking medical convention events contracted as compared to FY 2018. The City's operational contributions to SDCCC were reduced from \$3,436,000 to \$2,133,025 beginning in FY 2019.

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 Senior Vice President & CFO at the San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, CA 92101.

BASIC FINANCIAL STATEMENTS

SAN DIEGO CONVENTION CENTER CORPORATION

Statement of Net Position

June 30, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 13,780,846
Investments	3,544,159
Accounts receivables	5,046,869
Prepaid expenses	596,518
Deposits with others	131,072
Inventory	38,416
Total current assets	<u>23,137,880</u>

Noncurrent assets:

Restricted cash - I-Bank contingency reserve	826,954
Restricted investment - I-Bank construction loan proceeds	2,384,060
Accounts receivables	1,500,000
Note receivable	574,556

Capital assets:

Construction in progress	2,971,303
Furniture, equipment and software	5,104,884
Leasehold improvements	56,557,789
Less accumulated depreciation	(28,062,806)
Total capital assets	<u>36,571,170</u>

Total noncurrent assets 41,856,740

TOTAL ASSETS 64,994,620

LIABILITIES

Current liabilities:

Accounts payable	2,209,370
Accrued liabilities	1,969,938
Retention payable	883,250
Unearned income	5,327,048
Compensated employee absences	1,197,856
Current portion of long-term debt	2,197
Total current liabilities	<u>11,589,659</u>

Noncurrent liabilities:

Long-term debt	25,508,240
Long-term portion of unearned income	4,404,764
Total noncurrent liabilities	<u>29,913,004</u>

TOTAL LIABILITIES 41,502,663

NET POSITION

Net investment in capital assets	13,647,288
Restricted - I-Bank contingency	826,954
Unrestricted	9,017,715

TOTAL NET POSITION \$ 23,491,957

See Accompanying Notes to the Basic Financial Statements

SAN DIEGO CONVENTION CENTER CORPORATION
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating Revenues	
Rental Revenue:	
Convention and trade shows	\$ 6,629,702
Corporate/incentive events	269,228
Consumer shows	558,260
Meetings and seminars	368,392
Cancelled events	657,400
Community events	498,909
Local trade shows	168,728
Food and beverage revenue	9,486,165
Ancillary service revenue:	
Utilities	5,902,621
Telecommunications	4,444,169
Event and cleaning services	4,110,291
Audio visual	1,161,979
Contributions:	
City of San Diego	3,436,000
Business development	204,382
Other revenue	30,175
Total operating revenues	<u>37,926,401</u>
Operating Expenses	
Salaries and wages	16,675,829
Fringe benefits	5,026,155
Utilities	4,110,677
Repairs and maintenance	2,884,233
General	2,320,891
Depreciation	2,315,400
Contractual marketing and sales	1,971,000
Contracted services	874,749
Supplies	606,265
Insurance	347,613
Travel and transportation	123,718
Sales and marketing	111,600
Telecommunications	39,627
Total operating expenses	<u>37,407,757</u>
Operating income	<u>518,644</u>
Nonoperating Revenues (Expenses)	
Interest income	165,690
Interest expense	(572,190)
Loss on disposal of capital assets	(6,276)
Other income	811,113
Total nonoperating revenues, net	<u>398,337</u>
Income before capital contributions	916,981
Capital contributions	<u>218,056</u>
Change in net position	1,135,037
Net position - beginning of year	<u>22,356,920</u>
Net position - end of year	<u>\$ 23,491,957</u>

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION

Statement of Cash Flows

For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 36,243,131
Contributions received from City of San Diego	3,436,000
Payments to suppliers for goods and services	(12,715,696)
Payments to employees for services	(21,404,100)
	<hr/>
Net cash provided by operating activities	5,559,335

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(14,495,020)
Loan to Centerplate for equipment	(574,556)
Principal payments on note payable	(2,197)
Interest paid on long-term debt	(1,055,265)
Proceeds from the sale of capital assets	31,213
	<hr/>
Net cash used by capital and related financing activities	(16,095,825)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(3,544,159)
Proceeds from restricted investment	16,744,762
Interest received	165,690
	<hr/>
Net cash used in investing activities	13,366,293

INCREASE IN CASH AND CASH EQUIVALENTS

2,829,803

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

11,777,997

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 14,607,800

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2018

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE
STATEMENT OF NET POSITION**

Cash	\$ 13,780,846
Restricted cash - I-Bank contingency reserve	<u>826,954</u>
Total cash and cash equivalents	<u><u>\$ 14,607,800</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 518,644
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,315,400
Other income	811,113
Changes in operating assets and liabilities:	
Decrease in receivables	1,826,286
Decrease in prepaid expenses	33,988
Increase in deposits with others	(6,370)
Increase in accounts payable	647,059
Decrease in compensated employee absences	(143,992)
Increase in accrued liabilities	441,876
Decrease in unearned income	(884,669)
Net cash provided by operating activities	<u><u>\$ 5,559,335</u></u>

NONCASH CAPITAL AND FINANCING ACTIVITIES

Capital asset contributions	\$ 218,056
Acquisition of capital assets included in accounts payable and accrued liabilities	646,341
Capitalized interest	343,214
Carrying value of disposed capital assets	6,276

See Accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

SAN DIEGO CONVENTION CENTER CORPORATION

Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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 a 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 Government Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units - An amendment of GASB Statement No.14*, which was effective July 1, 2016, 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 6).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting and Measurement Focus*

The financial transactions of SDCCC are accounted for on the accrual basis 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. If not operating, all other revenues and expenses 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. The government money market mutual fund restricted investment is not considered to be a cash and cash equivalent.

SAN DIEGO CONVENTION CENTER CORPORATION

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Accounts Receivable*

Long-term receivables in the amount of \$1,500,000 represent incentive payments to be received by SDCCC in equal installments of \$500,000 on July 1, 2020, July 1, 2022, and July 1, 2024 from Centerplate in consideration of the SDCCC's extension of Centerplate's exclusive food and beverage contract through June 30, 2026.

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 principal amount 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.

E. *Prepaid Expenses*

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

F. *Inventory*

Inventory consists of spare parts that will be used and capitalized when the assets are placed into service.

G. *Capital Assets*

Capital assets are reported at cost. Capital assets are defined as assets with an initial cost of more than \$5,000 per item and a useful life of greater than one year. For assets acquired from the proceeds received from the I-Bank financing lease, SDCCC capitalizes a portion of the interest incurred in accordance with the provisions of GASB Statement No. 62. The amount of interest capitalized as part of the underlying assets historical cost is the amount of interest that would have been avoided during the assets acquisition period if the asset had not been acquired. The amount capitalized is determined by applying the interest rate on the financing lease to the average amount of accumulated capital outlays for the asset during the accounting period. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

SAN DIEGO CONVENTION CENTER CORPORATION
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. *Unearned Income*

Unearned income represents funds due or 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.

I. *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. Full-time employees are allowed up to 120 hours paid compensation in lieu of annual leave provided they maintain a minimum balance of 40 hours and have taken a minimum of 80 hours of paid leave during the prior twelve month period. Additionally, non-represented part-time employees who have PTO balances in excess of 40 hours at fiscal year-end as well as represented part-time employees full PTO balance at fiscal year-end, are paid their annual leave balance within 30 days of fiscal year-end and carry over any remaining balance each year.

J. *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, 2018 was \$13,647,288.

Restricted – This amount consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2018, the amount of restricted net position remained at \$826,954 due to the required reserves associated with the I-Bank financing lease agreement.

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”.

K. *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.

L. *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.

SAN DIEGO CONVENTION CENTER CORPORATION
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

**NOTE 3. CASH AND INVESTMENTS, RESTRICTED CASH
AND RESTRICTED INVESTMENTS**

At June 30, 2018, the book balance of SDCCC's cash on hand, deposits, and bank money market account deposits was \$9,113,759 and the bank balance was \$9,154,666. 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.

The 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.

SAN DIEGO CONVENTION CENTER CORPORATION
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

**NOTE 3. CASH AND INVESTMENTS, RESTRICTED CASH
AND RESTRICTED INVESTMENTS (Continued)**

Cash/restricted cash and investments/restricted investments as reported in the statement of net position are categorized as follows at June 30, 2018:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Restricted Cash</u>	<u>Restricted Investments</u>
Cash on hand	\$ 6,135	\$ -	\$ -	\$ -
Bank checking and savings deposits	3,499,918	-	826,954	-
Bank money market account deposits	4,780,752	-	-	-
Fixed income investments	5,494,041	1,893,436	-	-
Government money market mutual funds	-	1,650,723	-	2,384,060
Total	<u>\$ 13,780,846</u>	<u>\$ 3,544,159</u>	<u>\$ 826,954</u>	<u>\$ 2,384,060</u>

GASB Statement No. 72 requires that investments be categorized within a fair value hierarchy based upon fair value measurements. The hierarchy is based on the valuation of inputs used to measure fair values of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. 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 (NAV) per share (or its equivalent) are not classified in the fair value hierarchy. SDCCC's values investments in government money market mutual funds at NAV, and therefore are not subject to the fair value hierarchy.

The table below represents SDCCC's fair value hierarchy for reporting its investments as of June 30, 2018:

	<u>Fair Value</u>	<u>Level 2</u>
Investments at fair value level		
U.S. Treasury Bills	\$ 299,211	\$ 299,211
U.S. Agency Obligations	2,743,588	2,743,588
Commercial Paper	1,844,636	1,844,636
Negotiable Certificates of Deposit	1,300,042	1,300,042
Total investments at fair value	<u>6,187,477</u>	<u>6,187,477</u>
Investments measured at amortized cost:		
Repurchase Agreement	<u>1,200,000</u>	
Investments measured at the net asset value (NAV):		
Government Money Market Mutual Funds	<u>4,034,783</u>	
Total investments	<u>\$ 11,422,260</u>	

SAN DIEGO CONVENTION CENTER CORPORATION

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

**NOTE 3. CASH AND INVESTMENTS, RESTRICTED CASH
AND RESTRICTED INVESTMENTS (Continued)**

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.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the securities may fall due to changes in interest rates. SDCCC mitigates this risk by investing in short-term securities of less than a year in order to meet operational cash requirements, structuring the investment portfolio to allow securities to mature to avoid selling on the open market. As of June 30, 2018, SDCCC's investment interest rate risk by maturity is as follows:

	Investment Maturity in Months			Fair Value
	Under 1	1 - 6	6 - 12	
U.S. Treasury bills	\$ -	\$ 299,211	\$ -	\$ 299,211
U.S. Agency obligation	499,350	2,244,238	-	2,743,588
Commercial Paper	499,517	1,345,119	-	1,844,636
Negotiable Certificats of Deposit	-	1,300,042	-	1,300,042
Government Money Market Mutual Funds	1,650,723	-	2,384,060	4,034,783
Repurchase Agreement	1,200,000	-	-	1,200,000
	<u>\$ 3,849,590</u>	<u>\$ 5,188,610</u>	<u>\$ 2,384,060</u>	<u>\$ 11,422,260</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). The 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, 2018, SDCCC's investment and correspondieng credit ratings are follows:

	<u>Fair Value</u>	<u>Credit Rating</u>
U.S. Treasury Bills	\$ 299,211	Exempt
U.S. Agency Obligations	2,743,588	A-1+
Commercial Paper	796,192	A-1+
Commercial Paper	1,048,444	A-1
Negotiable Certificates of Deposit	600,028	A-1+
Negotiable Certificates of Deposit	700,414	A-1
Government Money Market Mutual Fund	1,650,723	AAA
Government Money Market Mutual Fund	2,384,060	Not Rated
Repurchase Agreement	1,200,000	AAA

SAN DIEGO CONVENTION CENTER CORPORATION

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

**NOTE 3. CASH AND INVESTMENTS, RESTRICTED CASH
AND RESTRICTED 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. A summary of disclosures related to concentration of credit risk as of June 30, 2018 is as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>
Federal Home Loan Bank	U.S. Agency Securities	\$ 1,950,702
INTL FCStone Financial Inc.	Repurchase Agreement	1,200,000

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
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018, is as follows:

	<u>Beginning Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers In/(Out)</u>	<u>Ending Balance June 30, 2018</u>
Non-Depreciable Capital Assets:					
Construction in progress	\$ 3,980,097	\$ 15,062,112	\$ -	\$ (16,070,906)	\$ 2,971,303
Depreciable Capital Assets:					
Furniture, equipment and software	5,349,561	495,211	(752,213)	12,325	5,104,884
Leasehold improvements	40,929,180	-	(176,243)	15,804,852	56,557,789
Total Depreciable Capital Assets	46,278,741	495,211	(928,456)	15,817,177	61,662,673
Less Accumulated Depreciation:					
Furniture, equipment and software	(3,871,318)	(369,735)	745,937	-	(3,495,116)
Leasehold improvements	(22,798,268)	(1,945,665)	176,243	-	(24,567,690)
Total Accumulated Depreciation	(26,669,586)	(2,315,400)	922,180	-	(28,062,806)
Total Depreciable Capital Assets - Net	19,609,155	(1,820,189)	(6,276)	15,817,177	33,599,867
Capital Assets, Net	<u>\$ 23,589,252</u>	<u>\$ 13,241,923</u>	<u>\$ (6,276)</u>	<u>\$ (253,729)</u>	<u>\$ 36,571,170</u>

Depreciation expense for the year ended June 30, 2018 was \$2,315,400. \$343,214 of interest incurred during the year ended June 30, 2018 was capitalized.

NOTE 5. LONG-TERM LIABILITIES

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2018 is as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>	<u>Current Portion</u>
Compensated Employee Absences	\$ 1,341,848	\$ 1,478,776	\$ (1,622,768)	\$ 1,197,856	\$ 1,197,856

B. *Notes Payable and Financing Lease*

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.

SAN DIEGO CONVENTION CENTER CORPORATION
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 5. LONG-TERM LIABILITIES (Continued)

On December 6, 2016, SDCCC (lessee) together with the City jointly entered into a financing lease agreement with the California Infrastructure and Economic Development Bank (I-Bank), as the lessor, in which the lessor financed facilities and building improvements anticipated to cost a total of approximately \$25,300,000. The total loan amount is \$25,500,000 with a 3.59% annual interest rate, a 0.3% annual fee based upon the outstanding loan balance, and a repayment period of 25 years. The principal repayment commences on August 1, 2019 and ends on August 1, 2041. Per agreement with the City, SDCCC will budget for and make payments on the full amount due under the financing lease annually beginning on August 1, 2019. In any given year, to the extent that financing lease payment obligations and 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, 2018, is as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>
CG 7600 LP	\$ 12,634	\$ -	\$ (2,197)	\$ 10,437	\$ 2,197
I-Bank financing lease	25,500,000	-	-	25,500,000	-
Total	<u>\$ 25,512,634</u>	<u>\$ -</u>	<u>\$ (2,197)</u>	<u>\$ 25,510,437</u>	<u>\$ 2,197</u>

Annual requirements to amortize the notes payable as of June 30, 2018, including interest payments to maturity, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Fee</u>	<u>Total</u>
2019	\$ 2,197	\$ 915,450	\$ -	\$ 917,647
2020	734,170	891,362	76,500	1,702,032
2021	760,448	864,219	74,304	1,698,971
2022	787,669	836,102	72,029	1,695,800
2023	815,318	806,976	69,673	1,691,967
2024 - 2028	4,528,058	3,560,044	309,949	8,398,051
2029 - 2033	5,401,336	2,658,029	236,973	8,296,338
2034 - 2038	6,443,033	1,582,051	149,923	8,175,007
2039 - 2042	6,038,208	352,776	46,085	6,437,069
Total	<u>\$ 25,510,437</u>	<u>\$ 12,467,009</u>	<u>\$ 1,035,436</u>	<u>\$ 39,012,882</u>

SAN DIEGO CONVENTION CENTER CORPORATION

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2018

NOTE 6. 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, 2018, SDCCC received \$3,436,000 from the City, of which \$1,971,000 was used to fund marketing contract expenses paid to the San Diego Tourism Authority related to certain sales, marketing and promotional aspects of long-term events at the Convention Center. The remaining \$1,465,000 was used to fund various capital projects.

Moving into FY 2019, SDCCC anticipates that contributions from the City will be reduced to \$2,133,025, to be used to fund marketing contract expenses.

NOTE 7. 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 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, 2018, pension expense amounted to \$1,246,876 with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$19,105. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

SAN DIEGO CONVENTION CENTER CORPORATION
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 8. 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
2019	\$ 141,908
2020	145,980
2021	149,973
2022	153,905
2023	118,356
	<u>\$ 710,122</u>

Rental income related to the sublease was \$136,708 for the year ended June 30, 2018.

SDCCC as Lessee

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

Year Ending June 30,	Amount
2019	\$ 241,384
2020	247,457
2021	251,106
2022	228,813
2023	175,307
Total	<u>\$ 1,144,067</u>

Lease expense for the year ended June 30, 2018 was \$233,984.

SAN DIEGO CONVENTION CENTER CORPORATION
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 8. COMMITMENTS (Continued)

Construction Commitments

SDCCC has material commitments under construction contracts as of June 30, 2018 as follows:

<u>Construction Projects</u>	<u>Remaining Construction Value</u>	<u>Expected Completion Year</u>
Rooftop HVAC Replacement	\$ 906,453	FY 2021
Retrofit Elevators	725,783	FY 2019
Convert Pneumatic Controls	723,520	FY 2019
Proximity Lock Replacement	457,742	FY 2020
Cooling Actuators	309,579	FY 2019
Fire Alarm System Replacement	119,227	FY 2019
	<u>\$ 3,242,303</u>	

NOTE 9. 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 three fiscal years.

OTHER REPORT

**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 Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SDCCC's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SDCCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SDCCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Macias Gini & O'Connell LLP

San Diego, California
October 29, 2018



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