

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

**Basic Financial Statements and
Independent Auditor's Report**

For the Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the years ended June 30, 2008 and 2007, 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 audits.

We conducted our audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years 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 13, 2008 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SDCCC's basic financial statements. The combining schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Fini & O'Connell LLP

Certified Public Accountants

San Diego, California

November 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the San Diego Convention Center Corporation ("SDCCC"), we offer readers of SDCCC's financial statements this narrative overview and analysis of the financial activities of SDCCC for the fiscal year ended June 30, 2008 and 2007 respectively. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statement of Net Assets presents information of all SDCCC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of SDCCC is improving or deteriorating.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS

The following is a summary of SDCCC's assets, liabilities and net assets comparing FY 2008 with FY 2007 and FY 2007 with FY 2006.

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	Percent Increase (Decrease) FY07/FY08	Percent Increase (Decrease) FY06/FY07
ASSETS:					
Cash and investments	\$20,975,104	\$15,778,723	\$15,376,468	33%	3%
Receivables, net	3,707,276	3,002,896	2,686,942	23%	12%
Prepaid items	970,744	967,591	1,017,681	0%	-5%
Inventory	19,198	16,876	7,946	14%	112%
Capital assets, net	<u>17,177,373</u>	<u>16,558,880</u>	<u>16,811,715</u>	4%	-2%
Total assets	<u>42,849,695</u>	<u>36,324,966</u>	<u>35,900,752</u>	18%	1%
LIABILITIES:					
Accounts payable	2,797,972	512,625	2,071,368	446%	-75%
Accrued liabilities	3,098,331	2,991,454	2,954,495	4%	1%
Unearned income	9,600,577	7,363,225	8,233,795	30%	-11%
Current portion of notes payable	1,807,182	1,754,700	1,705,630	3%	3%
Long-term liabilities	<u>2,894,378</u>	<u>4,701,561</u>	<u>6,501,090</u>	-38%	-28%
Total liabilities	<u>20,198,440</u>	<u>17,323,565</u>	<u>21,466,378</u>	17%	-19%
NET ASSETS:					
Invested in capital assets net of related debt	12,475,813	10,102,618	8,649,823	23%	17%
Restricted	1,625,632	2,117,488	2,576,815	-23%	-18%
Unrestricted	<u>8,549,810</u>	<u>6,781,295</u>	<u>3,207,736</u>	26%	111%
Total Net Assets	<u>22,651,255</u>	<u>19,001,401</u>	<u>14,434,374</u>	19%	32%
Total liabilities and net assets	<u>\$42,849,695</u>	<u>\$36,324,966</u>	<u>\$35,900,752</u>	18%	1%

Total assets of \$42.8 million in FY 2008 significantly increased by \$6.5 million, or 18%, from the prior year balance of \$36.3 million. The changes were primarily due to an increase in cash and investments of \$5.2 million, or 33%, an increase in receivables of \$.7 million, or 23% as well as a small increase in capital assets of \$.6 million, or 4% greater than the prior year. The increase in cash and investments was primarily due to increases in accounts payable and unearned income balances compared to prior year as well as the change in current year net assets of \$3.6 million. The increase in receivables was most significantly impacted by advertising sales and event related hotel subsidies invoiced for June 2008 activity. The increase in capital assets was largely a result of two large system acquisitions and equipment purchases partially offset by depreciation expense.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS, continued

Total assets of \$36.3 million in FY 2007 moderately increased by \$.4 million, or 1%, from the prior year balance of \$35.9 million. The most significant changes were due to an increase in cash and investments of \$.4 million, or 3%, and an increase in receivables of \$.3 million, or 12%, with an offsetting decrease in net capital assets of \$.2 million, or 2% below prior year. The increase in receivables was most significantly impacted by higher event volume in June 2007 resulting in larger commissions due from event service providers as compared to prior year. The decrease in capital assets resulted from depreciation expense exceeding the value of capital purchases throughout the year. The change in cash and investments was driven by normal fluctuations of business activity throughout the year.

Total liabilities of \$20.2 million in FY 2008 increased significantly by \$2.9 million, or 17 % from a balance of \$17.3 million in FY 2007 primarily due to increases in accounts payable and unearned income. The accounts payable increase of \$2.3 million, or 446%, is significantly a result of Civic Theatre advanced ticket sales of \$1.8 million temporarily held on behalf and owed to the show promoter for the Phantom of the Opera event held during August 2008 (FY 2009). In addition, a \$2.2 million, or 30%, increase in unearned income is directly related to funds received for a food & beverage contract signing bonus as well as advertising sales to be amortized over the next fiscal year. The decrease in long-term liabilities by \$1.8 million, or 38%, was driven primarily by the principal balance reduction of the HVAC Chiller Lease (5 year capital lease of \$3.9 million) and Sails Pavilion Loan from the Port (10 year note payable of \$10 million).

Total liabilities of \$17.3 million in 2007 decreased significantly by \$4.2 million or 19% from a balance of \$21.5 million in 2006 as a result of accounts payable and unearned income categories having significant decreases. Accounts payable decreased by \$1.5 million, or 75%, from prior year as a result of decreased Civic Theatre events payables. The most significant impact was a result of advanced tickets sold in FY 2006 for the Lion King performance in December 2006 (FY 2007) that were paid to the show promoter at the end of the performance run, reducing the accounts payable balance. Additionally, the unearned income decrease of \$.9 million, or 11%, was primarily a result of revenue recognized from a significant number of events that occurred that had large advance deposits. The decrease in long-term liabilities by \$1.8 million, or 28%, was driven primarily by the principal balance reduction of the HVAC Chiller Lease and Sails Pavilion Loan from the Port.

For the years 2008, 2007, and 2006, total net assets totaled \$22.7, \$19.0, and \$14.4 million respectively. Total net assets of \$22.7 million in 2008 increased by \$3.7 million, or 19% compared to prior year. Comparatively, in 2007, total net assets of \$19.0 million increased by \$4.6 million, or 32% from 2006. The balance of the increases for both years was primarily a result of the excess revenues over expenses during the fiscal year as noted below.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS, continued

The following table summarizes the changes in net assets for SDCCC comparing FY 2008 with FY 2007 and FY 2007 with FY 2006.

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	Percent Increase (Decrease) FY07/FY08	Percent Increase (Decrease) FY06/FY07
Operating Revenues:					
Rental	\$13,055,190	\$11,397,884	\$9,405,226	15%	21%
Food and Beverage	7,638,342	9,614,089	9,145,491	-21%	5%
Ancillary services	12,064,660	11,237,023	8,889,565	7%	26%
Production Revenue	508,004	0	0	n/a	n/a
Contributions from the City of San Diego	4,339,198	4,339,198	4,339,198	0%	0%
Contributions – Grant	40,000	0	0	n/a	n/a
Contributions – Donations	8,000	0	0	n/a	n/a
Facility Restoration Fees	613,860	540,428	687,618	14%	-21%
Other revenue	<u>50,003</u>	<u>59,434</u>	<u>30,315</u>	-16%	96%
Total operating revenues	<u>38,317,257</u>	<u>37,188,056</u>	<u>32,497,413</u>	3%	14%
Operating Expenses:					
Salaries and benefits	21,517,300	21,161,332	19,830,787	2%	7%
Services and supplies	11,645,263	9,606,572	9,188,166	21%	5%
Production Expense	581,368	0	0	n/a	n/a
Depreciation	<u>2,403,385</u>	<u>2,442,304</u>	<u>2,437,548</u>	-2%	0%
Total operating expenses	<u>36,147,316</u>	<u>33,210,208</u>	<u>31,456,501</u>	9%	6%
Operating Income	<u>2,169,941</u>	<u>3,977,848</u>	<u>1,040,912</u>	-45%	282%
Non Operating Revenues (Expenses):					
Interest Income	709,358	754,661	586,718	-6%	29%
Interest Expense	(176,268)	(244,965)	(145,629)	-28%	68%
Loss on disposal of capital assets	(8,274)	(44,356)	(937,615)	-81%	-95%
Other income	<u>742,310</u>	<u>123,839</u>	<u>528,151</u>	499%	-77%
Total non operating revenues (expenses)	<u>1,267,126</u>	<u>589,179</u>	<u>31,625</u>	115%	1763%
Capital Contributions:	<u>212,787</u>	<u>0</u>	<u>0</u>	n/a	n/a

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

SDCCC FINANCIAL STATEMENT ANALYSIS, continued

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	Percent Increase (Decrease) FY07/FY08	Percent Increase (Decrease) FY06/FY07
Change in Net Assets:	3,649,854	4,567,027	1,072,537	-20%	326%
Net assets - beginning of year	19,001,401	14,434,374	12,938,226		
Prior Period adjustment	-	-	423,611		
Net assets - end of year	<u>\$22,651,255</u>	<u>\$19,001,401</u>	<u>\$14,434,374</u>	19%	32%

Operating Revenues

Total operating revenues generated in FY 2008 amounted to \$38.3 million, a \$1.1 million or 3% increase compared to prior year's total operating revenues of \$37.2 million. Major variances within operating revenues included a \$1.7 million, or 15% increase in rental revenue compared to the prior year caused primarily by an increase in convention and tradeshow events. A further variance included a \$.8 million, or 7% increase in ancillary service revenues compared to the prior year as a result of increased use of Convention Center staff for event related cleaning services. Additionally, the Civic Theatre (production revenue) began producing certain events in-house, contributing to a \$.5 million added revenue source. Offsetting the above increases in revenues was a \$2 million, or 21% decrease in food & beverage revenues due to the reclassification of amortized food & beverage contract signing bonuses to non-operating revenues coupled with less corporate incentive event activity that typically generate more food & beverage sales than convention and trade shows.

Total operating revenues generated in FY 2007 amounted to \$37.2 million, a \$4.7 million or 14% increase compared to prior year's total operating revenues of \$32.4 million. Major variances within operating revenues included a \$2.0 million, or 21% increase in rental revenue compared to the prior year caused primarily by a fluctuation in clientele event type (increase convention and trade shows) that typically generates higher rental revenue combined with a greater overall building occupancy. A further variance included a \$2.3 million, or 26% increase in ancillary service revenues compared to the prior year as a result of more services ordered by exhibitor booths for convention and trade shows as well as price increases for ancillary services. Additionally, food & beverage revenues increased by \$.5 million, or 5% compared to the prior year as a result of increased event requirements.

Operating Expenses

Total operating expenses incurred during FY 2008 amounted to \$36.1 million, a \$2.9 million or 9% increase compared to the prior year total of \$33.2 million. Major variances within operating expenses included a \$2.0 million, or 21% increase in services and supplies expense compared to prior year caused primarily by a contract termination settlement coupled with significantly increased legal fees. Added consulting services for an extensive business process review of major departments within the Center as well as consultations for expansion studies were also a factor to the increase in expenses for services. The Civic Theatre incurred an additional \$.6 million in production expense for producing shows in-house.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

SDCCC FINANCIAL STATEMENT ANALYSIS, continued

Operating Expenses (continued)

Total operating expenses incurred during FY 2007 amounted to \$33.2 million, a \$1.8 million or 6% increase compared to the prior year total of \$31.5 million. The primary variance within operating expenses was a \$1.3 million or 7% increase in salaries and benefits compared to prior year due to severance payouts related to reductions in labor force, the FY 2006 change in accounting for compensated absences, as well as an increase in fringe benefit costs.

Non Operating Revenues and Expenses

During FY 2008, Non operating revenues and expenses produced a \$1.3 million net increase to net assets compared to \$.6 million net increase in the prior year. The increase from prior year mostly occurred in other income directly as a result of a reclassification of amortized food & beverage contract signing bonuses from operating revenue along with donated capital contributions and receipt of utility rebates.

During FY 2007, Non operating revenues and expenses provided a \$.6 million net increase to net assets compared to a negligible impact in the prior year. The primary variance within non operating revenue and expenses was a \$.9 million, or 95% decrease in loss on disposal of capital assets.

CAPITAL ASSET AND DEBT ANALYSIS

As of June 30, 2008 SDCCC had a capital asset book value of \$17.2 million, net of accumulated depreciation which was \$.6 million, or 4% above the prior year figure of \$16.6 million. The capital assets are spread across a broad range of computer, office and operating equipment and leasehold improvements. Total capital asset additions of \$3.0 million were funded by capital contributions of \$1.3 million and SDCCC purchases of \$1.7 million. The major component of capital contributions included the addition of "Tides", a concession outlet built by the Convention Center food & beverage provider as part of a contract signing premium as well as seating risers donated by a client who purchased them for an event. Significant capital assets purchased by SDCCC are listed below.

Major capital asset additions during FY 2008 included:

- \$1,250,000 for the Tides concession built at the Convention Center
- \$549,911 for the theatrical lighting and dimmer controls at the Civic Theatre
- \$212,331 for the integrated Workforce Management software system at the Convention Center
- \$105,644 for seating risers donated by client at the Convention Center
- \$69,112 for the CRM software system at the Convention Center

As of June 30, 2007 SDCCC had a capital asset book value of \$16.6 million, net of accumulated depreciation which was \$.2 million, or 2% below the prior year figure of \$16.8 million. The capital assets were spread across a broad range of computer, office and operating equipment and leasehold improvements. The gross value of capital purchases in FY 2007 of \$2.2 million decreased significantly compared to the prior year; to a point that was below current year depreciation expense of \$2.4 million, resulting in a \$.2 million negative variance.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

CAPITAL ASSET AND DEBT ANALYSIS, continued

Major capital asset additions during FY 2007 included:

- \$650,318 for concrete replacement for the Sails Pavilion and Terrace at the Convention Center
- \$380,908 for the restroom renovation at the Civic Theatre
- \$169,094 for the refurbishment of auditorium chairs at the Civic Theatre
- \$75,232 for the buildout of concession stands and bar upgrades for the Civic Theatre
- \$73,836 for the installation of an auto flush system in restrooms at the Convention Center

During FY 2008 and 2007, SDCCC maintained a long-term note payable from the San Diego Unified Port District. The note purchase contract was entered into during FY 1999 for \$10,000,000. \$1,000,000 of the note has been retired each year respectively, reducing the outstanding balance from \$4,500,000 in FY2006 to \$3,500,000 in FY2007 to \$2,500,000 in FY 2008.

Effective August 3, 2005, SDCCC entered into a \$3,942,000 capital lease with U.S. Bankcorp Equipment Finance, Incorporated, for the purchase and installation of three HVAC system chillers. For Fiscal Years ending 2008 and 2007, \$754,701 and \$705,631 of the lease were retired respectively, reducing the outstanding balance from \$3,661,893 in FY2006 to \$2,956,261 in FY 2007 to \$2,201,560 in FY 2008.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FY 2008 operational contributions from the City, as budgeted and approved by the City at \$4,339,000, are at the same level as during FY 2007. Management is not aware of any circumstances that would significantly change or affect the financial performance of SDCCC during FY 2009 as compared to FY 2008.

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.

San Diego Convention Center Corporation
Statements of Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,693,104	\$ 14,496,723
Investments	1,282,000	1,282,000
Receivables	3,707,276	3,002,896
Inventory	19,198	16,876
Prepaid expenses	970,744	967,591
Total current assets	25,672,322	19,766,086
Noncurrent assets:		
Capital assets:		
Furniture, equipment and software	9,316,630	8,138,413
Leasehold improvements	25,329,119	23,740,989
Less accumulated depreciation	(17,468,376)	(15,320,522)
Total capital assets	17,177,373	16,558,880
TOTAL ASSETS	42,849,695	36,324,966
LIABILITIES		
Current liabilities:		
Accounts payable	2,797,972	512,625
Accrued liabilities	1,877,408	1,897,605
Unearned income	9,600,577	7,363,225
Compensated employee absences	1,220,923	1,093,849
Current portion of long-term debt	1,807,182	1,754,700
Total current liabilities	17,304,062	12,622,004
Noncurrent liabilities:		
Long-term debt	2,894,378	4,701,561
Total noncurrent liabilities	2,894,378	4,701,561
TOTAL LIABILITIES	20,198,440	17,323,565
NET ASSETS		
Invested in capital assets, net of related debt	12,475,813	10,102,618
Restricted for theatre restoration	1,625,632	2,117,488
Unrestricted	8,549,810	6,781,295
Total net assets	\$ 22,651,255	\$ 19,001,401

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Rental Revenue:		
Convention and trade shows	\$ 8,972,984	\$ 7,343,835
Performing arts	1,325,855	1,170,526
Consumer shows	1,037,135	964,450
Corporate/incentive events	429,879	809,637
Meetings and seminars	681,264	515,238
Community events	216,885	348,790
Local trade shows	122,465	104,333
Cancelled events	268,723	141,075
Food and beverage revenue	7,638,342	9,614,089
Ancillary service revenue:		
Event and cleaning services	4,075,180	3,305,894
Utilities	4,055,261	3,363,723
Telecommunications	1,740,416	2,126,431
Audio visual	922,257	1,168,733
Ticketing services	1,003,917	774,096
Parking	267,629	498,146
Production revenue	508,004	-
Contributions:		
City of San Diego	4,339,198	4,339,198
Grants	40,000	-
Donations	8,000	-
Facility restoration fees	613,860	540,428
Other revenue	50,003	59,434
Total operating revenues	<u>38,317,257</u>	<u>37,188,056</u>
Operating Expenses		
Salaries and wages	17,212,245	16,815,557
Fringe benefits	4,305,055	4,345,775
Utilities	3,490,139	3,713,279
General expenses	1,657,911	1,444,553
Repairs and maintenance	1,576,484	1,575,289
Contracted services	1,604,125	844,824
Insurance	1,700,200	666,891
Supplies	507,283	524,460
Sales and marketing	676,983	406,865
Travel and transportation	131,846	149,572
Production expense	581,368	-
Food and beverage	172,622	149,651
Telecommunications	127,670	131,188
Depreciation	2,403,385	2,442,304
Total operating expenses	<u>36,147,316</u>	<u>33,210,208</u>
Operating income	<u>2,169,941</u>	<u>3,977,848</u>
Nonoperating Revenues (Expenses)		
Interest income	709,358	754,661
Interest expense	(176,268)	(244,965)
Loss on disposal of capital assets	(8,274)	(44,356)
Other income	742,310	123,839
Total nonoperating revenues (expenses)	<u>1,267,126</u>	<u>589,179</u>
Income before Capital Contributions	3,437,067	4,567,027
Capital Contributions	212,787	-
Change in Net Assets	3,649,854	4,567,027
Net assets, beginning of year	19,001,401	14,434,374
Net assets, end of year	<u>\$ 22,651,255</u>	<u>\$ 19,001,401</u>

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 40,805,326	\$ 36,001,532
Payments to suppliers for goods and services	(10,018,925)	(11,129,067)
Payments to employees for services	(21,410,423)	(21,169,201)
Net cash provided by operating activities	9,375,978	3,703,264
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,963,086)	(2,228,913)
Proceeds from the sale of capital assets	5,100	-
Principal payments on note payable	(1,000,000)	(1,000,000)
Payments on capital lease obligation	(754,701)	(705,631)
Interest paid on long-term debt	(176,268)	(244,965)
Net cash used by capital and related financing activities	(4,888,955)	(4,055,670)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds on investment maturities	-	176,292
Interest received on investments	709,358	754,661
Net cash provided by investing activities	709,358	930,953
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,196,381	578,547
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	14,496,723	13,918,176
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 19,693,104	\$ 14,496,723
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,169,941	\$ 3,977,848
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,403,385	2,442,304
Changes in operating assets and liabilities:		
Increase in accounts receivable	(704,380)	(315,954)
(Increase)/Decrease in prepaid expenses	(3,153)	50,090
Increase in inventory	(2,322)	(8,930)
Increase/(Decrease) in accounts payable	2,213,181	(1,563,655)
Increase in accrued short-term compensated absences	127,074	17,991
Increase/(Decrease) in accrued liabilities	(20,197)	18,968
Decrease in accrued long-term compensated absences	-	(44,828)
Increase/(Decrease) in unearned income	3,192,449	(870,570)
Net cash provided by operating activities	\$ 9,375,978	\$ 3,703,264
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	\$ 72,166	\$ 4,912
Disposal of capital assets, net of accumulated depreciation	13,374	44,354
Unearned capital contributions recognized	212,787	-
Unearned other revenue recognized	742,310	123,839

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Notes to Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

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 exercises oversight responsibility over SDCCC, SDCCC is considered a component unit of the reporting entity of the City.

The Convention Center was constructed by the San Diego Unified Port District (District) on land owned by the District. Construction was completed in the fall of 1989 and the Convention Center opened in November 1989. An expansion of the Convention Center that roughly doubled the size of the facility was constructed by the City and completed in September 2001. The City has an agreement with the District to manage the Convention Center.

The Civic Theatre was constructed by the City on land owned by the City. The Civic Theatre includes a 2,967 seat performing arts theatre as well as a central HVAC plant (Central Power). The Civic Theatre is owned by the City.

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

The Civic Theatre is operated by San Diego Theatres, Inc. (SDTI) under terms of an Operating Agreement between the City of San Diego and SDTI. Additionally, SDTI entered into a Lease and a Cooperation Agreement with the Redevelopment Agency of the City of San Diego for the management and operation of the historic Balboa Theatre. The Balboa Theatre is owned by the Redevelopment Agency and was re-opened in January 2008 following a \$26.5 million restoration and rehabilitation by the Agency.

As required by accounting principles generally accepted in the United States of America, the basic financial statements present SDCCC and its component unit, an entity for which SDCCC is considered to be financially accountable. A blended component unit, although a legally separate entity, is in substance, part of SDCCC's operations, and data from this unit is combined with the data of SDCCC. The following entity is reported as a blended component unit.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 1. REPORTING ENTITY, continued

Blended Component Unit: San Diego Theatres, Inc.

San Diego Theatres, Inc. (SDTI) is a not-for-profit public benefit corporation. The SDTI Board of Directors is comprised of five voting members. SDCCC appoints three voting Directors from its existing Board and appoints two outside voting members. The purpose of SDTI is to market, operate and maintain the Civic Theatre and the Balboa Theatre. SDTI is reported as if it were part of the primary government.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial reporting is based upon all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

The accounting policies of SDCCC conform to accounting principles generally accepted in the United States (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Basis of Accounting and Measurement Focus

The financial transactions of SDCCC are accounted for on the accrual basis of accounting under which revenues are recognized as earned and expenses are recognized as incurred. SDCCC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing event meeting space, goods and services in connection with SDCCC's principal ongoing operations. SDCCC's principal operating revenues include event meeting space rental revenues, food and beverage commissions, event and cleaning service revenues and contributions from the City that are primarily used to fund capital projects. SDCCC's principal operating expenses include salaries and wages, fringe benefits, depreciation and utilities. If not operating, all other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is SDCCC's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents

The SDCCC's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

C. Inventory

SDCCC's inventory consists primarily of food & beverage supplies and is recorded at cost on a first-in, first-out basis.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. *Prepaid Expenses*

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

E. *Capital Assets*

Capital assets are reported at cost. Capital assets are defined as assets with initial cost of more than \$1,500 per line item or \$10,000 in a lot, and a useful life of greater than one year. For purposes of the capitalization policy, a lot is defined as more than one like item in a single purchase. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

F. *Compensated Employee Absences*

Accumulated annual leave for vacation, illness, and personal business is recorded in the Statements of Net Assets. The amount recorded is expected to be liquidated in the future years as employees use these benefits in accordance with SDCCC personnel guidelines.

G. *Components of Net Assets*

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets.

Restricted Net Assets - Restricted net assets total \$1,625,632 and \$2,177,488 at June 30, 2008 and 2007, respectively, and represent amounts restricted by enabling legislation.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

H. *Income Taxes*

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

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Use of Estimates

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

NOTE 3. CASH AND INVESTMENTS

At June 30, 2008, the book balance of SDCCC's deposits was \$902,377 and bank balance was \$1,179,720, the difference of which is substantially due to outstanding checks. Of the bank balance, \$362,477 was covered by Federal depository insurance. At June 30, 2007, the book balance of SDCCC's deposits was \$614,822 and bank balance was \$681,565. Of the bank balance, \$383,477 was covered by Federal depository insurance. For both June 30, 2008 and June 30, 2007, the remaining uninsured balance is either collateralized with the collateral held by an affiliate of the counterparty's financial institution or is uncollateralized, and therefore exposed to custodial credit risk. SDCCC does not have a formal deposit and investment policy that addresses custodial credit risk.

At June 30, 2008 and 2007, SDCCC had a total investments balance of \$19,995,502 and \$15,139,774, respectively. For June 30, 2008, \$18,713,502 was maintained in several money mutual market funds while \$1,282,000 was invested in two certificates of deposit, which bear an interest rate of 2.1% and 1.9%, and have a maturity period of less than one year. For June 30, 2007, \$13,857,774 was maintained in several money market mutual funds, while \$1,282,000 was invested in two certificates of deposit which bear an interest rate of 4.05% and both had a maturity period of less than one year. Neither the money market mutual funds nor the certificates of deposit are rated by credit rating agencies. SDCCC does not have a formal deposit and investment policy that addresses credit quality risk.

Cash deposits and investments were categorized as follows at June 30, 2008 and 2007:

	2008	2007
Cash on hand	\$ 77,225	\$ 24,127
Deposits	902,377	614,822
Money market mutual funds	18,713,502	13,857,774
Certificates of deposit	1,282,000	1,282,000
Total cash and investments	<u>\$ 20,975,104</u>	<u>\$ 15,778,723</u>

Out of the total cash and investment balances listed above, \$1,625,632 and \$2,117,488 for June 30, 2008 and June 30, 2007 respectively were restricted for theatre restoration. These balances represent the unspent cash surcharges collected and earned from Civic Theatre events.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2008, is as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
Furniture, equipment and software	\$ 8,138,413	\$ 1,421,075	\$(242,858)	\$ 9,316,630
Leasehold improvements	23,740,989	1,614,178	(26,048)	25,329,119
Total	31,879,402	3,035,253	(268,906)	34,645,749
Less accumulated depreciation:				
Furniture, equipment and software	(6,264,886)	(820,197)	242,831	(6,842,252)
Leasehold improvements	(9,055,636)	(1,583,188)	12,700	(10,626,124)
Total	(15,320,522)	(2,403,385)	255,531	(17,468,376)
Total, net	<u>\$ 16,558,880</u>	<u>\$ 631,868</u>	<u>\$ (13,375)</u>	<u>\$ 17,177,373</u>

Depreciation expense for the year was \$2,403,385.

A summary of changes in capital assets for the year ended June 30, 2007, is as follows:

	<u>Beginning Balance</u>			<u>Ending Balance</u>
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Furniture, equipment and software	\$ 8,404,476	\$ 611,956	\$(878,019)	\$ 8,138,413
Leasehold improvements	22,236,140	1,621,867	(117,018)	23,740,989
Total	30,640,616	2,233,823	(995,037)	31,879,402
Less accumulated depreciation:				
Furniture, equipment and software	(6,212,836)	(398,419)	346,369	(6,264,886)
Leasehold improvements	(7,616,065)	(2,043,885)	604,314	(9,055,636)
Total	(13,828,901)	(2,442,304)	950,683	(15,320,522)
Total, net	<u>\$ 16,811,715</u>	<u>\$ (208,481)</u>	<u>\$ (44,354)</u>	<u>\$ 16,558,880</u>

Depreciation expense for the year was \$2,442,304.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 5. LONG-TERM DEBT

A. *Compensated Employee Absences*

For the years ended June 30, 2008 and 2007, the total accrued compensated employee absences are listed below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
June 30, 2008	\$ 1,093,849	\$ 1,415,720	\$ (1,288,646)	\$ 1,220,923	\$ 1,220,923
June 30, 2007	1,120,686	1,207,733	(1,234,570)	1,093,849	1,093,849

B. *Note Payable*

Effective February 24, 1999, SDCCC entered into a Note Purchase Contract with the District for \$10,000,000, the proceeds of which were used to pay for the direct and incidental costs of the Sails Pavilion Enhancement project completed in July 2000.

A summary of changes in notes payable for the year ended June 30, 2008, is as follows:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
San Diego Unified Port District	\$ 3,500,000	-	\$ (1,000,000)	\$ 2,500,000	\$ 1,000,000

A summary of changes in notes payable for the year ended June 30, 2007, is as follows:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Current Portion</u>
San Diego Unified Port District	\$ 4,500,000	-	\$ (1,000,000)	\$ 3,500,000	\$ 1,000,000

SDCCC repays the note at the rate of zero percent per annum with principal payable as follows:

<u>Fiscal Year Ended June, 30</u>	<u>Amount</u>
2009	1,000,000
2010	1,000,000
2011	500,000
Total	<u><u>\$ 2,500,000</u></u>

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 5. LONG-TERM DEBT, Continued

C. Lease Obligation

Effective August 3, 2005, SDCCC entered into a capital lease with U.S. Bankcorp Equipment Finance, Incorporated, for the purchase and installation of one 1200 ton and two 600 ton Trane Variable Frequency Drive Chillers.

A summary of changes in the lease obligation for the year ended June 30, 2008, is as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Current</u> <u>Portion</u>
U.S. Bankcorp Equipment	\$ 2,956,261	-	\$ (754,700)	\$ 2,201,561	\$ 807,183

A summary of changes in the lease obligation for the year ended June 30, 2007, is as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u>
U.S. Bankcorp Equipment	\$ 3,661,892	-	\$ (705,631)	\$ 2,956,261	\$ 754,700

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008 were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 930,969
2010	930,969
2011	<u>543,064</u>
Total minimum lease payments	2,405,002
Less: amount representing interest	<u>(203,441)</u>
Present value of minimum lease payments	<u><u>\$ 2,201,561</u></u>

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 5. LONG-TERM DEBT, Continued

C. Lease Obligation, continued

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

2008	Original Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$3,942,189	\$ 635,130	\$3,307,059
2007	Original Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$3,942,189	\$ 372,318	\$3,569,871

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 2008 the majority of the contributions from the City were used to fund capital projects. SDCCC received \$4,339,198 from the City for both years ended June 30, 2008 and 2007.

NOTE 7. PENSION PLAN

The San Diego Convention Center Corporation's Money Purchase Pension Plan (Plan) became effective January 1, 1986. The Plan is a qualified defined contribution plan and as such, benefits depend on amounts contributed to the Plan plus investment earnings less allowable plan expenses. The Plan covers employees not otherwise entitled to a retirement/pension plan provided through a collective bargaining unit agreement. Employees are eligible to participate at the earlier of the date on which they complete six months of the 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.

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 years ended June 30, 2008 and 2007, pension expense amounted to \$1,222,112 and \$1,269,310, respectively. SDCCC records pension expense during the fiscal year based upon estimated covered compensation.

San Diego Convention Center Corporation
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

NOTE 8. SUPPLEMENTAL DEFERRED COMPENSATION PLAN

The SDCCC Supplemental Deferred Compensation Plan (NQ Plan), administered by SDCCC, is a voluntary, non-qualified defined contribution plan covering all employees of SDCCC who are eligible for membership as defined by the NQ Plan document and who elect to participate in the NQ Plan. The NQ Plan identifies eligible employees as those designated as eligible by the Board, provided that each employee qualifies as a member of the select group of SDCCC's management or highly compensated employees. The NQ Plan operates under the authority of section 457(f) of the IRC as well as under the direction of the Board of SDCCC.

SDCCC may contribute, on behalf of an eligible employee, amounts of money that it deems appropriate. The amounts to be contributed, if any, are determined by the Board of Directors. The contributions are deposited into the SDCCC contribution credit account, maintained on behalf of the participants.

The NQ Plan became effective October 1, 2005. During the years ended June 30, 2008 and 2007, NQ Plan expense amounted to \$8,879 and \$6,914, respectively.

NOTE 9. COMMITMENTS

SDCCC has noncancelable operating leases with terms greater than one year for office space, photocopiers, a postage meter machine and warehouse space. The lease commitments are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2009	174,121
2010	142,991
2011	113,711
2012	3,185
Total	<u>\$ 434,008</u>

Lease expenses for the years ended June 30, 2008 and 2007 were \$278,624 and \$345,709 respectively.

NOTE 10. CONTINGENT LIABILITIES

SDCCC is a defendant in various lawsuits and subject to grievances by labor unions. SDCCC's management believes, based upon consultation with SDCCC attorneys, that these cases as well as any unasserted claims, in the aggregate, are not expected to result in a material adverse financial impact on SDCCC. In addition, SDCCC is involved in a lawsuit related to an external maintenance vendor. This case has been pending for some time and SDCCC does not have sufficient information to determine likelihood or potential amount of loss related to this case. Additionally, SDCCC management believes that the SDCCC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize. There were no insurance claim settlements that exceeded insurance coverage during the past three fiscal years.

San Diego Convention Center Corporation
Combining Schedule of Assets, Liabilities and Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>San Diego Convention Center</u>	<u>San Diego Theatres</u>	<u>2008 Total</u>	<u>2007 Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 15,207,435	\$ 4,485,669	\$ 19,693,104	\$ 14,496,723
Investments	1,282,000	-	1,282,000	1,282,000
Receivables, net	3,154,919	552,357	3,707,276	3,002,896
Inventory	-	19,198	19,198	16,876
Prepaid expenses	844,202	126,542	970,744	967,591
Total current assets	<u>20,488,556</u>	<u>5,183,766</u>	<u>25,672,322</u>	<u>19,766,086</u>
Noncurrent assets:				
Capital assets:				
Furniture, equipment and software	8,068,971	1,247,659	9,316,630	8,138,413
Leasehold improvements	23,405,811	1,923,308	25,329,119	23,740,989
Less accumulated depreciation	(16,448,110)	(1,020,266)	(17,468,376)	(15,320,522)
Total capital assets	<u>15,026,672</u>	<u>2,150,701</u>	<u>17,177,373</u>	<u>16,558,880</u>
TOTAL ASSETS	<u>35,515,228</u>	<u>7,334,467</u>	<u>42,849,695</u>	<u>36,324,966</u>
LIABILITIES				
Current liabilities:				
Accounts payable	339,756	2,458,216	2,797,972	512,625
Accrued liabilities	1,715,834	161,574	1,877,408	1,897,605
Unearned income	9,292,462	308,115	9,600,577	7,363,225
Compensated employee absences	1,024,924	195,999	1,220,923	1,093,849
Current portion of long-term debt	1,807,182	-	1,807,182	1,754,700
Total current liabilities	<u>14,180,158</u>	<u>3,123,904</u>	<u>17,304,062</u>	<u>12,622,004</u>
Noncurrent liabilities:				
Long-term debt	2,894,378	-	2,894,378	4,701,561
Total noncurrent liabilities	<u>2,894,378</u>	<u>-</u>	<u>2,894,378</u>	<u>4,701,561</u>
TOTAL LIABILITIES	<u>17,074,536</u>	<u>3,123,904</u>	<u>20,198,440</u>	<u>17,323,565</u>
NET ASSETS				
Invested in capital assets	10,325,112	2,150,701	12,475,813	10,102,618
Restricted for theatre restoration	-	1,625,632	1,625,632	2,117,488
Unrestricted	8,115,580	434,230	8,549,810	6,781,295
Total net assets	<u>\$ 18,440,692</u>	<u>\$ 4,210,563</u>	<u>\$ 22,651,255</u>	<u>\$ 19,001,401</u>

See accompanying notes to basic financial statements.

San Diego Convention Center Corporation
Combining Schedule of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	San Diego Convention Center	San Diego Theatres	2008 Total	2007 Total
Operating Revenues				
Rental revenue	\$ 11,724,335	\$ 1,330,855	\$ 13,055,190	\$ 11,397,884
Food and beverage revenue	6,921,454	716,888	7,638,342	9,614,089
Ancillary service revenue	10,326,532	1,738,128	12,064,660	11,237,023
Production revenue	-	508,004	508,004	-
Contributions from City of San Diego	4,339,198	-	4,339,198	4,339,198
Contributions - Grant	-	40,000	40,000	-
Contributions - Donations	-	8,000	8,000	-
Facility restoration fees	-	613,860	613,860	540,428
Other revenue	50,003	-	50,003	59,434
Total operating revenues	<u>33,361,522</u>	<u>4,955,735</u>	<u>38,317,257</u>	<u>37,188,056</u>
Operating Expenses				
Salaries and wages	15,176,795	2,035,450	17,212,245	16,815,557
Fringe benefits	3,799,974	505,081	4,305,055	4,345,775
Utilities	3,269,642	220,497	3,490,139	3,713,279
General expenses	1,002,457	655,454	1,657,911	1,444,553
Repairs and maintenance	1,472,420	104,064	1,576,484	1,575,289
Contracted services	1,390,890	213,235	1,604,125	844,824
Insurance	1,662,093	38,107	1,700,200	666,891
Supplies	446,815	60,468	507,283	524,460
Sales and marketing	626,099	50,884	676,983	406,865
Travel and transportation	104,954	26,892	131,846	149,572
Production expense	-	581,368	581,368	-
Food and beverage	-	172,622	172,622	149,651
Telecommunications	103,661	24,009	127,670	131,188
Depreciation	2,163,460	239,925	2,403,385	2,442,304
Total operating expenses	<u>31,219,260</u>	<u>4,928,056</u>	<u>36,147,316</u>	<u>33,210,208</u>
Operating income	<u>2,142,262</u>	<u>27,679</u>	<u>2,169,941</u>	<u>3,977,848</u>
Nonoperating Revenues (Expenses)				
Interest income	564,002	145,356	709,358	754,661
Interest expense	(176,268)	-	(176,268)	(244,965)
Loss on disposal of capital assets	(8,274)	-	(8,274)	(44,356)
Other income	735,887	6,423	742,310	123,839
Total nonoperating revenues (expenses)	<u>1,115,347</u>	<u>151,779</u>	<u>1,267,126</u>	<u>589,179</u>
Income before Capital Contributions	3,257,609	179,458	3,437,067	4,567,027
Capital Contributions	<u>212,787</u>	<u>-</u>	<u>212,787</u>	<u>-</u>
Changes in Net Assets	3,470,396	179,458	3,649,854	4,567,027
Net assets, beginning of year	14,970,296	4,031,105	19,001,401	14,434,374
Net assets, end of year	<u>\$ 18,440,692</u>	<u>\$ 4,210,563</u>	<u>\$ 22,651,255</u>	<u>\$ 19,001,401</u>

See accompanying notes to basic financial statements.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the basic financial of the San Diego Convention Center Corporation (SDCCC), a component unit of the City of San Diego, California, as of and for the years ended June 30, 2008 and 2007 and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SDCCC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects SDCCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of SDCCC's financial statements that is more than inconsequential will not be prevented or detected SDCCC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by SDCCC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, the Board of Directors of SDCCC and the City Council of the City of San Diego and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants

San Diego, California
November 13, 2008