



I have had the great pleasure to serve as the Chair of the San Diego Convention Center Corporation's Board of Directors and am proud to report a strong, prosperous and record Fiscal Year 2016. The 158 events that filled our facility generated an estimated \$1.1 billion in regional economic impact for San Diego. This is a reflection of the outstanding work and service of our 209 full-time employees and 232 part-time employees.

Our success is also attributed to our focus on strengthening our collaboration with the Port of San Diego and the City of San Diego. We look forward to finding new ways to continue to grow together, not only with our partner agencies, but with the community as a whole.

One of the key accomplishments of the Board of Directors this year was hiring Clifford "Rip" Rippetoe as our new President and CEO to continue to lead our great success. He brings industry expertise in improving communication,

creating transparency, implementing infrastructure enhancements, building labor relations and increasing revenues. He seamlessly transitioned by learning about the culture and vision of the Convention Center and making it a priority to further empower our talented staff.

We welcome you to explore the financial highlights your San Diego Convention Center generated in Fiscal Year 2016 in the following pages and join us in celebrating a highly successful year.

Laurie Coskey

Chair. Board of Directors



BOARD OF DIRECTORS



Candace M. Carroll VICE CHAIR



Gil Cabrera SECRETARY



Steve Cushman BOARD MEMBER



Aimee Faucett BOARD MEMBER



Xema Jacobsen BOARD MEMBER



In my first few months as President and CEO of the San Diego Convention Center Corporation, the value of our

guests' experience was abundantly clear. Time and time again, we hear from guests that our excellence in service and our stunning destination exceeded their expectations, and they cannot wait to return.

Close to 70 percent of our annual primary business is repeat business. The repetition of these quality functions is greatly due to our excellent customer service. We host organizations who build a "small city" in our facility for the most important week of their year. Behind each event is our greatest asset: our employees and service partners.

We are seeing some record numbers for this past fiscal year. Direct attendee spending (at \$658 million) and hotel and sales tax revenue (at \$23.9 million)

were the highest since 2008. That \$23.9 million goes directly to the City of San Diego's General Fund, paying for city services like firefighters, police officers, city infrastructure, libraries and parks. More than 824,000 attendees visited us, making FY16 our fifth highest year ever in attendance and generating an estimated \$1.1 billion in regional economic impact for San Diego.

Clifford Ripperte

Clifford "Rip" Rippetoe, CFE President & CFO



Integrity

Do what you say you will do, big and small.

Service

If we are not serving our client, serve someone who is.

Collaboration

Work together for the greater good – over communicate.

Courage

We will work together toward our goals despite the presence of risk, uncertainty or fear.

Accountability

Anyone can ask, "Why?"

OUR CORE VALUES

OUR PURPOSE

The San Diego Convention
Center is the region's
premiere gathering place,
hosting conventions, trade
shows and community events
that economically benefit
the City of San Diego and
advances our convention and
tourism industry.



OUR PROMISE

To provide our clients and guests outstanding service, consistently exceeding expectations, so that they want to come back over and over again, to invest further in San Diego.



FY16

PERFORMANCE SUMMARY





Tax Revenue

Direct Attendee

Spending



824,276 Attendance

737,155

66%

Hotel Room Nights

Building Occupancy

The results are based on information and research provided by San Diego based CIC Research, Inc. and by Destination Marketing Association International.

07 SAN DIEGO CONVENTION CENTER FY16 ANNU.

AVERAGE FY16 SPENDING PER CONVENTION ATTENDEE



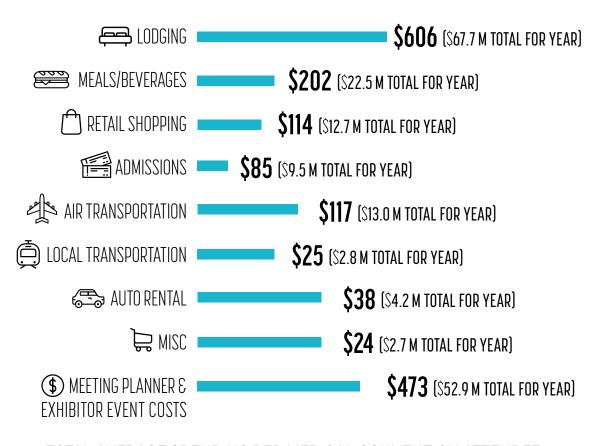


medical meetings in FY16
accounted for nearly 30 percent
of the convention center's
overall economic impact while
representing a little less than 15 percent
of overall attendance. The healthcare
and medical meetings market is highly
competitive.

Cities that host these events benefit greatly for several reasons:

- Medical meetings have larger budgets.
- Medical meeting attendees are more likely to bring family members along with them.
- Medical meeting attendees have more disposable income to spend in San Diego.
- Medical meetings perform well, even in economic downturns.
- Medical meeting attendees are more likely to stay longer in San Diego for a vacation.

AVERAGE FY16 SPENDING PER MEDICAL CONVENTION ATTENDEE



TOTAL AVERAGE SPENDING PER MEDICAL CONVENTION ATTENDEE

\$1,684 (\$188.3 M TOTAL FOR YEAR)

The results are based on information and research provided by San Diego based CIC Research, Inc. and by Destination Marketing Association International.

[ol-uh-jee] n. any science or branch of knowledge.

AUA2016:
AMERICAN UROLOGICAL
ASSOCIATION

ANESTHESIOLOGY 2015:
AMERICAN SOCIETY OF
ANESTHESIOLOGISTS

SPSP 2016: SOCIETY
FOR PERSONALITY AND
SOCIAL PSYCHOLOGY

ASCB 2015: AMERICAN
SOCIETY FOR CELL
BIOLOGY

THE CAMENICAN SOCIETY OF NEPHROLOGY AS A STANKED ON SOCIETY OF NEPHROLOGY AS A STANKED OF A STAN

ICAAC/ICC 2015: INTERSCIENCE CONFERENCE ON ANTIMICROBIAL AGENTS AND CHEMOTHERAPY

IDWEEK 2015: INFECTIOUS DISEASE SOCIETY OF AMERICA
DDW 2016: DIGESTIVE DISEASE WEEK HEPATOLOGY AND
GASTROENTEROLOGY BIO 2016: WORLD CONGRESS ON
INDUSTRIAL BIOTECHNOLOGY

TOP 5 EVENTS BY REGIONAL IMPACT



\$140.0 M

\$70.7 M

\$58.0 M

San Diego Comic-Con International

LIGHTFAIR International

Realtors Conference & Expo



\$56.9 M

53.8 M

ESRI User Conference 2015*

ESRI User Conference 2016*

*Esri was held twice in FY16: July 2015 and June 2016. Our fiscal year begins on July 1 and ends

REGIONAL IMPACT HOW IS IT **CALCULATED?**

STEP 1 DIRECT ATTENDEE SPENDING FACTOR







An average attendee length of stay of just less than four days

Figure varies depending on actual event duration and attendee length of stay.

STEP 2 DIRECT ATTENDEE SPENDING



Direct spending factor per attendee



event attendees

Attendance projections are provided to the Corporation by the event planner or show manager

STEP 3 REGIONAL IMPACT



Direct attendee spending

Industry factor

Industry factor based on information and research provided by CIC Research, Inc.

TOP 10 EVENTS

BY HOTEL & SALES TAX REVENUE



\$2.9 M
San Diego Comic-Con



\$1.5 M









The results are based on information and research provided by San Diego based CIC Research, Inc. and by Destination Marketing Association International.



\$1.2 M ESRI User Conference 2015* AUA-2016 AMERICAN UROLOGICAL ASSOCIATION



AMERICAN CHEMICAL SOCIETY

ANESTHESIOLOGY. San Diego OCTOBER 24-28 5

ANESTHESIOLOGY



ESRI User Conference 2016*

DIGESTIVE DISEASE WEEK



BUILDING OCCUPANCY

*Esri was held twice in FY16: July 2015 and June 2016. Our fiscal year begins on July 1 and ends June 30, placing them in the same year.

Occupancy in FY16 was 16 percent above the national average of 50 percent.



147

TONS OF EDIBLE FOOD WERE DONATED
TO THE SAN DIEGO RESCUE MISSION ENOUGH TO FEED

235,200

PLATED MEALS FOR SAN DIEGANS IN NEED

18

TONS OF MEETING MATERIALS
LEFTOVER FROM IN-HOUSE EVENTS
INCLUDING CLOTHING, SHOES, GLASSES,
BACKPACKS, BOOKS, SUNSCREEN, PENS,
NOTEPADS, CHAIRS AND TABLES WERE
DONATED TO LOCAL NON-PROFITS

25

REGIONAL NONPROFITS, SCHOOLS, LIBRARIES, CHURCHES, VETERAN'S GROUPS, WOMEN'S CENTERS AND SHELTERS RECEIVED DONATED MEETING MATERIALS

The results are based on information and research provided by San Diego based CIC Research, Inc. and by Destination Marketing Association International.

FY16 ENVIRONMENTAL IMPACT BY THE NUMBERS





66%
OF ALL WASTE GENERATED WAS KEPT OUT OF LANDFILLS.







FY16 REVENUES

The San Diego Convention Center Corporation has three primary drivers of revenue:

1. BUILDING RENT

2. FOOD AND BEVERAGE COMMISSIONS FROM OUR IN-HOUSE CATERING PARTNER CENTERPLATE

Accounts for the convention center's single largest functional revenue source.

3. ANCILLARY REVENUES

Combination of revenues generated from advertising, audiovisual, utilities, in-house cleaning as well as telecommunications and Internet service.

In addition, the City of San Diego provides funding to the Corporation for sales and marketing as well as capital expenses.





CAPITAL **PROJECTS**

The San Diego Convention Center is making the necessary investments in the operation and maintenance of the facility. Here are some of the major projects from Fiscal Year 2016.

IN PROGRESS

Upgrading ventilation system in West Building to electronic controls: \$663.173*

*\$408,420 completed in FY16

Retrofit for LED lighting (Phase II-Ballroom, driveway, meeting rooms, various east building areas): \$627,100* *\$572,361 completed in FY16

Air handling unit conversion from direct drive to variable frequency: \$399,959*

*\$309.581 completed in FY16

COMPLETED

Restroom remodeling: \$520,737

Retrofit for LED lighting (Phase I-West Building): \$205.324*

*Carry over from FY15 project start \$139,741 and FY16 completion \$65,583

Replace Sails Pavilion boilers: \$110,706





In FY16, the San Diego Convention Center generated \$23.9 million in taxes that went straight to the City of San Diego's General Fund.

The city invested \$3.4 million for marketing and capital expenses, \$12.6 million in expansion

contribution bonds and \$1.2 million in dewatering expenses.

That's a total investment of \$17.2 million resulting in a \$6.7 million return on investment.

For each \$1 you invest, we return \$1.39.



(a component unit of the City of San Diego, California)

Annual Financial Report

For the Year Ended June 30, 2016



San Diego Convention Center Corporation Annual Financial Report

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Independent Auditor's Report

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

Los Angeles

Newport Beach

Oakland

Sacramento

San Diego San Francisco

Walnut Creek

Woodland Hills

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the SDCCC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Convention Center Corporation as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental

Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

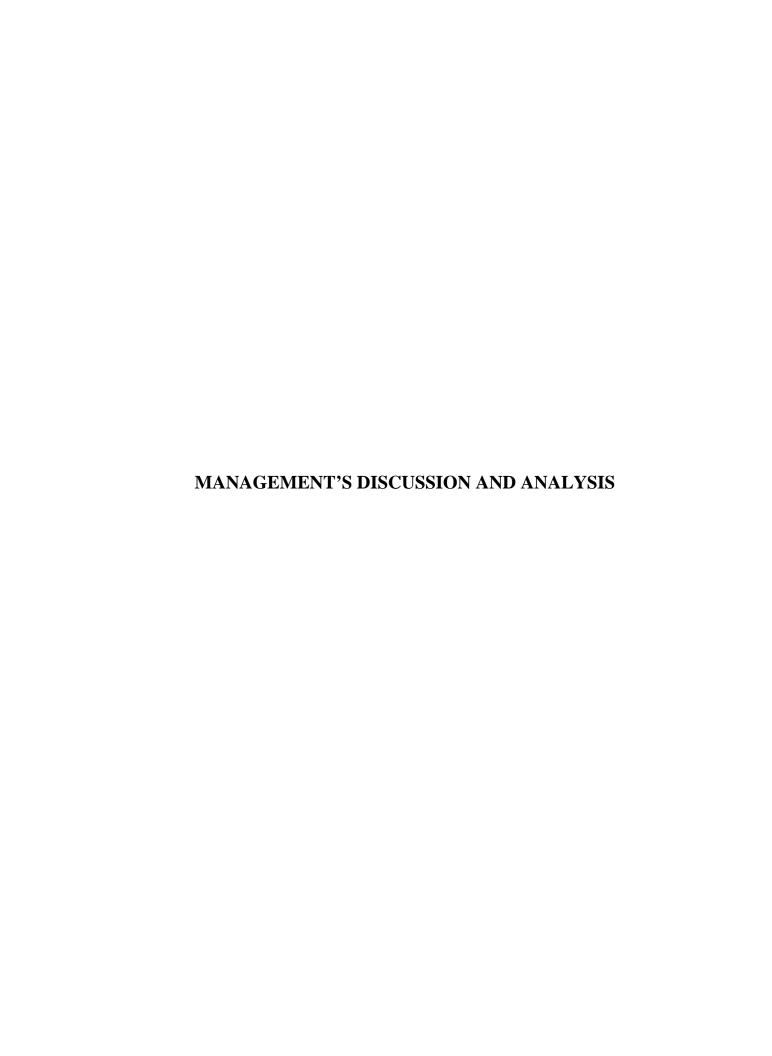
Other Reporting Required by Government Auditing Standards

Macias Gini É D'Connell LAP

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SDCCC's internal control over financial reporting and compliance.

San Diego, California

October 21, 2016



Management's Discussion and Analysis For the Year Ended June 30, 2016 (Unaudited)

As management of the San Diego Convention Center Corporation (SDCCC), we offer readers of SDCCC's financial statements this narrative overview and analysis of the financial activities of SDCCC for the year ended June 30, 2016. 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 Position presents information on all SDCCC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2016. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of SDCCC is improving or deteriorating. SDCCC did not have any deferred outflows or deferred inflows of resources as of June 30, 2016.

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

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

San Diego Convention Center CorporationManagement's Discussion and Analysis (Continued) For the Year Ended June 30, 2016 (Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net position comparing FY 2016 with FY 2015.

			Percentage
			Increase
	FY 2016	FY 2015	(Decrease)
ASSETS:			
Cash and cash equivalents	\$ 12,544,121	\$ 10,951,620	15%
Receivables	7,658,400	9,730,713	(21%)
Prepaid expenses	821,668	593,470	38%
Deposits with others	112,959	132,280	(15%)
Inventory	38,416	38,416	
Capital assets, net	11,706,839	10,604,767	10%
Total assets	32,882,403	32,051,266	3%
A A DAY AMARIA			
LIABILITIES:		1 000 0 15	(2=0)
Accounts payable	744,057	1,022,247	(27%)
Accrued liabilities	2,932,720	2,583,940	13%
Unearned income	5,380,957	5,316,651	1%
Current portion of long-term debt	2,197	2,197	
Long-term portion of unearned income	5,501,155	6,280,314	(12%)
Long-term portion of accrued	- , ,	-,,-	
liabilities	-	54,523	(100%)
Long-term debt	12,635	14,831	(15%)
Total liabilities	14,573,721	15,274,703	(5%)
NET POCITION			
NET POSITION:	11 602 067	10.505.500	100/
Net investment in capital assets	11,692,007	10,587,739	10%
Unrestricted	6,616,675	6,188,824	7%
Total Net Position	\$ 18,308,682	\$ 16,776,563	9%

Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

<u>Assets</u>

Total Assets of \$32.9 million at FY 2016 year-end increased by \$0.8 million, or 3%, from the prior year-end balance of \$32.1 million. The changes were primarily due to an increase in cash and equivalents of \$1.6 million, or 15%, as well as an increase in capital assets, net of depreciation of \$1.1 million, or 10%, partially offset by a decrease in receivables of \$2.1 million, or 21%. The decrease in receivables was most significantly impacted by food and beverage and utility commissions invoiced at FY 2015 year-end related to an event hosted in June 2015 that were paid in July 2015.

Liabilities

Total Liabilities of \$14.6 million at FY 2016 year-end decreased by \$0.7 million, or 5%, from a balance of \$15.3 million in FY 2015. The changes were primarily due to a decrease in the long-term portion of unearned income balance of \$0.8 million, or 12%, primarily the result of revenue recognized related to a food and beverage contract extension and signing bonus to be amortized and recognized as revenue through FY 2026.

Net Position

Total Net Position of \$18.3 million at FY 2016 year-end increased by \$1.5 million, or 9%, compared to the prior year balance of \$16.8 million. Net investment in capital assets increased by \$1.1 million compared to the prior year due to leasehold improvement capital purchases exceeding depreciation expense during FY 2016. Unrestricted net position increased by \$0.4 million compared to the prior year which was directly impacted by excess revenues over expenses of \$1.5 million exceeding the offset of investment of capital assets of \$1.1 million.

Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The following table summarizes the changes in net position for SDCCC comparing FY 2016 with FY 2015.

	FY 2016	FY 2015	Percentage Increase (Decrease)
Operating Revenues:			
Rental	\$ 8,617,929	\$ 8,885,645	(3%)
Food and beverage	9,170,843	10,538,043	(13%)
Ancillary services	13,460,121	13,241,790	2%
Contributions from the City of San Diego	3,405,000	3,405,000	
Other revenue	43,345	42,992	1%
other revenue	10,510		170
Total operating revenues	34,697,238	36,113,470	(4%)
Operating Expenses:			
Salaries and benefits	21,464,772	20,291,038	6%
Services and supplies	9,042,903	9,490,738	(5%)
Depreciation	1,603,504	1,936,173	(17%)
Marketing contract	1,931,000	1,931,000	
Total operating expenses	34,042,179	33,648,949	1%
Operating Income	655,059	2,464,521	
Nonoperating Revenues (Expe	enses):		
Interest income	3,870	2,423	60%
Gain (loss) on disposal of capital assets	(8,822)	1,430	
Other income	797,786	408,448	95%
Total nonoperating revenues (expenses)	792,834	412,301	
Income before capital contributions and special item	1,447,893	2,876,822	
Capital Contributions	84,226	269,549	(69%)
Special Item		(5,362,102)	
Change in net position	1,532,119	(2,215,731)	
Net position - beginning of year	16,776,563	18,992,294	
Net position - end of year	\$ 18,308,682	\$ 16,776,563	9%

Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Operating Revenues

Total operating revenues generated in FY 2016 amounted to \$34.7 million, a \$1.4 million, or 4%, decrease compared to the prior year's total of \$36.1 million. The change was primarily due to a decrease in food and beverage commissions of \$1.4 million, or 13%, compared to prior year as a result of canceled events and projected events not materializing.

Operating Expenses

Total operating expenses incurred during FY 2016 amounted to \$34.0 million, a \$0.4 million, or 1%, increase compared to the prior year's total of \$33.6 million with offsetting category fluctuations. Salary and benefits increased by \$1.2 million, or 6%, compared to prior year primarily due to employee termination benefits provided to senior management staff as well as employee merit and collective bargaining agreement step increase. Partially offsetting the increase in salaries and benefits was a \$0.4 million, or 5%, decrease in services and supplies primarily related to repair and maintenance project delays due to limited maintenance opportunities as a result of busy event activity as well as a decrease in depreciation cost of \$0.3 million, or 17%, resulting from capital assets reaching their full useful life.

Nonoperating Revenues and Expenses

During FY 2016, nonoperating revenues and expenses produced \$0.8 million net revenues compared to \$0.4 million of net revenues in the prior year. The increase of \$0.4 million was the result of an extension of an existing food and beverage controt that added to existing contract-signing bonus revenue to be amortized.

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2016, SDCCC had a capital asset book value of \$11.7 million, net of accumulated depreciation of \$25.3 million, or 10%, more than the prior year figure of \$10.6 million. Capital assets are spread across a broad range of computer, office and operating equipment, telecommunications and leasehold improvements. The gross value of capital purchases in FY 2016 of \$2.7 million was offset by disposals of \$0.2 million.

Major capital asset additions during FY 2016 included:

- \$572,361 for retrofit of LED lighting
- \$520,737 for restroom remodeling
- \$408,420 for pneumatic control conversion to direct digital
- \$309,581 for converting air handling units from direct drive to variable frequency drives

Effective April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC in which the Lessor financed a warehouse capital improvement for SDCCC valued at \$21,972. The agreement calls for the loan to be amortized in SDCCC's (as lessee) monthly rent over 10 years at zero percent interest.

Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016
(Unaudited)

CAPITAL ASSET AND DEBT ANALYSIS (Continued)

In the event that SDCCC does not exercise the option to extend the lease, the unamortized portion becomes payable and due upon termination of the contract. During the year ended June 30, 2016, SDCCC paid \$2,197 in principal payments on the warehouse loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2016 Operational contributions from the City remained at \$3,405,000 for the sixth year in a row. As described in Note 6, contributions from the City funded marketing, promotion and capital projects for the Convention Center. During FY 2016, total expenses on marketing, promotion and capital projects exceeded the City's contributions.

Effective July 1, 2012, San Diego City Council action provided for the long-term sales, marketing and promotional activities of the Convention Center to be transferred to a third party contractor (the San Diego Tourism Authority (SDTA)). A contract between SDCCC and SDTA exists detailing the terms set forth by the City. For the year ended June 30, 2016, SDCCC paid \$1.9 million in marketing contract payments to SDTA.

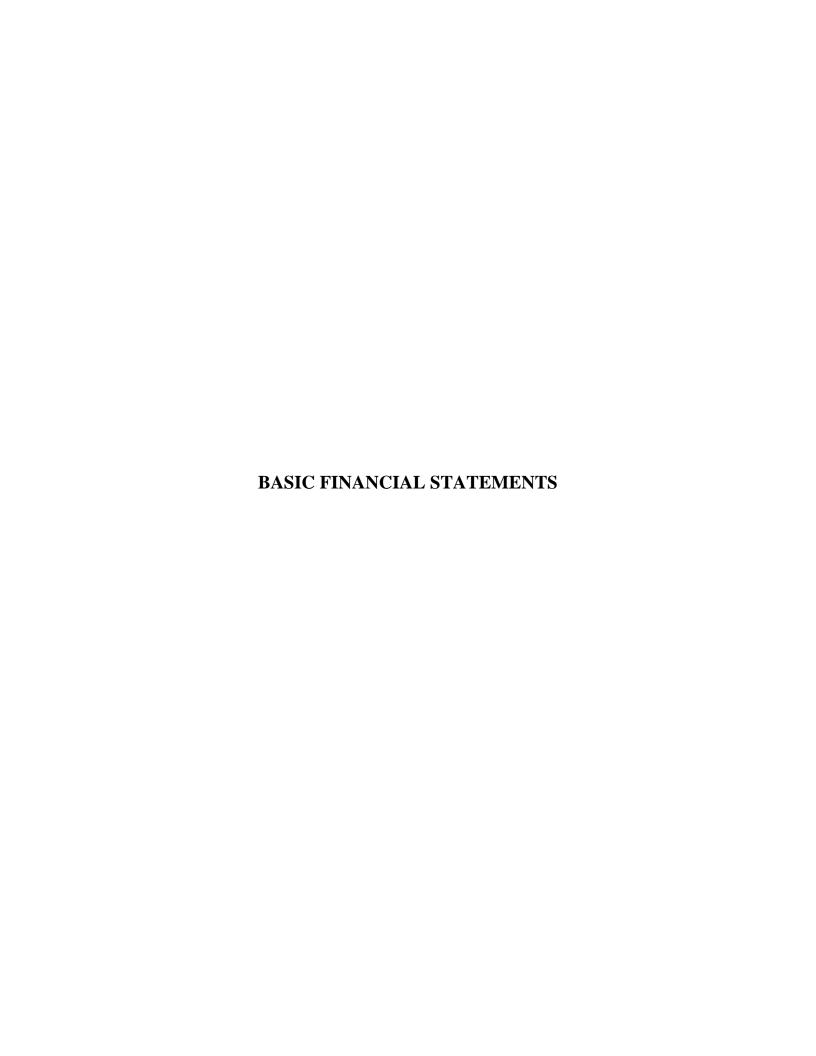
Management is anticipating similar financial performance during FY 2017 as compared to FY 2016. The City's operational contributions to SDCCC are anticipated to increase slightly to \$3,436,000.

OTHER INFORMATION

During June 2016, the California Infrastructure and Economic Development Bank approved a loan application jointly submitted by SDCCC and the City. Proceeds from the loan will pay for several large capital infrastructure projects at the Convention Center. Loan documents are expected to be executed by December, 2016, for a total of approximately \$25.5 million financed over a 25-year term at a 3.59 percent rate per annum.

REQUEST FOR INFORMATION

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



Statement of Net Position June 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 12,544,121
Receivables	4,908,400
Prepaid expenses	821,668
Deposits with others	112,959
Inventory	38,416
Total current assets	18,425,564
Noncurrent assets:	
Receivables	2,750,000
Capital assets:	
Construction in progress	1,397,078
Furniture, equipment and software	4,669,700
Leasehold improvements	30,957,699
Less accumulated depreciation	(25,317,638)
Total capital assets	11,706,839
Total noncurrent assets	14,456,839
TOTAL ASSETS	32,882,403
LIABILITIES	
Current liabilities:	
Accounts payable	744,057
Accrued liabilities	1,612,940
Unearned income	5,380,957
Compensated employee absences	1,319,780
Current portion of long-term debt	2,197
Total current liabilities	9,059,931
Noncurrent liabilities:	
Long-term debt	12,635
Long-term portion of unearned income	5,501,155
Total noncurrent liabilities	5,513,790
TOTAL LIABILITIES	14,573,721
NET POSITION	
Net investment in capital assets	11,692,007
Unrestricted	6,616,675
TOTAL NET POSITION	\$ 18,308,682

Statements of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2016

Operating Revenues	
Rental Revenue:	
Convention and trade shows	\$ 6,482,819
Corporate/incentive events	538,439
Consumer shows	493,530
Meetings and seminars	465,289
Cancelled events	296,817
Community events	268,390
Local trade shows	72,645
Food and beverage revenue	9,170,843
Ancillary service revenue:	
Utilities	4,235,743
Telecommunications	4,033,460
Event and cleaning services	3,800,784
Audio visual	1,390,134
Contributions:	
City of San Diego	3,405,000
Other revenue	43,345
Total operating revenues	34,697,238
Operating Expenses	
Salaries and wages	16,573,120
Fringe benefits	4,891,652
Utilities	3,868,596
Repairs and maintenance	2,258,112
Contractual marketing and sales	1,931,000
Depreciation	1,603,504
General	1,048,203
Contracted services	815,483
Supplies	480,762
Insurance	319,414
Sales and marketing	105,771
Travel and transportation	103,604
Telecommunications	42,958
Total operating expenses	34,042,179
Operating income	655,059
Nonoperating Revenues	
Other income	797,786
Interest income	3,870
Loss on disposal of capital assets	(8,822)
Total nonoperating revenues	792,834
Income before capital contributions	1,447,893
Capital contributions	84,226
Change in net position	1,532,119
Net position - beginning of year	16,776,563
Net position - end of year	\$ 18,308,682

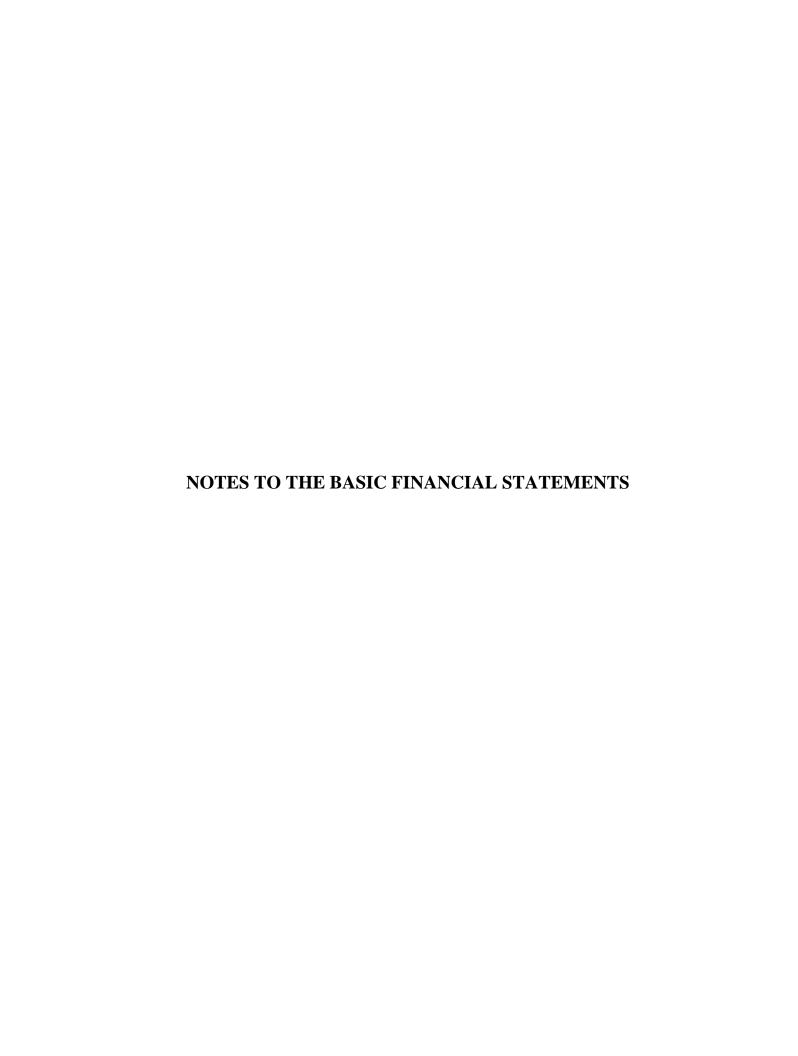
Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 33,447,485
Contributions received from City of San Diego	3,405,000
Payments to suppliers for goods and services	(11,677,644)
Payments to employees for services	(21,023,663)
Net cash provided by operating activities	4,151,178
CASH FLOWS FROM CAPITAL AND	
RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,564,284)
Principal payments on note payable	(2,197)
Proceeds from the sale of capital assets	3,934
Net cash used by capital and related financing activities	(2,562,547)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	3,870
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,592,501
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	10,951,620
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,544,121

Statement of Cash Flows For the Year Ended June 30, 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 655,059
Adjustments to reconcile operating income to net cash	
provided by operating activities:	
Depreciation	1,603,504
Other income	797,786
Changes in operating assets and liabilities:	
Decrease in receivables	2,072,314
Increase in prepaid expenses	(228,198)
Decrease in deposits with others	19,321
Decrease in accounts payable	(348,012)
Decrease in accrued compensated absences	(21,001)
Increase in accrued liabilities	315,258
Decrease in unearned income	 (714,853)
Net cash provided by operating activities	\$ 4,151,178
NONCASH CAPITAL AND FINANCING ACTIVITIES	
Capital asset contributions	\$ 84,226
Acquisition of capital assets included in accounts payable	69,822
Carrying value of disposed capital assets	12,756



Notes to the Basic Financial Statements For the Year Ended June 30, 2016

NOTE 1. REPORTING ENTITY

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

SDCCC acts in accordance with its By-Laws, the City of San Diego's (City) Charter, and the City's Municipal Code. The City is a sole member of SDCCC and appoints seven voting members to the Board of Directors of SDCCC. Since the City appoints the voting members of the Board of Directors of SDCCC and is able to impose its will on the SDCCC, the City, as the primary government, is financially accountable to SDCCC. Therefore, 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.

SDCCC has a management agreement with the City to provide sales and marketing, operating and maintenance services for the Convention Center. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center (refer to Note 6).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Measurement Focus

The financial transactions of SDCCC are accounted for on the accrual basis under which revenues are recognized as earned and expenses are recognized as incurred. SDCCC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing event meeting space, goods and services in connection with SDCCC's principal ongoing operations. SDCCC's principal operating revenues include event meeting space rental revenues, food and beverage commissions, event and cleaning service revenues, other ancillary service revenues and contributions from the City that are used to fund marketing, promotion and capital projects. SDCCC's principal operating expenses 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

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.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Prepaid Expenses

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

D. Accounts Receivable

Long-term receivables in the amount of \$2,750,000 represent incentive payments to be received by SDCCC in equal installments of \$625,000 on July 1, 2018 and January 1, 2019, and in equal installments of \$500,000 on July 1, 2020, July 1, 2022, and July 1, 2024 from Centerplate in consideration of the SDCCC's extension of Centerplate's exclusive food and beverage contract through June 30, 2026.

E. Inventory

Inventory consists of spare parts that will be used and capitalized when the assets are placed into service.

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

G. Unearned Income

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

H. Compensated Employee Absences

Accumulated annual leave (PTO) is compensated time off for eligible employees who are absent from work and is recorded in the Statement of Net Position. The amount recorded is expected to be used in accordance with SDCCC's personnel guidelines for vacation, illness, and personal business, with a maximum accumulation of 480 hours per employee. Full-time employees are allowed up to 80 hours paid compensation in lieu of annual leave provided they maintain a minimum balance of 40 hours. Additionally, part-time employees who have PTO balances in excess of 24 hours at fiscal year-end are paid their excess annual leave balance within 30 days of fiscal year-end and carry over the remaining balance each year.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Components of Net Position

<u>Net Investment in Capital Assets</u> - 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.

<u>Unrestricted</u> - This amount is the portion of net position that does not meet the definition of "net investment in capital assets".

J. Income Taxes

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

K. Use of Estimates

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

NOTE 3. CASH AND CASH EQUIVALENTS

At June 30, 2016, the book balance of SDCCC's cash on hand, deposits, and bank money market account deposits was \$12,544,121, and the bank balance was \$13,033,800. Of the bank balance, \$250,000 was covered by Federal depository insurance. The remaining uninsured balance is collateralized, with the collateral held by an affiliate of the counterparty's financial institution. A formal deposit and investment policy was approved in August 2010 by SDCCC's Board of Directors, which addresses custodial credit risk, credit quality risk and allowable investments. SDCCC places no limit on the amount that may be invested in any one account or fund. SDCCC's allowable investments include: obligations of the U.S. government, its agencies and instrumentalities; investment grade state and local government securities; certificates of deposit; bankers' acceptances; repurchase agreements; and money market mutual funds whose portfolios consist only of domestic securities.

Cash and cash equivalents were categorized as follows at June 30, 2016:

Cash on hand	\$ 122,409
Deposits	2,547,630
Bank money market account deposits	9,874,082
Total cash and investments	\$ 12,544,121

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2016

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2016, is as follows:

	Beginning Balance June 30, 2015 Additions		Additions	<u>D</u>	Deletions	Ending Balance June 30, 2016		
Non-Depreciable Capital Assets: Construction in progress	\$		\$	1,397,078	\$		\$	1,397,078
Depreciable Capital Assets: Furniture, equipment and software Leasehold improvements		4,593,484 29,947,436		310,991 1,010,263		(234,775)		4,669,700 30,957,699
Total Depreciable Capital Assets		34,540,920		1,321,254		(234,775)		35,627,399
Less Accumulated Depreciation: Furniture, equipment and software Leasehold improvements		(3,599,777) (20,336,376)		(290,124) (1,313,380)		222,019		(3,667,882) (21,649,756)
Total Accumulated Depreciation		(23,936,153)		(1,603,504)		222,019		(25,317,638)
Total Depreciable Capital Assets - Net		10,604,767		(282,250)		(12,756)		10,309,761
Capital Assets, Net	\$	10,604,767	\$	1,114,828	\$	(12,756)	\$	11,706,839

Depreciation expense for the year ended June 30, 2016 was \$1,603,504.

NOTE 5. LONG-TERM LIABILITIES

A. Compensated employee absences

A summary of changes in accrued compensated employee absences for the year ended June 30, 2016 is as follows:

		Balance					Balance	(Current	
	Ju	ne 30, 2015	 Additions	R	etirements	Ju	ne 30, 2016		Portion	
Compensated Employee Absences	\$	1,340,781	\$ 1,464,177	\$	(1,485,178)	\$	1,319,780	\$	1,319,780	

B. Notes Payable

On April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LP (lessor) in which the lessor financed a warehouse capital improvement for SDCCC valued at \$21,972. The agreement calls for the loan to be amortized as part of SDCCC's monthly rent over 10 years at a zero percent per annum rate. In the event SDCCC does not exercise the option to extend the lease, the unamortized portion becomes payable and due upon termination of the contract.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2016

NOTE 5. LONG-TERM LIABILITIES (Continued)

B. Notes Payable (continued)

A summary of changes in notes payable for the year ended June 30, 2016, is as follows:

	B	Balance					В	Salance	Current	
	June	30, 2015	Add	litions	Ret	irements	June	e 30, 2016	P	ortion
CG 7600 LP	\$	17,029	\$	-	\$	(2,197)	\$	14,832	\$	2,197

Annual requirements to amortize the notes payable as of June 30, 2016, including interest payments to maturity, are as follows:

Year Ending June 30,	F	Principal		Interest		Total
2017	\$	2,197	\$	-	\$	2,197
2018		2,197		-		2,197
2019		2,197		-		2,197
2020		2,197		-		2,197
2021		2,197		-		2,197
2022-2023		3,847				3,847
Total	\$	14,832	\$		\$	14,832

NOTE 6. ECONOMIC DEPENDENCY

SDCCC receives contributions from the City as specified in a management agreement between SDCCC and the City. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center. During the year ended June 30, 2016, SDCCC received \$3,405,000 from the City, of which \$1,931,000 was used to fund marketing contract expenses paid to the San Diego Tourism Authority related to certain sales, marketing and promotional aspects of long-term events at the Convention Center. The remaining \$1,474,000 was used to fund various capital projects and rental credits.

Moving into FY 2017, SDCCC anticipates that contributions from the City will increase slightly to \$3,435,000, of which \$1,931,000 will be used for marketing contract expenses. The remaining \$1,505,000 is expected to fund capital projects at the Convention Center.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2016

NOTE 7. DEFINED CONTRIBUTION PLAN

The San Diego Convention Center Corporation's Money Purchase Pension Plan (Plan) is a governmental plan under section 414(d) of the Internal Revenue Code, which was established effective January 1, 1986, by SDCCC's Board of Directors. The Plan is administered by SDCCC through a Defined Contribution Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the Plan. Any recommended Plan amendments are subject to the approval and adoption by SDCCC's Board of Directors. As part of the Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer Plan assets subject to the terms of the Plan. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The Plan covers all employees who have completed at least 1,000 hours of service in one year and are not covered through a union retirement plan. 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 from the employee's hire date (or during any subsequent Plan year). For each Plan year, SDCCC contributes 10% of compensation paid after the employee becomes an eligible participant, which is transferred to the trustee on behalf of each qualifying individual.

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

For the year ended June 30, 2016, pension expense amounted to \$1,208,533, with no employee contributions made to the Plan. Included in pension expense were forfeitures in the amount of \$36,080. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in qualified gross 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 Internal Revenue Code 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, 2016, SDCCC contributed \$11,423 on behalf of the eligible employees.

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2016

NOTE 9. COMMITMENTS

SDCCC as Lessor

Effective March 22, 2013, SDCCC entered into a sublease agreement for truck marshal yard space for an initial term of 60 months, from April 1, 2013 through March 31, 2018. Future minimum annual rental lease revenues are as follows:

Year Ending	
June 30,	 Amount
2017	\$ 135,522
2018	102,358
Total	\$ 237,880

Rental income related to the sublease was \$132,088 for the year ended June 30, 2016.

SDCCC as Lessee

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

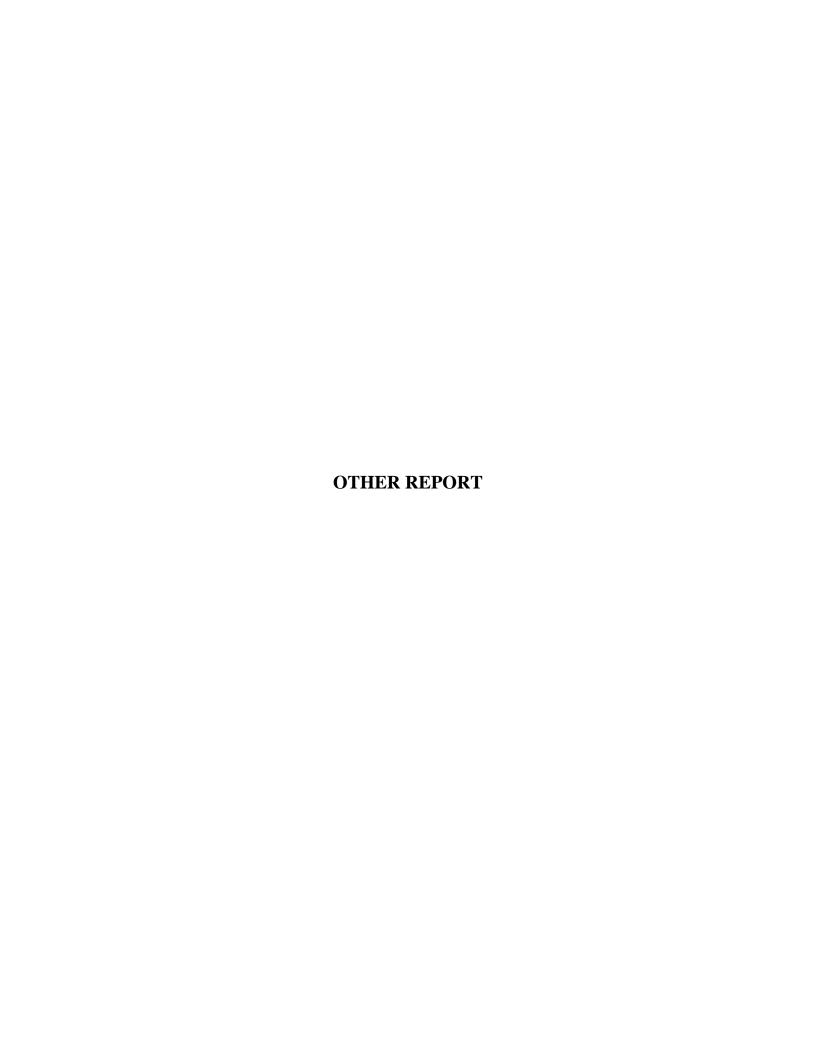
June 30,	 Amount
2017	\$ 229,074
2018	182,864
2019	31,428
2020	31,428
2021	28,809
Total	\$ 503,603

Lease expense for the year ended June 30, 2016 was \$262,508.

NOTE 10. CONTINGENT LIABILITIES

SDCCC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

SDCCC is subject to various lawsuits as well as grievances by labor unions. SDCCC's management believes, based upon consultation with SDCCC attorneys, that any unasserted claims, in the aggregate, will not result in a material adverse financial impact on SDCCC. SDCCC is covered by various insurance policies, the largest of which include property, liability and workers' compensation, with deductibles that vary from \$25,000 to \$100,000. SDCCC management believes that SDCCC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize. There have been no insurance claim settlements that exceeded insurance coverage during the past three fiscal years.





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Walnut Creek

Woodland Hills

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the SDCCCs basic financial statements, and have issued our report thereon dated October 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SDCCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SDCCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the SDCCC's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

San Diego, California

Macias Gini & O'Connell LAP

October 21, 2016