

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

Annual Financial Report

For the Year Ended June 30, 2011

**San Diego Convention Center Corporation
Annual Financial Report
For the Year Ended June 30, 2011**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information - Unaudited)	3
Basic Financial Statements	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Basic Financial Statements.....	14
Supplementary Information	
Combining Schedule of Net Assets by Function.....	23
Combining Schedule of Revenues, Expenses and Changes in Net Assets by Function	24
Note to Supplementary Information.....	25
Other Report	
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 <i>Government Auditing Standards</i>	26

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

INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying basic financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of City of San Diego, California, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of SDCCC’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCCC’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDCCC as of June 30, 2011, 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 December 5, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Macias Jini & O'Connell LLP

San Diego, California
December 5, 2011

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 year ended June 30, 2011. 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., 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 loss to net cash used by operating activities as well as detail of noncash investing, capital and financing activities.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net assets comparing FY 2011 with FY 2010.

	<u>FY 2011</u>	<u>FY 2010</u>	Percent Increase (Decrease) <u>FY10/FY11</u>
ASSETS:			
Cash and deposits	\$13,425,707	\$15,877,394	(15%)
Receivables, net	3,631,799	3,285,931	11%
Inventory	15,906	14,397	10%
Prepaid expenses	975,453	966,424	1%
Capital assets, net	<u>31,481,975</u>	<u>28,521,359</u>	10%
Total assets	<u>49,530,840</u>	<u>48,665,505</u>	2%
LIABILITIES:			
Accounts payable	1,746,797	1,819,785	(4%)
Accrued liabilities	3,660,055	3,744,432	(2%)
Unearned income	7,642,012	8,656,617	(12%)
Current portion of notes payable	184,357	1,031,063	(82%)
Long-term portion of accrued liabilities	55,709	-	-
Long-term liabilities	<u>15,668,994</u>	<u>12,500,000</u>	25%
Total liabilities	<u>28,957,924</u>	<u>27,751,897</u>	4%
NET ASSETS:			
Invested in capital assets net of related debt	17,361,352	14,990,300	16%
Restricted	3,107,188	1,883,656	65%
Unrestricted	<u>104,376</u>	<u>4,039,652</u>	(97%)
Total Net Assets	<u>\$20,572,916</u>	<u>\$20,913,608</u>	(2%)

Assets

Total assets of \$49.5 million in FY 2011 increased by \$0.9 million, or 2%, from the prior year-end balance of \$48.7 million. The change was primarily due to an increase in capital assets of \$3.0 million, or 10%, related to leasehold improvement projects and the Phase III Convention Center expansion project. Partially offsetting the increase in capital assets was a \$2.5 million, or 15%, decrease in cash and deposits that was primarily the result of payments made toward the leasehold improvement and Phase III expansion projects.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

Liabilities

Total liabilities of \$29.0 million in FY 2011 increased by \$1.2 million, or 4%, from a balance of \$27.8 million in FY 2010. The change was due to an increase in long-term debt of \$3.2 million, or 25%, primarily as a result of securing a \$3.0 million note payable from the Redevelopment Agency of the City of San Diego (Redevelopment Agency) for Phase III expansion project costs. Partially offsetting the increase in long-term liabilities were significant decreases in unearned income and current portion of notes payable. The decrease in unearned income amounted to \$1.0 million, or 12%, primarily the result of revenue recognized from events that occurred in FY 2011 that had large advance deposits, which were received in FY 2010. Current portion of notes payable decreased by \$0.8 million, or 82%, primarily the result of paying off the debt on the Sails Pavilion and chiller lease obligations.

Net Assets

Total net assets of \$20.6 million at FY 2011 year-end decreased by \$0.3 million, or 2%, from the prior year balance of \$20.9 million. Unrestricted net assets decreased by \$3.9 million, or 97%, compared to prior year primarily due to expenditures related to leasehold improvements and Phase III expansion projects. The decrease in unrestricted net assets was largely offset by an increase in capital assets, net of related debt, of \$2.4 million, or 16%, due to the leasehold improvement and Phase III expansion projects and a \$1.2 million, or 65%, increase in restricted net assets related to initiation of a note payable to fund certain Phase III expansion project costs.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

The following table summarizes the changes in net assets for SDCCC comparing FY 2011 with FY 2010.

	<u>FY 2011</u>	<u>FY 2010</u>	Percent Increase (Decrease) <u>FY10/FY11</u>
Operating Revenues:			
Rental	\$ 10,576,890	\$ 11,375,033	(7%)
Food and beverage	7,457,708	7,873,046	(5%)
Ancillary services	12,132,778	12,486,001	(3%)
Ticket sales	613,829	366,284	68%
Contributions from the City of San Diego	3,405,278	3,905,278	(13%)
Contributions – donations	251,025	2,750	9,028%
Facility restoration fees	637,254	1,014,016	(37%)
Other revenue	<u>76,289</u>	<u>54,163</u>	41%
Total operating revenues	<u>35,151,051</u>	<u>37,076,571</u>	(5%)
Operating Expenses:			
Salaries and benefits	23,369,958	24,079,049	(3%)
Services and supplies	9,937,190	9,982,921	0%
Depreciation	2,423,056	2,472,792	(2%)
Event production	<u>655,372</u>	<u>436,154</u>	50%
Total operating expenses	<u>36,385,576</u>	<u>36,970,916</u>	(2%)
Operating Income (Loss)	<u>(1,234,525)</u>	<u>105,655</u>	
Nonoperating Revenues (Expenses):			
Interest income	47,505	77,382	(39%)
Interest expense	(12,005)	(67,654)	(82%)
Phase III expansion/due diligence	-	(347,816)	(100%)
Loss on disposal of capital assets	(19,229)	(3,543)	443%
Other income	<u>734,705</u>	<u>807,274</u>	(9%)
Total nonoperating revenues (expenses)	<u>750,976</u>	<u>465,643</u>	
Capital Contributions:	<u>142,857</u>	<u>142,857</u>	0%
Change in Net Assets:	(340,692)	714,155	
Net assets - beginning of year	<u>20,913,608</u>	<u>20,199,453</u>	
Net assets - end of year	<u>\$ 20,572,916</u>	<u>\$ 20,913,608</u>	(2%)

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS, (Continued)

Operating Revenues

Total operating revenues generated in FY 2011 amounted to \$35.2 million, a \$1.9 million, or 5%, decrease compared to the prior year's total of \$37.1 million. Most revenue categories were consistently lower due to the ongoing economic downturn that saw clients cutting back on discretionary spending, with notable decreases in revenue categories of building rent, food and beverage, ancillary services, and facility restoration fees. In addition, increased competition among convention center and performing arts centers necessitated an increase in rental discounts resulting in further decreases in building rent. These factors contributed to a combined total decrease of \$1.5 million, or 5% in the building rent, food and beverage and ancillary services categories. Additionally, the Convention Center received decreased funding of \$0.5 million, or 13%, from the City of San Diego compared to the prior year.

Operating Expenses

Total operating expenses incurred during FY 2011 amounted to \$36.4 million, a \$0.6 million or 2% decrease compared to the prior year's total of \$37.0 million. The change was due primarily to a \$0.7 million, or 3% decrease in salaries and benefits as a result of substantially lower worker's compensation claims expenses. Partially offsetting the decrease in salaries and wages was a \$0.2 million or 50% increase in event production expenses due to an increase in co-promoted and self-promoted events at the Balboa and Civic Theatres.

Nonoperating Revenues and Expenses

During FY 2011, nonoperating revenues and expenses produced \$0.8 million of net revenues compared to \$0.5 million of net revenues in the prior year. This was primarily the result of the elimination of Phase III expansion due diligence expenses since the project has been capitalized starting late in FY 2010.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2011, SDCCC had a capital asset book value of \$31.5 million, net of accumulated depreciation of \$23.7 million, or 9% higher than the prior year figure of \$28.5 million. The capital assets are spread across a broad range of computer, office furniture and operating equipment, leasehold improvements and land. The gross value of capital purchases in FY 2011 of \$5.4 million was partially offset by disposals of \$0.5 million.

Major capital asset additions during FY 2011 included:

- \$2,282,115 for Phase III expansion entitlement costs at the Convention Center
- \$409,886 for ballroom 20 carpeting and wall coverings at the Convention Center
- \$365,236 for lighting retrofit in exhibit halls at the Convention Center
- \$297,875 for bathroom remodeling at the Convention Center
- \$297,037 for lobby improvements at the Civic Theatre
- \$272,450 for carpet replacement at the Civic Theatre

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. The balance of \$500,000 of the note was paid during FY 2011, eliminating the note payable.

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. During FY 2011, the balance of \$531,063 was paid, eliminating the lease obligation.

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 future expansion of the Convention Center's existing building. During FY 2011, \$500,000 of accrued interest was paid leaving the principal balance on the note payable at \$12,500,000.

Effective December 4, 2010, SDCCC entered into an On-bill Financing Loan Agreement with SDG&E for \$353,351, the proceeds of which were used to retrofit lighting in the Convention Center exhibit halls. The Note is payable over 23 equal installments allocated through SDCCC's monthly utility bill based on estimated energy cost savings.

Effective March 16, 2011, SDCCC entered into a \$3,000,000 note payable with the Redevelopment Agency of the City of San Diego related to the Phase III expansion project. During FY 2011, SDCCC spent \$1.3 million of the loan proceeds on the expansion project. As of June 1, 2011, management of the expansion project, including existing project contracts, was transferred from SDCCC to the City of San Diego. SDCCC is still the debtor of the Note Payable to Redevelopment Agency.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Convention Center is considered to be an integral part of the economy of the City, and a central element of the City's tourism industry. A study commissioned by the City in 2003, to determine the need for future City contributions to SDCCC's operations, concluded that, as the Convention Center 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.

FY 2011 operational contributions from the City were budgeted and approved by the City at \$3,405,278, a 13% decrease compared to prior year contributions. For FY 2012, budgeted operational contributions from the City remained at \$3,405,278. As described in Note 6 to the financial statements, contributions from the City fund marketing, promotion and capital projects for the Convention Center. During FY 2011, total expenses on marketing, promotion and capital projects exceeded the City's contributions. The City's contribution shortfall as well as the occurrence of Phase III expansion costs contributed to a significant decrease in SDCCC's unrestricted net assets balance from \$4,039,652 at June 30, 2010 to \$104,376 at June 30, 2011.

Moving into FY 2012, management is not aware of any circumstances that would significantly affect the financial performance of SDCCC during FY 2012 as compared to FY 2011.

REQUEST FOR INFORMATION

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

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San Diego Convention Center Corporation
Statement of Net Assets
June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 9,111,519
Restricted cash and cash equivalents	3,107,188
Deposits	1,207,000
Receivables, net	3,631,799
Inventory	15,906
Prepaid expenses	975,453

Total current assets	18,048,865
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Noncurrent assets:

Land	16,594,314
Furniture, equipment and software	9,122,140
Leasehold improvements	29,501,167
Less accumulated depreciation	(23,735,646)

Total capital assets	31,481,975
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TOTAL ASSETS	49,530,840
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LIABILITIES

Current liabilities:

Accounts payable	1,746,797
Accrued liabilities	2,368,928
Unearned income	7,642,012
Compensated employee absences	1,291,127
Current portion of long-term debt	184,357

Total current liabilities	13,233,221
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Noncurrent liabilities:

Long-term compensated employee absences	49,360
Long-term portion of accrued liabilities	6,349
Long-term debt	15,668,994

Total noncurrent liabilities:	15,724,703
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TOTAL LIABILITIES	28,957,924
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NET ASSETS

Invested in capital assets, net of related debt	17,361,352
Restricted for:	
Capital projects	1,732,728
Facility restoration	1,374,460
Unrestricted	104,376

TOTAL NET ASSETS	\$ 20,572,916
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See accompanying notes to basic financial statements.

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San Diego Convention Center Corporation
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

Operating Revenues	
Rental Revenue:	
Convention and trade shows	\$ 7,228,269
Performing arts	1,235,726
Consumer shows	465,990
Meetings and seminars	419,891
Corporate/incentive events	330,045
Cancelled events	447,017
Community events	327,048
Local trade shows	122,905
Food and beverage revenue	7,457,708
Ancillary service revenue:	
Event and cleaning services	4,692,015
Utilities	3,271,443
Telecommunications	1,977,810
Ticketing services	887,981
Audio visual	1,129,559
Parking	173,968
Ticket sales	613,829
Contributions:	
City of San Diego	3,405,278
Donations	251,025
Facility restoration fees	637,254
Other revenue	76,289
Total operating revenues	<u>35,151,051</u>
Operating Expenses	
Salaries and wages	18,572,925
Fringe benefits	4,797,033
Utilities	3,256,334
Depreciation	2,423,056
Repairs and maintenance	1,908,752
General	1,770,943
Contracted services	853,163
Insurance	664,665
Event production	655,372
Sales and marketing	544,187
Supplies	518,418
Telecommunications	153,903
Food and beverage	139,919
Travel and transportation	126,906
Total operating expenses	<u>36,385,576</u>
Operating loss	<u>(1,234,525)</u>
Nonoperating Revenues (Expenses)	
Interest income	47,505
Interest expense	(12,005)
Loss on disposal of capital assets	(19,229)
Other income	734,705
Total nonoperating revenues (expenses)	<u>750,976</u>
Loss before Capital Contributions	(483,549)
Capital Contributions	<u>142,857</u>
Change in Net Assets	(340,692)
Net assets, beginning of year	20,913,608
Net assets, end of year	<u>\$ 20,572,916</u>

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Statement of Cash Flows
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 34,668,141
Payments to suppliers for goods and services	(10,776,371)
Payments to employees for services	(23,428,495)
Net cash provided by operating activities	463,274

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(5,278,626)
Proceeds from note payable	3,353,351
Payments on capital lease obligation	(531,063)
Interest paid on long-term debt	(512,005)
Proceeds from the sale of capital assets	5,877
Net cash used by capital and related financing activities	(2,962,466)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(100,000)
Interest received on investments	47,505
Net cash used by investing activities	(52,495)

NET DECREASE IN CASH AND CASH EQUIVALENTS (2,551,687)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 14,770,394

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 12,218,707

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENT OF NET ASSETS**

Cash and cash equivalents	\$ 9,111,519
Restricted cash and cash equivalents	3,107,188
Total cash and cash equivalents	\$ 12,218,707

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2011

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (1,234,525)
Adjustments to reconcile operating income loss to net cash provided by operating activities:	
Depreciation	2,423,056
Other income	734,705
Changes in operating assets and liabilities:	
(Increase) in receivables	(345,868)
(Increase) in prepaid expenses	(9,029)
(Increase) in inventory	(1,509)
(Decrease) in accounts payable	(47,931)
Increase in accrued compensated absences	96,235
(Decrease) in accrued liabilities	(280,112)
(Decrease) in unearned income	(871,748)
Net cash used by operating activities	<u>\$ 463,274</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Acquisition of capital assets included in accounts payable	\$ 43,227
Capitalized interest	655,208
Disposal of capital assets	19,229
Capital contributions	142,857

See accompanying notes to basic financial statements.

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San Diego Convention Center Corporation
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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. Refer to 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.

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 SDCCC, the primary government.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

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 and beverage supplies and is recorded at cost on a first-in, first-out basis.

D. *Prepaid Expenses*

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

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and software	3
Telecommunication equipment	5
Office furniture and operating equipment	7
Leasehold improvements	15

Expenses on the Phase III expansion project, including design and entitlement costs, and interest incurred on the ground lease note payable, are included as part of the capitalized value of the related asset.

F. *Unearned Income*

Unearned income represents funds received from customers that pertain to 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.

G. *Compensated Employee Absences*

Accumulated annual leave is compensated time-off for eligible employees who are absent from work and is recorded in the Statement of Net Assets. The amount recorded is expected to be used in accordance with SDCCC personnel guidelines for vacation, illness, and personal business with a maximum accumulation of 480 hours. Part-time employees are paid in lieu of their used annual leave balance at fiscal year-end. Additionally, full-time employees are allowed compensation in lieu of annual leave provided they maintain a minimum balance of 40 hours.

H. *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 \$3,107,188 at June 30, 2011 and represent amounts restricted by the Redevelopment Agency of the City of San Diego for \$1,732,728 related to the Phase III expansion project loan proceeds, as well as \$1,374,460 for facility fee ticket surcharges earmarked specifically for Civic Theatre restoration.

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”.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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).

J. 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. Accordingly, actual results could differ from those estimates. Management believes that the estimates made are reasonable.

NOTE 3. CASH AND INVESTMENTS

At June 30, 2011, the book balance of SDCCC's cash on hand, deposits, non-negotiable certificates of deposit and bank money market account deposits was \$10,506,882, and the bank balance was \$10,441,572. Of the bank balance, \$609,723 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. Neither the bank money market account deposits nor the certificates of deposit are rated by credit rating agencies. The \$1,207,000 invested in non-negotiable certificates of deposit bear interest rates of 0.4% 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, 2011, SDCCC had total investments of \$2,918,825, which were invested in government money market mutual funds. The \$2,918,825 invested in money market mutual funds have a AAA rating with a weighted average maturity of 48 days. The carrying value of the money market mutual funds is determined at the book value of the portfolio. SDCCC developed a formal deposit and investment policy that was approved in August 2010, which addresses 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 deposits; bankers' acceptances; repurchase agreements; and money market mutual funds whose portfolios consist only of domestic securities.

Cash deposits and investments were categorized as follows at June 30, 2011:

Cash on hand	\$ 65,310
Deposits	109,723
Certificates of deposit (non-negotiable)	1,207,000
Bank money market account deposits	9,124,849
Government money market mutual funds	<u>2,918,825</u>
Total cash and investments	<u><u>\$ 13,425,707</u></u>

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

NOTE 3. CASH AND INVESTMENTS (Continued)

Out of the total cash and investment balances listed above, \$1,732,728 and \$1,374,460 were restricted for the San Diego Convention Center Phase III expansion and the theatre restoration, respectively. The amount restricted for the Phase III expansion represents the remainder of the proceeds from the \$3,000,000 note payable from the Redevelopment Agency of the City of San Diego that was not spent on the expansion. The amount restricted for the theatre restoration represents unspent cash surcharges collected and earned from Civic Theatre events.

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011, is as follows:

	<u>Beginning Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance June 30, 2011</u>
Non-Depreciable Capital Assets:				
Land	\$ 13,660,599	\$ 2,933,715	\$ -	\$ 16,594,314
Depreciable Capital Assets:				
Furniture, equipment and software	9,569,143	66,583	(513,586)	9,122,140
Leasehold improvements	27,097,791	2,408,480	(5,104)	29,501,167
Total Depreciable Capital Assets:	36,666,934	2,475,063	(518,690)	38,623,307
Less Accumulated Depreciation:				
Furniture, equipment and software	(7,843,058)	(552,477)	488,924	(7,906,611)
Leasehold improvements	(13,963,116)	(1,870,579)	4,660	(15,829,035)
Total Accumulated Depreciation	(21,806,174)	(2,423,056)	493,584	(23,735,646)
Total Depreciable Capital Assets - Net	14,860,760	52,007	(25,106)	14,887,661
Capital Assets, Net	\$ 28,521,359	\$ 2,985,722	\$ (25,106)	\$ 31,481,975

Depreciation expense for the year ended June 30, 2011 was \$2,423,056.

NOTE 5. LONG-TERM LIABILITIES

A. *Compensated employee absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2011 is as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Compensated Employee Absences	\$ 1,244,252	\$ 1,488,526	\$ (1,392,291)	\$ 1,340,487	\$ 1,291,127

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

NOTE 5. LONG-TERM LIABILITIES (Continued)

B. 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 repays the note at zero percent per annum rate to the San Diego Unified Port District. During the year ended June 30, 2011, SDCCC made the final payment in the amount of \$500,000 to the District.

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 Phase III expansion site ground lease purchase. The Fifth Avenue Landing LLC note payable is repaid at a rate of 5.27% per annum with a \$12,500,000 principal payment due by May 6, 2015. SDCCC is required to pay an annual interest payment of \$500,000, while the remaining accrued interest owed in any one year is payable at the date of final maturity.

On December 6, 2010, SDCCC entered into a Financing Loan Agreement with San Diego Gas & Electric (SDG&E) for \$353,351, the proceeds of which were used to retrofit energy efficient/demand lighting equipment in the Convention Center exhibit halls. SDG&E contracted with a third party to perform the installation work and extend financing to SDCCC at a zero percent per annum rate. Upon final inspection of the completed project, SDG&E paid the third party contractor for the work performed and will collect the balance of the note payable through an on-bill financing arrangement set forth in 23 equal installments through SDCCC's monthly utility bill.

SDCCC entered into a Note Purchase Contract with the Redevelopment Agency of the City of San Diego on March 16, 2011 for \$3,000,000, the proceeds of which were earmarked for certain design and planning costs for the Phase III expansion project. The note payable to the Agency is repaid at a rate of 3% per annum, simple interest. The \$3,000,000 principal payment, plus any accrued interest, is due by June 30, 2018, or if earlier, when sufficient financing for the design and construction of the proposed Phase III expansion project is obtained from a Third Party Financing arrangement. The anticipated financing arrangement is expected to be the receipt of bond proceeds from the City of San Diego, which will fund the Phase III construction project.

A summary of changes in notes payable for the year ended June 30, 2011, are as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Current</u> <u>Portion</u>
San Diego Unified Port District	\$ 500,000	\$ -	\$ (500,000)	\$ -	\$ -
Fifth Avenue Landing LLC	12,500,000	-	-	12,500,000	-
San Diego Gas & Electric - Sustainable Energy	-	353,351	-	353,351	184,357
Redevelopment Agency of the City of San Diego	-	3,000,000	-	3,000,000	-
Total	<u>\$ 13,000,000</u>	<u>\$ 3,353,351</u>	<u>\$ (500,000)</u>	<u>\$ 15,853,351</u>	<u>\$ 184,357</u>

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual requirements to amortize the notes payable as of June 30, 2011, including interest payments to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 184,357	\$ 500,000	\$ 684,357
2013	168,994	500,000	668,994
2014	-	500,000	500,000
2015	12,500,000	1,297,359	13,797,359
2016	-	-	-
2017-2018	3,000,000	636,596	3,636,596
Total	\$ 15,853,351	\$ 3,433,955	\$ 19,287,306

B1. 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 capital lease obligation for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Current Portion
U.S. Bankcorp	\$ 531,063	\$ -	\$ 531,063	\$ -	\$ -

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 2011 the majority of the contributions from the City were used to fund marketing and promotional expenses. SDCCC received \$3,405,278 from the City during the year ended June 30, 2011.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

NOTE 7. PENSION 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 became effective January 1, 1986 and is administered by Wells Fargo & Company. 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 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 from the employees 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, 2011, pension expense amounted to \$1,379,881, with no employee contributions made to the Plan. SDCCC records pension expense during the fiscal year based upon employee compensation that is included in gross income 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 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, 2011, SDCCC contributed \$8,181 on behalf of the eligible employees.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2011

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>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 219,092
2013	218,435
2014	77,032
2015	35,179
2016	33,708
Total	<u><u>\$ 583,446</u></u>

Lease expense for the year ended June 30, 2011 was \$234,036.

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, 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 the likelihood or potential range of loss, if any, related to this case. 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 also carries earthquake coverage with a deductible amount equal to 10% of the insured value. 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.

NOTE 11. SUBSEQUENT EVENT

On August 2, 2011, the City of San Diego approved the transfer from SDCCC to the City for the management of the Phase III expansion project, related contracts and unused loan proceeds from the Redevelopment Agency of the City of San Diego. The transfer of project management and contracts was retroactive to June 1, 2011. On August 8, 2011, SDCCC transferred \$1,732,728 of unused loan proceeds to the City.

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SUPPLEMENTARY INFORMATION

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San Diego Convention Center Corporation
Combining Schedule of Net Assets by Function
June 30, 2011

	San Diego Convention Center	San Diego Theatres	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 7,885,279	\$ 1,226,240	\$ 9,111,519
Restricted cash and cash equivalents	1,732,728	1,374,460	3,107,188
Deposits	1,207,000	-	1,207,000
Receivables, net	3,315,110	316,689	3,631,799
Inventory	-	15,906	15,906
Prepaid expenses	847,209	128,244	975,453
Total current assets	<u>14,987,326</u>	<u>3,061,539</u>	<u>18,048,865</u>
Noncurrent assets:			
Land	16,594,314	-	16,594,314
Furniture, equipment and software	7,738,699	1,383,441	9,122,140
Leasehold improvements	25,626,127	3,875,040	29,501,167
Less accumulated depreciation	(21,651,496)	(2,084,150)	(23,735,646)
Total capital assets	<u>28,307,644</u>	<u>3,174,331</u>	<u>31,481,975</u>
TOTAL ASSETS	<u><u>43,294,970</u></u>	<u><u>6,235,870</u></u>	<u><u>49,530,840</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	751,722	995,075	1,746,797
Accrued liabilities	2,317,104	51,824	2,368,928
Unearned income	7,278,144	363,868	7,642,012
Compensated employee absences	1,081,815	209,312	1,291,127
Current portion of long-term debt	184,357	-	184,357
Total current liabilities	<u>11,613,142</u>	<u>1,620,079</u>	<u>13,233,221</u>
Noncurrent liabilities:			
Long-term compensated employee absence:	29,791	19,569	49,360
Long-term portion of accrued liabilities:	6,349	-	6,349
Long-term debt	15,668,994	-	15,668,994
Total noncurrent liabilities	<u>15,705,134</u>	<u>19,569</u>	<u>15,724,703</u>
TOTAL LIABILITIES	<u><u>27,318,276</u></u>	<u><u>1,639,648</u></u>	<u><u>28,957,924</u></u>
NET ASSETS			
Invested in capital assets, net of related deb	14,187,021	3,174,331	17,361,352
Restricted for:			
Capital projects	1,732,728	-	1,732,728
Facility restoration	-	1,374,460	1,374,460
Unrestricted	56,945	47,431	104,376
TOTAL NET ASSETS	<u><u>\$ 15,976,694</u></u>	<u><u>\$ 4,596,222</u></u>	<u><u>\$ 20,572,916</u></u>

See note to supplementary information.

San Diego Convention Center Corporation
Combining Schedule of Revenues, Expenses and Changes in Net Assets by Function
June 30, 2011

	<u>San Diego Convention Center</u>	<u>San Diego Theatres</u>	<u>Total</u>
Operating Revenues			
Rental revenue	\$ 9,327,664	\$ 1,249,226	\$ 10,576,890
Food and beverage revenue	6,816,086	641,622	7,457,708
Ancillary service revenue	10,627,718	1,505,060	12,132,778
Ticker sales	-	613,829	613,829
Contributions from City of San Diego	3,405,278	-	3,405,278
Contributions - donations	-	251,025	251,025
Facility restoration fees	-	637,254	637,254
Other revenue	76,289	-	76,289
Total operating revenues	<u>30,253,035</u>	<u>4,898,016</u>	<u>35,151,051</u>
Operating Expenses			
Salaries and wages	16,334,668	2,238,257	18,572,925
Fringe benefits	4,208,552	588,481	4,797,033
Utilities	3,000,377	255,957	3,256,334
Depreciation	2,043,978	379,078	2,423,056
Repairs and maintenance	1,768,289	140,463	1,908,752
General	1,380,397	390,546	1,770,943
Contracted services	771,123	82,040	853,163
Insurance	609,244	55,421	664,665
Event production	-	655,372	655,372
Sales and marketing	457,804	86,383	544,187
Supplies	465,823	52,595	518,418
Telecommunications	115,003	38,900	153,903
Food and beverage	-	139,919	139,919
Travel and transportation	93,637	33,269	126,906
Total operating expenses	<u>31,248,895</u>	<u>5,136,681</u>	<u>36,385,576</u>
Operating loss	<u>(995,860)</u>	<u>(238,665)</u>	<u>(1,234,525)</u>
Nonoperating Revenues (Expenses)			
Interest income	39,502	8,003	47,505
Interest expense	(12,005)	-	(12,005)
Loss on disposal of capital assets	(19,229)	-	(19,229)
Other income	732,298	2,407	734,705
Total nonoperating revenues (expenses)	<u>740,566</u>	<u>10,410</u>	<u>750,976</u>
Loss before Capital Contributions	(255,294)	(228,255)	(483,549)
Capital Contributions	<u>142,857</u>	<u>-</u>	<u>142,857</u>
Changes in Net Assets	(112,437)	(228,255)	(340,692)
Net assets, beginning of year	16,089,131	4,824,477	20,913,608
Net assets, end of year	<u>\$ 15,976,694</u>	<u>\$ 4,596,222</u>	<u>\$ 20,572,916</u>

See note to supplementary information.

San Diego Convention Center Corporation
Note to Supplementary Information
For the Year Ended June 30, 2011

NOTE 1

At June 30, 2011, unrestricted net assets of the Convention Center were \$56,945 as compared to the prior year balance at June 30, 2010 of \$3,706,696. The decrease was primarily the result of capitalized costs of \$1,666,443 net of debt related to the Phase III expansion project. The City's contribution shortfall as well as the restriction of the unused proceeds totaling \$1,732,728 from the Redevelopment Agency of the City of San Diego note payable further reduced unrestricted net assets.

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

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

We have audited the 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, 2011, and have issued our report thereon dated December 5, 2011. 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

Management of SDCCC is responsible for establishing and maintaining effective 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 opinion 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 and the Board of Directors of SDCCC, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

San Diego, California
December 5, 2011