

**SAN DIEGO CONVENTION CENTER
CORPORATION**

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

2021 Annual Financial Report

As of and for the Year Ended June 30, 2021



Certified
Public
Accountants

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
2021 Annual Financial Report
As of and for the Year Ended June 30, 2021

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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, 2021, and the related notes to the financial statements, which collectively comprise the SDCCC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Convention Center Corporation as of June 30, 2021, 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 Matter

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 25, 2021 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.



San Diego, California
October 25, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2021
(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, 2021. 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, 2021. 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, 2021.

The Statement of Revenue, 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, which resulted in government actions including the State of California issuing mandated shelter in place executive orders limiting social gatherings, have had an unprecedented and significantly negative impact on SDCCC's financial position for the fiscal years ended June 30, 2021 and June 30, 2020. 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. The shelter remained in place until March 2021 and was followed by an agreement with the Administration for Children and Families' Office of Refugee Resettlement to host an emergency intake center for unaccompanied minors. This provided funding of approximately \$20 million to aid in sustaining the Convention Center until reopening occurred in late July 2021. SDCCC continues to curb expenses where feasible in order to mitigate reduced revenue related to decreased attendance and a lower number of events for the upcoming fiscal year (as compared to fiscal years prior 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, 2021
(Unaudited)

Management Financial Statement Analysis

The following is a summary of SDCCC's assets, liabilities and net position as of June 30, 2021 and 2020.

	June 30, 2021	June 30, 2020	Percentage Increase (Decrease)
Assets			
Cash and cash equivalents	\$ 2,860,730	\$ 12,234,853	-77%
Investments	11,132,294	4,839,943	130%
Accounts receivable, net	3,642,804	3,909,084	-7%
Intergovernmental receivable, net	21,974,904	-	100%
Prepaid expenses	789,832	999,913	-21%
Deposits with others	177,893	181,393	-2%
Inventory	55,176	57,271	-4%
Note receivable	374,556	374,556	0%
Capital assets, net	35,386,904	38,442,410	-8%
Total assets	<u>\$ 76,395,093</u>	<u>\$ 61,039,423</u>	25%
Liabilities			
Accounts payable	\$ 1,270,343	\$ 2,110,082	-40%
Accrued liabilities and compensated absences	2,487,874	3,154,401	-21%
Accrued I-Bank interest and loan administrative fee	425,173	438,600	-3%
Loan payable: PPP	6,387,000	4,387,000	46%
Retention payable	9,245	260,777	-96%
Unearned income	9,059,038	7,283,455	24%
Long-term debt	24,013,622	24,774,069	-3%
Total liabilities	<u>43,652,295</u>	<u>42,408,384</u>	3%
Net position			
Net investment in capital assets	12,871,129	15,166,171	-15%
Unrestricted	19,871,669	3,464,868	474%
Total net position	<u>32,742,798</u>	<u>18,631,039</u>	76%
Total liabilities and net position	<u>\$ 76,395,093</u>	<u>\$ 61,039,423</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, 2021
(Unaudited)

Assets

Total assets for fiscal year 2021 increased by \$15.4 million, or 25%, to \$76.4 million as compared to \$61.0 million for fiscal year 2020. The increase was due to an increase in intergovernmental receivable of \$22.0 million, or 100%, offset by a decrease in net capital assets of \$3.1 million or 8%. The increase in receivables was related to billing for the Emergency Intake Shelter for services provided through June 30, 2021 which was subsequently paid in August 2021 of fiscal year 2022. Capital assets decreased primarily by current year depreciation.

Liabilities

Total liabilities for fiscal year 2021 increased by \$1.3 million, or 3%, to \$43.7 million as compared to \$42.4 million for fiscal year 2020. The increase in liabilities was primarily due to the receipt of a \$2.0 million loan as part of the second draw Paycheck Protection Program (PPP) to fund eligible expenses (see note 5). In addition, unearned income increased by \$1.8 million (24%) due to deposits received for which events have not yet taken place. The change was offset by decreases in accounts payable (\$0.8 million or 40%), accrued liabilities (\$0.7 million or 21%), retention payable and long-term debt (\$0.8 million or 3%). The long-term debt decrease reflects the principal payment made in July of 2020.

Net Position

Total net position for fiscal year 2021 increased by \$14.1 million, or 76%, to \$32.7 million as compared to \$18.6 million for fiscal year 2020. This increase in total net position is primarily due to hosting the temporary homeless shelter center and the emergency intake center for unaccompanied minors while event activity continued to be restricted under the emergency order of the COVID-19 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, 2021
(Unaudited)

The following table summarizes SDCCC's changes in net position for the years ended June 30, 2021 and 2020.

	Year ended June 30, 2021	Year ended June 30, 2020	Percentage Increase (Decrease)
Operating revenues			
Rental	\$ 1,261,614	\$ 6,816,666	-81%
Food and beverage	730,445	9,110,975	-92%
Ancillary services	1,061,045	11,530,600	-91%
Contributions from the City of San Diego	20,333,943	2,641,237	670%
HHS Emergency Intake	19,703,136	-	100%
Business development and sponsorship	168,747	249,979	-32%
Other revenue	30,675	20,638	49%
Total operating revenues	<u>43,289,605</u>	<u>30,370,095</u>	43%
Operating expenses			
Salaries and wages	11,043,566	17,694,181	-38%
Fringe benefits	4,534,346	4,772,451	-5%
Utilities	3,496,151	3,808,531	-8%
Services and supplies	4,872,127	7,440,153	-35%
Depreciation	3,110,448	3,020,892	3%
Marketing contract	1,500,000	2,133,025	-30%
Total operating expenses	<u>28,556,638</u>	<u>38,869,233</u>	-27%
Operating income	<u>14,732,967</u>	<u>(8,499,138)</u>	-273%
Non-operating revenues (expenses)			
Investment income (loss)	(9,401)	228,199	-104%
Interest expense	(864,219)	(891,362)	-3%
Loan administrative fee	(72,219)	(74,487)	-3%
Other income	324,631	756,340	-57%
Total non-operating revenue (expenses), net	<u>(621,208)</u>	<u>18,690</u>	-3424%
Change in net position	14,111,759	(8,480,448)	-266%
Net position - beginning of year	18,631,039	27,111,487	-31%
Net position - end of year	<u>\$ 32,742,798</u>	<u>\$ 18,631,039</u>	76%

SAN DIEGO CONVENTION CENTER CORPORATION
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Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2021
(Unaudited)

Operating Revenue

Total operating revenues generated in fiscal year 2021 amounted to \$43.3 million as compared to \$30.4 million for fiscal year 2020, an increase of \$12.9 million, or 43%. The change was the result of contributions received for hosting Operation Shelter to Home and the Emergency Intake Center for unaccompanied minors (while events did not take place beyond March of 2020 in the previous fiscal year).

Operating Expenses

Total operating expenses incurred during fiscal year 2021 amounted to \$28.6 million, as compared to \$38.9 million for fiscal year 2020, a decrease of \$10.3 million, or 27%. The change was primarily the result of salary and wages decreases of \$6.7 million, or 38%, due to reductions in staff to mitigate losses from the suspension of core business in mid-March of 2020. Services and supplies expense also decreased by \$2.6 million or 35%.

Non-operating Revenue and Expenses, net

Non-operating revenues, net for fiscal year 2021 were -\$0.6 million as compared to non-operating revenues, net of \$19 thousand for fiscal year 2020, a decrease of \$0.6 million. The change was due to reduced food and beverage premiums of \$0.3 million as well as interest income earned from investment maturities in fiscal year 2021.

Capital Assets Analysis

As of June 30, 2021, SDCCC had a net capital asset book value of \$35.4 million, as compared to \$38.4 million as of June 30, 2020, a decrease of \$3.1 million, or 8%. Capital assets are spread across a broad range of computer, office and operating equipment, telecommunications and leasehold improvements. Net capital assets decreased due to depreciation of \$3.1 million, with nominal purchases made in fiscal year 2021 totaling \$36 thousand, in order to preserve cash during the COVID-19 pandemic uncertainty.

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, 2021, SDCCC had outstanding balance of \$24.0 million, of which a total of \$1.7 million (including principal, interest, and loan administrative fee) was repaid in July 2021.

SAN DIEGO CONVENTION CENTER CORPORATION
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Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2021
(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, 2021, 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. An additional \$2.0 million was received in February 2021. Forgiveness for the first installment was confirmed on September 30, 2021. SDCCC is applying for and anticipates forgiveness for the second installment to occur in fiscal year 2022.

Economic Factors and Next Year's Budget

Operational contributions from the City for fiscal year 2021 were \$20.3 million as compared to \$2.6 million for fiscal year 2020, an increase of \$17.7 million. As described in Note 7, contributions from the City 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, 2021, SDCCC paid \$1.5 million, which was \$0.7 million less than the value stated under the marketing and sales contract.

SDCCC returned to business as of the end of July 2021 – with a reduced number of events and lower attendance, which is anticipated to pick up slowly over the course of fiscal year 2022. SDCCC anticipates support from the City of approximately \$10.0 million during the year in order to subsidize operational cash flow.

Request for Information

This financial report is designed to provide a general overview of SDCCC's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Senior Vice President & CFO at the San Diego Convention Center Corporation, 111 West Harbor Drive, San Diego, CA 92101.

BASIC FINANCIAL STATEMENTS

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SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Net Position
June 30, 2021

Assets

Current assets:

Cash and cash equivalents	\$ 2,860,730
Investments	11,132,294
Accounts receivable, net	2,642,804
Intergovernmental receivable, net	21,974,904
Prepaid expenses	789,832
Deposits with others	177,893
Inventory	<u>55,176</u>
Total current assets	<u>39,633,633</u>

Noncurrent assets:

Accounts receivable	1,000,000
Note receivable	374,556
Capital assets:	
Construction in progress	173,073
Furniture, equipment and software	6,010,689
Leasehold improvements	64,783,684
Less: Accumulated depreciation	<u>(35,580,542)</u>
Total capital assets, net	<u>35,386,904</u>
Total non-current assets	<u>36,761,460</u>

Total assets

76,395,093

Liabilities

Current liabilities:

Accounts payable	1,270,343
Accrued liabilities	1,690,184
Accrued I-Bank interest and loan administrative fee	425,173
Loan payable: PPP	6,387,000
Retention payable	9,245
Unearned income	5,559,733
Compensated employee absences	797,690
Current portion of long-term debt	<u>787,669</u>
Total current liabilities	<u>16,927,037</u>

Noncurrent liabilities:

Long-term debt	23,225,953
Long-term portion of unearned income	<u>3,499,305</u>
Total noncurrent liabilities	<u>26,725,258</u>

Total liabilities

43,652,295

Net position

Net investment in capital assets	12,871,129
Unrestricted	<u>19,871,669</u>
Total net position	<u>\$ 32,742,798</u>

See accompanying notes to the Basic Financial Statements.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Statement of Revenue, Expenses and Change in Net Position
For the Year Ended June 30, 2021

Operating revenues

Rental revenue:	
Cancelled events	\$ 1,261,614
Food and beverage revenue	730,445
Ancillary service revenue:	
Utilities	40,368
Telecommunications	646,225
Event and cleaning services	306,371
Audio visual	68,081
Contributions:	
City of San Diego	20,333,943
HHS Emergency Intake	19,703,136
Business development and sponsorship	168,747
Other revenue	30,675
Total operating revenues	<u>43,289,605</u>

Operating expenses

Salaries and wages	11,043,566
Fringe benefits	4,534,346
Utilities	3,496,151
Repairs and maintenance	1,537,761
General expenses	1,910,472
Depreciation	3,110,448
Contractual marketing and sales	1,500,000
Contracted services	302,375
Supplies	562,857
Insurance	513,850
Sales and marketing	9,327
Travel and transportation	364
Telecommunications	35,121
Total operating expenses	<u>28,556,638</u>

Operating income

14,732,967

Non-operating revenues (expenses)

Investment loss	(9,401)
Interest expense	(864,219)
Loan administrative fee	(72,219)
Other income	324,631
Total non-operating revenues, net	<u>(621,208)</u>

Change in net position	14,111,759
Net position - beginning of year	18,631,039
Net position - end of year	<u><u>\$ 32,742,798</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, 2021

Cash flows from operating activities	
Receipts from customers	\$ 3,347,252
Payments to suppliers for goods and services	(10,739,952)
Payments to employees for services	(16,263,882)
Contributions received from the City of San Diego	20,333,943
Net cash used in operating activities	(3,322,639)
 Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(52,847)
PPP Loan funds obtained	2,000,000
Repayment of long-term debt	(760,447)
Interest and loan administrative fee paid on long-term debt	(936,438)
Net cash provided by capital and related financing activities	250,268
 Cash flows from investing activities	
Purchase of short term investments	(6,301,752)
Net cash used in investing activities	(6,301,752)
Net decrease in cash and cash equivalents	(9,374,123)
Cash and cash equivalents - beginning of year	12,234,853
Cash and cash equivalents - end of year	\$ 2,860,730

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, 2021

Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 14,732,967
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	3,110,448
Other income	324,631
Changes in operating assets and liabilities:	
Decrease in accounts receivable	266,280
Increase in intergovernmental receivable	(21,974,904)
Decrease in prepaid expenses	210,081
Decrease in deposits with others	3,500
Decrease in accounts payable	(839,739)
Decrease in compensated employee absences	(380,116)
Decrease in accrued liabilities	(286,411)
Increase in unearned income	1,775,583
Changes in long-term assets and liabilities	(264,959)
Net cash used in operating activities	<u><u>\$ (3,322,639)</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)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2021

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 in accounting principles generally accepted in the United States, SDCCC is a blended component unit of the City.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting and Measurement Focus*

The financial transactions of SDCCC are reported using the economic resources measurement focus and the full accrual basis accounting under which revenues are recognized as earned and expenses are recognized as incurred. SDCCC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing event meeting space, goods and services in connection with SDCCC's principal ongoing operations. SDCCC's principal operating revenues include event meeting space rental revenues, food and beverage commissions, event and cleaning service revenues, other ancillary service revenues and contributions from the City that are used to fund marketing, promotion, capital projects and hosting a temporary homeless shelter as a collective effort to alleviate the threat of illness caused by the COVID-19 outbreak. The operating revenues also includes revenues earned by hosting an emergency intake center for unaccompanied minors with an agreement with the Administration for Children and Families' Office of Refugee Resettlement. SDCCC's principal operating expenses includes salaries and wages, fringe benefits, utilities, repairs & maintenance, contractual marketing & sales, depreciation, and cost associates emergency shelter operation. 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, 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Accounts Receivable*

Accounts receivable is reported net of an allowance for estimated uncollectible amounts. Management estimates the uncollectible amounts to be approximately \$687 thousand at June 30, 2021, 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. *Intergovernmental Receivable*

Intergovernmental receivable in the amount of \$21,974,904 represents outstanding reimbursement payments from the Administration for Children and Families' Office of Refugee Resettlement, U.S. Department of Health and Human Services (HHS) in connection with the operation of the emergency shelter intake center for unaccompanied minors hosted from April 2021 to June 2021. SDCCC subsequently received the amount from HHS in August 2021.

E. *Note Receivable*

In January 2018, SDCCC entered into a non-interest bearing agreement with Centerplate for SDCCC to fund the purchase of food service equipment in the principal amount of \$574,556. The remaining principal balance of \$374,556 as of June 30, 2021 is due and payable in full by Centerplate no later than June 30, 2023, unless the contract is terminated prior to the due date. Centerplate has the right to fully pay the principal amount owed to SDCCC prior to the due date with no prepayment penalty. If the contract is terminated prior to the due date, the remaining principal amount owed to SDCCC becomes due and payable within 30 days from the date of termination.

F. *Prepaid Expenses*

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

G. *Inventory*

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

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. *Capital Assets*

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

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

I. *Unearned Income*

Unearned income represents funds received from customers that pertain to enforceable future contractual obligations. Building rent deposits, revenue contract incentive payments and advertising payments are recognized once the event has occurred or the contractual obligation has been fulfilled. The future events scheduled after June 30, 2022 as noncurrent unearned income.

J. *Compensated Employee Absences*

Accumulated annual leave (PTO) is compensated time off for eligible employees who are absent from work and is recorded in the Statement of Net Position. The amount recorded is expected to be used in accordance with SDCCC’s personnel guidelines for vacation, illness, and personal business, with a maximum accumulation of 480 hours per employee. Until March 31, 2020, full-time employees were allowed up to 120 hours paid compensation in lieu of annual leave provided they maintained a minimum balance of 40 hours and had taken a minimum of 80 hours of paid leave during the prior twelve month period. This program was subsequently suspended for expense reduction purposes (due to significant event cancellations as a result of COVID-19), with a window for unrestricted payouts for balances in excess of 40 hours during the month of June 2020. A one-time additional opportunity was given in June 2021 as well. Represented part-time employees are paid their annual leave balance within 30 days of fiscal year-end. The carried amount is generally used in the subsequent fiscal year.

K. *Components of Net Position*

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets, net of any unspent loan proceeds, which as of June 30, 2021 was \$12,871,129.

Restricted – This amount consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2021, there were no restricted amounts.

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Components of Net Position (Continued)

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

L. Income Taxes

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

M. Use of Estimates

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

N. New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been issued but are not yet effective for the year ended June 30, 2021. 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.

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, 2021

NOTE 3. CASH AND INVESTMENTS

Cash and investments as reported in the statement of net position are categorized as follows at June 30, 2021:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Cash on hand	\$ 5,937	\$ -
Bankchecking and savings deposits	2,661,684	-
Bank money market account deposits	18,109	-
Fixed income investments	175,000	11,123,294
Total	\$ 2,860,730	\$ 11,123,294

At June 30, 2021, the book balance of SDCCC's cash on hand and deposits was \$2,685,730 and the bank balance was \$2,817,776. 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	Policy	CGC	SDCCC Policy
Local Agency Bonds	5 years	5 years	None	None	None	None
U.S. Treasury Obligations (bills, notes, or bonds)	5 years	5 years	None	None	None	None
State Obligations – CA and Others	5 years	5 years	None	None	None	None
CA Local Agency Obligations	5 years	5 years	None	None	None	None
U.S. Agency Obligations	5 years	5 years	None	None	None	None
Bankers' Acceptances	180 days	180 days	40%	40%	None	None
Commercial Paper – Non-Pooled Funds	270 days	270 days	25%	25%	Highest letter and number rating	Highest letter and number rating
Negotiable Certificates of Deposit	5 years	5 years	30%	30%	None	None
Non-Negotiable Certificates of Deposit	5 years	5 years	None	None	None	None
CD Placement Service	5 years	5 years	30%	30%	None	None
Repurchase Agreements	1 year	1 year	None	None	None	None
Reverse Repurchase Agreements	92 days	92 days	20%	20%	None	None
Medium-Term Notes	5 years	5 years	30%	30%	A	A
Money Market Mutual Funds	None	None	20%	20%	AAA	AAA
Collateralized Bank Deposits	5 years	5 years	None	None	None	None
Mortgage Pass-Through Securities	5 years	5 years	20%	20%	AA	AA
Local Agency Investment Fund	None	None	None	None	None	None
Supranational Obligations	5 years	5 years	30%	30%	AA	AA
Insured Savings & Bank Money Market Accounts	N/A	N/A	N/A	N/A	N/A	N/A

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

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 3. CASH AND INVESTMENTS (Continued)

Investments as reported in the statement of net position are categorized as follows at June 30, 2021:

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, 2021:

	Fair Value	Level 2
Investments at fair value level		
U.S. Treasury Bills	\$ 837,640	\$ 837,640
U.S. Agency Bonds	3,359,481	3,359,481
Corporate Bonds	3,634,857	3,634,857
Commercial Paper	1,449,766	1,449,766
Negotiable Certificates of Deposit	1,850,550	1,850,550
Total investments at fair value	11,132,294	11,132,294
Investments measured at amortized cost		
Repurchase Agreements	175,000	
Investments measured at the net asset value (NAV)		
Bank money market funds	18,109	
Total investments	\$ 11,325,403	\$ 11,132,294

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, 2021

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 a portion of funds in short-term securities of less than a year in order to meet operational cash requirements, and structuring the investment portfolio to allow securities to mature to avoid selling on the open market. As of June 30, 2021, SDCCC's investment interest rate risk by maturity is as follows:

	Investment Maturity in Months				Fair Value
	Under 1	1 - 6	6 - 12	Over 1	
U.S. Treasury Bills	\$ -	\$ -	\$ -	\$ 837,640	\$ 837,640
U.S. Agency Bonds	-	-	-	3,359,481	3,359,481
Commercial Paper	249,998	1,199,768	-	-	1,449,766
Corporate Bonds	-	-	-	3,634,857	3,634,857
Negotiable Certificates of Deposit	-	1,550,469	300,081	-	1,850,550
Bank Money Market Funds	18,109	-	-	-	18,109
Repurchase Agreements	175,000	-	-	-	175,000
	<u>\$ 443,107</u>	<u>\$ 2,750,237</u>	<u>\$ 300,081</u>	<u>\$ 7,831,978</u>	<u>\$ 11,325,403</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, 2021, SDCCC's investment and corresponding credit ratings as follows:

	Fair Value	Credit Rating
Commercial Paper	\$ 1,199,768	A-1
Commercial Paper	249,998	A-1+
Corporate Bonds	280,693	A+
Corporate Bonds	836,466	A
Corporate Bonds	1,407,199	A-
Corporate Bonds	278,367	BBB
Corporate Bonds	832,132	BBB+

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, 2021

NOTE 3. CASH AND INVESTMENTS (Continued)

	<u>Fair Value</u>	<u>Credit Rating</u>
Bank Money Market Funds	\$ 18,109	N/A
Negotiable Certificates of Deposit	300,081	A-1+
Negotiable Certificates of Deposit	1,550,469	A-1
U.S. Agency Bonds	3,359,481	AA+
U.S. Treasury Bills	837,640	AA+
Repurchase Agreements	175,000	N/A

Concentration of Credit Risk

GASB Statement No. 40 also requires disclosure of investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments. For the fiscal year ended June 30, 2021, no investments made up 5% or more of the total funds invested.

Custodial Credit Risk

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

SAN DIEGO CONVENTION CENTER CORPORATION
(A Component Unit of the City of San Diego, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2021, is as follows:

	Beginning Balance June 30, 2020	Additions	Deletions	Transfers In/(Out)	Ending Balance June 30, 2021
Non-Depreciable Capital Assets:					
Construction in progress	\$ 149,845	\$ 157,725	\$ (98,308)	\$ (36,189)	\$ 173,073
Depreciable Capital Assets:					
Furniture, equipment and software	6,010,689	-	-	-	6,010,689
Leasehold Improvements	64,751,970	-	(4,475)	36,189	64,783,684
Total Depreciable Capital Assets:	70,762,659	-	(4,475)	36,189	70,794,373
Less Accumulated Depreciation:					
Furniture, equipment and software	(3,233,713)	(573,384)	-	-	(3,807,097)
Leasehold Improvements	(29,236,381)	(2,537,064)	-	-	(31,773,445)
Total Accumulated Depreciation	(32,470,094)	(3,110,448)	-	-	(35,580,542)
Total Depreciable Capital Assets, Net	38,292,565	(3,110,448)	(4,475)	36,189	35,213,831
Capital Assets, Net	\$ 38,442,410	\$ (2,952,723)	\$ (102,783)	\$ -	\$ 35,386,904

Depreciation expense for the year ended June 30, 2021 was \$3,110,448. No interest incurred during the year ended June 30, 2021 was capitalized.

NOTE 5. LOAN PAYABLE AND SUBSEQUENT EVENT

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. An additional loan of \$2,000,000 was obtained in February 2021 as part of the PPP second draw opportunity and is also expected to be fully forgiven.

Any unforgiven portion of the PPP loans will be 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. Forgiveness for the first loan installment has been confirmed as of September 30, 2021. The forgiveness application for the second loan is in progress and forgiveness is also expected to be obtained during fiscal 2022.

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, 2021

NOTE 6. LONG-TERM LIABILITIES

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2021 is as follows:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2021</u>	<u>Current Portion</u>
Compensated Employee Absences	\$ 1,177,806	\$ 1,229,909	\$ (1,610,026)	\$ 797,689	\$ 797,689

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.

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, 2021

NOTE 6. LONG-TERM LIABILITIES (Continued)

A summary of changes in notes payable and the financing lease for the year ended June 30, 2021, is as follows:

	<u>Balance</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
CG 7600 LP	\$ 6,043	\$ -	\$ (2,197)	\$ 3,846	\$ 2,197	\$ 1,649
iBank Financing Lease	24,768,027	-	(758,251)	24,009,776	758,472	23,251,304
	<u>\$ 24,774,070</u>	<u>\$ -</u>	<u>\$ (760,448)</u>	<u>\$ 24,013,622</u>	<u>\$ 760,669</u>	<u>\$23,252,953</u>

Annual requirements to amortize the notes payable as of June 30, 2021, including interest payments to maturity, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Fee</u>	<u>Total</u>
2022	\$ 787,670	\$ 847,852	\$ 72,029	\$ 1,707,551
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	904,486	726,701	62,084	1,693,271
2027 - 2031	5,033,447	3,113,316	267,716	8,414,479
2032 - 2036	6,004,193	2,125,145	186,595	8,315,933
2037 - 2041	7,162,156	946,396	89,829	8,198,381
2042 - 2042	1,590,330	28,546	4,771	1,623,647
	<u>\$24,013,622</u>	<u>\$10,155,125</u>	<u>\$ 884,632</u>	<u>\$35,053,379</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, 2021, SDCCC received \$20,333,943 from the City to fund the shelter operation. From March 2020 through March 2021, SDCCC was hosting the City's "Operation Shelter to Home" at a monthly cost of approximately \$2.3M. The majority of the costs to run the shelter program were staff related.

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, 2021

NOTE 8. DEFINED CONTRIBUTION PLAN

The San Diego Convention Center Corporation’s Money Purchase Pension Plan (Plan) is a governmental plan under section 414(d) of the Internal Revenue Code, which was established effective January 1, 1986, by SDCCC’s Board of Directors. The Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the Plan. Any recommended Plan amendments are subject to the approval and adoption by SDCCC’s Board of Directors. As part of the Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer Plan assets subject to the terms of the Plan. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The Plan covers all employees who have completed at least 1,000 hours of service in one year and are not covered through a union retirement plan. Full time employees are eligible to participate in the plan on the first day of the month after completing 1,000 hours of service and receive contributions on a bi-weekly basis thereafter. 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, 2021, pension expense amounted to \$1,048,482 with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$71. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross compensation.

During fiscal 2021, a non-qualified supplemental catch-up contribution of \$17,525 was made to the 457b plan for CEO Clifford Rippetoe. This was to make up pension shortfalls for calendar years 2017, 2018, and 2019. This catch-up contribution is a part of pension expense amount described above.

NOTE 9. COMMITMENTS

SDCCC as Lessor

Effective March 22, 2013, SDCCC entered into a sublease agreement for truck marshal yard space for an initial term of 60 months, from April 1, 2013 through March 31, 2018 and exercised its option to extend for an additional five years effective April 1, 2018 – March 31, 2023. Future minimum annual rental lease revenues are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2022	\$ 153,994
2023	118,423
Total	<u>\$ 272,417</u>

Rental income related to the sublease was \$149,845 for the year ended June 30, 2021.

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, 2021

NOTE 9. COMMITMENTS (Continued)

SDCCC as Lessee

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

Year Ending	
June 30	Amount
2022	\$ 235,611
2023	181,631
Total	\$ 417,242

Lease expense for the year ended June 30, 2021 was \$253,543.

Construction Commitments

SDCCC does not have material commitments under construction contracts as of June 30, 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.

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 four fiscal years.



**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, 2021, and the related notes to the financial statements, which collectively comprise SDCCC’s basic financial statements, and have issued our report thereon dated October 25, 2021.

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 25, 2021