

**SAN DIEGO CONVENTION CENTER
CORPORATION**

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

2020 Annual Financial Report

As of and for the Year Ended June 30, 2020



Certified
Public
Accountants

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
2020 Annual Financial Report
As of and for the Year Ended June 30, 2020

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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 (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the SDCC'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, 2020, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, SDCCC has suffered operating losses due to the COVID-19 pandemic and resulting government actions including State of California mandated shelter in place executive orders limiting social gatherings. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 11. Our opinion is not modified with respect to this matter.

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 27, 2020 on our consideration of SDCCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDCCC's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
October 27, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis
For the Year Ended June 30, 2020
(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, 2020. 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, 2020. 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, 2020.

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

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

Highlights to Financial Results

In March 2020, the World Health Organization declared coronavirus COVID-19 (COVID-19) a global pandemic. The outbreak of COVID-19 resulted in government actions including the State of California issuing mandated shelter in place executive orders limiting social gatherings have had an unprecedented and significantly negative impact on SDCCC's financial position for the fiscal year ended June 30, 2020 and into fiscal year 2020-2021, including a decrease of operating revenue of \$13.4 million for the year ended June 30, 2020 as compared to the year ended June 30, 2019. On April 1, 2020, the City of San Diego (the City) exercised its authority to use SDCCC as a temporary homeless shelter as a collective effort to alleviate the threat of illness caused by the outbreak. In addition to revenue generation being negatively impacted, certain expenses were reduced during closure, including payroll reductions through furloughs, layoffs and salary reductions and draw down of paid time off balances. However, where feasible, agreements were made with vendors to suspend contracts and services during the period of closure. In addition, to preserve cash during the closure period, SDCCC reduced capital project spending and slowed the payment of accounts payable and accrued expenses.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2020
(Unaudited)

Management Financial Statement Analysis

The following is a summary of SDCCC's assets, liabilities and net position as of June 30, 2020 and 2019.

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Increase (Decrease)</u>
Assets			
Cash and cash equivalents	\$ 12,234,853	\$ 13,431,435	-9%
Investments	4,839,943	5,192,973	-7%
Accounts receivable, net	3,909,084	9,842,653	-61%
Prepaid expenses	999,913	809,375	24%
Deposits with others	181,393	182,688	-1%
Inventory	57,271	38,416	49%
Note receivable	374,556	574,556	0%
Capital assets, net	38,442,410	37,447,780	3%
Total assets	<u>\$ 61,039,423</u>	<u>\$ 67,519,876</u>	-10%
Liabilities			
Accounts payable	\$ 2,110,082	\$ 1,637,584	29%
Accrued liabilities and compensated absences	3,154,401	3,287,468	-4%
Accrued I-Bank interest and loan administrative fee	438,600	451,563	-3%
Loan payable: PPP	4,387,000	-	--
Retention payable	260,777	455,549	-43%
Unearned income	4,188,487	5,071,266	-17%
Current portion of long-term debt	760,448	734,170	4%
Long-term portion of unearned income	3,094,968	3,996,719	-23%
Long-term debt	24,013,621	24,774,070	-3%
Total liabilities	<u>42,408,384</u>	<u>40,408,389</u>	5%
Net position			
Net investment in capital assets	15,166,171	13,437,410	13%
Unrestricted	3,464,868	13,674,077	-75%
Total net position	<u>18,631,039</u>	<u>27,111,487</u>	-31%
Total liabilities and net position	<u>\$ 61,039,423</u>	<u>\$ 67,519,876</u>	

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2020
(Unaudited)

Assets

Total assets for fiscal year 2020 decreased by \$6.5 million, or 10%, to \$61 million as compared to \$67.5 million for fiscal year 2019. The decreases were primarily due to a decrease in accounts receivable, net of \$6.1 million, or 61%, along with a decrease in cash and cash equivalents of \$1.2 million or 9%. The net decrease in receivables was related to reduced billing as a result of suspension of core operations in mid-March due to the COVID-19 pandemic.

Liabilities

Total liabilities for fiscal year 2020 increased by \$2 million, or 5%, to \$42.4 million as compared to \$40.4 million for fiscal year 2019. The primary reason for the increase in liabilities was the receipt of a \$4.4 million loan as part of the Paycheck Protection Program (PPP) to fund eligible expenses (see note 5). The change was offset by decreases in unearned income (total of \$1.8 million or 25%) and long-term debt (\$0.8 million or 3%). The decrease in unearned income relates to decreased receipts for future dated events due to the temporary closure of the site for hosting events. The long-term debt decrease reflects the principal payment made in August of 2019.

Net Position

Total net position for fiscal year 2020 decreased by \$8.5 million, or 31%, to \$18.6 million as compared to \$27.1 million for fiscal year 2019. This decrease in total net position is primarily due to a decrease in unrestricted net position of \$10.2 million as compared to the prior year due to the impacts of COVID-19 commencing in mid-March 2020 resulting in no conventions or trade shows revenues coupled expenses responding to the pandemic.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2020
(Unaudited)

The following table summarizes SDCCC's changes in net position for the years ended June 30, 2020 and 2019.

	Year ended 6/30/2020	Year ended 6/30/2019	Percentage Increase (Decrease)
Operating revenues			
Rental	\$ 6,816,666	\$ 9,598,718	-29%
Food and beverage	9,110,975	12,582,126	-28%
Ancillary services	11,530,600	19,064,720	-40%
Contributions from the City of San Diego	2,641,237	2,133,025	24%
Business development and sponsorship	249,979	394,650	-37%
Other revenue	20,638	21,695	-5%
Total operating revenues	<u>30,370,095</u>	<u>43,794,934</u>	-31%
Operating expenses			
Salaries and wages	17,694,181	18,247,837	-3%
Fringe benefits	4,772,451	5,731,579	-17%
Utilities	3,808,531	4,419,035	-14%
Services and supplies	7,440,153	7,433,082	0%
Depreciation	3,020,892	2,668,843	13%
Marketing contract	2,133,025	2,081,000	3%
Total operating expenses	<u>38,869,233</u>	<u>40,581,376</u>	-4%
Operating income (loss)	<u>(8,499,138)</u>	<u>3,213,558</u>	-364%
Non-operating revenues (expenses)			
Interest income	228,199	279,158	-18%
Interest expense	(891,362)	(900,623)	-1%
Loan administrative fee	(74,487)	(70,125)	6%
Loss on sales of disposal of capital assets	-	(344,977)	-100%
Other income	756,340	742,539	2%
Total non-operating revenue (expenses), net	<u>18,690</u>	<u>(294,028)</u>	-106%
Income (loss) before capital contributions	<u>(8,480,448)</u>	<u>2,919,530</u>	-390%
Capital contributions	-	700,000	-100%
Change in net position	(8,480,448)	3,619,530	-334%
Net position - beginning of year	27,111,487	23,491,957	15%
Net position - end of year	<u>\$ 18,631,039</u>	<u>\$ 27,111,487</u>	-31%

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2020
(Unaudited)

Operating Revenue

Total operating revenues generated in fiscal year 2020 amounted to \$30.4 million as compared to \$43.8 million for fiscal year 2019, a decrease of \$13.4 million, or 31%. The change was primarily the result of reduced event activity due to business suspension in mid-March as a result of COVID-19 precautions.

Operating Expenses

Total operating expenses incurred during fiscal year 2020 amounted to \$38.9 million, as compared to \$40.6 million for fiscal year 2019, a decrease of \$1.7 million, or 4%. The change was primarily the result of salary and wages decreases of \$0.6 million, or 3%, due to reductions in staff to mitigate losses from the suspension of core business in mid-March. Additionally, related fringe benefits decreased by \$1 million, or 17%. Depreciation expense increased by \$0.4 million, or 13%, compared to prior year - due to additional capitalized projects placed in service in the prior year. Additionally, utility costs decreased by \$0.6 million, or 14% due to reduced usage with suspended event activity.

Non-operating Revenue and Expenses, net

Non-operating revenues, net for fiscal year 2020 were \$19 thousand as compared to non-operating expenses, net of \$0.3 million for fiscal year 2019, an increase of \$0.3 million. The change was due the lack of losses incurred from disposal of assets (write-offs resulting from a policy change) as compared to the prior year.

Capital Assets Analysis

As of June 30, 2020, SDCCC had a net capital asset book value of \$38.4 million, as compared to \$37.4 million as of June 30, 2019, an increase of \$1 million, or 3%. 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 fiscal year 2020 of approximately \$4 million was similar to fiscal year 2019 additions.

Major capital asset additions during fiscal year 2020 included:

- \$1.8 million for lobby and public area carpet modernization
- \$0.5 million for rooftop air handlers
- \$0.4 million for public space painting
- \$0.3 million for proximity lock replacement

Debt Analysis

Effective December 6, 2016, SDCCC and the City of San Diego, as co-lessees entered into a financing lease agreement with the I-Bank to finance capital infrastructure improvement projects valued at \$25.5 million ("Facility Fund"). The agreement calls for the Facility Fund to be amortized over 25 years at a 3.59% interest rate and 0.3% loan administrative fee of the outstanding principal balance. As of June 30, 2020, SDCCC had outstanding balance of \$24.5 million, of which a total of \$1.3 million (including principal, interest, and loan administrative fee) was repaid in July 2020.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2020
(Unaudited)

Effective April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC to finance a warehouse capital improvement for SDCCC valued at \$21,972 with an option to extend. The agreement calls for the loan to be amortized over 10 years at zero percent interest. SDCCC exercised its option to extend for an additional five years effective April 1, 2018. For the year ended June 30, 2020, SDCCC paid \$2,197 in principal payments on the warehouse loan.

In April 2020, SDCCC was approved for a \$4.4 million loan through the PPP to assist with expenses resulting from the COVID-19 pandemic. As long as the proceeds are used for eligible expenses including payroll, benefits, rents and utilities, the loan principal and accrued interest may be forgiven. SDCCC has applied for and anticipates this forgiveness to occur in fiscal year 2020-2021.

Economic Factors and Next Year's Budget

Operational contributions from the City for fiscal year 2020 were \$2.6 million as compared to \$2.1 million for fiscal year 2019, an increase of \$0.5 million. As described in Note 7, contributions from the City funded marketing and promotion projects for the convention center. The additional \$0.5 million funded the portion of the shelter operation not covered by the loan obtained from the Paycheck Protection Program.

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, 2020, SDCCC paid \$2.1 million to SDTA under the marketing and sales contract.

Management is anticipating a sizable decrease in financial performance for fiscal year 2021 as compared to fiscal year 2020 as a result of the government actions taken due to the COVID-19 pandemic, with the expectation of re-opening for events not occurring until spring of 2021. Budget revisions continue to occur as new information emerges, with the most recent budget revision scheduled for approval in October 2020. SDCCC anticipates support from the City of approximately \$2.3 million per month for as long as the shelter operation continues (end date is yet to be determined). See note 11 for further discussion.

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

BASIC FINANCIAL STATEMENTS

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Net Position
June 30, 2020

Assets

Current assets:

Cash and cash equivalents	\$ 12,234,853
Investments	4,839,943
Accounts receivable, net	2,909,084
Prepaid expenses	999,913
Deposits with others	181,393
Inventory	57,271
Total current assets	21,222,457

Noncurrent assets:

Accounts receivable	1,000,000
Note receivable	374,556

Capital assets:

Construction in progress	149,845
Furniture, equipment and software	6,010,689
Leasehold improvements	64,751,970
Less: Accumulated depreciation	(32,470,094)
Total capital assets, net	38,442,410

Total non-current assets	39,816,966
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Total assets

61,039,423

Liabilities

Current liabilities:

Accounts payable	2,110,082
Accrued liabilities	1,976,595
Accrued I-Bank interest and loan administrative fee	438,600
Loan payable: Paycheck Protection Program	4,387,000
Retention payable	260,777
Unearned income	4,188,487
Compensated employee absences	1,177,806
Current portion of long-term debt	760,448
Total current liabilities	15,299,795

Noncurrent liabilities:

Long-term debt	24,013,621
Long-term portion of unearned income	3,094,968
Total noncurrent liabilities	27,108,589

Total liabilities	42,408,384
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Net position

Net investment in capital assets	15,166,171
Unrestricted	3,464,868
Total net position	\$ 18,631,039

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2020

Operating revenues	
Rental revenue:	
Convention and trade shows	\$ 4,848,124
Corporate/incentive events	433,279
Consumer shows	641,055
Meetings and seminars	237,591
Cancelled events	374,810
Community events	182,835
Local trade shows	98,972
Food and beverage revenue	9,110,975
Ancillary service revenue:	
Utilities	3,836,062
Telecommunications	3,702,250
Event and cleaning services	3,182,992
Audio visual	809,296
Contributions:	
City of San Diego	2,641,237
Business development and sponsorship	249,979
Other revenue	20,638
Total operating revenues	<u>30,370,095</u>
Operating expenses	
Salaries and wages	17,694,181
Fringe benefits	4,772,451
Utilities	3,808,531
Repairs and maintenance	2,631,840
General expenses	2,833,586
Depreciation	3,020,892
Contractual marketing and sales	2,133,025
Contracted services	661,557
Supplies	562,819
Insurance	495,616
Sales and marketing	107,859
Travel and transportation	91,180
Telecommunications	55,696
Total operating expenses	<u>38,869,233</u>
Operating loss	<u>(8,499,138)</u>
Non-operating revenues (expenses)	
Interest income	228,199
Interest expense	(891,362)
Loan administrative fee	(74,487)
Other income	756,340
Total non-operating revenues, net	<u>18,690</u>
Change in net position	(8,480,448)
Net position - beginning of year	27,111,487
Net position - end of year	<u><u>\$ 18,631,039</u></u>

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities	
Receipts from customers	\$ 32,834,237
Payments to suppliers for goods and services	(13,341,301)
Payments to employees for services	(22,564,587)
Contributions received from the City of San Diego	2,641,237
Net cash used in operating activities	<u>(430,414)</u>
 Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(4,034,377)
PPP Loan funds obtained	4,387,000
Repayment of long-term debt	(734,171)
Interest and loan administrative fee paid on long-term debt	(965,849)
Net cash used in capital and related financing activities	<u>(1,347,397)</u>
 Cash flows from investing activities	
Investment purchases and maturities, net	353,030
Interest received	228,199
Net cash provided by investing activities	<u>581,229</u>
Change in cash and cash equivalents	(1,196,582)
Cash and cash equivalents - beginning of year	13,431,435
Cash and cash equivalents - end of year	<u><u>\$ 12,234,853</u></u>

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2020

Reconciliation of operating loss to net cash used in operating activities

Operating loss	\$ (8,499,138)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,020,892
Other income	756,340
Changes in operating assets and liabilities:	
Increase in receivables	6,133,569
Increase in prepaid expenses	(190,538)
Increase in deposits with others	1,295
Decrease in accounts payable	472,498
Increase in compensated employee absences	(179,466)
Increase in accrued liabilities	46,399
Decrease in unearned income	(1,784,530)
Changes in long-term assets and liabilities	(207,735)
Net cash used in operating activities	\$ (430,414)

Noncash capital and financing activities

Acquisition of capital assets included in accounts payable and accrued liabilities	\$ 86,253
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See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1. REPORTING ENTITY

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting and Measurement Focus*

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

B. *Cash and Cash Equivalents*

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

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Accounts Receivable and Subsequent Event*

Accounts receivable is reported net of an allowance for estimated uncollectible amounts. Management estimates the uncollectible amounts to be approximately \$5,000 at June 30, 2020, using its allowance calculation methodology based on historical write-off rates and comparable industry standards.

Long-term receivables in the amount of \$1,000,000 represent incentive payments to be received by SDCCC in equal installments of \$500,000 on July 1, 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. This agreement was amended on October 2, 2020 to further extend the remaining incentive payment amortization period to June 30, 2028.

D. *Note Receivable*

In January 2018, SDCCC entered into a non-interest bearing agreement with Centerplate for SDCCC to fund the purchase of food service equipment in the principal amount of \$574,556. The remaining principal balance of \$374,556 as of June 30, 2020 is due and payable in full by Centerplate no later than June 30, 2023, unless the contract is terminated prior to the due date. Centerplate has the right to fully pay the principal amount owed to SDCCC prior to the due date with no prepayment penalty. If the contract is terminated prior to the due date, the remaining principal amount owed to SDCCC becomes due and payable within 30 days from the date of termination.

E. *Prepaid Expenses*

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

F. *Inventory*

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

G. *Capital Assets*

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

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

SAN DIEGO CONVENTION CENTER CORPORATION
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. *Unearned Income*

Unearned income represents funds received from customers that pertain to enforceable future contractual obligations. Building rent deposits, revenue contract incentive payments and advertising payments are recognized once the event has occurred or the contractual obligation has been fulfilled.

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. Until March 31, 2020, full-time employees were allowed up to 120 hours paid compensation in lieu of annual leave provided they maintained a minimum balance of 40 hours and had taken a minimum of 80 hours of paid leave during the prior twelve month period. This program was subsequently suspended for expense reduction purposes (due to significant event cancellations as a result of COVID-19 (See Note 11)), with a window for unrestricted payouts for balances in excess of 40 hours during the month of June. Represented part-time employees are paid their annual leave balance within 30 days of fiscal year-end.

J. *Components of Net Position*

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets, net of any unspent loan proceeds, which as of June 30, 2020 was \$15,166,171.

Restricted – This amount consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2020, there were no restricted amounts.

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

K. *Income Taxes*

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

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Use of Estimates

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

M. New accounting pronouncements

The following pronouncements issued by the Governmental Accounting Standards Board (GASB), were early implemented through the adoption of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which extended the effective dates of certain GASB pronouncements by at least one year, and determined to not have an impact on SDCCC's financial statements:

- GASB Statement No. 84, *Fiduciary Activities*.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*.
- GASB Statement No. 90, *Majority Equity Interests- an amendment of GASB Statements No. 14 and No. 61*.

The following GASB Statements have been issued but are not yet effective for the year ended June 30, 2020. The SDCCC is assessing what financial statement impact, if any, these Statements will have:

- GASB Statement No. 87, *Leases*, effective for the fiscal year ending June 30, 2022.
- GASB Statement No. 92, *Omnibus 2020*, effective upon issuance for the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments. The requirements will be effective for the fiscal year ending June 30, 2022.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for the fiscal year ending June 30, 2022.

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 3. CASH AND INVESTMENTS

Cash and investments as reported in the statement of net position are categorized as follows at June 30, 2020:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Cash on hand	\$ 5,937	\$ -
Bank checking and savings deposits	4,608,605	-
Bank money market account deposits	-	20,291
Fixed income investments	7,620,311	4,819,652
	<hr/>	<hr/>
Total	<u>\$ 12,234,853</u>	<u>\$ 4,839,943</u>

At June 30, 2020, the book balance of SDCCC's cash on hand and deposits was \$4,614,542 and the bank balance was \$4,455,350. Of the bank balance, \$250,000 was covered by Federal depository insurance. The remaining uninsured balance is collateralized, with the collateral held by an affiliate of the counterparty's financial institution.

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

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

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

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

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 3. CASH AND INVESTMENTS (Continued)

Investments as reported in the statement of net position are categorized as follows at June 30, 2020:

Fair Value Measurements

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

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

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

The table below represents SDCCC's fair value hierarchy for reporting its investments as of June 30, 2020:

	Fair Value	Level 2
Investments at fair value level		
Corporate Bonds	\$ 606,792	\$ 606,792
Commercial Paper	1,099,555	1,099,555
Negotiable Certificates of Deposit	3,633,616	3,633,616
Total investments at fair value	<u>5,339,963</u>	<u>5,339,963</u>
 Investments measured at amortized cost		
Repurchase Agreements	<u>7,100,000</u>	
 Investments measured at the net asset value (NAV)		
Bank money market funds	<u>20,291</u>	
Total investments	<u>\$ 12,460,254</u>	<u>\$ 5,339,963</u>

SAN DIEGO CONVENTION CENTER CORPORATION
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 3. CASH AND INVESTMENTS (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDCCC mitigates this risk by investing in short-term securities of less than a year in order to meet operational cash requirements, and structuring the investment portfolio to allow securities to mature to avoid selling on the open market. As of June 30, 2020, SDCCC's investment interest rate risk by maturity is as follows:

	Investment Maturity in Months			Fair Value
	Under 1	1 - 6	6 - 12	
Commercial Paper	\$ 599,970	\$ 499,585	\$ -	\$ 1,099,555
Corporate Bonds	-	606,792	-	606,792
Negotiable Certificates of Deposit	600,576	2,532,985	500,055	3,633,616
Bank Money Market Funds	20,291	-	-	20,291
Repurchase Agreements	7,100,000	-	-	7,100,000
	<u>\$ 8,320,837</u>	<u>\$ 3,639,362</u>	<u>\$ 500,055</u>	<u>\$ 12,460,254</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill their obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The SDCCC mitigates credit risk through its Investment Policy. Section I of the Investment Policy outlines the authorized investments, requirements, and investment restrictions. As of June 30, 2020, SDCCC's investment and corresponding credit ratings are follows:

	Fair Value	Credit Rating
Commercial Paper	\$ 599,970	A-1
Commercial Paper	499,585	A-2
Corporate Bonds	606,792	A-
Bank Money Market Funds	20,290	N/A
Negotiable Certificates of Deposit	499,900	A-1+
Negotiable Certificates of Deposit	2,105,118	A-1
Negotiable Certificates of Deposit	428,022	AA-
Negotiable Certificates of Deposit	600,576	N/A
Repurchase Agreements	7,100,000	N/A

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 3. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

GASB Statement No. 40 also requires disclosure of investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments. A summary of disclosures related to concentration of credit risk as of June 30, 2020 is as follows:

Issuer	Investment Type	Fair Value
Daiwa Bank U.S. Treasury Tri-party	Repurchase Agreement	\$ 4,500,000
INTL FCStone Government Sponsored Enterprise	Repurchase Agreement	2,600,000

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and SDCCC's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure SDCCC deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

SAN DIEGO CONVENTION CENTER CORPORATION
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2020, is as follows:

	Beginning Balance June 30, 2019	Additions	Deletions	Transfers In/(Out)	Ending Balance June 30, 2020
Non-Depreciable Capital Assets:					
Construction in progress	1,466,467	1,221,261	-	(2,537,883)	149,845
Depreciable Capital Assets:					
Furniture, equipment and software	4,012,253	415,356	-	1,583,080	6,010,689
Leasehold Improvements	61,418,262	2,378,905	-	954,803	64,751,970
Total Depreciable Capital Assets:	65,430,515	2,794,261	-	2,537,883	70,762,659
Less Accumulated Depreciation:					
Furniture, equipment and software	(2,859,424)	(374,289)	-	-	(3,233,713)
Leasehold Improvements	(26,589,778)	(2,646,603)	-	-	(29,236,381)
Total Accumulated Depreciation	(29,449,202)	(3,020,892)	-	-	(32,470,094)
Total Depreciable Capital Assets, Net	35,981,313	(226,631)	-	2,537,883	38,292,565
Capital Assets, Net	37,447,780	994,630	-	-	38,442,410

Depreciation expense for the year ended June 30, 2020 was \$3,020,892. No interest incurred during the year ended June 30, 2020 was capitalized.

NOTE 5. LOAN PAYABLE

SDCCC applied for a United States Small Business Administration Loan and was approved for the Paycheck Protection program (PPP) in April 2020 to pursue funding for payroll costs. SDCCC received loan proceeds in the amount of \$4,387,000 in May 2020. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. SDCCC used the proceeds for purposes consistent with the PPP and expects the loan to be forgiven in full as the PPP criteria have been met. Loan forgiveness is anticipated to be confirmed in fiscal 2021, before the end of calendar 2020.

SAN DIEGO CONVENTION CENTER CORPORATION
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6. LONG-TERM LIABILITIES

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2020 is as follows:

	Balance			Balance	Current
	June 30, 2019	Additions	Retirements	June 30, 2020	Portion
Compensated Employee Absences	\$ 1,357,272	\$ 1,514,161	\$ (1,698,284)	\$ 1,177,806	\$ 1,177,806

B. *Notes Payable and Financing Lease*

Notes Payable

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

Financing Lease

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

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

A summary of changes in notes payable and the financing lease for the year ended June 30, 2020, is as follows:

	Balance			Balance	Current	Long-term
	June 30, 2019	Additions	Retirements	June 30, 2020	Portion	Portion
CG 7600 LP	\$ 8,240	\$ -	\$ (2,197)	\$ 6,043	\$ 2,197	\$ 3,846
iBank Financing Lease	25,500,000	-	(731,973)	24,768,027	758,251	24,009,776
	<u>\$ 25,508,240</u>	<u>\$ -</u>	<u>\$ (734,170)</u>	<u>\$ 24,774,070</u>	<u>\$ 760,448</u>	<u>\$24,013,622</u>

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6. LONG-TERM LIABILITIES (Continued)

Annual requirements to amortize the notes payable as of June 30, 2020, including interest payments to maturity, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Fee</u>	<u>Total</u>
2021	\$ 760,448	\$ 875,562	\$ 74,304	\$ 1,710,314
2022	787,669	847,852	72,029	1,707,550
2023	815,319	819,147	69,673	1,704,139
2024	842,881	789,412	67,232	1,699,525
2025	873,140	758,610	64,703	1,696,453
2026 - 2030	4,859,009	3,290,886	282,293	8,432,188
2031 - 2035	5,796,113	2,336,960	203,983	8,337,056
2036 - 2040	6,913,946	1,199,062	110,571	8,223,579
2041 - 2042	3,125,545	113,196	14,148	3,252,889
	<u>\$24,774,070</u>	<u>\$11,030,687</u>	<u>\$ 958,936</u>	<u>\$36,763,693</u>

NOTE 7. ECONOMIC DEPENDENCY

SDCCC receives contributions from the City as specified in a management agreement between SDCCC and the City. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center. During the year ended June 30, 2020, SDCCC received \$2,641,237 from the City, of which \$2,133,025 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 \$508,212 was used to fund the shelter operation. Subsequent to events being suspended in March, SDCCC has been hosting the City’s “Operation Shelter to Home” at a monthly cost of approximately \$2.3 million. The majority of the costs to run the shelter program (for April to June) were staff related and covered by the PPP loan for April to June, 2020.

NOTE 8. DEFINED CONTRIBUTION PLAN

The San Diego Convention Center Corporation’s Money Purchase Pension Plan (Plan) is a governmental plan under section 414(d) of the Internal Revenue Code, which was established effective January 1, 1986, by SDCCC’s Board of Directors. The Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the Plan. Any recommended Plan amendments are subject to the approval and adoption by SDCCC’s Board of Directors. As part of the Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer Plan assets subject to the terms of the Plan. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed

SAN DIEGO CONVENTION CENTER CORPORATION
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8. DEFINED CONTRIBUTION PLAN (Continued)

to the Plan plus investment earnings less allowable plan expenses. The Plan covers all employees who have completed at least 1,000 hours of service in one year and are not covered through a union retirement plan. Full time employees are eligible to participate in the plan on the first day of the month after completing 1,000 hours of service and receive contributions on a bi-weekly basis thereafter. Part-time employees are eligible to participate in the plan after completion of 1,000 hours and receive contributions annually once they meet the 1,000 hours threshold requirement each year. For each Plan year, SDCCC contributes 10% of compensation paid after the employee becomes an eligible participant, which is transferred to the trustee on behalf of each qualifying individual.

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

For the year ended June 30, 2020, pension expense amounted to \$1,371,480 with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$56,320. 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 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
2021	\$ 150,063
2022	153,994
2023	118,423
Total	\$ 422,480

Rental income related to the sublease was \$153,047 for the year ended June 30, 2020.

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
2021	\$ 251,183
2022	228,890
2023	175,374
Total	\$ 655,447

Lease expense for the year ended June 30, 2020 was \$255,962.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 9. COMMITMENTS (Continued)

Construction Commitments

SDCCC has a material commitment under construction contracts as of June 30, 2020 as follows:

<u>Construction Projects</u>	<u>Remaining Construction Value</u>	<u>Expected Completion Year</u>
Fire Pump Replacement	\$ 322,388	FY 2021

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 beyond the funds held in retention for anticipated amounts due as a result of pending legal decisions.

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.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 11. GOING CONCERN

The financial statements of SDCCC are prepared on a going concern basis of accounting which contemplates the realization of assets and the satisfaction of liabilities and obligations in the normal course of business.

In March 2020, the World Health Organization declared coronavirus COVID-19 (COVID-19) a global pandemic. The outbreak of COVID-19 continues to grow both in the U.S. and globally and resulting government actions including State of California mandated shelter in place executive orders limiting social gatherings have had an unprecedented and significantly negative impact on SDCCC's financial position for the fiscal year ended June 30, 2020 and into fiscal year 2020-2021. Due to suspension of business from mid-March 2020 forward, total operating revenues for the year ended June 30, 2020 experienced a decline of approximately \$13.4 million (31%) as compared to the year ended June 30, 2019. It is uncertain at this time when SDCCC will be able to resume hosting events. SDCCC is working closely with state and local governments to establish approved guidelines for a safe re-opening anticipated in the summer of 2021. The majority of event business come from out of town guests and exhibitors that takes years to coordinate towards building a successful event. An Event organizer typically needs 4-6 months lead time to ensure attendees can register and book travel plans, ship exhibitor booth materials and confirm registration requirements. SDCCC risks losing more events into the second quarter of 2021 if State approved reopening guidelines are delayed beyond November 2020.

SDCCC's unrestricted net position is approximately \$3.46 million as of June 30, 2020. SDCCC's Board of Directors approved a 4th revision to the fiscal year 2020-2021 operating budget on October 27, 2020. This revised budget assumes a net operating loss of approximately \$9.2 million if events commence in June 2021 and a negative reserve balance of approximately \$4.2 million. Management has taken the following actions in order to mitigate the resulting expected decreases in reserves:

- Obtained funding of \$4.4 million from the Paycheck Protection Program in May 2020. It is expected that this loan will be entirely forgiven in FY 2020-2021 and be recognized as an inflow of resources.
- Partnered with the City of San Diego for Operation Shelter to Home – providing temporary safe housing for local unsheltered residents. The City is reimbursing related costs of approximately \$2.3 million per month (beginning in July 2020) while the temporarily shelter continues. This is expected to continue through December 2020.
- Implemented significant reductions in employee headcount of nearly 50% of full time staff and a significant portion of part time staff (with reduced hours for remaining staff). Additional cost saving measures are being explored to include reduced retirement contribution benefits, employer subsidized healthcare for dependent coverage, as well as other benefit reductions.
- Reduced Capital improvement projects and non-critical maintenance projects (these were deferred to future years).
- Pursued additional support from the City to cover necessary ongoing costs.

SDCCC has not missed any payment obligations to date and will continue to prioritize debt payment obligations as part of the budget process. SDCCC is working with the City finance and debt management departments to coordinate efforts to ensure payments will be paid timely despite the ongoing pandemic.

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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise SDCCC's basic financial statements, and have issued our report thereon dated October 27, 2020. Our report includes an emphasis of matter related to the SDCCC's operating losses due to the COVID-19 pandemic and resulting government actions limiting social gatherings.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SDCCC's internal control over financial reporting (internal control) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California
October 27, 2020