

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

Annual Financial Report

For the Year Ended June 30, 2013

**San Diego Convention Center Corporation
Annual Financial Report
For the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise SDCCC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDCCC, as of June 30, 2013, 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.

Emphasis of Matter

As described in Note 11 to the financial statements, effective July 1, 2012 the San Diego Theatres, Inc. (SDTI) became a legally separate nonprofit public benefit corporation, no longer controlled by SDCCC and considered not to be a component unit of SDCCC. As such, the activity of SDTI is no longer presented in SDCCC's financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, 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* in considering SDCCC's internal control over financial reporting and compliance.

Maclean Meiri & O'Connell LLP

San Diego, California
October 21, 2013

San Diego Convention Center Corporation
Management's Discussion and Analysis
For the Year Ended June 30, 2013
(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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statement of Net Position presents information of all SDCCC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as June 30, 2013. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of SDCCC is improving or deteriorating. SDCCC did not have any deferred outflows or deferred inflows of resources as of June 30, 2013.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing changes in SDCCC's net position during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused 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)
For the Year Ended June 30, 2013
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net position comparing FY 2013 with FY 2012.

	<u>FY 2013</u>	<u>FY 2012</u>	Percentage Increase (Decrease)
ASSETS:			
Cash and deposits	\$ 8,213,265	\$ 7,330,460	12%
Receivables, net	4,650,616	6,785,601	(31%)
Prepaid expenses	602,708	866,059	(30%)
Capital assets, net	<u>29,669,563</u>	<u>29,182,586</u>	2%
Total assets	<u>43,136,152</u>	<u>44,164,706</u>	
LIABILITIES:			
Accounts payable	685,788	757,440	(9%)
Accrued liabilities	3,357,184	3,694,590	(9%)
Unearned income	8,168,280	8,993,403	(9%)
Current portion of long-term debt	220,030	168,994	30%
Long-term portion of accrued liabilities	231,398	96,349	140%
Long-term debt	<u>15,646,296</u>	<u>15,500,000</u>	1%
Total liabilities	<u>28,308,976</u>	<u>29,210,776</u>	
NET POSITION:			
Net investment in capital assets	15,535,965	15,246,321	2%
Unrestricted	<u>(708,789)</u>	<u>(292,390)</u>	142%
Total Net Position	<u>\$ 14,827,176</u>	<u>\$ 14,953,931</u>	

Assets

Total Assets of \$43.1 million at FY 2013 year end decreased by \$1.0 million, or 2%, from the prior year ending balance of \$44.2 million. The changes were primarily due to a decrease in receivables of \$2.1 million, or 31%, partially offset by an increase in cash and deposits of \$.9 million, or 12%. The decrease in receivables was most significantly impacted by Food and Beverage commissions invoiced in FY 2012 related to the CISCO event hosted in June 2012 that were paid for in July 2012 (FY 2013). The increase in cash and deposits was directly the result of decreased uncollected commissions due at June 30, 2013.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2013
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Liabilities

Total Liabilities of \$28.3 million at FY 2013 year end decreased by \$0.9 million, or 3%, from a balance of \$29.2 million in FY 2012 due primarily to a decrease in unearned income. The unearned income balance decrease of \$0.8 million, or 9%, is the result of revenue recognized related to a food and beverage contract extension and signing bonus to be amortized and recognized as revenue over the next 7 years.

Net Position

Total net position of \$14.8 million at FY 2013 year end decreased by \$0.1 million, or less than 1%, compared to the prior year with significant offsetting category fluctuations. A decrease in unrestricted net position of \$0.4 million, or 142%, compared to the prior year was primarily the result of capital purchases and principal debt payments exceeding the value of depreciation expense, along with excess expenses over revenues for the year. The excess expenses over revenues were significantly the result of decreased event generated revenues compared to prior year and the FY 2013 year-end accrual of \$0.5 million for utilities-electrical expenses based on a retroactive electric rate increase. The decrease in unrestricted net position was largely offset by an increase in capital assets, net of related debt, of \$0.3 million, or 2%, due to leasehold improvements and Phase III expansion project capitalized interest.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2013
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

The following table summarizes the changes in net position for SDCCC comparing FY 2013 with FY 2012.

	<u>FY 2013</u>	<u>FY 2012</u>	Percentage Increase (Decrease)
Operating Revenues:			
Rental	\$8,738,560	\$8,481,364	3%
Food and beverage	7,172,846	9,353,603	(23%)
Ancillary services	10,807,343	12,015,129	(10%)
Contributions from the City of San Diego	3,405,000	3,405,278	-
Other revenue	<u>31,913</u>	<u>43,256</u>	(26%)
Total operating revenues	<u>30,155,662</u>	<u>33,298,630</u>	
Operating Expenses:			
Salaries and benefits	19,066,030	22,817,494	(16%)
Services and supplies	8,397,136	8,496,320	(1%)
Marketing contract	1,900,000	-	-
Depreciation	<u>2,087,009</u>	<u>2,000,860</u>	4%
Total operating expenses	<u>31,450,175</u>	<u>33,314,674</u>	
Operating Loss	<u>(1,294,513)</u>	<u>(16,044)</u>	
Nonoperating Revenues (Expenses):			
Interest income	7,705	15,978	(52%)
Loss on disposal of capital assets	(62,519)	(141,179)	(56%)
Other income	<u>651,423</u>	<u>458,353</u>	42%
Total nonoperating revenues (expenses)	<u>596,609</u>	<u>333,152</u>	
Loss before capital contributions and extraordinary items	(697,904)	317,108	
Capital Contributions	571,149	392,857	(45%)
Extraordinary Item	<u>-</u>	<u>(1,732,728)</u>	(100%)
Change in net position	(126,755)	(1,022,763)	
Net position - beginning of year - as restated	<u>14,953,931</u>	<u>15,976,694</u>	
Net position - end of year	<u>\$ 14,827,176</u>	<u>\$ 14,953,931</u>	(1%)

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2013
(Unaudited)

SDCCC FINANCIAL STATEMENT ANALYSIS (Continued)

Operating Revenues

Total operating revenues generated in FY 2013 amounted to \$30.2 million, a \$3.1 million, or 10%, decrease compared to the prior year's total of \$33.3 million. The change was primarily due to a decrease in food and beverage commission revenues of \$2.2 million, or 23%, as well as decreased ancillary services of \$1.2 million, or 10%, compared to prior year as a result of cancelled events and projected events not materializing.

Operating Expenses

Total operating expenses incurred during FY 2013 amounted to \$31.5 million, a \$1.9 million, or 6% decrease compared to the prior year's total of \$33.3 million with significant offsetting category fluctuations directly related to the sales, marketing and promotional functions of the Convention Center. Salaries and benefits decreased by \$3.8 million, or 16%, compared to the prior year as a result of organizational changes and personnel reductions significantly related to sales, marketing and promotional functions transferred from the Convention Center to a third party contractor at the end of FY 2012. Partially offsetting the decrease in salaries and benefits was a \$1.9 million increase related to a marketing contract paid to the San Diego Tourist Authority for sales, marketing and promoting of long term events at the Convention Center.

Nonoperating Revenues and Expenses

During FY 2013, nonoperating revenues and expenses produced \$0.6 million of net revenues compared to \$0.3 million of net revenues in the prior year. This increase was the result of utility retrofit rebate program proceeds received related to a capital improvement project completed in FY 2013 as well as accelerated amortization of food and beverage contract signing bonus revenue.

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2013, SDCCC had a capital asset book value of \$29.7 million, net of accumulated depreciation of \$23.4 million, or 2% higher than the prior year figures of \$29.2 million. The capital assets are spread across a broad range of computer, office and operating equipment, telecommunications, leasehold improvements and land. The gross value of capital additions in FY 2013 of \$2.7 million was partially offset by disposals of \$1.2 million.

Major capital asset additions during FY 2013 included:

- \$748,750 for Phase III expansion capitalized interest at the Convention Center
- \$551,216 for Ballroom 6 carpeting and wall coverings
- \$383,888 for bathroom remodeling
- \$189,756 for the reconditioning of Chiller #1
- \$140,243 for Pneumatic Control Boards

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2013
(Unaudited)

CAPITAL ASSET AND DEBT ANALYSIS (Continued)

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 2013, 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 \$577,318.

Effective December 4, 2010, SDCCC entered into a zero percent rate per annum On-bill Financing Loan Agreement with San Diego Gas & Electric (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. The balance of \$168,994 of the obligation was paid during FY 2013, eliminating the amount due.

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 \$1.7 million of the loan proceeds for Phase III expansion project expenses. As of June 30, 2011, the City of San Diego took over the Phase III expansion project from SDCCC including all loan proceeds and contracts. SDCCC is still the debtor of the Note Payable to the successor agency of the Redevelopment Agency, however, no payment of principal or interest shall be due until June 30, 2018.

Effective April 25, 2012, SDCCC entered into a zero percent rate per annum On-bill Financing Loan Agreement with SDG&E for \$417,514, the proceeds of which were used to apply "retro commissioning", a systematic process for improving and optimizing a building's operations through reduced energy usage, lengthened equipment life, and improved indoor air quality and occupant comfort. 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, 2013, SDCCC paid \$72,611 in principal payments on the SDG&E loan.

Effective April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC (lessor) in which the lessor financed a warehouse capital improvement for SDCCC valued at \$21,972. The agreement calls for the loan to be amortized in SDCCC's monthly rent over 10 years at zero percent interest. In the event SDCCC does not exercise the option to extend, the unamortized portion becomes payable and due upon termination of the contract. For the year ended June 30, 2013, SDCCC paid \$549 in principal payments on the warehouse loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2013 operational contributions from the City remained at \$3,405,000 for the third year in a row. As described in Note 6, contributions from the City funded marketing, promotion and capital projects for the Convention Center. During FY2013, 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 decreased revenues due to reduced event activity, the occurrence of Phase III expansion costs and increased utility rates contributed to a significant decrease in the Convention Center's unrestricted net position balance from (\$292,390) at June 30, 2012 to (\$708,789) at June 30, 2013.

San Diego Convention Center Corporation
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2013
(Unaudited)

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 Tourist Authority (SDTA)). A contract between SDCCC and SDTA exists detailing the terms set forth by the City. For the year ended June 30, 2013, SDCCC paid \$1.9 million in marketing contract payments related to SDTA.

Management is anticipating moderate improvement in financial performance during FY 2014 as compared to FY 2013. The City's contributions to SDCCC are anticipated to remain at \$3,405,000.

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 Position
June 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 7,116,265
Deposits	1,097,000
Receivables, net	2,775,616
Prepaid expenses	602,708
Total current assets	11,591,589

Noncurrent assets:

Receivables, net	1,875,000
Land	18,113,270
Furniture, equipment and software	6,684,160
Leasehold improvements	28,259,933
Less accumulated depreciation	(23,387,800)
Total capital assets	29,669,563

Total noncurrent assets 31,544,563

TOTAL ASSETS 43,136,152

LIABILITIES

Current liabilities:

Accounts payable	685,788
Accrued liabilities	2,376,255
Unearned income	8,168,280
Compensated employee absences	980,929
Current portion of long-term debt	220,030
Total current liabilities	12,431,282

Noncurrent liabilities:

Accrued liabilities	57,730
Compensated employee absences	173,668
Long-term debt	15,646,296
Total noncurrent liabilities:	15,877,694

TOTAL LIABILITIES 28,308,976

NET POSITION

Net investment in capital assets	15,535,965
Unrestricted	(708,789)
Total net position	14,827,176

TOTAL NET POSITION \$ 14,827,176

See accompanying notes to the basic financial statements.

San Diego Convention Center Corporation
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

Operating Revenues

Rental Revenue:

Convention and trade shows	\$ 6,996,959
Consumer shows	461,720
Meetings and seminars	257,268
Corporate/incentive events	216,407
Cancelled events	371,602
Community events	292,437
Local trade shows	142,167

Food and beverage revenue 7,172,846

Ancillary service revenue:

Event and cleaning services	3,403,163
Utilities	3,688,839
Telecommunications	2,229,199
Audio visual	1,077,857
Parking	408,285

Contributions:

City of San Diego 3,405,000

Other revenue 31,913

Total operating revenues 30,155,662

Operating Expenses

Salaries and wages	14,871,381
Fringe benefits	4,194,649
Utilities	3,763,472
Depreciation	2,087,009
Contractual marketing and sales	1,900,000
Repairs and maintenance	1,681,359
General	1,464,625
Insurance	531,519
Supplies	406,367
Contracted services	374,011
Telecommunications	74,340
Sales and marketing	56,618
Travel and transportation	44,825

Total operating expenses 31,450,175

Operating income (1,294,513)

Nonoperating Revenues (Expenses)

Interest income	7,705
Loss on disposal of capital assets	(62,519)
Other income	651,423

Total nonoperating revenues (expenses) 596,609

Loss before capital contributions (697,904)

Capital contributions 571,149

Change in net position (126,755)

Net position - beginning of year - as restated 14,953,931

Net position - end of year \$ 14,827,176

See accompanying notes to the basic financial statements.

San Diego Convention Center Corporation
Statement of Cash Flows
For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 32,558,313
Payments to suppliers for goods and services	(9,682,685)
Payments to employees for services	(20,044,950)
	2,830,678
Net cash provided by operating activities	2,830,678

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

Acquisition and construction of capital assets	(1,681,086)
Proceeds from note payable	439,486
Principal payments on note payable	(242,154)
Interest paid on long-term debt	(500,000)
Proceeds from the sale of capital assets	28,176
	28,176
Net cash used by capital and related financing activities	(1,955,578)

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of investments	110,000
Interest received on investments	7,705
	7,705
Net cash provided by investing activities	117,705

NET INCREASE IN CASH AND CASH EQUIVALENTS	992,805
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR - AS RESTATED	6,123,460
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CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,116,265
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San Diego Convention Center Corporation
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (1,294,513)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	2,087,009
Other income	651,423
Changes in operating assets and liabilities:	
Decrease in receivables	2,134,985
Decrease in prepaid expenses	263,352
Decrease in accounts payable	(176,715)
Increase in accrued compensated absences	3,031
Decrease in accrued liabilities	(454,137)
Decrease in unearned income	(383,757)
Net cash provided by operating activities	<u>\$ 2,830,678</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Acquisition of capital assets included in accounts payable	\$ 218,319
Acquisition of capital assets through notes payable	21,972
Capitalized interest	748,750
Carrying value of disposition of capital assets	90,695
Capital contributions	571,149

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, 2013

NOTE 1. REPORTING ENTITY

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

SDCCC acts in accordance with its By-Laws, the City of San Diego's (City) Charter, and the City's Municipal Code. The City 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.

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 Tourist Authority (SDTA) 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.

Beginning August 1, 1993, SDCCC assumed operational responsibilities for marketing, operating and maintaining the Civic Theatre. The Civic Theatre was constructed by the City on land owned by the City and 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. 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.

As required by accounting principles generally accepted in the United States of America, SDTI was reported as a blended component unit of SDCCC due to its financial accountability. 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, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SDCCC's accounting policies and financial reporting conform to accounting principles generally accepted in the United States (GAAP) and is based upon all Governmental Accounting Standards Board (GASB) pronouncements. 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. Due to the "spin-off" of SDTI from SDCCC, beginning cash and cash equivalents as reported in the statement of cash flows was restated from \$12,181,684 as of June 30, 2012, to \$6,123,460 as of July 1, 2012.

C. *Prepaid Expenses*

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

D. *Accounts Receivable*

Long-term receivables in the amount of \$1,875,000 represent incentive payments to be received by SDCCC in equal installments of \$625,000 on January 1, 2015, January 1, 2017 and January 1, 2019, from Centerplate in consideration for extending its exclusive food and beverage contract through June 30, 2021.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

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>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 up to 80 hours paid compensation in lieu of annual leave provided they maintain a minimum balance of 40 hours.

H. Components of Net Position

Net Investment in Capital Assets - 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.

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

I. Income Taxes

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

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013, the book balance of SDCCC's cash on hand, deposits, non-negotiable certificates of deposit and bank money market account deposits was \$8,213,265, and the bank balance was \$8,310,392. Of the bank balance, \$384,438 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 \$1,097,000 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, 2013:

Cash on hand	\$ 20,916
Deposits	2,028,432
Certificates of deposit (non-negotiable)	1,097,000
Bank money market account deposits	<u>5,066,917</u>
Total cash and investments	<u><u>\$ 8,213,265</u></u>

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2013, is as follows:

	<u>Beginning Balance June 30, 2012*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance June 30, 2013</u>
Non-Depreciable Capital Assets:				
Land	\$ 17,364,520	\$ 748,750	\$ -	\$ 18,113,270
Depreciable Capital Assets:				
Furniture, equipment and software	7,316,624	273,295	(905,759)	6,684,160
Leasehold improvements	26,934,923	1,642,637	(317,627)	28,259,933
Total Depreciable Capital Assets:	34,251,547	1,915,932	(1,223,386)	34,944,093
Less Accumulated Depreciation:				
Furniture, equipment and software	(6,483,822)	(326,436)	905,172	(5,905,086)
Leasehold improvements	(15,949,660)	(1,760,573)	227,519	(17,482,714)
Total Accumulated Depreciation	(22,433,482)	(2,087,009)	1,132,691	(23,387,800)
Total Depreciable Capital Assets - Net	11,818,065	(171,077)	(90,695)	11,556,293
Capital Assets, Net	\$ 29,182,585	\$ 577,673	\$ (90,695)	\$ 29,669,563

* Due to the spin-off of SDTI from SDCCC, effective July 1, 2012, the beginning capital assets balance was restated in the amount of \$2,926,176, from \$32,108,761 to \$29,182,585, to eliminate the carrying value of SDTI's capital assets.

Depreciation expense for the year ended June 30, 2013 was \$2,087,009.

NOTE 5. LONG-TERM LIABILITIES

A. *Compensated employee absences*

A summary of changes in accrued compensated employee absences for the year ended June 30, 2013 is as follows:

	<u>Balance June 30, 2012*</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Compensated Employee Absences	\$ 1,035,628	\$ 1,228,123	\$ (1,109,154)	\$ 1,154,597	\$ 980,929

* Due to the spin-off of SDTI from SDCCC, effective July 1, 2012, the beginning compensated absences balance was restated in the amount of \$247,996, from \$1,281,624 to \$1,035,628, to eliminate the value of SDTI's compensated absences obligation.

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, 2013

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. On February 1, 2012, the Redevelopment Agency was dissolved designating the City of San Diego as the successor agency for 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.

On April 25, 2012, SDCCC entered into a Financing Loan Agreement at a zero percent per annum rate with SDG&E for \$417,514, the proceeds of which were used to apply "retrocommissioning", a systematic process for improving and optimizing a building's operations through reduced energy usage, lengthened equipment life, and improved indoor air quality and occupant comfort. The obligation is payable over 23 equal installments payable through an on-bill financing arrangement through SDCCC's monthly utility bill based on estimated energy cost savings.

On April 15, 2013, SDCCC entered into a commercial lease agreement with CG 7600, LLC (lessor) in which the lessor financed a warehouse capital improvement for SDCCC valued at \$21,972. The agreement calls for the loan to be amortized as part of SDCCC's monthly rent over 10 years at a zero percent per annum rate. In the event SDCCC does not exercise the option to extend, the unamortized portion becomes payable and due upon termination of the contract. For the year ended June 30, 2013.

A summary of changes in notes payable for the year ended June 30, 2013, are as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Fifth Avenue Landing LLC	\$ 12,500,000	\$ -	\$ -	\$ 12,500,000	\$ -
San Diego Gas & Electric - Sustainable Energy	168,994	-	(168,994)	-	-
San Diego Gas & Electric - Retrocommissioning	-	417,514	(72,611)	344,903	217,833
CG 7600 LP	-	21,972	(549)	21,423	2,197
Successor Agency of the Redevelopment Agency of the City of San Diego	3,000,000	-	-	3,000,000	-
Total	<u>\$ 15,668,994</u>	<u>\$ 439,486</u>	<u>\$ (242,154)</u>	<u>\$ 15,866,326</u>	<u>\$ 220,030</u>

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual requirements to amortize the notes payable as of June 30, 2013, including interest payments to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 220,030	\$ 500,000	\$ 720,030
2015	12,629,267	1,297,359	13,926,626
2016	2,197	-	2,197
2017	2,197	-	2,197
2018	3,002,197	636,596	3,638,793
2019-2023	10,438	-	10,438
Total	\$ 15,866,326	\$ 2,433,955	\$ 18,300,281

NOTE 6. ECONOMIC DEPENDENCY

SDCCC receives contributions from the City as specified in a management agreement between SDCCC and the City. The agreement provides that the City will allocate to SDCCC approved budgetary amounts for marketing, promotion and capital projects for the Convention Center. During the year ended June 30, 2013, SDCCC received \$3,405,000 from the City. Of the total, \$1,900,000 was used to fund marketing contract expenses related to certain sales, marketing and promotional aspects of long-term events at the Convention Center. The remaining \$1,505,000 was used to fund various capital projects completed during the year.

Moving into FY 2014, SDCCC anticipates contributions from the City to remain at \$3,405,000 with offsetting marketing contract expenses of \$1,900,000. The remaining \$1,505,000 is earmarked to fund capital projects at the Convention Center.

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 was established effective January 1, 1986, by SDCCC's Board of Directors. The Plan is administered by SDCCC through a Pension Committee, represented by the SDCCC Board and staff, who act by a majority of its members in office to carry out the general administration of the Plan. Any recommended Plan amendments are subject to the approval and adoption by SDCCC's Board of Directors. As part of the Plan, SDCCC through Board action selected Wells Fargo & Company as Trustee, to hold and administer Plan assets subject to the terms of the Plan. The Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The Plan covers all employees who have completed at least 1,000 or more hours in one year and are not covered through a union retirement plan. Employees are eligible to participate in the Plan on the first day of the month after completion of 1,000 hours of service during the twelve-month period beginning from the employees hire date (or during any subsequent Plan year). For each plan year, SDCCC contributes 10% of compensation paid after becoming an eligible participant which is transferred to the fund on behalf of each qualifying individual.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

NOTE 7. 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, 2013, pension expense amounted to \$1,083,353, 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, 2013, SDCCC contributed \$3,641 on behalf of the eligible employees.

NOTE 9. COMMITMENTS

SDCCC as Lessor

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

Year Ending	
June 30,	Amount
2014	\$ 123,332
2015	126,277
2016	129,863
2017	135,522
2018	102,358
Total	\$ 617,352

Rental income related to the sublease was \$27,691 for the year ended June 30, 2013.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

NOTE 9. COMMITMENTS (Continued)

SDCCC as Lessee

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

Year Ending	Amount
June 30,	
2014	\$ 216,000
2015	220,400
2016	225,795
2017	197,646
2018	151,436
Total	\$ 1,011,277

Lease expense for the year ended June 30, 2013 was \$181,683.

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. 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. On June 11, 2013, the San Diego Unified Port District Board of Port Commissioners passed a resolution to eliminate earthquake and flood insurance coverage for the Convention Center due to earthquake loss predictably reports and analysis of projected sustained loss compared to deductible limits. SDCCC management believes that SDCCC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize. There were no insurance claim settlements that exceeded insurance coverage during the past three fiscal years.

San Diego Convention Center Corporation
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2013

NOTE 11. RESTATEMENT OF BEGINNING NET POSITION

On June 6, 2012, SDCCC determined it was appropriate to “spin off” the San Diego Theatres, Inc. (SDTI) and approved an amendment and restatement of their Articles of Incorporation and bylaws in the best interest of SDTI. Effective, July 1, 2012, SDTI became a free-standing, nonprofit public benefit corporation no longer controlled by SDCCC, and therefore not considered to be a component unit.

Pursuant to GASB Statement No 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, accounting changes that result in financial statements that are, in effect, the statements of a different reporting entity, must be restated. Due to the “spin-off” of SDTI, SDCCC has restated its beginning net position to reflect the impact of SDTI no longer being considered a component unit of SDCCC.

Ending net position - June 30, 2012, as previously reported	\$ 19,871,363
Elimination of SDTI from SDCCC reporting entity	<u>(4,917,432)</u>
Beginning net position - July 1, 2012, as restated	<u><u>\$ 14,953,931</u></u>

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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 GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SDCCC’s basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Macinnis Meiri & O'Connell LLP

San Diego, California
October 21, 2013