SAN DIEGO CONVENTION CENTER CORPORATION

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

2019 Annual Financial Report

As of and for the Year Ended June 30, 2019

Certified Public Accountants

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
2019 Annual Financial Report
As of and for the Year Ended June 30, 2019

Table of Contents

MGO Certified Public Accountants

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, 2019, and the related notes to the financial statements, which collectively comprise 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, 2019, 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, as listed in the table of contents, 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 30, 2019, on our consideration of SDCCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 SDCCC's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
October 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN DIEGO CONVENTION CENTER CORPORATION
Management's Discussion and Analysis
(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 years ended June 30, 2019 and 2018, respectively. We encourage readers to consider the information presented here in conjunction with the basic financial statements and the accompanying notes to those statements appearing in this report.

Overview of the Financial Statements

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

The Statement of Net Position presents information on all SDCCC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2019. 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, 2019.

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

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

Management Financial Statement Analysis

The following is a summary of SDCCC's assets, liabilities and net position as of June 30, 2019 and 2018.

	June 30, 2019	June 30, 2018	Percentage Increase (Decrease)
Assets			
Cash and cash equivalents	$ 13,431,435	$ 13,780,846	-3%
Investments	5,192,973	3,544,159	47%
Accounts receivable, net	9,842,653	6,546,869	50%
Prepaid expenses	809,375	596,518	36%
Deposits with others	182,688	131,072	39%
Inventory	38,416	38,416	0%
Restricted cash -I-Bank contingency reserve	-	826,954	-100%
Restricted investment - I-Bank construction fund	-	2,384,060	-100%
Note receivable	574,556	574,556	0%
Capital assets, net	37,447,780	36,571,170	2%
Total assets	67,519,876	64,994,620	4%
Liabilities			
Accounts payable	1,637,584	2,209,370	-26%
Accrued liabilities and compensated absences	3,287,468	2,786,357	18%
Accrued I-Bank interest and loan administrative fee	451,563	381,437	18%
Retention payable	455,549	883,250	-48%
Unearned income	5,071,266	5,327,048	-5%
Current portion of long-term debt	734,170	2,197	33317%
Long-term portion of unearned income	3,996,719	4,404,764	-9%
Long-term debt	24,774,070	25,508,240	-3%
Total liabilities	40,408,389	41,502,663	-3%
Net position			
Net investment in capital assets	13,437,410	13,647,288	-2%
Restricted - I-Bank contingency	-	826,954	-100%
Unrestricted	13,674,077	9,017,715	52%
Total net position	$ 27,111,487	$ 23,491,957	15%

Assets

Total assets as of the fiscal year ended June 30, 2019 increased by $2.5 million, or 4%, to $67.5 million as compared to $65.0 million for the fiscal year ended June 30, 2018. The increases were primarily due to an increase in accounts receivable, net of $3.3 million, or 50%, along with an increase in investments in certificate of deposits of $1.6 million, or 47% as well as an increase in capital assets, net of $0.9 million, or 2%. The increases were offset by a decrease in restricted cash of $0.8 million and restricted investment of $2.4 million, or 100%, related to capital infrastructure projects. The net increase in receivables was related to food and beverage and utility commissions invoiced at fiscal year-end related to an event hosted in June 2019 that were paid in July 2019. An increase in investments was primarily due to SDCCC's record-breaking fiscal year 2019 operating revenue contributing to higher cash balances available for investment. An increase in capital assets, net of depreciation, of $0.9 million related to capital improvement projects purchases of $3.9 million offset by depreciation expense of $2.7 million further reduced by loss on disposal of $0.4 million. A decrease in restricted investment related to loan proceeds from the California Infrastructure and Economic Development Bank ("I-Bank") used to fund earmarked capital infrastructure improvement purchases of $1.5 million as well as $0.9 million of related debt funded interest expense. The $0.8 million elimination of restricted cash was due to the completion of all the I-Bank projects which required funds be restricted during the construction period for those earmarked projects.

Liabilities

Total liabilities as of the fiscal year ended June 30, 2019 decreased by $1.1 million, or 3%, to $40.4 million as compared to $41.5 million for the fiscal year ended June 30, 2018 due to offsetting categorical fluctuations. The change was primarily due to a decrease in accounts payable of $0.6 million, or 26% as well as a decrease in retention of $0.4 million, or 48%. The long-term debt decrease of $0.7 million, or 3%, was directly offset by an increase in the current portion of debt by $0.7 million. Additionally, unearned income decreased by $0.4 million, or 9% related to the long-term portion as well as $0.3 million, or 5%, related to the current portion. The decrease in accounts payable and retention payable was substantially due to large capital projects completed during the year that were in progress as of fiscal year 2018 year-end. The decrease in unearned revenue is due to record-breaking event activity occurring during the year. The increase in accrued I-Bank interest and loan administrative fee relates to debt payment obligations is the expected payment beginning in August 2019.

Net Position

Total net position as of the fiscal year ended June 30, 2019 increased by $3.6 million, or 15%, to $27.1 million as compared to $23.5 million for the fiscal year ended June 30, 2018. Unrestricted net position increased by $4.7 million compared to prior year due to excess revenues and capital contributions over expenses of $3.6 million.

The following table summarizes SDCCC's change in net position for the years ended June 30, 2019 and 2018.

	Year ended June 30, 2019	Year ended June 30, 2018	Percentage Increase (Decrease)
Operating revenues			
Rental	$ 9,598,718	$ 9,150,619	5%
Food and beverage	12,582,126	9,486,165	33%
Ancillary services	19,064,720	15,619,060	22%
Contributions from the City of San Diego	2,133,025	3,436,000	-38%
Business development and sponsorship	394,650	204,382	93%
Other revenue	21,695	30,175	-28%
Total operating revenues	43,794,934	37,926,401	15%
Operating expenses			
Salaries and wages	18,247,837	16,675,829	9%
Fringe benefits	5,731,579	5,026,155	14%
Utilities	4,419,035	4,110,677	8%
Services and supplies	7,433,082	7,308,696	2%
Depreciation	2,668,843	2,315,400	15%
Marketing contract	2,081,000	1,971,000	6%
Total operating expenses	40,581,376	37,407,757	8%
Operating income	3,213,558	518,644	520%
Non-operating revenues (expenses)			
Interest income	279,158	165,690	68%
Interest expense	(900,623)	(572,190)	57%
Loan administrative fee	(70,125)	-	--
Loss on sales of disposal of capital assets	(344,977)	(6,276)	5397%
Other income	742,539	811,113	-8%
Total non-operating revenue (expenses), net	(294,028)	398,337	-174%
Income before capital contributions	2,919,530	916,981	218%
Capital contributions	700,000	218,056	221%
Change in net position	3,619,530	1,135,037	219%
Net position - beginning of year	23,491,957	22,356,920	5%
Net position - end of year	$ 27,111,487	$ 23,491,957	15%

Operating Revenue

Total operating revenues generated in fiscal year 2019 amounted to $43.8 million as compared to $37.9 million for fiscal year 2018, an increase of $5.9 million, or 15%. The change was primarily the result of overall greater event activity related to convention and corporate business, resulting in increased food and beverage commissions of $3.1 million, or 33%, as well as increased overall ancillary services of $3.4 million compared to prior year. A decrease in contributions from the City of San Diego of $1.3 million, or 38% offset the increased revenue.

Operating Expenses

Total operating expenses incurred during fiscal year 2019 amounted to $40.6 million, as compared to $37.4 million for fiscal year 2018, an increase of $3.2 million, or 8%. The change was primarily the result of salary and wages increases of $1.6 million, or 9% due to part-time wage increases of $1.0 million compared to the prior year costs. Additionally, fringe benefits increased $0.7 million, or 14% related to increase worker's compensation claims. Depreciation expense increased by $0.4 million, or 15%, compared to prior year due to the influx of capital infrastructure projects placed in service in the prior year. Additionally, utility costs increased $0.3 million, or 8% due to higher usage with higher event activity.

Non-operating Revenue and Expenses, net

Non-operating expenses, net for fiscal year 2019 were $0.3 million as compared to non-operating revenue, net of $0.4 million for fiscal year 2018, a decrease of $0.7 million. The change was due to an increase of $0.3 million in increased I-Bank loan interest expense related to earmarked capital infrastructure projects as well as $0.3 million related to loss on disposal of capital assets due to a policy change increase of capitalization thresholds from $5,000 to $15,000. Unamortized capital asset values, net of depreciation of $0.3 million that no longer met the $15,000 capital asset criteria were written off during the year.

Capital Assets Analysis

As of June 30, 2019, SDCCC had a capital asset book value of $37.5 million, net of accumulated depreciation of $29.5 million as compared to $36.6 million as of June 30, 2018, an increase of $0.9 million, or 2%. Capital assets spread across a broad range of computer, office and operating equipment, telecommunications and leasehold improvements. The gross value of capital purchases in fiscal year 2019 of $3.9 million decreased compared to prior year additions of $15.3 million due to the completion of earmarked debt funded I-Bank projects.

Major capital asset additions during fiscal year 2019 included:

- $0.9 million for pneumatic control air handling system replacement
- $0.8 million for escalator retrofit work
- $0.3 million for cooling tower actuator replacement
- $0.2 million for proximity lock replacement
- $0.1 million for fire alarm system replacement

Debt Analysis

Effective December 6, 2016, SDCCC and the City of San Diego, as co-lessees entered into a financing lease agreement with I-Bank to finance capital infrastructure improvement projects valued at $25.5 million ("Facility Fund"). The agreement calls for the Facility Fund to be amortized over 25 years at a 3.59% interest rate and 0.3% loan administrative fee of the outstanding principal balance. As of June 30, 2019, SDCCC had outstanding $25.5 million in Facility Fund, of which a total of $1.3 million (including principal, interest, and loan administrative fee) was repaid in August 2019.

Effective April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC to finance a warehouse capital improvement for SDCCC valued at $21,972 with an option to extend. The agreement calls for the loan to be amortized over 10 years at zero percent interest. SDCCC exercised its option to extend for an additional five years effective April 1, 2018. For the year ended June 30, 2019, SDCCC paid $2,197 in principal payments on the warehouse loan.

Economic Factors and Next Year's Budget

Operational contributions from the City for fiscal year 2019 were $2.1 million as compared to $3.4 million for fiscal year 2018, a decrease of $1.3 million. As described in Note 6, contributions from the City funded marketing, promotion and capital projects for the convention center. During fiscal year 2019, total expenditures on marketing, promotion, and capital projects exceeded the City's contributions.

Effective July 1, 2012, the San Diego City Council approved for the long-term sales, marketing and promotional activities of the convention center to be transferred to a third party contractor, the San Diego Tourist Authority ("SDTA"). Effective July 1, 2017, SDCCC entered into a marketing and sales contract with SDTA. The marketing and sales contract was renegotiated and approved by City Council detailing the terms set forth by the City. For the year ended June 30, 2019, SDCCC paid $2.1 million to SDTA under the marketing and sales contract.

Management is anticipating a decrease in financial performance for fiscal year 2020 as compared to fiscal year 2019 due primarily to events not generating as high a level of revenue as compared to prior years. The City's operational contributions to SDCCC remains unchanged at $2.1 million for fiscal year 2020.

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 VP Finance & 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, 2019

Assets	
Current assets:	
Cash and cash equivalents	$ 13,431,435
Investments	5,192,973
Accounts receivable, net	8,342,653
Note receivable	200,000
Prepaid expenses	809,375
Deposits with others	182,688
Inventory	38,416
Total current assets	28,197,540
Noncurrent assets:	
Accounts receivable	1,500,000
Note receivable	374,556
Capital assets:	
Construction in progress	1,466,467
Furniture, equipment and software	4,012,253
Leasehold improvements	61,418,262
Less: Accumulated depreciation	(29,449,202)
Total capital assets, net	37,447,780
Total non-current assets	39,322,336
Total assets	67,519,876
Liabilities	
Current liabilities:	
Accounts payable	1,637,584
Accrued liabilities	1,930,196
Accrued I-Bank interest and loan administrative fee	451,563
Retention payable	455,549
Unearned income	5,071,266
Compensated employee absences	1,357,272
Current portion of long-term debt	734,170
Total current liabilities	11,637,600
Noncurrent liabilities:	
Long-term debt	24,774,070
Long-term portion of unearned income	3,996,719
Total noncurrent liabilities	28,770,789
Total liabilities	40,408,389
Net position	
Net investment in capital assets	13,437,410
Unrestricted	13,674,077
Total net position	$ 27,111,487

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2019

Operating revenues	
Rental revenue:	
Convention amd trade shows	$ 7,097,281
Corporate/incentive events	944,727
Consumer shows	630,770
Meetings and seminars	352,400
Cancelled events	8,800
Community events	434,530
Local trade shows	130,210
Food and beverage revenue	12,582,126
Ancillary service revenue:	
Utilities	7,292,141
Telecommunications	5,029,900
Event and cleaning services	5,194,152
Audio visual	1,548,527
Contributions:	
City of San Diego	2,133,025
Business development and sponsorship	394,650
Other revenue	21,695
Total operating revenues	43,794,934
Operating expenses	
Salaries and wages	18,247,837
Fringe benefits	5,731,579
Utilities	4,419,035
Repairs and maintenance	2,715,684
General expenses	2,557,850
Depreciation	2,668,843
Contractual marketing and sales	2,081,000
Contracted services	971,723
Supplies	553,577
Insurance	366,467
Sales and marketing	123,847
Travel and transporation	103,609
Telecommunications	40,325
Total operating expenses	40,581,376
Operating income	3,213,558
Non-operating revenues (expenses)	
Interest income	279,158
Interest expense	(900,623)
Loan administrative fee	(70,125)
Loss on sales of disposal of capital assets	(344,977)
Other income	742,539
Total non-operating revenues, net	(294,028)
Income before capital contributions	2,919,530
Capital contributions	700,000
Change in net position	3,619,530
Net position - beginning of year	23,491,957
Net position - end of year	$ 27,111,487

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Receipts from customers	$ 38,444,837
Payments to suppliers for goods and services	(14,229,575)
Payments to employees for services	(24,375,681)
Contributions received from the City of San Diego	2,133,025
Net cash provided by operating activities	1,972,606
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(3,175,603)
Repayment of long-term debt	(2,197)
Interest and loan administrative fee paid on long-term debt	(985,575)
Net cash used in capital and related financing activities	(4,163,375)
Cash flows from investing activities	
Purchase of short term investments	(1,648,814)
Interest received	279,158
Proceed from restricted investments	2,384,060
Net cash provided by investing activities	1,014,404
Change in cash and cash equivalents	(1,176,365)
Cash and cash equivalents - beginning of year	14,607,800
Cash and cash equivalents - end of year	$ 13,431,435

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2019

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 3,213,558
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,668,843
Other income	742,539
Changes in operating assets and liabilities:	
Increase in receivables	(3,295,784)
Increase in prepaid expenses	(212,857)
Increase in deposits with others	(51,616)
Decrease in accounts payable	(571,786)
Increase in compensated employee absences	159,416
Increase in accrued liabilities	341,695
Decrease in unearned income	(663,827)
Changes in long-term assets and liabilities	(357,575)
Net cash provided by operating activities	$ 1,972,606
Noncash capital and financing activities	
Capital asset contributions	$ 700,000
Acquisition of capital assets included in accounts payable and accrued liabilities	455,780
Capitalized interest	14,827
Carrying value of disposed capital assets	346,840

See accompanying notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1. Reporting Entity

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

SDCCC acts in accordance with its By-Laws, the City of San Diego's ("City") Charter, and the City's Municipal Code. The City is the sole member of SDCCC and appoints seven voting members to the Board of Directors of SDCCC. Since the City appoints the voting members of the Board of Directors of SDCCC and is able to impose its will on the SDCCC, the City, as the primary government, is financially accountable for SDCCC. In accordance with 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 San Diego Unified Port District ("District") on its own land constructed the convention center. In the fall of 1989, the convention center was completed and opened for business in November 1989. In September 2001, the City completed the expansion of the convention center that roughly doubled the size of the facility. 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 non-operating 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 non-operating 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.

SDCCC reports its annual results of operations on a fiscal year ending June 30, 2019.

Subsequent event has been evaluated through the issuance date of these financial statements as of October 30, 2019.

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 restricted investment is not considered as cash and cash equivalents.

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 pay in full 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.

As of June 30, 2019, the outstanding note receivable balance was $574,556, of which $200,000 was received in August 2019. An asset of $200,000 representing the current portion of the note receivable is included on the accompany statement of net position.

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 recorded at cost 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 $15,000 or more 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 provision 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:

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

H. *Unearned Income*

Unearned income are 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 represents 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. As of June 30, 2019, the amount was $13,437,410.

Restricted – This amount represents restricted assets, which are reduced by liabilities related to those assets. As of June 30, 2019, SDCCC did not have a balance in the restricted net position.

Unrestricted – This amount represents 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 notification 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, SDCCC is subject to the income taxes on any 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 there was no income generated from any unrelated trade or business. In the opinion of management, it 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 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 and Investments

SDCCC maintains its cash on hand and deposits in bank accounts. At June 30, 2019, the bank balance was $6,736,907, which $250,000 is federally insured. The remaining uninsured balance is collateralized, with the collateral held by an affiliate of the counterparty's financial institution.

In August 2010, SDCCC's board of directors approved a deposit and investment policy, which in December 2017, was amended to address custodial credit risk, interest rate risk, credit quality risk and allowable investments. The investment policy is governed by the Government Code ("CGC") 53600 et seq. that defines permitted investments. The following table represents the authorized investments, requirements and restrictions per the CGC and the SDCCC investment policy:

	Maximum Maturity		Maximum % of Portfolio		Minimum Rating	
Investment Type	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.

As of June 30, 2019, SDCCC cash, deposits, and investments included in the accompanying statement of net position are categorized as follows:

	Cash and cash equivalents	Investments
Cash on hand	$ 6,173	$ -
Bank checking and saving deposits	2,862,779	-
Bank money market account deposits	3,488,014	-
Fixed income investments	7,074,469	5,165,766
Government money market mutual funds	-	27,207
Total	$ 13,431,435	$ 5,192,973

Fair Value Measurements

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

Level 1: Inputs are quoted prices in an active market that are accessible at the measurement date for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are either directly or indirectly observable;

Level 3: Significant unobservable inputs are used when little or no market activity is available.

Fair value is defined as the quoted market value on the last trading day of the period, obtained from various pricing sources by our custodian bank. SDCCC does not value any of its investments using Level 1 and Level 3 inputs. Investment in repurchase agreements are valued at amortized cost and is exempt from the fair value hierarchy. Investments that are measured at fair value using the net asset value per share (or its equivalent) are not classified in the fair value hierarchy. SDCCC'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, 2019:

	Fair value	Level 2
Investments at fair value level:		
U.S. Treasury obligations	$ 499,930	$ 499,930
Commercial paper	3,039,648	3,039,648
Negotiable certificates of deposit	3,300,656	3,300,656
Total investments at fair value	6,840,234	6,840,234
Investment measured at amortized costs:		
Repurchase agreement	5,400,000	
Investment measured at the net asset value:		
Government money market mutual funds	27,207	
Total investments	$ 12,267,441	$ 6,840,234

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, 2019, SDCCC's investment interest rate risk by maturity is as follows:

	Investment maturity in months		
	Under 1	1-6	Fair value
U.S. Treasury obligations	$ -	$ 499,930	$ 499,930
Commercial paper	799,588	2,240,060	3,039,648
Negotiable certificates of deposit	400,040	2,900,616	3,300,656
Repurchase agreement	5,400,000		5,400,000
Government money market mutual funds	27,207		27,207
Total	$ 6,626,835	$ 5,640,606	$ 12,267,441

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. 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, 2019, SDCCC's investment and corresponding credit ratings are follows:

	Fair value	Credit rating (Moody's, S&P, and Fitch)
Commercial paper	$ 1,197,272	A-1
Commercial paper	997,896	A-1+
Commercial paper	446,756	A-2
Commercial paper	397,724	P-1
Government money market mutual funds	27,207	Not rated
Negotiable certificates of deposit	2,900,616	A-1
Negotiable certificates of deposit	400,040	A-1+
Repurchase agreement	5,400,000	Not rated
U.S. Treasury obligations	499,930	AA+

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, 2019 is as follows:

Issuer	Investment type	Fair value
Daiwa Bank U.S. Treasury Tri-party	Repurchase agreement	$ 3,300,000
INTL FCStone Government Sponsored Enterprise	Repurchase agreement	2,100,000

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.

Note 4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2019, is as follows:

	Balance June 30, 2018	Additions	Deletions	Transfer In/(Out)	Balance June 30, 2019
Non-depreciable capital assets:					
Construction in progress	$ 2,971,303	$ 3,598,886	$ -	$ (5,103,722)	$ 1,466,467
Depreciable capital assets:					
Furniture, equipment and software	5,104,884	162,742	(1,255,373)	-	4,012,253
Leasehold improvements	56,557,789	130,665	(373,914)	5,103,722	61,418,262
Total depreciable capital assets	61,662,673	293,407	(1,629,287)	5,103,722	65,430,515
Less: accumulated depreciation:					
Furniture, equipment and software	(3,495,116)	(343,985)	979,677	-	(2,859,424)
Leasehold improvements	(24,567,690)	(2,324,858)	302,770	-	(26,589,778)
Total accumulated depreciation	(28,062,806)	(2,668,843)	1,282,447	-	(29,449,202)
Total depreciable capital assets, net	33,599,867	(2,375,436)	(346,840)	5,103,722	35,981,313
Capital assets, Net	$ 36,571,170	$ 1,223,450	$ (346,840)	$ -	$ 37,447,780

Depreciation expense and capitalized interest incurred for the year ended June 30, 2019 was $2,668,843 and $14,827, respectively.

Note 5. Long-term Liabilities

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2019 is as follows:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019
Compensated employee absences	$ 1,197,856	$ 1,504,810	$ (1,345,394)	$ 1,357,272

B. *Debt*

Note Payable

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

Financing Lease

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

The Facility Funds bears a 3.59% annual interest rate and a 0.3% loan administrative fee based upon the outstanding principal balance. The Financing Lease requires annual principal repayment commencing on August 1, 2019 and ends on August 1, 2041. Per agreement with the City, SDCCC will budget for and make annual payments on the full amount due under the Financing Lease beginning on August 1, 2019. In any given year, to the extent that rental payment obligations, infrastructure capital, and operations and maintenance expenditures exceed SDCCC's available funding, SDCCC will seek further budgetary allocation from the City.

A summary of changes in the note payable and Financing Lease debt for the year ended June 30, 2019, are as follows:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019	Current Portion
CG 7600 LP	$ 10,437	$ -	$ (2,197)	$ 8,240	$ 2,197
I-Bank financing lease	25,500,000	-	-	25,500,000	731,973
Total	$ 25,510,437	$ -	$ (2,197)	$ 25,508,240	$ 734,170

Annual requirements to amortize the rental payment obligations for each of the next five years and aggregate of five years thereafter to maturity as of June 30, 2019, including interest payments, are as follows:

Fiscal Year	Principal	Interest	Annual Fee	Total
2020	$ 731,973	$ 902,311	$ 76,500	$ 1,710,784
2021	758,251	875,562	74,304	1,708,116
2022	785,472	847,852	72,029	1,705,353
2023	813,670	819,147	69,673	1,702,490
2024	842,881	789,412	67,232	1,699,525
2025 - 2029	4,690,616	3,462,301	296,365	8,449,282
2030 - 2034	5,595,244	2,541,435	220,769	8,357,448
2035 - 2039	6,674,338	1,442,971	130,594	8,247,903
2040 - 2042	4,607,557	252,006	27,970	4,887,533
Total	$ 25,500,000	$ 11,932,997	$ 1,035,436	$ 38,468,434

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, 2019, SDCCC received $2,133,025 from the City, which 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.

Moving into fiscal year 2020, contributions from the City will remain unchanged at $2,133,025 to fund marketing contract expenses.

Note 7. Defined Contribution Plan

The SDCCC'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 of directors' action selected Wells Fargo & Company as trustee, to hold and administer the 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. 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, 2019, pension expense amounted to $1,304,499 with no employee contributions made to the Plan. No forfeitures were used during the year. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

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
2020	$ 146,069
2021	150,063
2022	153,994
2023	118,423
Total	$ 568,549

Rental income related to the sublease was $174,558 for the year ended June 30, 2019.

SDCCC as Lessee

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

Year ending June 30,	Amount
2020	$ 247,574
2021	251,183
2022	228,890
2023	175,374
Total	$ 903,021

Lease expense for the year ended June 30, 2019 was $240,354.

Construction Commitments

SDCCC has material commitments under construction contracts as of June 30, 2019 as follows:

Construction projects		Remaining construction value	Expected completion year
Rooftop HVAC replacement	$	549,452	FY 2021
Proximity lock replacement		341,381	FY 2020
Fire pump replacement		161,134	FY 2020
Gender neutral restroom renovation		125,647	FY 2020
Total	$	1,177,614	

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

MGO Certified Public Accountants

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, 2019, and the related notes to the financial statements, which collectively comprise SDCCC's basic financial statements, and have issued our report thereon dated October 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SDCCC's internal control over financial reporting (internal control) 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 SDCCC's internal control. Accordingly, we do not express an opinion on the effectiveness of SDCCC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SDCCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Macias Gini & O'Connell LLP
12264 El Camino Real, Suite 402
San Diego, CA 92130

www.mgocpa.com

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 30, 2019

This page intentionally left blank.