

SAN DIEGO convention center CORPORATION

EXAMPLE 7

letter from the **Vice Chair**



It has been my honor to serve as the Vice Chair of the San Diego Convention Center Corporation's Board of Directors and I am proud to report a record Fiscal Year 2017. The 149 events that filled our facility generated an estimated \$1.1 billion in regional economic impact for San Diego. This is a reflection of our dedicated team of over 400 full-time and part-time employees which truly make up the best team in the industry.

The San Diego Convention Center is one of the most impactful economic engines in the region. Through our events, 898,913 individuals went through our doors between July 1, 2016 and June 30, 2017. They contributed to the San Diego economy, helping fund police and fire services, repair our streets and contribute to the quality of life of San Diegans. These attendees directly spent \$673.9 million in our region – the second highest spending level in our history. Through just this direct spending, they generated a total hotel and sales tax revenue of \$25.4 million to the City of San Diego's general fund.

Perhaps the most remarkable statistic of our success this year is the convention center's occupancy. While the national average for occupancy is approximately 50 percent, the San Diego Convention Center had a 76 percent occupancy for FY17, which is the second highest in our history.

Throughout FY17, we invested the strong revenues generated by our operations right back into the building. This year alone, we set a record for capital projects, spending \$13.67 million dollars to modernize and improve the San Diego Convention Center.

We welcome you to explore the financial highlights of your San Diego Convention Center generated in Fiscal Year 2017 in the following pages and join us in celebrating another successful year of contributing to the San Diego economy.

GIL CABRERA VICE CHAIR, BOARD OF DIRECTORS





FY17 Board of Directors

A seven-member board of directors comprised of business and community leaders establishes policy for the San Diego Convention Center Corporation.





XEMA JACOBSEN Secretary



Chair

STEVE CUSHMAN Board Member



AIMEE FAUCETT Board Member



LAURIE COSKEY Board Member



TUNI KYI Board Member

letter from the **President & CEO**



I have had the honor of serving as the President & CEO of the San Diego Convention Center Corporation for a year and a half now, and I'm proud to report another strong fiscal year, including some record-breaking figures. This success is the result of our hard-working, experienced and skilled staff, in-house partners and the relationships we have nurtured with customers over nearly 29 years of operation.

For that I want to say a heartfelt, "Thank You."

Thank you to our clients and customers who continue to bring their business to the destination, accounting for 70 percent repeat business. I want to thank to all the guests we've served from around the world. For many of them, their first experience in San Diego is as a convention attendee. And I want to thank our staff and partners who help us fulfill our promise of providing outstanding customer service in every duty; whether it's the cleaning of the facility, cooking and serving meals, setting up the exhibit floor, providing audio-visual and telecomm services, or the safety and security of the facility. Each one of us is committed to our purpose to be the region's premier gathering place, and we live out our core values of **Integrity, Courage**, **Accountability, Service** and **Collaboration**.

Every event matters to us, and each one economically benefits the city and region of San Diego. From the cosplay of Comic-Con International to the research unveiled at BIO International Convention.

We are San Diego.

CLIFFORD "RIP" RIPPETOE, CFE | PRESIDENT & CEO





Throughout this year's report, we are showcasing our staff and photographs that staff members have taken. Many of them have been employees of the San Diego Convention Center since we opened our doors in November of 1989.



FY17 Performance Summary







Hotel Room Nights RECORD



Hotel & Sales Tax Revenue to the City of San Diego





The results are based on information and research provided by San Diego-based CIC Research, Inc. and by Destination Marketing Association International. Hotel Room Nights figure represents the reported contracted room block from Show Management.





- + In the conventions and meeting industry, the national average for occupancy is 50 percent.
- + At 60 percent, business is often turned away.
- + Practical maximum occupancy is 70 percent.

Attendee Spending

The San Diego Convention Center helps drive business to local bars and restaurants, shopping venues, hotels, attractions and special event venues. We are an economic engine that produces a "ripple effect" into the economy that reaches across the county. The employees that work in our neighboring businesses are able to take their income and reinvest it throughout the County of San Diego.

FY17 Average Spending Per Convention Attendee





Local Transportation



Meeting Planners & Exhibitor Event Costs \$276 \$188M total for year



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



Each week, our staff and labor partners build a small city inside the San Diego Convention Center. For our customers and guests, it's the most important week of their year. Then we tear it down, and do it all over again the next week. And the next, and the next, all to benefit the regional economy. ??

Rip Rippetoe President & CEO

San Diego Convention Center **Highlights of FY17**

JULY

The San Diego Convention Center is transformed into the world's largest interactive baseball theme park for the 2016 MLB All-Star FanFest.

HOFFMAN

DEC

\$25.5 million loan from the California Infrastructure Bank funds capital improvement projects.

APR

San Diego Convention Center earns LEED Gold Certification from U.S. Green Building Council.

MAY

San Diego named 5th top meeting destination by Cvent.



JUNE

BIO International Convention returns to San Diego.





Photos by

(top left) Diana Valdes Executive Assistant

(bottom left)

Arturo Cano Building Services Worker Floater

(this page)

Craig Sullivan

Medical Conventions

A record 21 medical conventions were held in fiscal year 2017. Medical meetings represented 22 percent of overall attendance while accounting for 49 percent of the convention center's regional economic impact.

FY17 Average Spending Per Medical Convention Attendee



Lodaina 5612 \$122.1M total for year



Meals/Beverages S204 \$40.8M total for year



Retail Shopping \$22.1M total for year



Admissions 563 \$12.6M total for year



Air Transportation \$103 \$20.5M total for year







Miscellaneous \$21 \$4.1M total for year

Local Transportation



Meeting Planners & Exhibitor Event Costs 7/7/\$95.2m total for year

SAL RECORD

Total Average Spending Per Attendee \$327.9M total for year

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





6 Our attendees like places where they can walk, so San **Diego fits... And in terms of** the closeness of the hotels to the center, we are able to do a much smaller shuttle bus route than we do in other cities, so that's very attractive. And our attendees like to go out to nice restaurants for dinner, which you have plenty, and again so many in walking distance.

> **Cathy Nash** CMP Director of Meetings & Conventions APA (American Psychiatric Association)

One infrastructure item that is a great appeal to us is the amount of contiguous space at this convention center... In addition, the state of California is a great hub of innovation and invigoration, and another key driver for companies that present and exhibit at our show. **??**

> Kareem Jenkins Director of Meetings for AACC (American Association for Clinical Chemistry)



LIMIT

Top 5 Events **Regional Impact**





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.



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Top 10 Events by Hotel & Sales Tax Revenue

Conventions fuel the economy of the region and the City of San Diego. For each citywide convention, the hotel and sales tax revenue that results from hotel meeting blocks feeds directly into the city's general fund. That is used to pave community streets, build libraries and parks, and pay salaries for firefighters and police officers.

San Diego Comic-Con International \$3,139,531

5 American Association of Orthodontists

Annual Session \$1,064,964 International Association of Chiefs of Police \$1,046,289

O IACP

American Diabetes Association \$1,023,108

Where are you from?

American Diabetes Asso



Sustainability Superheroes

The 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.

This year, we earned **LEED Gold** certification from the U.S. Green Building Council, due in part to the achievements listed below.

In addition, the convention center also earned The Port of San Diego's Green Business Network Award for **Overall Sustainable Achievement** and the Recycler of the Year honor from the City of San Diego.



WASTE MINIMIZATION

0% of waste generated was diverted from landfills



CARDBOARD RECYCLING

00% or cardboard

was recycled



ENERGY CONSERVATION

light fixtures were converted to LEDs in the exhibit hall



FOOD COMPOSTING

Tons of non-edible food was composted



MATERIAL RECYCLING

tons of materials were recycled





In addition, our in-house food and beverage team Centerplate is committed to buying local. They use proteins and produce from local vendors and farmers within a 100-mile radius of our facility.

Angel's Salumi & Truffles Beck Grove Catalina Offshore Connelly Gardens Dassi Family Farms Fresh Origins Go Green Organic JR Organic Koral Tree Farms Max's Honey House New City Farms O'Briens Bakery Rainbow Valley Orchards Stehly Farms Valdivia farms Vivian Organic Weiser Farms

Photos by

(this page) Vincent Bryant Catering Coordinator

(top right)

Alex Pena Security Services Representative

(bottom right)

Ann Vu Advertising Sales Representative



Community & Volunteerism

Your convention center gives back.

Along with our commitment to being a sustainable venue by diverting waste from landfills, the San Diego Convention Center has a commitment to helping the community by donating untouched food and leftover conference materials.





In FY17, we donated 54.5 TONS of untouched food to the

San Diego Rescue Mission – enough to plate...

87,000 MEALS

This is a relationship in our community that we've valued for over 15 years.



We also don't let materials leftover from events go to waste. A total of 8.4 tons of leftover materials in FY17 went to benefit the following organizations:

Beckworth Library California Restaurant Association Camarena Elementary City Tree School El Cajon High School Refugee Program Elks Lodge 598 God's Way Church Habitat for Humanity Logan Elementary Martin Luther King High School - NJROTC Senior Naval Science New Life Center Rancho Cucamonga Sea Cadets San Diego E-Waste San Diego State University Marching Aztecs Color Guard / Aztec Winter Guard San Diego Youth Services - Golden Hill Youth Center Sterling Solution Technology Training Foundation of America

Our staff of the San Diego Convention Center is instilled with the spirit of giving and living out the organization's core values in the community: Integrity, Service, Accountability, Courage and Collaboration. This year, we had the pleasure of volunteering with partners like Monarch School, United Way, Toys for Tots and the San Diego LGBT Center.

FY17 Revenue Sources

The San Diego Convention Center Corporation is a public-benefit, non-profit Corporation. It was created by the City of San Diego to manage, market and operate the San Diego Convention Center. The building is owned by the Port of San Diego.

The convention center has three primary drivers of revenue:

1. Building Rent

2. Food and Beverage Commissions from our in-house catering provider, Centerplate

Accounts for the convention center's single largest functional revenue source.

3. Ancillary Revenues

Combination of revenues generated from advertising, audiovisual, utilities, in-house cleaning as well as telecommunications and Internet service.

In addition, the City of San Diego provides funding to the Corporation for sales and marketing as well as capital expenses.





TOTAL FY17 REVENUES

TOTAL FY17 OPERATING EXPENSES \$34.8M





Photos by (from left to right) Francisco Magdaleno Technician

Eva Wilfinger Department Assistant

Tim Pontrelli Senior Event Manager

Capital Projects

The San Diego Convention Center launched the largest series of upgrades in the building's history beginning this fiscal year.

Eight capital improvement projects secured funding through the approval of a state loan totaling \$25.5 million. The loan, co-signed by the City of San Diego, is the largest ever approved by the California Infrastructure and Economic Development Bank (IBank). The IBank program was created to finance infrastructure that promotes a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities.

The most recognizable project is the renovation of the iconic Sails Pavilion, a signature symbol of the facility since it opened in 1989. The upgrades began with the replacement of the concrete floors, as well as a new roof replacement currently underway. Escalators and elevators are also being upgraded, as well as fire-safety systems and cooling towers.

In addition to these projects, several other key building enhancements took place, including the installation of LED lights throughout the exhibit floor space and approved funding for 10,000 new folding chairs and more than 12,000 new meeting room chairs, providing a modern look and added comfort to our meeting spaces. Additionally, we have purchased risers, contemporary podiums and easels.





Return on Investment (ROI)

What is the value of a convention center? Our purpose is to be 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.

The city invested:

\$3.4M in marketing for the San Diego Tourism Authority and capital expenses \$12.6M in expansion contribution bonds \$0.7M in dewatering expenses

The San Diego Convention Center generated: \$25.4M in taxes that went straight to the city's General Fund

That's a total investment of **\$16.7 million** resulting in a **\$8.7 million** return on investment.





FY17 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, 2017



San Diego Convention Center Corporation Annual Financial Report

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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, 2017, 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, 2017, 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 3-9 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 25, 2017, 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 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 LP

San Diego, California October 25, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis For the Year Ended June 30, 2017 (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, 2017. 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, deferred outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2017. 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, 2017.

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.

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2017 (Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net position comparing FY 2017 with FY 2016.

| | FY 2017 | FY 2016 | Percentage Increase (Decrease) |
|--|---------------|---------------|--------------------------------------|
| ASSETS: | | | (Deereuse) |
| Cash | \$ 10,951,043 | \$ 12,544,121 | (13%) |
| Receivables | 8,373,155 | 7,658,400 | 9% |
| Prepaid expenses | 630,506 | 821,668 | (23%) |
| Deposits with others | 124,702 | 112,959 | 10% |
| Inventory | 38,416 | 38,416 | |
| Restricted cash - I-Bank contingency | 826,954 | | |
| Restricted investment - I-Bank construction fund | 19,128,822 | | |
| Capital assets, net | 23,589,252 | 11,706,839 | 101% |
| Total assets | 63,662,850 | 32,882,403 | 94% |
| LIABILITIES: | | | |
| Accounts payable | 1,068,083 | 744,057 | 44% |
| Accrued liabilities and compensated absences | 4,108,732 | 2,932,720 | 40% |
| Unearned income | 5,741,756 | 5,380,957 | 7% |
| Current portion of long-term debt | 2,197 | 2,197 | |
| Long-term portion of unearned | 4 07 4 705 | | (110/) |
| income | 4,874,725 | 5,501,155 | (11%) |
| Long-term debt | 25,510,437 | 12,635 | 201,819% |
| Total liabilities | 41,305,930 | 14,573,721 | 183% |
| NET POSITION: | | | |
| Net investment in capital assets | 16,898,738 | 11,692,007 | 45% |
| Restricted – I-Bank contingency | 826,954 | | |
| Unrestricted | 4,631,228 | 6,616,675 | (30%) |
| Total Net Position | \$ 22,356,920 | \$ 18,308,682 | 22% |

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2017 (Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Assets

Total Assets of \$63.7 million at FY 2017 year-end increased by \$30.8 million, or 94%, from the prior yearend balance of \$32.9 million. The changes were substantially the result of acquiring restricted cash from loan proceeds received, with a net balance of \$19.1 million at the year-end, from the California Infrastructure and Economic Development Bank ("I-Bank") related to capital infrastructure improvement projects, as well as capital asset purchases, net of depreciation, of \$11.9 million, a 101% increase compared to prior-year. The loan proceeds are earmarked for specific capital infrastructure improvement projects which funded \$0.3 million of loan initiation costs and \$6.1 million of infrastructure project costs by yearend.

Liabilities

Total Liabilities of \$41.3 million at FY 2017 year-end increased by \$26.7 million, or 183%, from a balance of \$14.6 million in FY 2016. The change was due to an increase in long-term debt of \$25.5 million, as a result of securing a \$25.5 million I-Bank loan for capital infrastructure improvement project costs, as well as a \$1.2 million, or 40%, increase in accrued liabilities for accrued loan payable interest expense due in August 2017, and from an increase in retention liabilities for capital infrastructure projects.

Net Position

Total Net Position of \$22.4 million at FY 2017 year-end increased by \$4.0 million, or 22%, compared to the prior year balance of \$18.3 million. Net investment in capital assets increased by \$5.2 million compared to the prior year due to capital expenses exceeding depreciation expense and retention liabilities, net of loan proceeds received during FY 2017. The increase in restricted net position of \$0.8 million was the result of reserve requirements related to the I-Bank financing lease agreement established from existing SDCCC resources, which reduced unrestricted net position by the same amount. Unrestricted net position decreased by \$2.0 million compared to the prior year due to \$5.2 million investment of capital assets as well as the \$0.8 million reserve requirements exceeding the increase of \$4.0 million excess revenues over expenses at year-end. SDCCC expects to receive reimbursements of \$2.8 million in October 2017 from I-Bank proceeds related to infrastructure capital assets purchased at year-end which caused a temporarily decrease in unrestricted net position at year-end.

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2017 (Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The following table summarizes the changes in net position for SDCCC comparing FY 2017 with FY 2016.

| | FY 2017 | FY 2016 | Percentage Increase (Decrease) |
|--|---------------|---------------|--------------------------------------|
| Operating Revenues: | | | |
| Rental | \$ 9,178,411 | \$ 8,617,929 | 7% |
| Food and beverage | 11,330,266 | 9,170,843 | 24% |
| Ancillary services Contributions from the City of | 15,997,246 | 13,460,121 | 19% |
| San Diego | 3,436,000 | 3,405,000 | 1% |
| Other revenue | 83,445 | 43,345 | 93% |
| Total operating revenues | 40,025,368 | 34,697,238 | 15% |
| Operating Expenses: | | | |
| Salaries and benefits | 21,468,463 | 21,464,772 | |
| Services and supplies | 11,012,446 | 9,042,903 | 22% |
| Depreciation | 1,778,470 | 1,603,504 | 11% |
| Marketing contract | 1,931,000 | 1,931,000 | |
| Total operating expenses | 36,190,379 | 34,042,179 | 6% |
| Operating Income | 3,834,989 | 655,059 | |
| Nonoperating Revenues (Expense | s): | | |
| Interest income | 77,791 | 3,870 | 1,910% |
| Interest expense | (151,469) | | |
| Loan origination fee | (255,000) | | |
| Loss on disposal of capital assets | (418,255) | (8,822) | 4,641% |
| Other income | 791,631 | 797,786 | (1%) |
| Total nonoperating revenues (expenses), net | 44,698 | 792,834 | |
| Income before capital contributions | 3,879,687 | 1,447,893 | |
| Capital Contributions | 168,551 | 84,226 | 100% |
| Change in net position | 4,048,238 | 1,532,119 | |
| Net position - beginning of year | 18,308,682 | 16,776,563 | |
| Net position - end of year | \$ 22,356,920 | \$ 18,308,682 | 22% |

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2017 (Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Operating Revenues

Total operating revenues generated in FY 2017 amounted to \$40.0 million, a \$5.3 million, or 15% increase compared to the prior year's total of \$34.7 million. The change was primarily the result of increased event spending per attendee along with a higher contracted data, internet and telecommunications service commission rate which resulted in increased ancillary services of \$2.5 million, or 19%, increased food and beverage commissions of \$2.2 million, or 24%, as well as increased rental revenue of \$0.6 million, or 7%, compared to prior year.

Operating Expenses

Total operating expenses incurred during FY 2017 amounted to \$36.2 million, a \$2.1 million, or 6% increase compared to the prior year's total of \$34.0 million. Services and supplies increased by \$2.0 million, or 22%, compared to prior year primarily due to non-capitalized replacement costs for various furniture, fixtures and equipment, including \$1.2 million for folding chairs as well as an increase of \$0.3 million related to building maintenance and repair costs. A small increase in depreciation expense of \$0.2 million, or 11%, resulted from increased capital asset purchases.

Nonoperating Revenues and Expenses

During FY 2017, nonoperating revenues and expenses produced netted to virtually zero, with offsetting category fluctuations, compared to \$0.8 million of net revenues in the prior year. The decrease of \$0.8 million was the result of I-Bank loan origination fees and interest expense of \$0.4 million, as well as \$0.4 million loss on disposal of capital assets, net of accumulated depreciation.

CAPITAL ASSET ANALYSIS

As of June 30, 2017, SDCCC had a capital asset book value of \$23.6 million, net of accumulated depreciation of \$26.7 million, or 101% more than the prior year figure of \$11.7 million. Capital assets are spread across a broad range of computer, office and operating equipment, telecommunications and leasehold improvements. The gross value of capital purchases in FY 2017 of \$13.9 million, of which \$9.5 million related to capital infrastructure improvements projects funded from I-Bank loan proceeds, were directly offset by disposals of \$0.4 million.

Major capital asset additions during FY 2017 included:

- \$3,674,711 for concrete replacement in the Sails Pavilion
- \$1,608,671 for escalator retrofit work
- \$1,608,478 for cooling tower replacements
- \$1,333,234 for Sails Pavilion roof fabric replacement
- \$910,419 for elevator modernization work

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2017 (Unaudited)

DEBT ANALYSIS

Effective December 6, 2016, SDCCC together with the City of San Diego jointly entered into a financing lease agreement with the California Infrastructure and Economic Development Bank to finance capital infrastructure improvement projects. The agreement calls for the total loan amount of \$25.5 million to be amortized beginning August 1, 2019, at a 3.59 percent annual interest rate and a 0.3 percent annual fee on outstanding loan balance with a maturity of 25 years. 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. For the year ended June 30, 2017, SDCCC accrued \$521,097 in interest that is due and payable in August 2017.

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. In the event the Lessee does not exercise the option to extend, the unamortized portion becomes payable and due upon termination of the contract. For the year ended June 30, 2017, SDCCC paid \$2,197 in principal payments on the warehouse loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2017 operational contributions from the City were budgeted and approved by the City at \$3,436,000, a 0.9% increase compared to prior year contributions. The contribution had been flat for the previous six years. As described in Note 6, contributions from the City funded marketing, promotion and capital projects for the Convention Center. During FY 2017, total expenses on 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)). A contract between SDCCC and SDTA exists detailing the terms set forth by the City. For the year ended June 30, 2017, SDCCC paid \$1.9 million in marketing contract payments to SDTA.

Management is anticipating a decrease in financial performance during FY 2018 as compared to FY 2017 due primarily to events not generating as high a level of revenue as compared to prior year. The City's operational contributions to SDCCC are anticipated to remain at \$3,436,000.

Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2017 (Unaudited)

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.

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BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2017

| ASSETS | |
|---|---------------|
| Current assets: | |
| Cash | \$ 10,951,043 |
| Receivables | 5,623,155 |
| Prepaid expenses | 630,506 |
| Deposits with others | 124,702 |
| Inventory | 38,416 |
| Total current assets | 17,367,822 |
| Noncurrent assets: | |
| Restricted cash - I-Bank contingency reserve | 826,954 |
| Restricted investment - I-Bank construction loan proceeds | 19,128,822 |
| Receivables | 2,750,000 |
| Capital assets: | |
| Construction in progress | 3,980,097 |
| Furniture, equipment and software | 5,349,561 |
| Leasehold improvements | 40,929,180 |
| Less accumulated depreciation | (26,669,586) |
| Total capital assets | 23,589,252 |
| Total noncurrent assets | 46,295,028 |
| TOTAL ASSETS | 63,662,850 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 1,068,083 |
| Accrued liabilities | 2,766,884 |
| Unearned income | 5,741,756 |
| Compensated employee absences | 1,341,848 |
| Current portion of long-term debt | 2,197 |
| Total current liabilities | 10,920,768 |
| Noncurrent liabilities: | |
| Long-term debt | 25,510,437 |
| Long-term portion of unearned income | 4,874,725 |
| Total noncurrent liabilities | 30,385,162 |
| TOTAL LIABILITIES | 41,305,930 |
| | |
| NET POSITION | |
| Net investment in capital assets | 16,898,738 |
| Restricted - I-Bank contingency | 826,954 |
| Unrestricted | 4,631,228 |
| TOTAL NET POSITION | \$ 22,356,920 |

San Diego Convention Center Corporation Statements of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2017

Operating Revenues Rental Revenue: Convention and trade shows \$ 7.262.536 Corporate/incentive events 618,226 602,135 Consumer shows Meetings and seminars 222,687 Cancelled events 118,461 Community events 227.650 Local trade shows 126,716 11,330,266 Food and beverage revenue Ancillary service revenue: Utilities 5,687,813 Telecommunications 4,777,060 Event and cleaning services 3,936,169 Audio visual 1,596,204 Contributions: City of San Diego 3,436,000 Other revenue 83,445 Total operating revenues 40,025,368 **Operating Expenses** Salaries and wages 16,673,164 Fringe benefits 4,795,299 Utilities 4,004,904 General 2,591,627 Repairs and maintenance 2,413,177 Contractual marketing and sales 1,931,000 Depreciation 1,778,470 793,967 Contracted services Supplies 638,067 Insurance 324,377 Sales and marketing 122,544 Travel and transportation 81,757 Telecommunications 42,026 36,190,379 Total operating expenses 3,834,989 Operating income **Nonoperating Revenues** Interest income 77,791 Interest expense (151,469) Loan origination fee (255,000) Loss on disposal of capital assets (418,255) Other income 791,631 Total nonoperating revenues 44,698 Income before capital contributions 3,879,687 **Capital contributions** 168,551 Change in net position 4,048,238 Net position - beginning of year 18,308,682 Net position - end of year 22,356,920 \$

See accompanying notes to the basic financial statements.

Statement of Cash Flows For the Year Ended June 30, 2017

| CASH FLOWS FROM OPERATING ACTIVITIES | |
|---|------------------|
| Receipts from customers | \$ 36,400,613 |
| Contributions received from City of San Diego | 3,436,000 |
| Payments to suppliers for goods and services | (12,738,003) |
| Payments to employees for services | (21,378,502) |
| Net cash provided by operating activities | 5,720,108 |
| CASH FLOWS FROM CAPITAL AND | |
| RELATED FINANCING ACTIVITIES | |
| Acquisition and construction of capital assets | (12,692,426) |
| Proceeds from financing lease payable | 6,116,178 |
| Principal payments on note payable | (2,198) |
| Proceeds from the sale of capital assets | 14,423 |
| Net cash used by capital and related financing activities | (6,564,023) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | 77,791 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (766,124) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 12,544,121 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 11,777,997 |

Statement of Cash Flows For the Year Ended June 30, 2017

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

| Cash Restricted cash - I-Bank contingency reserve | \$ 10,951,043 826,954 |
|--|-----------------------------|
| Total cash and cash equivalents | \$ 11,777,997 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income | \$ 3,834,989 |
| Adjustments to reconcile operating income to net cash | |
| provided by operating activities: | |
| Depreciation | 1,778,470 |
| Other income | 791,631 |
| Changes in operating assets and liabilities: | |
| Increase in receivables | (714,755) |
| Decrease in prepaid expenses | 191,162 |
| Increase in deposits with others | (11,743) |
| Increase in accounts payable | 26,024 |
| Increase in accrued compensated absences | 22,068 |
| Increase in accrued liabilities | 67,893 |
| Decrease in unearned income | (265,631) |
| Net cash provided by operating activities | \$ 5,720,108 |
| NONCASH CAPITAL AND FINANCING ACTIVITIES | |
| Capital asset contributions | \$ 168,551 |
| Financing lease proceeds deposited to a restricted investment for construction costs | 25,500,000 |
| Loan origination fee paid from financing lease proceeds | (255,000) |
| Acquisition of capital assets included in accounts payable and accrued liabilities | 862,755 |
| Capitalized interest | 369,829 |
| Carrying value of disposed capital assets | (432,678) |
| | (|

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Notes to the Basic Financial Statements For the Year Ended June 30, 2017

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 of San Diego.

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 fund restiricted investmentis not considered as cash and cash equivalents.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Accounts Receivable

Long-term receivables in the amount of \$2,750,000 represent incentive payments to be received by SDCCC in equal installments of \$625,000 on July 1, 2018 and January 1, 2019, and 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. Prepaid Expenses

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

E. Inventory

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

F. Capital Assets

Capital assets are reported at cost. Capital assets are defined as assets with initial cost of more than \$5,000 per item and a useful life of greater than one year. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|--|---------|
| Data processing equipment and software | 3 |
| Telecommunication equipment | 5 |
| Office furniture and operating equipment | 7 - 15 |
| Leasehold improvements | 10 - 30 |

G. 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.

H. 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 80 hours paid compensation in lieu of annual leave provided they maintain a minimum balance of 40 hours. Additionally, part-time employees who have PTO balances in excess of 24 hours at fiscal year-end are paid their excess annual leave balance within 30 days of fiscal year-end and carry over the remaining balance each year.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Components of Net Position

<u>Net Investment in Capital Assets</u> – 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, 2017 was \$19,128,822.

<u>Restricted</u> – This amount consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2017, the amount of restricted net position was \$826,954 due to the required reserves to the financing lease agreement.

<u>Unrestricted</u> – This amount is the portion of net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

J. 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).

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the Unites 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.

NOTE 3. CASH/RESTRICTED CASH AND RESTRICTED INVESTMENT

At June 30, 2017, the book balance of SDCCC's cash on hand, deposits, and bank money market account deposits was \$11,777,997 and the bank balance was \$11,988,376. 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 by SDCCC's Board of Directors, which addresses custodial credit risk, credit quality risk and allowable investments. SDCCC places no limit on the amount that may be invested in any one account or fund. SDCCC's allowable investments include: obligations of the U.S. government, its agencies and instrumentalities; investment grade state and local government securities; certificates of deposit; bankers' acceptances; repurchase agreements; and money market mutual funds whose portfolios consist only of domestic securities.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 3. CASH/RESTRICTED CASH AND RESTRICTED INVESTMENT (Continued)

Cash/restricted cash and restricted investment are categorized as follows at June 30, 2017:

| Cash and restricted cash: | |
|--|------------------|
| Cash on hand | \$ 287,803 |
| Deposits | 2,313,105 |
| Bank money market account deposits | 9,177,089 |
| Cash and restricted cash | 11,777,997 |
| Restricted investment: | |
| Government money market mutual fund | 19,128,822 |
| Total cash/restricted cash and restricted investment | \$ 30,906,819 |

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. The government money market mutual fund is measured at fair value using the net asset value (NAV) per share. As such, the investment in the government money market mutual fund is not classified pursuant to the fair value hierarchy.

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017, is as follows:

| | 0 | nning Balance Ine 30, 2016 | | ditions and ransfer In | | letions and ansfers Out | Ending Balance June 30, 2017 | | |
|--|----|-------------------------------|----|---------------------------|----|----------------------------|---------------------------------|-------------------------|--|
| Non-Depreciable Capital Assets: | ¢ | | | 5 1 (1 702 | ¢ | (2,579,694) | ¢ | 2 090 007 | |
| Construction in progress | \$ | 1,397,078 | \$ | 5,161,703 | \$ | (2,578,684) | \$ | 3,980,097 | |
| Depreciable Capital Assets: Furniture, equipment and software Leasehold improvements | | 4,669,700 30,957,699 | | 781,487 10,886,141 | | (101,626) (914,660) | | 5,349,561 40,929,180 | |
| Total Depreciable Capital Assets | | 35,627,399 | | 11,667,628 | | (1,016,286) | | 46,278,741 | |
| Less Accumulated Depreciation: | | | | | | | | | |
| Furniture, equipment and software | | (3,667,882) | | (303,276) | | 99,840 | | (3,871,318) | |
| Leasehold improvements | | (21,649,756) | | (1,475,194) | | 326,682 | | (22,798,268) | |
| Total Accumulated Depreciation | | (25,317,638) | | (1,778,470) | | 426,522 | | (26,669,586) | |
| Total Depreciable Capital Assets - Net | | 10,309,761 | | 9,889,158 | | (589,764) | | 19,609,155 | |
| Capital Assets, Net | \$ | 11,706,839 | \$ | 15,050,861 | \$ | (3,168,448) | \$ | 23,589,252 | |

Depreciation expense for the year ended June 30, 2017 was \$1,778,470. \$369,829 of interest incurred during the year ended June 30, 2017 was capitalized.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 5. LONG-TERM LIABILITIES

A. Compensated Employee Absences

A summary of changes in accrued compensated employee absences for the year ended June 30, 2017 is as follows:

| | Balance June 30, 2016 Additions Retirements | | | | Balance Additions Retirements June 30, 2017 | | | | Current Portion |
|-------------------------------|--|-----------|----|-----------|---|-------------|----|-----------|--------------------|
| Compensated Employee Absences | \$ | 1,319,780 | \$ | 1,574,086 | \$ | (1,552,018) | \$ | 1,341,848 | \$ 1,341,848 |

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. In the event SDCCC does not exercise the option to extend the lease, the unamortized portion becomes payable and due upon termination of the contract.

On December 6, 2016, SDCCC (lessee) together with the City jointly entered into a financing lease agreement with California Infrastructure and Economic Development Bank (I-Bank), as the lessor, to finance capital infrastructure projects anticipated to cost a total of approximately \$23,300,000, which excludes capitalized interest. 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, 2017, is as follows:

| | Balance June 30, 2016 | | | | Ret | irements | Jı | Balance 1ne 30, 2017 | - | urrent Portion |
|------------------------|--------------------------|--------|----|------------|-----|----------|----|-------------------------|----|-------------------|
| CG 7600 LP | \$ | 14,832 | \$ | - | \$ | (2,198) | \$ | 12,634 | \$ | 2,197 |
| I-Bank financing lease | | - | | 25,500,000 | | - | | 25,500,000 | | - |
| Total | \$ | 14,832 | \$ | 25,500,000 | \$ | (2,198) | \$ | 25,512,634 | \$ | 2,197 |

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual requirements to amortize the notes payable as of June 30, 2017, including interest payments and the 0.3% annual fee on the financing lease to maturity, are as follows:

| Year Ending | | | | | |
|-------------|---------------|---------------|--------------|---------------|--|
| June 30, | Principal | Interest | Annual Fee | Total | |
| 2018 | \$ 2,197 | \$ 1,055,310 | \$ - | \$ 1,057,507 | |
| 2019 | 2,197 | 915,450 | - | 917,647 | |
| 2020 | 734,170 | 902,311 | 76,500 | 1,712,981 | |
| 2021 | 760,448 | 875,562 | 74,304 | 1,710,314 | |
| 2022 | 787,669 | 847,852 | 72,029 | 1,707,550 | |
| 2023 - 2027 | 4,372,784 | 3,787,517 | 323,062 | 8,483,363 | |
| 2028 - 2032 | 5,214,148 | 2,929,372 | 252,616 | 8,396,136 | |
| 2033 - 2037 | 6,219,743 | 1,905,725 | 168,582 | 8,294,050 | |
| 2038 - 2042 | 7,419,278 | 684,659 | 68,343 | 8,172,280 | |
| Total | \$ 25,512,634 | \$ 13,903,758 | \$ 1,035,436 | \$ 40,451,828 | |

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, 2017, SDCCC received \$3,436,000 from the City, of which \$1,931,000 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 \$1,505,000 was used to fund various capital projects.

Moving into FY 2018, SDCCC anticipates that contributions from the City will remain unchanged at \$3,436,000, of which \$1,931,000 is expected to be used for marketing contract expenses. The remaining \$1,505,000 is expected to fund capital projects at the Convention Center.

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.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 7. DEFINED CONTRIBUTION PLAN (Continued)

Employees are eligible to participate in the Plan on the first day of the month after completion of 1,000 hours of service during the twelve-month period beginning from the employee's hire date (or during any subsequent Plan 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, 2017, pension expense amounted to \$1,241,173, with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$3,482 SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

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. Future minimum annual rental lease revenues are as follows:

| Year Ending | | |
|-------------|------------|--|
| June 30, | Amount | |
| 2018 | \$ 102,358 | |

Rental income related to the sublease was \$133,852 for the year ended June 30, 2017.

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 | |
| 2018 | \$ 182,864 | |
| 2019 | 31,428 | |
| 2020 | 31,428 | |
| 2021 | 28,809 | |
| Total | \$ 274,529 | |

Lease expense for the year ended June 30, 2017 was \$229,074.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2017

NOTE 9. COMMITMENTS (Continued)

Construction Commitments

SDCCC has material commitments under construction contracts as of June 30, 2017 as follows:

| Construction Projects | | Remaining truction Value | Expected Completion Year |
|-----------------------------------|------|-----------------------------|-----------------------------|
| Construction 1 roje ets | Cons | nuction value | completion real |
| Sails Pavilion Fabric Replacement | \$ | 9,346,011 | FY 2018 |
| Retrofit Escalators | | 2,056,017 | FY 2019 |
| Replace Fire Cannons | | 1,567,898 | FY 2018 |
| Convert Pneumatic Controls | | 1,225,474 | FY 2018 |
| Fire Alarm System Replacement | | 973,439 | FY 2018 |
| Elevator Modernization | | 433,546 | FY 2019 |

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 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, 2017, and the related notes to the financial statements, which collectively comprise the SDCCCs basic financial statements, and have issued our report thereon dated October 25, 2017.

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 É O'Connell LP

San Diego, California October 25, 2017



To the Audit Committee and Board of Directors of the San Diego Convention Center Corporation San Diego, California

We have audited the financial statements of the San Diego Convention Center Corporation (SDCCC) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SDCCC are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2017. We noted no transactions entered into by SDCCC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting SDCCC's financial statements were:

• Management's estimate of the depreciation expense which is based on the useful lives of SDCCC's capital assets.

We evaluated the key factors and assumptions used to develop the estimate of depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SDCCC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SDCCC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis (MD&A), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors, the Audit Committee, and management of the San Diego Convention Center Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Macias Gini É O'Connell LP

San Diego, California October 25, 2017