

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, 2010

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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, 2010, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of SDCCC, as of June 30, 2010, and the changes in its financial position 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 October 26, 2010, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 basic financial statements taken as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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
October 26, 2010

**SAN DIEGO CONVENTION CENTER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of the San Diego Convention Center Corporation ("SDCCC"), we offer readers of SDCCC's financial statements this narrative overview and analysis of the financial activities of SDCCC for the fiscal year ended June 30, 2010. 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.

**SAN DIEGO CONVENTION CENTER CORPORATION
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 2010 with FY 2009.

	<u>FY 2010</u>	<u>FY 2009</u>	Percent Increase (Decrease) <u>FY09/FY10</u>
ASSETS:			
Cash and deposits	\$15,877,394	\$21,755,530	(27%)
Receivables, net	3,285,931	2,536,832	30%
Inventory	14,397	15,729	(9%)
Prepaid items	966,424	1,057,251	(8%)
Capital assets, net	<u>28,521,359</u>	<u>16,404,151</u>	74%
Total assets	<u>48,665,505</u>	<u>41,769,493</u>	17%
LIABILITIES:			
Accounts payable	1,819,785	5,679,340	(68%)
Accrued liabilities	3,744,432	3,010,034	24%
Unearned income	8,656,617	9,986,290	(13%)
Current portion of notes payable	1,031,063	1,863,313	(45%)
Long-term liabilities	<u>12,500,000</u>	<u>1,031,063</u>	1,112%
Total liabilities	<u>27,751,897</u>	<u>21,570,040</u>	29%
NET ASSETS:			
Invested in capital assets net of related debt	14,990,300	13,509,776	11%
Restricted	1,883,656	1,452,012	30%
Unrestricted	<u>4,039,652</u>	<u>5,237,665</u>	(23%)
Total Net Assets	<u>\$20,913,608</u>	<u>\$20,199,453</u>	4%

Assets

Total assets of \$48.7 million at FY 2010 year end increased by \$6.9 million, or 17%, from the prior year end balance of \$41.8 million. The increase was due to the purchase of a ground lease for the Phase III Convention Center Expansion site for \$13.7 million (net cost). The ground lease purchase resulted in a \$12.1 million, or 74% increase in capital assets. Partially offsetting the increase in capital assets was \$5.9 million, or 27% decrease in cash and investments due primarily to a pay down of accounts payable related to Civic Theatre event settlements and a \$1 million down payment on the ground lease purchase.

**SAN DIEGO CONVENTION CENTER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

Liabilities

Total liabilities of \$27.8 million at FY 2010 year end increased by \$6.2 million, or 29%, from the prior year end balance of \$21.6 million. The change was due to an increase in long-term liabilities of \$11.5 million, or 1,112%, as a result of securing a \$12.5 million note payable for the ground lease purchase partially offset by payments on other existing long-term liabilities. Partially offsetting the increase in long-term liabilities was a \$3.9 million, or 68% decrease in accounts payable primarily resulting from a decrease in Civic Theatre advanced ticket sales temporarily held on behalf of and owed to show promoters.

Net Assets

Total Net Assets of \$20.9 million at FY 2010 year end increased by \$.7 million, or 4%, from the prior year balance of \$20.2 million. The change was primarily due to an increase in investment in capital assets net of debt of \$1.5 million, or 11%, partially offset by a decrease in unrestricted net assets of \$1.2 million, or 23%.

**SAN DIEGO CONVENTION CETER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

The following table summarizes the changes in net assets for SDCCC comparing FY 2010 with FY 2009.

	<u>FY 2010</u>	<u>FY 2009</u>	Percent Increase (Decrease) <u>FY09/FY10</u>
Operating Revenues:			
Rental	\$11,375,033	\$11,624,954	(2%)
Food and Beverage	7,873,046	7,265,052	8%
Ancillary services	12,486,001	10,785,527	16%
Production Revenue	366,284	347,245	5%
Contributions from the City of San Diego	3,905,278	4,122,238	(5%)
Contributions – Donations	2,750	6,500	(58%)
Facility Restoration Fees	1,014,016	714,242	42%
Other revenue	<u>54,163</u>	<u>37,270</u>	45%
Total operating revenues	<u>37,076,571</u>	<u>34,903,028</u>	6%
Operating Expenses:			
Salaries and benefits	24,079,049	23,165,958	4%
Services and supplies	9,982,921	10,090,628	(1%)
Depreciation	2,472,792	2,425,783	2%
Production Expense	<u>436,154</u>	<u>401,958</u>	9%
Total operating expenses	<u>36,970,916</u>	<u>36,084,327</u>	2%
Operating Income (Loss)	<u>105,655</u>	<u>(1,181,299)</u>	N/A
Non Operating Revenues (Expenses):			
Interest Income	77,382	288,785	(73%)
Interest Expense	(67,654)	(123,786)	(45%)
Phase III Expansion/Due Diligence	(347,816)	(2,086,516)	(83%)
Loss on disposal of capital assets	(3,543)	(71,067)	(95%)
Other income	<u>807,274</u>	<u>579,224</u>	39%
Total non operating revenues (expenses)	<u>465,643</u>	<u>(1,413,360)</u>	N/A

SAN DIEGO CONVENTION CETER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

	<u>FY 2010</u>	<u>FY 2009</u>	Percent Increase (Decrease) <u>FY09/FY10</u>
Capital Contributions:	<u>142,857</u>	<u>142,857</u>	0%
Change in Net Assets:	714,155	(2,451,802)	N/A
Net assets - beginning of year	<u>20,199,453</u>	<u>22,651,255</u>	
Net assets - end of year	<u>\$20,913,608</u>	<u>\$20,199,453</u>	4%

Operating Revenues

Total operating revenues generated in FY 2010 amounted to \$37.1 million, a \$2.2 million or 6% increase compared to prior year's total of \$34.9 million. Major variances within operating revenues included a \$1.7 million, or 16% increase in ancillary services compared to the prior year caused primarily by an increase in event size and attendance of primary event business. A further variance of \$.6 million, or 8% increase in food and beverage revenues compared to the prior year resulted from increased spending on a per attendee basis.

Operating Expenses

Total operating expenses incurred during FY 2010 amounted to \$37.0 million, a \$.9 million or 2% increase compared to the prior year's total operating expenses of \$36.1 million. The major variance within operating expenses was a \$.9 million, or 4% increase in salaries and benefits compared to prior year caused by increases in insurance premiums related to healthcare, unemployment, worker's compensation claims and the impact resulting from mandated wage increases.

Non Operating Revenues and Expenses

During FY 2010, non operating revenues and expenses produced \$.5 million of net revenues compared to \$1.4 million of net expenses in the prior year. The improvement from prior year primarily occurred due to the winding down of Phase III expansion/due diligence expenses in FY 2010. Due to the purchase of the ground lease, all entitlement and expansion related expenses moving forward will be capitalized.

**SAN DIEGO CONVENTION CENTER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2010, SDCCC had a capital asset book value of \$28.5 million, net of accumulated depreciation of \$21.8 million, or 75% higher than the prior year figure of \$16.4 million. The capital assets are spread across a broad range of computer, office and operating equipment, leasehold improvements and land. The gross value of capital purchases in FY 2010 of \$14.6 million increased significantly compared to prior year additions of \$1.7 million primarily due to a ground lease purchase for the Phase III Expansion site of \$13.7 million (net costs).

Major capital asset additions during FY 2010 included:

- \$13,660,599 for the ground lease purchase and related capitalized costs at the Convention Center
- \$254,351 for the strand lighting system at the Convention Center
- \$116,359 for stage electrical power upgrades at the Civic Theatre
- \$93,572 for elevator door replacement at the Convention Center

During FY 2010, 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 2010, reducing the outstanding balance from \$1,500,000 in FY2009 to \$500,000 in FY2010.

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 2010, \$863,316 of the lease was retired, reducing the outstanding balance from \$1,394,376 in FY 2009 to \$531,060 in FY 2010.

Effective May 6, 2010, SDCCC entered into a \$12,500,000 note payable with Fifth Avenue Landing LLC related to the purchase of a ground lease to be used as the site for a future expansion of the Convention Center's existing building.

**SAN DIEGO CONVENTION CENTER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2010 operational contributions from the City were budgeted and approved by the City at \$3,905,278, a 5% decrease compared to prior contributions. For FY 2011, operational contributions from the City were budgeted and approved at \$3,405,278, a further 13% decrease compared to FY 2010 contributions. As described in Note 6, contributions from the City fund marketing, promotion and capital projects for the Convention Center. During FY 2010, 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 \$347,816 were incurred during FY 2010. The City's contribution shortfall, the occurrence of non-operational Phase III Expansion costs and the \$1,000,000 down payment on the ground lease purchase contributed to a significant decrease in the Convention Center's unrestricted net assets balance from \$5,179,886 at June 30, 2009 to \$3,706,696 at June 30, 2010.

REQUEST FOR INFORMATION

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 a Convention Center approached the practical maximum occupancy rate for the facility, the need for 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.

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, 2010

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 14,770,394
Deposits	1,107,000
Receivables	3,285,931
Inventory	14,397
Prepaid expenses	966,424
Total current assets	<u>20,144,146</u>
Noncurrent assets:	
Land	13,660,599
Furniture, equipment and software	9,569,143
Leasehold improvements	27,097,791
Less accumulated depreciation	<u>(21,806,174)</u>
Total capital assets	28,521,359
TOTAL ASSETS	<u><u>48,665,505</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,819,785
Accrued liabilities	2,500,180
Unearned income	8,656,617
Compensated employee absences	1,244,252
Current portion of long-term debt	<u>1,031,063</u>
Total current liabilities	15,251,897
Noncurrent liabilities:	
Long-term debt	12,500,000
TOTAL LIABILITIES	<u><u>27,751,897</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	14,990,300
Restricted for theatre restoration	1,883,656
Unrestricted	4,039,652
Total net assets	<u><u>\$ 20,913,608</u></u>

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Statement of Revenues and Changes in Net Assets
For the Year Ended June 30, 2010

Operating Revenues	
Rental Revenue:	
Convention and trade shows	\$ 7,587,374
Performing arts	1,475,423
Consumer shows	574,650
Meetings and seminars	478,958
Corporate/incentive events	307,557
Cancelled events	663,350
Community events	181,017
Local trade shows	106,704
Food and beverage revenue	7,873,046
Ancillary service revenue:	
Event and cleaning services	4,463,571
Utilities	3,239,360
Telecommunications	1,799,108
Ticketing services	1,534,626
Audio visual	1,132,758
Parking	316,578
Production revenue	366,284
Contributions:	
City of San Diego	3,905,278
Donations	2,750
Facility restoration fees	1,014,016
Other revenue	54,163
Total operating revenues	<u>37,076,571</u>
Operating Expenses	
Salaries and wages	18,536,131
Fringe benefits	5,542,918
Utilities	3,527,115
Depreciation	2,472,792
Repairs and maintenance	1,697,924
General expenses	1,912,699
Contracted services	646,851
Insurance	623,513
Supplies	562,578
Sales and marketing	527,238
Production expense	436,154
Telecommunications	151,918
Food and beverage	203,336
Travel and transportation	129,749
Total operating expenses	<u>36,970,916</u>
Operating income (loss)	<u>105,655</u>
Nonoperating Revenues (Expenses)	
Interest income	77,382
Interest expense	(67,654)
Phase III Expansion/Due Diligence	(347,816)
Loss on disposal of capital assets	(3,543)
Other income	807,274
Total nonoperating revenues (expenses)	<u>465,643</u>
Income (loss) before Capital Contributions	571,298
Capital Contributions	<u>142,857</u>
Change in Net Assets	714,155
Net assets, beginning of year	20,199,453
Net assets, end of year	<u>\$ 20,913,608</u>

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Statement of Cash Flows
For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 35,947,930
Payments to suppliers for goods and services	(14,602,571)
Payments to employees for services	(23,344,651)
Net cash used by operating activities	<u>(1,999,292)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(864,660)
Acquisition of Land	(13,660,599)
Proceeds from note payable	12,500,000
Principal payments on note payable	(1,000,000)
Payments on capital lease obligation	(863,313)
Interest paid on long-term debt	(67,654)
Net cash used by capital and related financing activities	<u>(3,956,226)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts from sales of investments	345,000
Interest received on investments	77,382
Net cash provided by investing activities	<u>422,382</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (5,533,136)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>20,303,530</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 14,770,394</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 105,655
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	2,472,792
Phase III Expansion/Due Diligence	(347,816)
Other non-operating revenues	807,274
Changes in operating assets and liabilities:	
(Increase)/Decrease in accounts receivable	(749,099)
(Increase)/Decrease in prepaid expenses	90,827
(Increase)/Decrease in inventory	1,332
Increase/(Decrease) in accounts payable	(3,927,839)
Increase/(Decrease) in accrued compensated absences	30,222
Increase/(Decrease) in accrued liabilities	704,176
Increase/(Decrease) in unearned income	(1,186,816)
Net cash used by operating activities	<u>\$ (1,999,292)</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Acquisition of capital assets with accounts payable	\$ 68,284
Disposal of capital assets, net of accumulated depreciation	3,543
Capital contributions	142,857

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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, 2010

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, 2010

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 Statement 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 \$1,883,656 at June 30, 2010 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, 2010

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, 2010, the book balance of SDCCC's cash on hand, deposits, non-negotiable certificates of deposit and bank money market account deposits was \$14,285,203 and the bank balance was \$14,391,466, the difference of which is substantially due to outstanding checks. Of the bank balance, \$2,054,902 was covered by Federal depository insurance, per the extended temporary guarantee program of the U.S. Treasury Department through June 30, 2010. The remaining uninsured balance is collateralized with the collateral held by an affiliate of the counterparty's financial institution. Neither the bank money market account deposits nor the certificates of deposit are rated by credit rating agencies. The \$1,107,000 invested in non-negotiable certificates of deposit bear interest rates of .75% and have maturities greater than 3 months and less than one year. SDCCC developed a formal deposit and investment policy that was approved in August 2010 which addresses custodial credit risk.

At June 30, 2010, SDCCC had a total investment balance of \$1,592,191 which was invested in government money market mutual funds. Bank Money Market Deposit Accounts are not rated by credit rating agencies. The \$1,592,191 invested in mutual funds have an AAA rating, is not covered by FDIC insurance nor is collateralized by the bank and therefore is considered uninsured. SDCCC developed a formal deposit and investment policy that was approved in August 2010 which addresses credit quality risk. SDCCC places no limit on the amount that may be invested in any one account or 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 Federal depository insurance or fully collateralized.

Cash deposits and investments were categorized as follows at June 30, 2010:

Cash on hand	\$	92,966
Deposits		1,355,652
Certificates of deposit (non-negotiable)		1,107,000
Bank money market account deposits		11,729,585
Government money market mutual funds		1,592,191
Total cash and investments	\$	15,877,394

Out of the total cash and investment balances listed above, \$1,883,656 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, 2010

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010, is as follows:

	<u>Beginning Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance June 30, 2010</u>
Non-Depreciable Capital Assets:				
Land	\$ -	\$ 13,660,599	\$ -	\$ 13,660,599
Total Non-Depreciable Capital Assets:	-	13,660,599	-	13,660,599
Depreciable Capital Assets:				
Furniture, equipment and software	9,728,989	101,133	(260,979)	9,569,143
Leasehold improvements	26,265,979	831,812	-	27,097,791
Total Depreciable Capital Assets:	35,994,968	932,945	(260,979)	36,666,934
Less Accumulated Depreciation:				
Furniture, equipment and software	(7,369,815)	(730,679)	257,436	(7,843,058)
Leasehold improvements	(12,221,002)	(1,742,114)	-	(13,963,116)
Total Accumulated Depreciation	(19,590,817)	(2,472,793)	257,436	(21,806,174)
Total Depreciable Capital Assets - Net	16,404,151	(1,539,848)	(3,543)	14,860,760
Capital Assets, Net	\$ 16,404,151	\$ 12,120,751	\$ (3,543)	\$ 28,521,359

Depreciation expense for the year ended June 30, 2010 was \$2,472,792.

NOTE 5. LONG-TERM LIABILITIES

A. *Compensated Employee Absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2010 is as follows:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Compensated Employee Absences	\$ 1,214,030	\$ 1,521,478	\$ (1,491,256)	\$ 1,244,252	\$ 1,244,252

B. *Long-term debt*

A breakdown of the composition of long-term debt is as follows:

	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Notes payable	\$ 13,000,000	\$ 500,000
Lease obligations	531,063	531,063
Total long-term debt	\$ 13,531,063	\$ 1,031,063

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2010

NOTE 5. LONG-TERM LIABILITIES (continued)

B1. Notes 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. SDCCC entered into a Note Purchase Contract on May 6, 2010 for \$12,500,000 with Fifth Avenue Landing LLC, the proceeds of which were used for the ground lease purchase. A summary of changes in notes payable for the year ended June 30, 2010, are as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current</u> <u>Portion</u>
San Diego Unified Port District	\$ 1,500,000	\$ -	\$ (1,000,000)	\$ 500,000	\$ 500,000
Fifth Avenue Landing LLC	-	12,500,000	-	12,500,000	-
Total	<u>\$ 1,500,000</u>	<u>\$ 12,500,000</u>	<u>\$ (1,000,000)</u>	<u>\$ 13,000,000</u>	<u>\$ 500,000</u>

SDCCC repays a zero percent per annum rate for the San Diego Unified Port District. The Fifth Avenue Landing LLC note payable is repaid at a rate of 5.27% per annum with a \$12,500,000 principal payment in fiscal year 2015. Of the total annual interest, SDCC is required to pay \$500,000 annually while the remaining interest owed in any one year is payable at the date of final maturity. Annual requirements to amortize the notes payable as of June 30, 2010, including interest payments to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 500,000	\$ 500,000	\$ 1,000,000
2012	-	500,000	500,000
2013	-	500,000	500,000
2014	-	500,000	500,000
2015	12,500,000	1,297,359	13,797,359
Total	<u>\$ 13,000,000</u>	<u>\$ 3,297,359</u>	<u>\$ 16,297,359</u>

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2010

NOTE 5. LONG-TERM LIABILITIES (continued)

B2. 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, 2010, is as follows:

	Balance			Balance	Current
	July 1, 2009	Additions	Retirements	June 30, 2010	Portion
U.S. Bankcorp	\$ 1,394,376	\$ -	\$ (863,313)	\$ 531,063	\$ 531,063

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 were as follows:

Fiscal Year Ended June 30,	Amount
2011	\$ 543,064
Total minimum lease payments	543,064
Less: amount representing interest	(12,001)
Present value of minimum lease payments	\$ 531,063

The book value of assets under capital lease at June 30, 2010 consists of the following:

	Original	Accumulated	Net Book
	Cost	Depreciation	Value
Leasehold improvements	\$ 3,942,189	\$1,160,756	\$ 2,781,433

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 2010 the majority of the contributions from the City were used to fund marketing and promotional expenses. SDCCC received \$3,905,278 from the City for the year ended June 30, 2010.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2010

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, 2010, pension expense amounted to \$1,422,223. SDCCC records pension expense during the fiscal year based upon estimated covered compensation.

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 year ended June 30, 2010, NQ Plan expense amounted to \$8,583.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2010

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>
2011	\$ 187,537
2012	254,469
2013	252,598
2014	216,898
2015	2,822,911
Total	<u><u>\$ 3,734,413</u></u>

Lease expense for the year ended June 30, 2010 was \$213,717.

In June 2010, SDCCC entered into a power purchase agreement with SDCC Solar, LLC. Solar panels are to be installed at no cost to SDCCC, and SDCCC will only be required to purchase the energy generated from the panels at a fixed rate of \$.1999/kwh. The solar panels are expected to be completed in July 2011.

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, 2010

	<u>San Diego Convention Center</u>	<u>San Diego Theatres</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,626,035	\$ 3,144,359	\$ 14,770,394
Deposits	1,107,000	-	1,107,000
Receivables, net	2,886,213	399,718	3,285,931
Inventory	-	14,397	14,397
Prepaid expenses	867,479	98,945	966,424
Total current assets	<u>16,486,727</u>	<u>3,657,419</u>	<u>20,144,146</u>
Noncurrent assets:			
Land	13,660,599	-	13,660,599
Furniture, equipment and software	8,206,669	1,362,474	9,569,143
Leasehold improvements	24,147,327	2,950,464	27,097,791
Less accumulated depreciation	(20,101,102)	(1,705,072)	(21,806,174)
Total capital assets	<u>25,913,493</u>	<u>2,607,866</u>	<u>28,521,359</u>
TOTAL ASSETS	<u>42,400,220</u>	<u>6,265,285</u>	<u>48,665,505</u>
LIABILITIES			
Current liabilities:			
Accounts payable	983,920	835,865	1,819,785
Accrued liabilities	2,394,985	105,195	2,500,180
Unearned income	8,370,806	285,811	8,656,617
Compensated employee absences	1,030,315	213,937	1,244,252
Current portion of long-term debt	1,031,063	-	1,031,063
Total current liabilities	<u>13,811,089</u>	<u>1,440,808</u>	<u>15,251,897</u>
Noncurrent liabilities:			
Long-term debt	12,500,000	-	12,500,000
TOTAL LIABILITIES	<u>26,311,089</u>	<u>1,440,808</u>	<u>27,751,897</u>
NET ASSETS			
Invested in capital assets	12,382,435	2,607,865	14,990,300
Restricted for theatre restoration	-	1,883,656	1,883,656
Unrestricted	3,706,696	332,956	4,039,652
Total net assets	<u>\$ 16,089,131</u>	<u>\$ 4,824,477</u>	<u>\$ 20,913,608</u>

See note to supplementary information.

San Diego Convention Center Corporation
Combining Schedule of Revenues, Expenses and Net Assets
June 30, 2010

	<u>San Diego Convention Center</u>	<u>San Diego Theatres</u>	<u>Total</u>
Operating Revenues			
Rental revenue	\$ 9,878,110	\$ 1,496,923	\$ 11,375,033
Food and beverage revenue	6,903,836	969,210	7,873,046
Ancillary service revenue	10,022,360	2,463,641	12,486,001
Production revenue	-	366,284	366,284
Contributions from City of San Diego	3,905,278	-	3,905,278
Contributions - Donations	-	2,750	2,750
Facility restoration fees	-	1,014,016	1,014,016
Other revenue	54,163	-	54,163
Total operating revenues	<u>30,763,747</u>	<u>6,312,824</u>	<u>37,076,571</u>
Operating Expenses			
Salaries and wages	16,076,411	2,459,720	18,536,131
Fringe benefits	4,960,405	582,513	5,542,918
Utilities	3,232,180	294,935	3,527,115
Depreciation	2,117,269	355,523	2,472,792
Repairs and maintenance	1,575,935	121,989	1,697,924
General expenses	1,124,514	788,185	1,912,699
Contracted services	549,336	97,515	646,851
Insurance	569,282	54,231	623,513
Supplies	507,341	55,237	562,578
Sales and marketing	447,106	80,132	527,238
Production expense	-	436,154	436,154
Telecommunications	115,253	36,665	151,918
Food and beverage	-	203,336	203,336
Travel and transportation	102,031	27,718	129,749
Total operating expenses	<u>31,377,063</u>	<u>5,593,853</u>	<u>36,970,916</u>
Operating income (loss)	<u>(613,316)</u>	<u>718,971</u>	<u>105,655</u>
Nonoperating Revenues (Expenses)			
Interest income	65,220	12,162	77,382
Interest expense	(67,654)	-	(67,654)
Phase III Expansion/Due Diligence	(347,816)	-	(347,816)
Loss on disposal of capital assets	(3,543)	-	(3,543)
Other income	728,441	78,833	807,274
Total nonoperating revenues (expenses)	<u>374,648</u>	<u>90,995</u>	<u>465,643</u>
Income (loss) before Capital Contributions	(238,668)	809,966	571,298
Capital Contributions	<u>142,857</u>	<u>-</u>	<u>142,857</u>
Changes in Net Assets	(95,811)	809,966	714,155
Net assets, beginning of year	16,184,942	4,014,511	20,199,453
Net assets, end of year	<u>\$ 16,089,131</u>	<u>\$ 4,824,477</u>	<u>\$ 20,913,608</u>

See note to supplementary information.

San Diego Convention Center Corporation
Note to Supplementary Information
For the Year Ended June 30, 2010

NOTE 1

At June 30, 2010, unrestricted net assets of the Convention Center was \$3,706,695 as compared to the prior year balance at June 30, 2009 of \$5,179,886. The decrease was primarily the result of non-operational Phase III Expansion/Due Diligence costs incurred amounting to \$347,816, the City's contribution shortfall and the \$1,000,000 down payment on the ground lease purchase.

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, 2010, and have issued our report thereon dated October 26, 2010. 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 *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Certified Public Accountants
San Diego, California
October 26, 2010