

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

Annual Financial Report

For the Year Ended June 30, 2012

**San Diego Convention Center Corporation
Annual Financial Report
For the Year Ended June 30, 2012**

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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, 2012, 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, 2012, 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 November 20, 2012, 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, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Macias Jini & O'Connell LLP

San Diego, California
November 20, 2012

San Diego Convention Center Corporation
Management's Discussion and Analysis
(Unaudited)
For the Year Ended June 30, 2012

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, 2012. 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 provided 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)
For the Year Ended June 30, 2012

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net assets comparing FY 2012 with FY 2011.

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Percentage Increase (Decrease)</u>
ASSETS:			
Cash and deposits	\$ 13,388,684	\$ 13,425,707	-
Receivables, net	7,414,389	3,631,799	104%
Inventory	31,732	15,906	99%
Prepaid expenses	1,054,268	975,453	8%
Capital assets, net	<u>32,108,761</u>	<u>31,481,975</u>	2%
Total assets	<u>53,997,834</u>	<u>49,530,840</u>	9%
LIABILITIES:			
Accounts payable	4,810,732	1,746,797	175%
Accrued liabilities	4,078,779	3,660,055	11%
Unearned income	9,449,297	7,642,012	24%
Current portion of long-term debt	168,994	184,357	(8%)
Long-term portion of accrued liabilities	118,669	55,709	113%
Long-term debt	<u>15,500,000</u>	<u>15,668,994</u>	(1%)
Total liabilities	<u>34,126,471</u>	<u>28,957,924</u>	18%
NET ASSETS:			
Invested in capital assets net of related debt	18,172,495	17,361,352	5%
Restricted	1,737,138	3,107,188	(44%)
Unrestricted	<u>(38,270)</u>	<u>104,376</u>	(137%)
Total Net Assets	<u>\$ 19,871,363</u>	<u>\$ 20,572,916</u>	(3%)

Assets

Total Assets of \$54.0 million at FY 2012 year end increased by \$4.5 million, or 9%, from the prior year balance of \$49.5 million. The change was due primarily to an increase in accounts receivable of \$3.8 million, or 104%, related to a food and beverage contract extension signing bonus of \$2.5 million to be amortized and received over the next eight years. In addition, uncollected commissions of \$1.2 million increased as a direct result of the CISCO Live event hosted in June 2012 that had record breaking food and beverage sales.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)
For the Year Ended June 30, 2012

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Liabilities

Total Liabilities of \$34.1 million at FY 2012 year end increased significantly by \$5.1 million, or 18%, from a balance of \$29.0 million in FY 2011 due primarily to increases in accounts payable and unearned income. The accounts payable balance increase of \$3.1 million, or 175%, is directly a result of Civic Theatre advanced ticket sales of \$3.7 million temporarily held on behalf and owed to the show promoter for Broadway San Diego performances. The "Wicked" event held during July 2012 (FY 2013) and the "Les Miserables" event held during September 2012 (FY 2013) had advanced ticket sales of \$2.7 million and \$0.4 million respectively as of June 30, 2012. In addition, a \$1.8 million, or 24%, increase in unearned income is directly related to funds owed for a food and beverage contract signing bonus to be amortized and recognized as revenue over the next eight years.

Net Assets

Total Net Assets of \$19.9 million at FY 2012 year end decreased by \$0.7 million, or 3%, from the prior year balance of \$20.6 million with significant offsetting category fluctuations. Restricted net assets decreased by \$1.4 million, or 44%, compared to the prior year primarily as a result of direction from the City of San Diego requiring the transfer of unspent loan proceeds related to the Phase III expansion project to the City. Offsetting that was an increase in capital assets, net of related debt, of \$0.8 million, or 5%, primarily due to leasehold improvements and Phase III expansion project capitalized interest.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)
For the Year Ended June 30, 2012

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The following table summarizes the changes in net assets for SDCCC comparing FY 2012 with FY 2011.

	<u>FY 2012</u>	<u>FY 2011</u>	Percentage Increase (Decrease)
Operating Revenues:			
Rental	\$ 10,033,875	\$ 10,576,890	(5%)
Food and beverage	10,217,265	7,457,708	37%
Ancillary services	14,070,461	12,132,778	16%
Ticket sales	339,652	613,829	(45%)
Contributions from the City of San Diego	3,405,278	3,405,278	-
Donations	250,000	251,025	-
Facility restoration fees	742,532	637,254	17%
Other revenue	<u>43,256</u>	<u>76,289</u>	(43%)
Total operating revenues	<u>39,102,319</u>	<u>35,151,051</u>	11%
Operating Expenses:			
Salaries and benefits	25,866,844	23,369,958	11%
Services and supplies	10,126,293	9,937,190	2%
Depreciation	2,416,301	2,423,056	-
Event production	<u>393,341</u>	<u>655,372</u>	(40%)
Total operating expenses	<u>38,802,779</u>	<u>36,385,576</u>	7%
Operating Income (Loss)	<u>299,540</u>	<u>(1,234,525)</u>	
Nonoperating Revenues (Expenses):			
Interest income	20,549	47,505	(57%)
Interest expense	-	(12,005)	(100%)
Loss on disposal of capital assets	(141,179)	(19,229)	634%
Other income	<u>459,408</u>	<u>734,705</u>	(37%)
Total nonoperating revenues (expenses)	<u>338,778</u>	<u>750,976</u>	
Capital Contributions	<u>392,857</u>	<u>142,857</u>	175%
Extraordinary Item	<u>(1,732,728)</u>	<u>-</u>	-
Change in Net Assets:	(701,553)	(340,692)	
Net assets - beginning of year	<u>20,572,916</u>	<u>20,913,608</u>	
Net assets - end of year	<u>\$ 19,871,363</u>	<u>\$ 20,572,916</u>	(3%)

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)
For the Year Ended June 30, 2012

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Operating Revenues

Total operating revenues generated in FY 2012 amounted to \$39.1 million, a \$4.0 million, or 11%, increase compared to the prior year's total of \$35.2 million. The change was due primarily to increased demand for event related food and beverage and ancillary services. The food and beverage increase, amounting to \$3.0 million, or 37% compared to the prior year, was driven primarily by food and beverage commission revenues generated by corporate events. The increase in ancillary services, amounting to \$1.9 million, or 16% compared to the prior year, resulted from increased spending for audio visual and telecommunications services. Partially offsetting the above increases was a \$0.5 million, or 5% decrease in building rental revenue compared to the prior year as a result of increased use of rental credits tied to food and beverage event guarantees.

Operating Expenses

Total operating expenses incurred during FY 2012 amounted to \$38.8 million, a \$2.4 million, or 7%, increase compared to the prior year's total of \$36.4 million. The major variance within operating expenses was a \$2.5 million, or 11% increase in salaries and benefits compared to prior year. This increase was primarily a result of increases in workers' compensation and health insurance costs as well as organizational changes and personnel reductions, including transfer of certain sales, marketing and promotional functions at the Convention Center to a third party contractor that occurred at the end of FY 2012. The personnel reductions resulted in payouts of severance, benefits and accrued compensated absences balances for those positions affected.

Nonoperating Revenues and Expenses

During FY 2012, nonoperating revenues and expenses produced \$0.3 million of net revenues compared to \$0.8 million of net revenues in the prior year. This decrease resulted primarily from the elimination of utility rebate programs, as well as expired amortization of food and beverage contract signing bonus revenue. Additionally, an increase in loss on disposal of capital assets further reduced overall net nonoperating revenue.

Extraordinary Item

During FY 2012, an extraordinary item totaling \$1.7 million was incurred upon transfer of all contracts and unspent loan proceeds originally received from the former Redevelopment Agency of the City of San Diego (Redevelopment Agency) to the successor agency of the Redevelopment Agency, related to the Phase III Convention Center Expansion project. The transfer, as directed by the City of San Diego, also required that SDCCC retain the original \$3.0 million note payable to the successor agency of the Redevelopment Agency. The expense is considered extraordinary because it is unusual in nature and infrequent in occurrence and was not within SDCCC's control.

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2012, SDCCC had a capital asset book value of \$32.1 million, net of accumulated depreciation of \$24.9 million, or 2% higher than the prior year figure of \$31.5 million. The capital assets are spread across a broad range of computer, office and operating equipment, leasehold improvements and land. The gross value of capital purchases in FY 2012 of \$3.2 million was partially offset by disposals of \$1.4 million.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)
For the Year Ended June 30, 2012

CAPITAL ASSET AND DEBT ANALYSIS (Continued)

Major capital asset additions during FY 2012 included:

- \$748,750 for Phase III expansion capitalized interest at the Convention Center
- \$542,319 for carpeting and wall covering replacements at the Convention Center
- \$448,529 for bathroom remodeling at the Convention Center
- \$425,378 for an HVAC system upgrade that involved retrocommissioning at the Convention Center
- \$213,379 for Variable Frequency Drive replacements in the Central Plant at the Convention Center

Effective May 6, 2010, SDCCC entered into a \$12,500,000 note payable with Fifth Avenue Landing, LLC, related to the purchase of a ground lease to be used as the site for a future expansion of the Convention Center's existing building. For FY 2012, a \$500,000 installment for accrued interest expense was retired leaving the principal balance on the note payable at \$12,500,000 and an accrued interest balance of \$418,568.

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 obligation is payable over 23 equal installments allocated through SDCCC's monthly utility bill based on estimated energy cost savings. For the year ended June 30, 2012, SDCCC paid \$184,357 in principal payments on the SDG&E loan.

Effective March 16, 2011, SDCCC entered into a \$3,000,000 note payable with the former 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 successor agency of the Redevelopment Agency. On August 11, 2011, unspent loan proceeds of \$1.7 million were transferred from SDCCC to the City of San Diego related to the project. SDCCC is still the debtor of the Note Payable to the successor agency of the Redevelopment Agency.

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. While SDCCC has continued to maximize the facility's use for the benefit of the City, 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 2012 contributions from the City remained at \$3,405,278, identical to prior year. As described in Note 6, contributions from the City funded marketing, promotion and capital projects for the Convention Center. During FY 2012, total expenses on marketing, promotion and capital projects exceeded the City's contributions. The excess of these expenses over the City's contribution as well as the occurrence of Phase III expansion costs contributed to a decrease in SDCCC's unrestricted net assets balance from \$104,376 at June 30, 2011 to (\$38,270) at June 30, 2012.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
(Unaudited)
For the Year Ended June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

Effective July 1, 2012, approved 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 Convention and Visitors Bureau (ConVis)). A contract between SDCCC and ConVis exists detailing the terms set forth by the City.

Management is not anticipating a significant change in financial performance during FY 2013 as compared to FY 2012. The City's operational contributions to SDCCC are anticipated to remain at \$3,405,278.

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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BASIC FINANCIAL STATEMENTS

San Diego Convention Center Corporation
Statement of Net Assets
June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 10,444,546
Restricted cash and cash equivalents	1,737,138
Deposits	1,207,000
Receivables, net	5,539,389
Inventory	31,732
Prepaid expenses	1,054,268
Total current assets	20,014,073

Noncurrent assets:

Receivables, net	1,875,000
Land	17,364,520
Furniture, equipment and software	8,766,360
Leasehold improvements	30,910,953
Less accumulated depreciation	(24,933,072)
Total capital assets	32,108,761

Total noncurrent assets	33,983,761
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TOTAL ASSETS	53,997,834
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LIABILITIES

Current liabilities:

Accounts payable	4,810,732
Accrued liabilities	2,817,475
Unearned income	9,449,297
Compensated employee absences	1,261,304
Current portion of long-term debt	168,994

Total current liabilities	18,507,802
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Noncurrent liabilities:

Long-term portion of accrued liabilities	96,349
Long-term compensated employee absences	22,320
Long-term debt	15,500,000

Total noncurrent liabilities:	15,618,669
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TOTAL LIABILITIES	34,126,471
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NET ASSETS

Invested in capital assets, net of related debt	18,172,495
Restricted for:	
Facility restoration (expendable)	1,737,138
Unrestricted	(38,270)

TOTAL NET ASSETS	\$ 19,871,363
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See accompanying notes to the basic financial statements.

San Diego Convention Center Corporation
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

Operating Revenues

Rental Revenue:	
Convention and trade shows	\$ 6,281,281
Performing arts	1,544,836
Consumer shows	445,130
Meetings and seminars	320,721
Corporate/incentive events	483,123
Cancelled events	440,475
Community events	368,434
Local trade shows	149,875
Food and beverage revenue	10,217,265
Ancillary service revenue:	
Event and cleaning services	4,793,745
Utilities	4,011,143
Telecommunications	2,408,558
Ticketing services	1,209,607
Audio visual	1,413,968
Parking	233,440
Ticket sales	339,652
Contributions:	
City of San Diego	3,405,278
Donations	250,000
Facility restoration fees	742,532
Other revenue	43,256
Total operating revenues	<u>39,102,319</u>

Operating Expenses

Salaries and wages	20,170,848
Fringe benefits	5,695,996
Utilities	3,215,178
Depreciation	2,416,301
Repairs and maintenance	2,031,287
General	2,035,541
Insurance	696,631
Contracted services	662,418
Supplies	570,759
Sales and marketing	452,488
Event production	393,341
Food and beverage	189,651
Telecommunications	144,043
Travel and transportation	128,297
Total operating expenses	<u>38,802,779</u>
Operating income	<u>299,540</u>

Nonoperating Revenues (Expenses)

Interest income	20,549
Loss on disposal of capital assets	(141,179)
Other income	459,408
Total nonoperating revenues (expenses)	<u>338,778</u>

Loss before Capital Contributions and Extraordinary Item 638,318

Capital Contributions 392,857

Extraordinary Item - unspent loan proceeds transferred to the City of San Diego (1,732,728)

Change in Net Assets (701,553)

Net assets, beginning of year 20,572,916

Net assets, end of year \$ 19,871,363

See accompanying notes to the basic financial statements.

San Diego Convention Center Corporation
Statement of Cash Flows
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 37,979,279
Payments to suppliers for goods and services	(7,457,888)
Payments to employees for services	(25,796,391)
	4,725,000
Net cash provided by operating activities	4,725,000

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Payment to the City of San Diego - unspent loan proceeds related to Phase III expansion	(1,732,728)
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**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(2,367,887)
Payments on notes payable	(184,357)
Interest paid on long-term debt	(500,000)
Proceeds from the sale of capital assets	2,400
	2,400
Net cash used by capital and related financing activities	(3,049,844)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	20,549
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NET DECREASE IN CASH AND CASH EQUIVALENTS (37,023)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 12,218,707

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 12,181,684

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

Cash and cash equivalents	\$ 10,444,546
Restricted cash and cash equivalents	1,737,138
	1,737,138
Total cash and cash equivalents	\$ 12,181,684

San Diego Convention Center Corporation
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2012

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$	299,540
Adjustments to reconcile operating income loss to net cash provided by operating activities:		
Depreciation		2,416,301
Other income		459,408
Changes in operating assets and liabilities:		
Increase in receivables		(3,782,590)
Increase in prepaid expenses		(78,816)
Increase in inventory		(15,826)
Increase in accounts payable		2,993,906
Decrease in accrued compensated absences		(56,863)
Increase in accrued liabilities		289,797
Increase in unearned income		2,200,142
Net cash used by operating activities	<u>\$</u>	<u>4,724,999</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Acquisition of capital assets included in accounts payable	\$	113,256
Capitalized interest		748,750
Disposal of capital assets		143,579
Capital contributions		392,857

See accompanying notes to the basic financial statements.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

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). On March 20, 2012, the Board of Directors of SDCCC approved a motion that SDCCC enter into an addendum to the management agreement providing for the SDCCC to assign certain sales, marketing and promotional activities at the Convention Center to a third party. On April 5, 2012, the San Diego City Council approved action providing for the SDCCC to assign certain sales, marketing and promotional activities at the Convention Center to a third party. Effective July 1, 2012, SDCCC entered into a contract with the San Diego Convention and Visitors Bureau (ConVis) to unify the sales and marketing presence in the marketplace as well as maximize the economic impact related to long-term events at the Convention Center.

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 (Agency) for the management and operation of the historic Balboa Theatre. The Balboa Theatre was owned by the Redevelopment Agency and was re-opened in January 2008 following a \$26.5 million restoration and rehabilitation by the Agency. As of February 1, 2012, the Agency was dissolved designating the City of San Diego as the successor agency of its assets and obligations.

On June 8, 2012, SDCCC determined it appropriate to "spin off" SDTI as a free-standing, non-profit public benefit corporation. Effective July 1, 2012 SDTI is no longer a subsidiary of, or controlled by, SDCCC. SDCCC approved an amendment and restatement of its Articles of Incorporation and bylaws in the best interest of SDTI.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 1. REPORTING ENTITY (Continued)

As required by accounting principles generally accepted in the United States of America, the basic financial statements present SDCCC and its blended component unit, SDTI, an entity for which SDCCC is considered to be financially accountable. Although SDTI is a legally separate entity, it is in substance, part of SDCCC's operations, and data from SDTI is combined with the data of SDCCC. Following is a description of SDCCC's 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.

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*

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.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Expenses incurred related to 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 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.

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's 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.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets - Restricted net assets total \$1,737,138 at June 30, 2012 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”.

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, 2012, the book balance of SDCCC's cash on hand, deposits, non-negotiable certificates of deposit and bank money market account deposits was \$13,388,684, and the bank balance was \$13,943,408. Of the bank balance, \$630,696 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, 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, 2012:

Cash on hand	\$ 204,741
Deposits	130,696
Certificates of deposit (non-negotiable)	1,207,000
Bank money market account deposits	11,846,247
	<hr/>
Total cash and investments	<u>\$ 13,388,684</u>

Out of the total cash balances listed above, \$1,737,138 represents unspent cash surcharges collected and earned from Civic Theatre events that are restricted for theatre renovation use as mandated by the governing body.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012, is as follows:

	Beginning Balance June 30, 2011	Additions	Deletions	Ending Balance June 30, 2012
Non-Depreciable Capital Assets:				
Land	\$ 16,594,314	\$ 770,206	\$ -	\$ 17,364,520
Depreciable Capital Assets:				
Furniture, equipment and software	9,122,140	468,432	(824,212)	8,766,360
Leasehold improvements	29,501,167	1,948,028	(538,242)	30,910,953
Total Depreciable Capital Assets:	38,623,307	2,416,460	(1,362,454)	39,677,313
Less Accumulated Depreciation:				
Furniture, equipment and software	(7,906,611)	(447,572)	821,624	(7,532,559)
Leasehold improvements	(15,829,035)	(1,968,729)	397,251	(17,400,513)
Total Accumulated Depreciation	(23,735,646)	(2,416,301)	1,218,875	(24,933,072)
Total Depreciable Capital Assets - Net	14,887,661	159	(143,579)	14,744,241
Capital Assets, Net	\$ 31,481,975	\$ 770,365	\$ (143,579)	\$ 32,108,761

Depreciation expense for the year ended June 30, 2012 was \$2,416,301.

NOTE 5. LONG-TERM LIABILITIES

A. *Compensated employee absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Current Portion
Compensated Employee Absences	\$ 1,340,487	\$ 1,579,446	\$ (1,636,309)	\$ 1,283,624	\$ 1,261,304

B. *Notes Payable*

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, simple interest, 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.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (Continued)

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 former 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. As of February 1, 2012, the Redevelopment Agency was dissolved designating the City of San Diego as the successor agency and its assets and liabilities. The note payable to the successor agency of the Redevelopment 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, 2012, are as follows:

	Balance			Balance	Current
	June 30, 2011	Additions	Retirements	June 30, 2012	Portion
Fifth Avenue Landing LLC	\$ 12,500,000	\$ -	\$ -	\$ 12,500,000	\$ -
San Diego Gas & Electric - Sustainable Energy	353,351	-	(184,357)	168,994	168,994
Successor Agency of the Redevelopment Agency of the City of San Diego	3,000,000	-	-	3,000,000	-
Total	\$ 15,853,351	\$ -	\$ (184,357)	\$ 15,668,994	\$ 168,994

Annual requirements to amortize the notes payable as of June 30, 2012, including interest payments to maturity are as follows:

Year Ending	Principal	Interest	Total
June 30,			
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	\$ 15,668,994	\$ 2,933,955	\$ 18,602,949

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

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 2012 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, 2012.

Moving into FY 2013, SDCCC entered into a contract with ConVis to manage certain sales, marketing and promotional aspects of long-term events at the Convention Center in order to unify presence in the marketplace and maximize economic impact in the region. Contributions from the City are anticipated to remain at \$3,405,278 with offsetting marketing contract expenses of \$1,900,000. The remaining \$1,505,278 is earmarked for deferred capital and maintenance expenses for the Convention Center.

NOTE 7. TERMINATION BENEFITS

SDCCC amended its management agreement with the City providing for the assignment of certain sales, marketing and promotional activities at the Convention Center to ConVis as a result of San Diego City Council action approved on April 5, 2012, resulting in a reorganization of operations at the Convention Center. This reorganization coupled with the need to fund deferred maintenance at the Convention Center resulted in a reduction in force of twenty-five (25) staff, the majority of which were related to sales and marketing functions. SDCCC has a severance program for employees laid off due to reduction in force (RIF) resulting from business needs that is implemented at the President & CEO's discretion. The compensation and benefit amount is determined based on various criteria, including but not limited to employed length of service, type of employed position and job classification for non-represented employees.

The RIF compensation cost for the twenty-five (25) staff as deemed per each employee severance agreement totaled \$1,032,678. Estimated benefit costs for healthcare premiums and pension contributions totaled \$196,735, based on current premium and contribution rates as of June 30, 2012. Additionally, estimated statutory costs of \$31,529 related to RIF compensation were based on statutory rates set by the Federal government.

NOTE 8. 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 year).

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 8. PENSION PLAN (Continued)

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, 2012, pension expense amounted to \$1,543,519, 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 9. 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, 2012, SDCCC contributed \$6,066 on behalf of the eligible employees.

NOTE 10. 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:

Year Ending	Amount
30,	
2013	\$ 140,283
2014	33,708
2015	33,708
2016	33,708
Total	\$ 241,407

Lease expense for the year ended June 30, 2012 was \$233,055.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2012

NOTE 11. 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 was involved in a lawsuit related to an external maintenance vendor that had been pending for some time. On September 5, 2012, judgment was entered in favor of SDCCC, resolving the case in its entirety. 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 12. SUBSEQUENT EVENT

Effective July 1, 2012, SDCCC entered into a contract with ConVis to unify the sales and marketing presence in the marketplace as well as maximize the economic impact related to long-term events at the Convention Center. The contract was an outcome of San Diego City Council action approved on April 5, 2012, creating an addendum to the existing 1998 Management Agreement between the City and SDCCC, providing for SDCCC to assign certain sales, marketing and promotional activities at the Convention Center to a third party.

Also, effective, July 1, 2012, SDTI became a free-standing, nonprofit public benefit corporation no longer controlled by, or a subsidiary of, SDCCC. On June 6, 2012, SDCCC determined it was appropriate to "spin off" SDTI and approved an amendment and restatement of their Articles of Incorporation and bylaws in the best interest of SDTI.

SUPPLEMENTARY INFORMATION

San Diego Convention Center Corporation
Combining Schedule of Net Assets by Function
June 30, 2012

	San Diego Convention Center	San Diego Theatres	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,123,460	\$ 4,321,086	\$ 10,444,546
Restricted cash and cash equivalents	-	1,737,138	1,737,138
Deposits	1,207,000	-	1,207,000
Receivables, net	4,910,601	628,788	5,539,389
Inventory	-	31,732	31,732
Prepaid expenses	866,059	188,209	1,054,268
Total current assets	<u>13,107,120</u>	<u>6,906,953</u>	<u>20,014,073</u>
Noncurrent assets:			
Receivables > 1 year	1,875,000	-	1,875,000
Land	17,364,520	-	17,364,520
Furniture, equipment and software	7,316,624	1,449,736	8,766,360
Leasehold improvements	26,934,923	3,976,030	30,910,953
Less accumulated depreciation	(22,433,481)	(2,499,591)	(24,933,072)
Total noncurrent assets	<u>31,057,586</u>	<u>2,926,175</u>	<u>33,983,761</u>
TOTAL ASSETS	<u>44,164,706</u>	<u>9,833,128</u>	<u>53,997,834</u>
LIABILITIES			
Current liabilities:			
Accounts payable	757,440	4,053,292	4,810,732
Accrued liabilities	2,658,961	158,514	2,817,475
Unearned income	8,993,403	455,894	9,449,297
Compensated employee absences	1,035,628	225,676	1,261,304
Current portion of long-term debt	168,994	-	168,994
Total current liabilities	<u>13,614,426</u>	<u>4,893,376</u>	<u>18,507,802</u>
Noncurrent liabilities:			
Long-term portion of accrued liabilities	96,349	-	96,349
Long-term compensated employee absence:	-	22,320	22,320
Long-term debt	15,500,000	-	15,500,000
Total noncurrent liabilities	<u>15,596,349</u>	<u>22,320</u>	<u>15,618,669</u>
TOTAL LIABILITIES	<u>29,210,775</u>	<u>4,915,696</u>	<u>34,126,471</u>
NET ASSETS			
Invested in capital assets, net of related deb	15,246,321	2,926,174	18,172,495
Restricted for:			
Facility restoration (expendable)	-	1,737,138	1,737,138
Unrestricted	(292,390)	254,120	(38,270)
TOTAL NET ASSETS	<u>\$ 14,953,931</u>	<u>\$ 4,917,432</u>	<u>\$ 19,871,363</u>

San Diego Convention Center Corporation
Combining Schedule of Revenues, Expenses and Changes in Net Assets by Function
June 30, 2012

	San Diego Convention Center	San Diego Theatres	Total
Operating Revenues			
Rental revenue	\$ 8,481,364	\$ 1,552,511	\$ 10,033,875
Food and beverage revenue	9,353,603	863,662	10,217,265
Ancillary service revenue	12,015,129	2,055,332	14,070,461
Ticker sales	-	339,652	339,652
Contributions from City of San Diego	3,405,278	-	3,405,278
Contributions - donations	-	250,000	250,000
Facility restoration fees	-	742,532	742,532
Other revenue	43,256	-	43,256
Total operating revenues	<u>33,298,630</u>	<u>5,803,689</u>	<u>39,102,319</u>
Operating Expenses			
Salaries and wages	17,748,289	2,422,559	20,170,848
Fringe benefits	5,069,205	626,791	5,695,996
Utilities	2,969,255	245,923	3,215,178
Depreciation	2,000,860	415,441	2,416,301
Repairs and maintenance	1,833,811	197,476	2,031,287
General	1,451,443	584,098	2,035,541
Contracted services	551,557	110,861	662,418
Insurance	642,640	53,991	696,631
Event production	-	393,341	393,341
Sales and marketing	320,540	131,948	452,488
Supplies	517,974	52,785	570,759
Telecommunications	104,447	39,596	144,043
Food and beverage	-	189,651	189,651
Travel and transportation	104,653	23,644	128,297
Total operating expenses	<u>33,314,674</u>	<u>5,488,105</u>	<u>38,802,779</u>
Operating gain/loss	<u>(16,044)</u>	<u>315,584</u>	<u>299,540</u>
Nonoperating Revenues (Expenses)			
Interest income	15,978	4,571	20,549
Loss on disposal of capital assets	(141,179)	-	(141,179)
Other income	458,353	1,055	459,408
Total nonoperating revenues (expenses)	<u>333,152</u>	<u>5,626</u>	<u>338,778</u>
Income before capital contributions and extraordinary item			
	317,108	321,210	638,318
Capital Contributions			
	392,857	-	392,857
Extraordinary item - Unspent loan proceeds transferred to the City of San Diego			
	<u>(1,732,728)</u>	<u>-</u>	<u>(1,732,728)</u>
Changes in Net Assets			
	(1,022,763)	321,210	(701,553)
Net assets, beginning of year			
	15,976,694	4,596,222	20,572,916
Net assets, end of year	<u>\$ 14,953,931</u>	<u>\$ 4,917,432</u>	<u>\$ 19,871,363</u>

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OTHER REPORT

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 basic financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 20, 2012. 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 Jini & O'Connell LLP

San Diego, California
November 20, 2012