

**San Diego Convention Center Corporation**  
(a component unit of the  
City of San Diego, California)

**Basic Financial Statements and  
Independent Auditor's Report**

**For the Year Ended June 30, 2009**

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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

NEWPORT BEACH

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of SDCCC's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDCCC, as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2009, on our consideration of the SDCCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SDCCC's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

San Diego, California  
November 9, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

As management of the San Diego Convention Center Corporation ("SDCCC"), we offer readers of SDCCC's financial statements this narrative overview and analysis of the financial activities of SDCCC for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The Statement of Net Assets presents information of all SDCCC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of SDCCC is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing changes in SDCCC's net assets during the most recent fiscal year. All changes in net assets 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., depreciation and earned but unused vacation leave).

The Statement of Cash Flows presents information showing cash receipts and cash payments during the fiscal year, a reconciliation of operating income (loss) to net cash provided by operating activities as well as detail of non-cash investing, capital and financing activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net assets comparing FY 2009 with FY 2008.

	<u>FY 2009</u>	<u>FY 2008</u>	<b>Percent Increase (Decrease) FY08/FY09</b>
<b>ASSETS:</b>			
Cash and investments	\$21,755,530	\$20,975,104	4%
Receivables, net	2,536,832	3,707,276	-32%
Prepaid items	1,057,251	970,744	9%
Inventory	15,729	19,198	-18%
Capital assets, net	<u>16,404,151</u>	<u>17,177,373</u>	-5%
Total assets	<u>41,769,493</u>	<u>42,849,695</u>	-3%
<b>LIABILITIES:</b>			
Accounts payable	5,679,340	2,797,972	103%
Accrued liabilities	3,010,034	3,098,331	-3%
Unearned income	9,986,290	9,600,577	4%
Current portion of notes payable	1,863,313	1,807,182	3%
Long-term liabilities	<u>1,031,063</u>	<u>2,894,378</u>	-64%
Total liabilities	<u>21,570,040</u>	<u>20,198,440</u>	7%
<b>NET ASSETS:</b>			
Invested in capital assets net of related debt	13,509,776	12,475,813	8%
Restricted	1,452,012	1,625,632	-11%
Unrestricted	<u>5,237,665</u>	<u>8,549,810</u>	-39%
Total Net Assets	<u>\$20,199,453</u>	<u>\$22,651,255</u>	-11%

Assets

Total assets of \$41.8 million in FY 2009 decreased by \$1.0 million, or 3%, from the prior year balance of \$42.8 million. The changes were primarily due to a decrease in receivables of \$1.2 million, or 32%, and a decrease in capital assets of \$.8 million, or 5%, partially offset with an increase in cash and investments of \$.8 million, or 4%. The decrease in receivables was most significantly impacted by reduced event related hotel subsidies invoiced at year end compared to the prior year. The decrease in capital assets resulted from depreciation expense exceeding the value of capital purchases throughout the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The increase in cash and investments was primarily due to an increase in accounts payable compared to prior year caused by the existence of Civic Theatre advanced ticket sales. See more detailed explanation below for accounts payable variances.

Liabilities

Total liabilities of \$21.6 million in FY 2009 increased by \$1.4 million, or 7%, from a balance of \$20.2 million in FY 2008 primarily due to a significant increase in accounts payable offset by a decrease in long-term liabilities. The accounts payable increase of \$2.9 million, or 103%, was primarily a result of Civic Theatre advanced ticket sales of \$4.7 million temporarily held on behalf and owed to the show promoter for Broadway San Diego performances. The "Wicked" event held during August 2009 (FY 2010) and the "Lion King" event to be held during October 2009 (FY 2010) had advanced ticket sales of \$3.1 million and \$1.05 million respectively as of June 30, 2009. The decrease in long-term liabilities of \$1.9 million, or 64%, was driven primarily by the principal balance reduction of the HVAC Chiller Lease (5 year capital lease of \$3.9 million) and Sails Pavilion Loan from the Port District (10 year note payable of \$10 million).

Net Assets

For Fiscal Years 2009 and 2008, total net assets were \$20.2 and \$22.7 million respectively. Total net assets of \$20.2 million in 2009 decreased by \$2.5 million, or 11% compared to prior year. The balance of the decrease for the current year was primarily a result of excess expenses over revenues as noted below.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The following table summarizes the changes in net assets for SDCCC comparing FY 2009 with FY 2008.

	<u>FY 2009</u>	<u>FY 2008</u>	<b>Percent Increase (Decrease) FY08/FY09</b>
<b>Operating Revenues:</b>			
Rental	\$11,624,954	\$13,055,190	-11%
Ancillary services	10,785,527	12,064,660	-11%
Food and Beverage	7,265,052	7,638,342	-5%
Contributions from the City of San Diego	4,122,238	4,339,198	-5%
Facility Restoration Fees	714,242	613,860	16%
Production Revenue	347,245	508,004	-32%
Other revenue	37,270	50,003	-25%
Contributions – Donations	6,500	8,000	-19%
Contributions – Grant	-	40,000	-100%
Total operating revenues	<u>34,903,028</u>	<u>38,317,257</u>	-9%
<b>Operating Expenses:</b>			
Salaries and benefits	23,165,958	21,517,300	8%
Services and supplies	10,090,628	11,645,263	-13%
Depreciation	2,425,783	2,403,385	1%
Production Expense	<u>401,958</u>	<u>581,368</u>	-31%
Total operating expenses	<u>36,084,327</u>	<u>36,147,316</u>	0%
<b>Operating Income (Loss)</b>	<u>(1,181,299)</u>	<u>2,169,941</u>	-154%
<b>Non Operating Revenues (Expenses):</b>			
Interest Income	288,785	709,358	-59%
Interest Expense	(123,786)	(176,268)	-30%
Loss on disposal of capital assets	(71,067)	(8,274)	759%
Phase III Expansion/Due Diligence	(2,086,516)	-	N/A
Other income	<u>579,224</u>	<u>742,310</u>	-22%
Total non operating revenues (expenses)	<u>(1,413,360)</u>	<u>1,267,126</u>	-212%

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

	<u>FY 2009</u>	<u>FY 2008</u>	<b>Percent Increase (Decrease) FY08/FY09</b>
<b>Capital Contributions:</b>	<u>142,857</u>	<u>212,787</u>	-33%
<b>Change in Net Assets:</b>	(2,451,802)	3,649,854	-167%
Net assets - beginning of year	<u>22,651,255</u>	<u>19,001,401</u>	
Net assets - end of year	<u><u>\$20,199,453</u></u>	<u><u>\$22,651,255</u></u>	-11%

Operating Revenues

Total operating revenues generated in FY 2009 amounted to \$34.9 million, a \$3.4 million or 9% decrease compared to prior year's total operating revenues of \$38.3 million. Major variances within operating revenues included a \$1.4 million, or 11% decrease in rental revenue compared to the prior year caused primarily by a decrease in the average size of individual convention and tradeshow and corporate incentive events. Further variances included a \$1.3 million, or 11% decrease in ancillary service revenues along with a \$.4 million, or 5% decrease in food and beverage revenues compared to the prior year as a result of clients scaling back event requirements due to the economic downturn. Additionally, funding from the City of San Diego was reduced by \$.2 million, or 5% decrease compared to prior year.

Operating Expenses

Total operating expenses incurred during FY 2009 were identical to the prior year total of \$36.1 million, or 0% change compared to prior year. There were, however, major variances within various operating expenses including a \$1.6 million, or 8% increase in salaries and benefits expenses compared to prior year caused primarily by merit and collective bargaining agreement mandated increases, an increase in net full time positions and increased workers' compensation claims costs. The increase in salaries and benefits expenses was offset by a \$1.6 million, or 13% decrease in supplies and services expenses caused primarily by the existence of a one-time contract termination settlement incurred in FY 2008 and a decrease in contracted services compared to the prior year.

Non Operating Revenues and Expenses

During FY 2009, non operating revenues and expenses totaled \$1.4 million of net expenses compared to \$1.3 million of net revenues in the prior year. The decrease from prior year primarily occurred due to Phase III expansion and due diligence expenses related to analyzing the feasibility of a major expansion of the existing Convention Center, including the option to purchase a ground lease for the expansion site. Additionally, interest income significantly decreased compared to the prior year due to lower interest rates yielding smaller returns on cash balances.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2009, SDCCC had a capital asset book value of \$16.4 million, net of accumulated depreciation of \$19.6 million, or 5% below the prior year figure of \$17.2 million. The capital assets are spread across a broad range of computer, office and operating equipment and leasehold improvements. The gross value of capital purchases in FY 2009 of \$1.7 million decreased significantly compared to prior year; to a point that was below current year depreciation expense of \$2.4 million, resulting in a \$.7 million negative variance.

Major capital asset additions during FY 2009 included:

- \$244,680 for lobby carpet replacement at the Convention Center
- \$198,466 for the lobby enhancement project at the Civic Theatre
- \$138,401 for elevator doors replacement at the Convention Center
- \$135,905 for dressing room and backstage renovations at the Civic Theatre
- \$96,322 for the CRM software system at the Convention Center
- \$93,601 for the Enterprise Building Integrator system (EBI) at the Convention Center

During FY 2009, SDCCC maintained a long-term note payable from the San Diego Unified Port District. The note purchase contract was entered into during FY 1999 for \$10,000,000. \$1,000,000 of the note was retired during FY 2009, reducing the outstanding balance from \$2,500,000 in FY2008 to \$1,500,000 in FY 2009.

Effective August 3, 2005, SDCCC entered into a \$3,942,000 capital lease with U.S. Bankcorp Equipment Finance, Incorporated, for the purchase and installation of three HVAC system chillers. For FY 2009, \$807,185 of the lease was retired, reducing the outstanding balance from \$2,201,561 in FY 2008 to \$1,394,376 in FY 2009.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2009 operational contributions from the City, as budgeted and approved by the City at \$4,339,000, were reduced during FY 2009 to \$4,122,238, or a decrease of 5% compared to the prior year. For FY2010, operational contributions from the City were budgeted and approved at \$3,905,278, a further 5% decrease compared to FY 2009 contributions.

As described in Note 6, contributions from the City fund marketing, promotion and capital projects for the Convention Center. During FY 2009, total expenditures on marketing, promotion and capital projects exceeded the City's contributions. In addition, as noted in the Supplemental Information section, non-operational Phase III Expansion / Due Diligence costs amounting to \$2,086,516 were incurred during FY 2009. The City's contribution shortfall and occurrence of non-operational Phase III Expansion costs contributed to a significant decrease in the Convention Center's unrestricted net assets balance from \$8,115,580 at June 30, 2008 to \$5,179,886 at June 30, 2009.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The Convention Center is considered to be an integral part of the economy of the City, and a central element of the City's tourism industry. A study commissioned by the City in 2003, to determine the need for future City contributions to SDCCC's operations, concluded that, as the Convention Center approaches the practical maximum occupancy rate for the facility, the need for a subsidy would increase because projected revenues would level off and may not keep up with projected expenses. Since that study was conducted, the Convention Center has absorbed further reductions in contributions from the City. While SDCCC has continued to maximize the facility's use for the benefit of the City, it is now approaching the point where further reductions in the City's contribution may impact SDCCC's ability to maintain its existing high level of performance and ensure the Convention Center remains a valuable contributor to the City's economy.

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

**San Diego Convention Center Corporation**  
**Statement of Net Assets**  
**June 30, 2009**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 20,303,530
Investments	1,452,000
Receivables	2,536,832
Inventory	15,729
Prepaid expenses	1,057,251
Total current assets	<u>25,365,342</u>
Noncurrent assets:	
Capital assets:	
Furniture, equipment and software	9,728,989
Leasehold improvements	26,265,979
Less accumulated depreciation	(19,590,817)
Total capital assets	<u>16,404,151</u>
<b>TOTAL ASSETS</b>	<u><u>41,769,493</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	5,679,340
Accrued liabilities	1,796,004
Unearned income	9,986,290
Compensated employee absences	1,214,030
Current portion of long-term debt	1,863,313
Total current liabilities	<u>20,538,977</u>
Noncurrent liabilities:	
Long-term debt	1,031,063
<b>TOTAL LIABILITIES</b>	<u><u>21,570,040</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	13,509,776
Restricted for theatre restoration	1,452,012
Unrestricted	5,237,665
Total net assets	<u><u>\$ 20,199,453</u></u>

See accompanying notes to basic financial statements.

**San Diego Convention Center Corporation**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**June 30, 2009**

**Operating Revenues**

Rental Revenue:		
Convention and trade shows	\$	7,264,950
Performing arts		1,343,181
Consumer shows		933,985
Meetings and seminars		677,569
Corporate/incentive events		609,238
Cancelled events		398,375
Community events		280,498
Local trade shows		117,158
Food and beverage revenue		7,265,052
Ancillary service revenue:		
Event and cleaning services		4,055,508
Utilities		3,043,990
Telecommunications		1,629,584
Ticketing services		971,416
Audio visual		871,863
Parking		213,166
Production revenue		347,245
Contributions:		
City of San Diego		4,122,238
Donations		6,500
Facility restoration fees		714,242
Other revenue		37,270
Total operating revenues		<u>34,903,028</u>

**Operating Expenses**

Salaries and wages	18,220,538
Fringe benefits	4,945,420
Utilities	3,738,289
Depreciation	2,425,783
Repairs and maintenance	1,818,493
General expenses	1,505,886
Contracted services	856,555
Insurance	671,915
Supplies	560,183
Sales and marketing	538,469
Production expense	401,958
Telecommunications	139,806
Food and beverage	138,248
Travel and transportation	122,784
Total operating expenses	<u>36,084,327</u>
Operating income (loss)	<u>(1,181,299)</u>

**Nonoperating Revenues (Expenses)**

Interest income	288,785
Interest expense	(123,786)
Phase III Expansion/Due Diligence	(2,086,516)
Loss on disposal of capital assets	(71,067)
Other income	579,224
Total nonoperating revenues (expenses)	<u>(1,413,360)</u>

**Income (loss) before Capital Contributions** (2,594,659)

**Capital Contributions** 142,857

**Change in Net Assets** (2,451,802)

**Net assets, beginning of year** 22,651,255

**Net assets, end of year** \$ 20,199,453

See accompanying notes to basic financial statements.

**San Diego Convention Center Corporation**  
**Statement of Cash Flows**  
**June 30, 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 37,181,266
Payments to suppliers for goods and services	(9,894,006)
Payments to employees for services	(23,254,255)
Net cash provided by operating activities	<u>4,033,005</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(1,610,394)
Principal payments on note payable	(1,000,000)
Payments on capital lease obligation	(807,184)
Interest paid on long-term debt	(123,786)
Net cash used by capital and related financing activities	<u>(3,541,364)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payment for purchase of investment	(170,000)
Interest received on investments	288,785
Net cash provided by investing activities	<u>118,785</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	610,426
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>19,693,104</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 20,303,530</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (1,181,299)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	2,425,783
Phase III Expansion/Due Diligence	(2,086,516)
Changes in operating assets and liabilities:	
(Increase)/Decrease in accounts receivable	1,170,444
(Increase)/Decrease in prepaid expenses	(86,507)
(Increase)/Decrease in inventory	3,469
Increase/(Decrease) in accounts payable	2,768,134
Increase/(Decrease) in accrued compensated absences	(6,893)
Increase/(Decrease) in accrued liabilities	(81,404)
Increase/(Decrease) in unearned income	1,107,794
Net cash provided by operating activities	<u>\$ 4,033,005</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>	
Acquisition of capital assets with accounts payable	\$ 113,234
Disposal of capital assets, net of accumulated depreciation	71,067
Unearned capital contributions recognized	142,857
Unearned other revenue recognized	579,224

See accompanying notes to basic financial statements.

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2009**

**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). Beginning August 1, 1993, SDCCC also assumed operational responsibilities for marketing, operating and maintaining the Civic Theatre.

SDCCC acts in accordance with its By-Laws, the City of San Diego's (City) Charter, and the City's Municipal Code. The City appoints seven voting members out of the nine-member Board of Directors of SDCCC. Since the City appoints a majority of the voting members of the Board of Directors of SDCCC and SDCCC provides the bulk of its services directly to the citizens, SDCCC is reported as a discrete component unit of the City of San Diego.

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

The Civic Theatre was constructed by the City on land owned by the City. The Civic Theatre includes a 2,967 seat performing arts theatre as well as a central HVAC plant (Central Power). The Civic Theatre is owned by the City.

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. See comment at Note 6.

The Civic Theatre is operated by San Diego Theatres, Inc. (SDTI) under terms of an Operating Agreement between the City of San Diego and SDTI. Additionally, SDTI entered into a Lease and a Cooperation Agreement with the Redevelopment Agency of the City of San Diego for the management and operation of the historic Balboa Theatre. The Balboa Theatre is owned by the Redevelopment Agency and was re-opened in January 2008 following a \$26.5 million restoration and rehabilitation by the Agency.

As required by accounting principles generally accepted in the United States of America, the basic financial statements present SDCCC and its blended component unit, an entity for which SDCCC is considered to be financially accountable. A blended component unit, although a legally separate entity, is in substance, part of SDCCC's operations, and data from this unit is combined with the data of SDCCC. The following entity is reported as a blended component unit.

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 1. REPORTING ENTITY (Continued)**

*Blended Component Unit: San Diego Theatres, Inc.*

San Diego Theatres, Inc. (SDTI) is a not-for-profit public benefit corporation. The SDTI Board of Directors is comprised of five voting members. SDCCC appoints three voting members from its existing Board and appoints two outside voting members. The purpose of SDTI is to market, operate and maintain the Civic Theatre and the Balboa Theatre. SDTI is reported as if it were part of the primary government.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial reporting is based upon all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

The accounting policies of SDCCC conform to accounting principles generally accepted in the United States (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

**A. Basis of Accounting and Measurement Focus**

The financial transactions of SDCCC are accounted for on the accrual basis of 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 and contributions from the City that are used to fund marketing, promotion and capital projects. SDCCC's principal operating expenses include salaries and wages, fringe benefits, depreciation and utilities. If not operating, all other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is SDCCC's policy to use restricted resources first, then unrestricted resources as they are needed.

**B. Cash and Cash Equivalents**

The SDCCC's cash and cash equivalents 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.

**C. Inventory**

SDCCC's inventory consists primarily of food & beverage supplies and is recorded at cost on a first-in, first-out basis.

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. *Prepaid Expenses***

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

**E. *Capital Assets***

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

<u>Assets</u>	<u>Years</u>
Data processing equipment & software	3
Telecommunication equipment	5
Office and operating equipment	7
Leasehold improvements	15

**F. *Compensated Employee Absences***

Accumulated annual leave for vacation, illness, and personal business is recorded in the Statements of Net Assets. The amount recorded is expected to be liquidated in the future years as employees use these benefits in accordance with SDCCC personnel guidelines.

**G. *Components of Net Assets***

Invested in Capital Assets, Net of Related Debt - 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.

Restricted Net Assets - Restricted net assets total \$1,452,012 at June 30, 2009 and represent amounts restricted by enabling legislation.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

**H. *Income Taxes***

SDCCC and SDTI have received notice from the Internal Revenue Service that they are exempt from federal income taxes pursuant to Section 501 (c) (3) of the Internal Revenue Code. SDCCC and SDTI are also exempt from state franchise taxes on related income pursuant to California Revenue and Taxation Code Section 23701(d).

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**I. Use of Estimates**

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

**NOTE 3. CASH AND INVESTMENTS**

At June 30, 2009, the book balance of SDCCC's deposits was \$1,448,489 and bank balance was \$1,567,189, the difference of which is substantially due to outstanding checks. Of the bank balance, \$698,489 was covered by Federal depository insurance. The remaining uninsured balance is either collateralized with the collateral held by an affiliate of the counterparty's financial institution or is uncollateralized, and therefore exposed to custodial credit risk. SDCCC does not have a formal deposit and investment policy that addresses custodial credit risk.

At June 30, 2009, SDCCC had a total investments balance of \$20,247,830. Of the investments balance, \$18,795,830 was maintained in several bank money market accounts and money market mutual funds while \$1,452,000 was invested in three certificates of deposit, which bear an interest rate of 1.6%, 1.3% and 1.3%, and have a maturity period of less than one year. Of the amount invested in money market accounts and funds, \$13,633,944 was covered by the U.S Treasury Department's temporary Money Market Funds Guarantee Program. Of the amount invested in certificates of deposit, \$670,000 was covered by Federal depository insurance. Neither the money market accounts and funds nor the certificates of deposit are rated by credit rating agencies. SDCCC does not have a formal deposit and investment policy that addresses credit quality risk. SDCCC places no limit on the amount that may be invested in any one account or fund. Of the amount invested that was not covered by the Money Market Funds Guarantee Program or Federal depository insurance, 16.5% of total investments were invested in a Dreyfus money market mutual fund. There were no other invested amounts in any one account or fund in excess of 5% of total investments that were not covered by the Guarantee Program or Federal depository insurance.

Cash deposits and investments were categorized as follows at June 30, 2009:

	2009
Cash on hand	\$ 59,211
Deposits	1,448,489
Money market mutual funds	18,795,830
Certificates of deposit	1,452,000
Total cash and investments	\$ 21,755,530

Out of the total cash and investment balances listed above, \$1,452,012 was restricted for theatre restoration. The amount represents unspent cash surcharges collected and earned from Civic Theatre events.

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 4. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2009, is as follows:

	<b>Beginning Balance</b> <b>July 1, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b> <b>June 30, 2009</b>
Furniture, equipment and software	\$ 9,316,630	\$ 626,768	\$ (214,409)	\$ 9,728,989
Leasehold improvements	25,329,119	1,096,860	(160,000)	26,265,979
Total	34,645,749	1,723,628	(374,409)	35,994,968
Less accumulated depreciation:				
Furniture, equipment and software	(6,842,252)	(734,905)	207,342	(7,369,815)
Leasehold improvements	(10,626,124)	(1,690,878)	96,000	(12,221,002)
Total	(17,468,376)	(2,425,783)	303,342	(19,590,817)
Total, net	<u>\$ 17,177,373</u>	<u>\$ (702,155)</u>	<u>\$ (71,067)</u>	<u>\$ 16,404,151</u>

Depreciation expense for the year ended June 30, 2009 was \$2,425,783.

**NOTE 5. LONG-TERM LIABILITIES**

**A. *Compensated Employee Absences***

A summary of changes in accrued compensated employee absences for the year ended June 30, 2009 is as follows:

	<b>Balance</b> <b>June 30, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b> <b>June 30, 2009</b>	<b>Current</b> <b>Portion</b>
Compensated Employee Absences	\$ 1,220,923	\$ 1,458,349	\$ (1,465,242)	\$ 1,214,030	\$ 1,214,030

**B. *Note Payable***

Effective February 24, 1999, SDCCC entered into a Note Purchase Contract with the District for \$10,000,000, the proceeds of which were used to pay for the direct and incidental costs of the Sails Pavilion Enhancement project completed in July 2000.

A summary of changes in notes payable for the year ended June 30, 2009, is as follows:

	<b>Balance</b> <b>June 30, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b> <b>June 30, 2009</b>	<b>Current</b> <b>Portion</b>
San Diego Unified Port District	\$ 2,500,000	-	\$ (1,000,000)	\$ 1,500,000	\$ 1,000,000

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 5. LONG-TERM LIABILITIES (Continued)**

**B. Note Payable (Continued)**

SDCCC repays the note at the rate of zero percent per annum with principal payable as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 1,000,000
2011	500,000
<b>Total</b>	<u>\$ 1,500,000</u>

**C. Lease Obligation**

Effective August 3, 2005, SDCCC entered into a capital lease with U.S. Bankcorp Equipment Finance, Incorporated, for the purchase and installation of one 1200 ton and two 600 ton Trane Variable Frequency Drive Chillers.

A summary of changes in the lease obligation for the year ended June 30, 2009, is as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Current</u> <u>Portion</u>
U.S. Bankcorp	\$ 2,201,561	-	(807,185)	\$ 1,394,376	\$ 863,313

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009 were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 930,969
2011	543,064
Total minimum lease payments	1,474,033
Less: amount representing interest	<u>(79,657)</u>
<b>Present value of minimum lease payments</b>	<u><b>\$ 1,394,376</b></u>

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 5. LONG-TERM LIABILITIES, (Continued)**

**C. Lease Obligation (Continued)**

The book value of assets under capital lease at June 30, 2009 consists of the following:

	<b>Original Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Leasehold improvements	\$ 3,942,189	\$ 897,943	\$ 3,044,246

**NOTE 6. ECONOMIC DEPENDENCY**

SDCCC receives contributions from the City as specified in a management agreement between SDCCC and the City. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center. During FY 2009 the majority of the contributions from the City were used to fund capital projects. SDCCC received \$4,122,238 from the City for the year ended June 30, 2009.

**NOTE 7. PENSION PLAN**

The San Diego Convention Center Corporation's Money Purchase Pension Plan (Plan) became effective January 1, 1986. 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 employees not otherwise entitled to a retirement/pension plan provided through a collective bargaining unit agreement. Employees are eligible to participate at the earlier of the date on which they complete six months of continuous full-time service, or the twelve-month period beginning on the hire date (or any subsequent Plan year) during which they complete 1,000 hours of service. Effective January 1, 2009, employees are eligible to participate in the Plan on the first day of the month after completion of 1,000 hours of service during the twelve-month period beginning on hire date (or during any subsequent Plan years).

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. A trustee bank holds the Plan assets.

For the year ended June 30, 2009, pension expense amounted to \$1,377,946. SDCCC records pension expense during the fiscal year based upon estimated covered compensation.

**San Diego Convention Center Corporation**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2009**

**NOTE 8. SUPPLEMENTAL DEFERRED COMPENSATION PLAN**

The SDCCC Supplemental Deferred Compensation Plan (NQ Plan), administered by SDCCC, is a voluntary, non-qualified defined contribution plan covering all employees of SDCCC who are eligible for membership as defined by the NQ Plan document and who elect to participate in the NQ Plan. The NQ Plan identifies eligible employees as those designated as eligible by the Board, provided that each employee qualifies as a member of the select group of SDCCC's management or highly compensated employees. The NQ Plan operates under the authority of section 457(f) of the IRC as well as under the direction of the Board of SDCCC.

SDCCC may contribute, on behalf of an eligible employee, amounts of money that it deems appropriate. The amounts to be contributed, if any, are determined by the Board of Directors. The contributions are deposited into the SDCCC contribution credit account, maintained on behalf of the participants.

The NQ Plan became effective October 1, 2005. During the years ended June 30, 2009, NQ Plan expense amounted to \$8,583.

**NOTE 9. COMMITMENTS**

SDCCC has noncancelable operating leases with terms greater than one year for office space, photocopiers, a postage meter machine and warehouse space. The lease commitments are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 213,433
2011	187,537
2012	79,147
2013	78,152
2014	43,324
2015	1,471
<b>Total</b>	<u>\$ 603,064</u>

Lease expenses for the year ended June 30, 2009 was \$201,016.

**NOTE 10. CONTINGENT LIABILITIES**

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, are not expected to result in a material adverse financial impact on SDCCC. In addition, SDCCC is involved in a lawsuit related to an external maintenance vendor. This case has been pending for some time and SDCCC does not have sufficient information to determine likelihood or potential amount of loss related to this case. Additionally, SDCCC management believes that SDCCC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize. There were no insurance claim settlements that exceeded insurance coverage during the past three fiscal years.

**San Diego Convention Center Corporation**  
**Combining Schedule of Assets, Liabilities and Net Assets**  
**June 30, 2009**

	<u>San Diego Convention Center</u>	<u>San Diego Theatres</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 13,455,227	\$ 6,848,303	\$ 20,303,530
Investments	1,452,000	-	1,452,000
Receivables, net	2,209,090	327,742	2,536,832
Inventory	-	15,729	15,729
Prepaid expenses	847,520	209,731	1,057,251
Total current assets	<u>17,963,837</u>	<u>7,401,505</u>	<u>25,365,342</u>
Noncurrent assets:			
Capital assets:			
Furniture, equipment and software	8,384,081	1,344,908	9,728,989
Leasehold improvements	23,756,619	2,509,360	26,265,979
Less accumulated depreciator	(18,241,269)	(1,349,548)	(19,590,817)
Total capital assets	<u>13,899,431</u>	<u>2,504,720</u>	<u>16,404,151</u>
<b>TOTAL ASSETS</b>	<u><u>31,863,268</u></u>	<u><u>9,906,225</u></u>	<u><u>41,769,493</u></u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	415,004	5,264,336	5,679,340
Accrued liabilities	1,760,493	35,511	1,796,004
Unearned income	9,599,327	386,963	9,986,290
Compensated employee absences	1,009,126	204,904	1,214,030
Current portion of long-term debt	1,863,313	-	1,863,313
Total current liabilities	<u>14,647,263</u>	<u>5,891,714</u>	<u>20,538,977</u>
Noncurrent liabilities:			
Long-term debt	1,031,063	-	1,031,063
Total noncurrent liabilities	<u>1,031,063</u>	<u>-</u>	<u>1,031,063</u>
<b>TOTAL LIABILITIES</b>	<u><u>15,678,326</u></u>	<u><u>5,891,714</u></u>	<u><u>21,570,040</u></u>
<b>NET ASSETS</b>			
Invested in capital assets	11,005,056	2,504,720	13,509,776
Restricted for theatre restoration	-	1,452,012	1,452,012
Unrestricted	5,179,886	57,779	5,237,665
Total net assets	<u><u>\$ 16,184,942</u></u>	<u><u>\$ 4,014,511</u></u>	<u><u>\$ 20,199,453</u></u>

See accompanying notes to basic financial statements.

**San Diego Convention Center Corporation**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**June 30, 2009**

	San Diego Convention Center	San Diego Theatres	Total
<b>Operating Revenues</b>			
Rental revenue	\$ 10,271,773	\$ 1,353,181	\$ 11,624,954
Food and beverage revenue	6,611,267	653,785	7,265,052
Ancillary service revenue	9,130,353	1,655,174	10,785,527
Production revenue	-	347,245	347,245
Contributions from City of San Diego	4,122,238	-	4,122,238
Contributions - Donations	-	6,500	6,500
Facility restoration fees	-	714,242	714,242
Other revenue	37,270	-	37,270
Total operating revenues	<u>30,172,901</u>	<u>4,730,127</u>	<u>34,903,028</u>
<b>Operating Expenses</b>			
Salaries and wages	15,984,620	2,235,918	18,220,538
Fringe benefits	4,411,817	533,603	4,945,420
Utilities	3,405,744	332,545	3,738,289
Depreciation	2,096,501	329,282	2,425,783
Repairs and maintenance	1,654,302	164,191	1,818,493
General expenses	1,034,606	471,280	1,505,886
Contracted services	716,035	140,520	856,555
Insurance	585,281	86,634	671,915
Supplies	505,812	54,371	560,183
Sales and marketing	498,248	40,221	538,469
Production expense	-	401,958	401,958
Telecommunications	106,806	33,000	139,806
Food and beverage	-	138,248	138,248
Travel and transportation	95,981	26,803	122,784
Total operating expenses	<u>31,095,753</u>	<u>4,988,574</u>	<u>36,084,327</u>
Operating income (loss)	<u>(922,852)</u>	<u>(258,447)</u>	<u>(1,181,299)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	249,880	38,905	288,785
Interest expense	(123,786)	-	(123,786)
Phase III Expansion/Due Diligence	(2,086,516)	-	(2,086,516)
Loss on disposal of capital assets	(71,067)	-	(71,067)
Other income	555,734	23,490	579,224
Total nonoperating revenues (expenses)	<u>(1,475,755)</u>	<u>62,395</u>	<u>(1,413,360)</u>
<b>Income (loss) before Capital Contributions</b>	(2,398,607)	(196,052)	(2,594,659)
<b>Capital Contributions</b>	<u>142,857</u>	<u>-</u>	<u>142,857</u>
<b>Changes in Net Assets</b>	(2,255,750)	(196,052)	(2,451,802)
<b>Net assets, beginning of year</b>	18,440,692	4,210,563	22,651,255
<b>Net assets, end of year</b>	<u>\$ 16,184,942</u>	<u>\$ 4,014,511</u>	<u>\$ 20,199,453</u>

See accompanying notes to basic financial statements.

**San Diego Convention Center Corporation**  
**Note to Supplementary Information**  
**For the Year Ended June 30, 2009**

**SUPPLEMENTARY NOTE 1**

At June 30, 2009, unrestricted net assets of the Convention Center was \$5,179,886 as compared to the prior year balance at June 30, 2008 of \$8,115,580. The decrease of \$2,935,694 was primarily the result of \$2,086,516 non-operating Phase III Expansion / Due Diligence costs incurred related to analyzing the feasibility of a major expansion of the Convention Center. During the year ending June 30, 2010, Phase III Expansion / Due Diligence costs incurred will continue to decrease unrestricted net assets.



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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

NEWPORT BEACH

**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  
San Diego, California

We have audited the basic financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 9, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SDCCC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SDCCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SDCCC's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects SDCCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of SDCCC's financial statements that is more than inconsequential will not be prevented or detected by SDCCC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by SDCCC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether SDCCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of SDCCC, and the City Council of the City of San Diego, and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Tini & O'Connell LLP*

Certified Public Accountants

San Diego, California  
November 9, 2009