

A photograph of the San Diego Convention Center tower, a tall, ornate, light-colored stone structure with a domed top and a weather vane. The tower is surrounded by lush greenery, including palm trees and flowering bushes with red and pink blossoms. The sky is blue with scattered white clouds.

**San Diego  
Convention Center  
Expansion Financing  
Authority**

**Annual Financial Report**

**Fiscal Year Ended / June 30, 2002**

CONVENTION CENTER EXPANSION FINANCING AUTHORITY  
ANNUAL FINANCIAL REPORT

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YEAR ENDED JUNE 30, 2002

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**CONVENTION CENTER EXPANSION FINANCING AUTHORITY**

**ROSTER OF OFFICIALS**

BOARD OF DIRECTORS

Chairman	Dick Murphy
Vice Chairman	Patricia McQuater
Director	Michael T. Uberuaga
Director	Bruce B. Hollingsworth

AUTHORITY OFFICERS

Ex-Officio Chairman	Dick Murphy
Ex-Officio Secretary	Michael T. Uberuaga
Ex-Officio Treasurer	Mary Vattimo
Ex-Officio Comptroller	Ed Ryan
Ex-Officio Attorney	Casey Gwinn



THE CITY OF SAN DIEGO

November 27, 2002

Honorable Mayor,  
City Council, and City Manager  
City of San Diego, California  
and The Board of Directors

This Annual Financial Report covers financial activities of the Convention Center Expansion Financing Authority for the fiscal year ended June 30, 2002.

The covenants entered into by the City of San Diego on behalf of the Convention Center Expansion Financing Authority, relating to the outstanding lease revenue bonds issued, have been complied with in all respects.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Ryan".

Ed Ryan  
Ex-Officio Comptroller



**FINANCIAL SECTION**



**CALDERON, JAHAM & OSBORN**

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

www.cjo.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Convention Center Expansion Financing Authority  
San Diego, California

We have audited the accompanying component unit financial statements of the Convention Center Expansion Financing Authority (the "Authority") as of and for the year ended June 30, 2002, as listed in the foregoing table of contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such component unit financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2002 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in accordance with this report in considering the results of our audit.

As described in Note 2 to the basic financial statements, the Authority adopted Statements of the Governmental Accounting Standards Board No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and, No. 38, Certain Financial Statement Note Disclosures.

The scope of our audit did not include the supplemental information listed in the foregoing table of contents. Such information has not been subjected to the auditing procedures applied in the audit of the component unit financial statements and, accordingly, we express no opinion on it.

November 27, 2002

*Calderon, Jaham & Osborn*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Convention Center Expansion Financing Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on page VII of this report.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The Government-Wide Financial Statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing changes in the Authority'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 related cash flows.

Both of the Government-Wide Financial Statements distinguish functions of the Authority that are principally supported by intergovernmental revenues (governmental activities). The governmental activities of the Authority include Interest on Long-Term Debt and Arbitrage Rebate. *The Authority does not engage in business-type activities.*

The government-wide financial statements *exclusively present* the Authority *with no* legally separate, discretely presented component units. The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the Authority *are combined into the governmental funds category.*

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

## CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *Improvement (general) Fund and Bond (debt service) Fund*, which are considered to be Major Funds.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-20 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Since this is the first year of implementing and presenting government-wide financial reporting, prior year comparisons will begin next fiscal year, for the current fiscal year amounts will be presented for fiscal year 2002.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$1,442,499 at the close of the most recent fiscal year.

All of the Authority's net assets (100 percent) represent resources that are subject to external restrictions on how they may be used.

### CONVENTION CENTER EXPANSION FINANCING AUTHORITY'S NET ASSETS

	Governmental Activities 2002
Investments at Fair Value	\$ 1,868,726
Lease Revenue Interest Receivable	2,381,969
Leases Receivable	<u>200,980,000</u>
Total Assets	<u>205,230,695</u>
Lease Revenue Bonds Payable	\$200,980,000
Lease Revenue Bonds Interest Payable	2,381,969
Due to Primary Government	<u>426,227</u>
Total Liabilities	<u>203,788,196</u>
Net Assets:	
Restricted for Debt Service	469,354
Restricted for Capital Projects	<u>973,145</u>
Total Net Assets	<u>\$ 1,442,499</u>

**Governmental Activities.** Governmental activities decreased the Authority's net assets by (\$11,979,394), thereby accounting for 100 percent of the total reduction in the net assets of the Authority. Key elements of this decrease are as follows:



**CONVENTION CENTER EXPANSION FINANCING AUTHORITY'S CHANGES IN NET ASSETS**

	Governmental Activities 2002	
Revenues:		
General Revenues:		
Revenues from Use of Money	\$	499,190
Lease Income		<u>4,494,606</u>
Total Revenues		<u>4,993,796</u>
Expenses:		
Issuance, Bond and Notes		
Interest on Long-Term Debt		9,642,445
General Government		450,745
Payment to City of San Diego		<u>6,880,000</u>
Total Expenses		<u>16,973,190</u>
Decrease in Net Assets		(11,979,394)
Net Assets – July 1, 2001		<u>13,421,893</u>
Net Assets – June 30, 2002	\$	<u>1,442,499</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,442,499. All of the fund balance (\$1,442,499) is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service and capital projects.

The Bond (Debt Service) Fund – Redemption Fund has a total fund balance of \$469,354, all of which is reserved for payment of debt service.

**Long-Term Debt.** At the end of the current fiscal year, the Authority had total debt outstanding of \$200,980,000. The Authority debt represents debt backed by contributions from the City of San Diego.

**CONVENTION CENTER EXPANSION FINANCING AUTHORITY OUTSTANDING DEBT**

	Governmental Activities	
	2002	2001
Lease Revenue Bonds	\$200,980,000	\$205,000,000

Additional information for Convention Center Expansion Facility Authority's Long Term Debt can be found in note 6 on pages 19-20 of this report.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor & Comptroller, 202 C Street, City of San Diego, California 92101 or e-mailed to the City Auditor & Comptroller at [auditor@sandiego.gov](mailto:auditor@sandiego.gov).

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## Statement of Net Assets

June 30, 2002

	Governmental Fund Types			Adjustments	Statement of Net Assets
	Improvement (General) Fund	Bond (Debt Service) Fund	Total Governmental Funds		
<b>ASSETS AND OTHER DEBITS</b>					
Cash or Equity in Pooled Cash and Investments .....	\$ -	\$ -	\$ -	\$ -	\$ -
Investments at Fair Value .....	1,399,372	469,354	1,868,726	-	1,868,726
Lease Revenue Interest Receivable .....	-	-	-	2,381,969	2,381,969
Leases Receivable .....	-	-	-	200,980,000	200,980,000
<b>TOTAL ASSETS AND OTHER DEBITS .....</b>	<b>\$ 1,399,372</b>	<b>\$ 469,354</b>	<b>\$ 1,868,726</b>	<b>\$ 203,361,969</b>	<b>\$ 205,230,695</b>
<b>LIABILITIES</b>					
Accounts Payable .....	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Primary Government .....	426,227	-	426,227	-	426,227
Lease Revenue Bonds Interest Payable .....	-	-	-	2,381,969	2,381,969
Lease Revenue Bonds Payable .....	-	-	-	200,980,000	200,980,000
<b>TOTAL LIABILITIES .....</b>	<b>426,227</b>	<b>-</b>	<b>426,227</b>	<b>203,361,969</b>	<b>203,788,196</b>
<b>FUND EQUITY</b>					
<b>Fund Balances:</b>					
Reserved for Debt Service .....	-	469,354	469,354	(469,354)	-
<b>Unreserved:</b>					
Designated for Subsequent Years' Expenditures .....	973,145	-	973,145	(973,145)	-
<b>TOTAL FUND EQUITY .....</b>	<b>973,145</b>	<b>469,354</b>	<b>1,442,499</b>	<b>(1,442,499)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 1,399,372</b>	<b>\$ 469,354</b>	<b>\$ 1,868,726</b>		
<b>Net Assets:</b>					
Restricted for Debt Service .....				469,354	469,354
Restricted for Capital Projects .....				973,145	973,145
<b>TOTAL NET ASSETS .....</b>				<b>\$ 1,442,499</b>	<b>\$ 1,442,499</b>

See Notes to Financial Statements

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## Statement of Activities

Year Ended June 30, 2002

	Improvement (General) Fund	Bond (Debt Service) Fund	Total Memorandum Only	Adjustments	Statement of Activities
<b>REVENUES</b>					
Earnings on Investments .....	\$ 250,504	\$ 248,686	\$ 499,190	\$ -	\$ 499,190
Contributions from the City of San Diego.....	2,125,016	-	2,125,016	(2,125,016)	-
Lease Income .....	-	8,552,796	8,552,796	(4,058,190)	4,494,606
<b>TOTAL REVENUES .....</b>	<b>2,375,520</b>	<b>8,801,482</b>	<b>11,177,002</b>	<b>(6,183,206)</b>	<b>4,993,796</b>
<b>EXPENDITURES</b>					
General Government .....	-	450,745	450,745	-	450,745
Capital Projects .....	9,300,375	-	9,300,375	(9,300,375)	-
Payment to City of San Diego .....	-	6,880,000	6,880,000	-	6,880,000
<b>Debt Service:</b>					
Principal.....	-	4,020,000	4,020,000	(4,020,000)	-
Interest .....	-	9,680,635	9,680,635	(38,190)	9,642,445
<b>TOTAL EXPENDITURES .....</b>	<b>9,300,375</b>	<b>21,031,380</b>	<b>30,331,755</b>	<b>(13,358,565)</b>	<b>16,973,190</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES .....</b>	<b>(6,924,855)</b>	<b>(12,229,898)</b>	<b>(19,154,753)</b>	<b>7,175,359</b>	<b>(11,979,394)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Other Funds .....	-	4,840,318	4,840,318	-	4,840,318
Transfers to Other Funds .....	(4,840,318)	-	(4,840,318)	-	(4,840,318)
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>(4,840,318)</b>	<b>4,840,318</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES.....</b>	<b>(11,765,173)</b>	<b>(7,389,580)</b>	<b>(19,154,753)</b>	<b>7,175,359</b>	<b>(11,979,394)</b>
Fund Balances / Net Assets, Beginning of Year (Restated).....	12,738,318	7,858,934	20,597,252	(7,175,359)	13,421,893
<b>FUND BALANCES / NET ASSETS, END OF YEAR .....</b>	<b>\$ 973,145</b>	<b>\$ 469,354</b>	<b>\$ 1,442,499</b>	<b>\$ -</b>	<b>\$ 1,442,499</b>

See Notes to Financial Statements

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## COMBINED BALANCE SHEET ALL FUNDS June 30, 2002

	Governmental Fund Types		
	Improvement (General) Fund	Bond (Debt Service) Fund	Total (Memorandum Only)
<b>ASSETS AND OTHER DEBITS</b>			
Cash or Equity in Pooled Cash and Investments.....	\$ -	\$ -	\$ -
Investments at Fair Value .....	1,399,372	469,354	1,868,726
Amount Available for Bond Retirement .....	-	-	-
Amount to be Provided for Bond Retirement .....	-	-	-
<b>TOTAL ASSETS AND OTHER DEBITS.....</b>	<b><u>\$ 1,399,372</u></b>	<b><u>\$ 469,354</u></b>	<b><u>\$ 1,868,726</u></b>
<b>LIABILITIES</b>			
Accounts Payable .....	\$ -	\$ -	\$ -
Due to Primary Government .....	426,227	-	426,227
Lease Revenue Bonds Payable .....	-	-	-
<b>TOTAL LIABILITIES .....</b>	<b><u>426,227</u></b>	<b><u>-</u></b>	<b><u>426,227</u></b>
<b>FUND EQUITY</b>			
Fund Balances:			
Reserved for Encumbrances .....	-	-	-
Reserved for Debt Service .....	-	469,354	469,354
Unreserved:			
Designated for Unrealized Gains .....	-	-	-
Designated for Subsequent Years' Expenditures .....	973,145	-	973,145
Undesignated .....	-	-	-
<b>TOTAL FUND EQUITY .....</b>	<b><u>973,145</u></b>	<b><u>469,354</u></b>	<b><u>1,442,499</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b><u>\$ 1,399,372</u></b>	<b><u>\$ 469,354</u></b>	<b><u>\$ 1,868,726</u></b>

See Notes to Financial Statements

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL FUNDS Year Ended June 30, 2002

	Improvement (General) Fund	Bond (Debt Service) Fund	Total (Memorandum Only)
<b>REVENUES</b>			
Earnings on Investments .....	\$ 250,504	\$ 248,686	\$ 499,190
Contributions from the City of San Diego.....	2,125,016	-	2,125,016
Lease Income .....	-	8,552,796	8,552,796
<b>TOTAL REVENUES .....</b>	<b>2,375,520</b>	<b>8,801,482</b>	<b>11,177,002</b>
<b>EXPENDITURES</b>			
General Government .....	-	450,745	450,745
Capital Projects .....	9,300,375	-	9,300,375
Payment to City of San Diego .....	-	6,880,000	6,880,000
Debt Service:			
Principal.....	-	4,020,000	4,020,000
Interest.....	-	9,680,635	9,680,635
<b>TOTAL EXPENDITURES .....</b>	<b>9,300,375</b>	<b>21,031,380</b>	<b>30,331,755</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES .....</b>	<b>(6,924,855)</b>	<b>(12,229,898)</b>	<b>(19,154,753)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from Other Funds .....	-	4,840,318	4,840,318
Transfers to Other Funds .....	(4,840,318)	-	(4,840,318)
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<b>(4,840,318)</b>	<b>4,840,318</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES .....</b>	<b>(11,765,173)</b>	<b>(7,389,580)</b>	<b>(19,154,753)</b>
Fund Balances, Beginning of Year .....	12,738,318	7,858,934	20,597,252
<b>FUND BALANCES, END OF YEAR .....</b>	<b>\$ 973,145</b>	<b>\$ 469,354</b>	<b>\$ 1,442,499</b>

See Notes to Financial Statements

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - IMPROVEMENT (GENERAL) FUND Year Ended June 30, 2002

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance - Favorable (Unfavorable)
<b>REVENUES</b>					
Earnings on Investments .....	\$ 250,504	\$ -	\$ 250,504	\$ -	\$ 250,504
Contributions from the City of San Diego.....	<u>2,125,016</u>	<u>-</u>	<u>2,125,016</u>	<u>2,125,016</u>	<u>-</u>
TOTAL REVENUES .....	<u>2,375,520</u>	<u>-</u>	<u>2,375,520</u>	<u>2,125,016</u>	<u>250,504</u>
<b>EXPENDITURES</b>					
Capital Projects .....	<u>9,300,375</u>	<u>-</u>	<u>9,300,375</u>	<u>9,300,375</u>	<u>-</u>
TOTAL EXPENDITURES .....	<u>9,300,375</u>	<u>-</u>	<u>9,300,375</u>	<u>9,300,375</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES .....	<u>(6,924,855)</u>	<u>-</u>	<u>(6,924,855)</u>	<u>(7,175,359)</u>	<u>250,504</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers to Other Funds.....	(4,840,318)	-	(4,840,318)	(4,840,318)	-
Transfers from Other Funds .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES) .....	<u>(4,840,318)</u>	<u>-</u>	<u>(4,840,318)</u>	<u>(4,840,318)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES .....	<u>\$ (11,765,173)</u>	<u>\$ -</u>	<u>(11,765,173)</u>	<u>(12,015,677)</u>	<u>250,504</u>
Fund Balances Undesignated, Beginning of Year.....			5,580,865	5,580,865	-
Reserved for Encumbrances, Beginning of Year.....			5,646,554	5,646,554	-
Designated for Subsequent Years' Expenditures, Beginning of Year.....			1,510,899	1,510,899	-
Designated for Subsequent Years' Expenditures, End of Year .....			<u>(973,145)</u>	<u>-</u>	<u>(973,145)</u>
FUND BALANCE UNDESIGNATED, END OF YEAR .....			<u>\$ 722,641</u>	<u>\$ 722,641</u>	<u>\$ (722,641)</u>

See Notes to Financial Statements

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - BOND (DEBT SERVICE) FUND Year Ended June 30, 2002

	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
<b>REVENUES</b>					
Earnings on Investments .....	\$ 248,686	\$ 23,355	\$ 272,041	\$ 272,041	\$ -
Lease Income .....	8,552,796		8,552,796	8,552,796	-
<b>TOTAL REVENUES</b> .....	<b>8,801,482</b>	<b>23,355</b>	<b>8,824,837</b>	<b>8,824,837</b>	<b>-</b>
<b>EXPENDITURES</b>					
General Government.....	450,745		450,745	450,745	-
Payment to City of San Diego.....	6,880,000	-	6,880,000	6,880,000	-
<b>Debt Service:</b>					
Principal.....	4,020,000	-	4,020,000	4,020,000	-
Interest .....	9,680,635	-	9,680,635	9,680,635	-
<b>TOTAL EXPENDITURES</b> .....	<b>21,031,380</b>	<b>-</b>	<b>21,031,380</b>	<b>21,031,380</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(12,229,898)</b>	<b>23,355</b>	<b>(12,206,543)</b>	<b>(12,206,543)</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers to Other Funds .....	4,840,318	-	4,840,318	4,840,318	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>4,840,318</b>	<b>-</b>	<b>4,840,318</b>	<b>4,840,318</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b> .....	<b>\$ (7,389,580)</b>	<b>\$ 23,355</b>	<b>(7,366,225)</b>	<b>(7,366,225)</b>	<b>-</b>
Reserve for Debt Service, Beginning of Year .....			7,835,579	7,835,579	-
Reserve for Debt Service, End of Year .....			(469,354)	(469,354)	-
<b>FUND BALANCE UNDESIGNATED, END OF YEAR</b> .....			<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See Notes to Financial Statements



NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

**1. ORGANIZATION AND OPERATIONS**

The Convention Center Expansion Financing Authority (the "Authority") is a joint powers authority formed under and pursuant to Sections 6500 et seq. of the California Government Code and a Joint Exercise of Powers Agreement dated as of May 1, 1996, between the City of San Diego (the "City") and the San Diego Unified Port District (the "District"). The Authority was established to assist the City and the District with respect to the financing, acquisition and construction of an expansion to the existing convention center.

Since the City exercises oversight responsibility over the Authority, it is a component unit of the reporting entity of the City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As of July 1, 2001, the Authority adopted the provisions of Governmental Standards Board Statement No. 34, Basic Financial Statements - and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. This results in a change in the format and content of the basic financial statements.

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

a. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the activities of the Authority. Governmental activities are supported by contributions from the City of San Diego. The Authority does not have business-type activities to separate from the governmental activities within the government-wide statements.

The Statement of Activities and Changes in Net Assets demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Separate fund financial statements are provided for the governmental fund (i.e. balance sheet, statement of revenues, expenditures and Changes in Fund Balance and the Budgetary Basis Statement of Revenues, Expenditures and Changes in Fund Balance).

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related fund liability is incurred except for principal and interest of general long-term debt which is recognized when due.

The following are the Authority's Major Funds:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources, except those required to be accounted for in another fund.

Debt Service Fund - The Authority's Debt Service Fund is used to account for the payment of long-term debt principal, interest, and related costs.

Accounting and financial reporting which are similar to those often found in the private sector are followed in the government-wide financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority adopts all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its operations unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements.

c. Cash and Investments

At July 1, 1997, the City of San Diego adopted Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires certain investments to be reported at fair value. At June 30, 2002, all such investments are presented at fair value.

d. Budgets

Annual budgets are not adopted by the Authority. The budget presented in these statements has been derived from the City of San Diego Capital Improvement program budget.

The budgets are prepared on the modified accrual basis of accounting, except that encumbrances outstanding at year-end are considered as expenditures in the Improvement (General) Fund. Budgetary control is generally maintained at the appropriations level.

The following schedule is a reconciliation of the budgetary and GAAP basis fund balances at June 30, 2002:

	Improvement (General) Fund
Designated for subsequent years' expenditure	\$ 973,145
Fund Balance - GAAP Basis	\$ 973,145

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

	Bond (Debt Service) <u>Fund</u>
Reserved for Debt Service	\$ 469,354
Fund Balance - GAAP basis	<u>\$ 469,354</u>

e. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the Improvement (General) Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since the commitments will be honored through subsequent years' continuing appropriations. Encumbrances do not constitute expenditures or liabilities in the GAAP basis financial statements.

**3. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

a. Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Assets.

The government-wide Statements of Net Assets includes an adjustment column to reconcile Total Fund Balance - Governmental Funds and Total Net Assets - Governmental Activities. One adjustment is for leases receivable which are needed to support the repayment of long-term liabilities not received in the current period and therefore not reported in the fund financial. The details of this \$203,361,969 difference are as follows:

Lease Revenue Interest Receivable	\$ 2,381,969
Leases Receivable	<u>200,980,000</u>
Net adjustment to increase Total Fund Balance - Governmental Funds to arrive at Total Net Assets - Governmental Activities	<u>\$ 203,361,969</u>

Another adjustment is for long term liabilities which are not due and payable in the current period and therefore are not reported in the funds. The details of this \$(203,361,969) difference are as follows:

Lease Revenue Bonds Payable	\$ (200,980,000)
Lease Revenue Bonds Interest Payable	<u>(2,381,969)</u>
Net Adjustment to Decrease Total Fund Balance - Governmental Funds to Arrive at Total Net Assets - Governmental Activities	<u>\$ (203,361,969)</u>

b. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The government-wide Statement of Activities includes an adjustment for lease revenue received for the payment of long-term debt principal which provided current financial resources to governmental funds.

**3. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

The transaction, however, has no effect on net assets. The details of this \$(4,020,000) difference are as follows:

Lease Income	<u>\$(4,020,000)</u>
Net adjustment to decrease Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets-Governmental Activities	<u>\$(4,020,000)</u>

Another adjustment is for revenues reported in the statement of activities that do not represent a source of current financial resources and therefore are not accrued as revenues in governmental funds. The details for this \$(38,190) difference are as follows:

Lease Income	<u>\$ (38,190)</u>
Net adjustment to decrease Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ (38,190)</u>

Another adjustment is for revenues reported in the governmental funds that are needed to support capital outlay expenditures. This revenue is removed from the Statement of Activities. The details of this \$(2,125,016) are as follows:

Contribution from the City of San Diego	<u>\$(2,125,016)</u>
Net adjustment to decrease Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$(2,125,016)</u>

Another adjustment if for capital outlays which are reported as expenditures in governmental funds but are removed from the Statement of Activities. Depreciation expense is not shown because the assets belong to the City of San Diego and not the Authority. The details of this \$9,300,375 difference are as follows:

Capital Projects	<u>\$ 9,300,375</u>
Net adjustment to increase Net Changes in Fund Balance - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 9,300,375</u>

Another adjustment relates to the issuance of long-term debt which provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. This transaction, however, has no effect on net assets. The details of this \$4,020,000 difference are as follows:

Principal Repayments:	
Lease Revenue Bonds	<u>\$ 4,020,000</u>
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$ 4,020,000</u>

**3. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

Another adjustment is for expenses reported in the statement of activities that do not require the use of current financial resources and therefore are not accrued as expenses in governmental funds. The details of this \$38,190 difference are as follows:

Interest	<u>\$38,190</u>
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to arrive at Changes in Net Assets of Governmental Activities	<u>\$38,190</u>

**4. CASH AND INVESTMENTS**

a. Investments

Investments at June 30, 2002 consist of United States government securities, with a fair value of \$1,868,726. All such securities owned by the Authority are held in safekeeping in the name of the Authority by a third party trust department acting as agent for the Authority under the terms of a custody agreement executed between the bank and the Authority. This agreement provides, among other things, that the securities are to be held separate from the other assets of the bank.

b. Cash or Equity in Pooled Cash and Investments

Other cash resources of the Authority are combined with cash resources of the City to form a pool of cash that is managed by the City Treasurer.

As provided for by the Government Code, the cash balance of substantially all City funds and certain entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The Authority's net share of the total pooled cash and investments is included in the accompanying combined balance sheet under the caption "Cash or Equity in Pooled Cash and investments". Interest earned on pooled investments is deposited to certain of the participating City funds and entities, including the Authority, based upon each fund's and each entity's average daily deposit balance during the allocation period with all remaining interest deposited to the City's General Fund.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U. S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer and (7) financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation.

Deposits and investments are generally exposed to two types of risk; credit risk and market risk. Credit risk is the risk that a governmental entity will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of investment collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. Market risk is the risk that the value of an investment will decline.

**4. CASH AND INVESTMENTS (Continued)**

In accordance with governmental reporting standards, the Authority has classified its deposits and investments by categories of credit risk. Classification in category 1 indicates that the exposure of deposits and investments to potential credit risk is low. The level of potential credit risk is higher for deposits and investments classified in category 2, and highest for those in category 3.

Deposits may be categorized as follows: (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name, (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entities name, (3) Uncollateralized.

Investments may be categorized as follows: (1) Insured or registered, or securities held by the entity or its agent in the entity's name, (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name, (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Aggregate cash deposits and investments are as follows at June 30, 2002:

	<u>Total</u>
Investments (Fair Value)	<u>\$1,868,726</u>
Total Cash and Investments	<u>\$1,868,726</u>

Information pertaining to the City's cash and investment pool may be found in the City's Comprehensive Annual Financial Report.

The Authority's deposits and investments as of June 30, 2002 subject to credit risk categorization are presented below:

	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
<u>Investments</u>				
U.S. Government Securities	\$ -	\$1,868,726	\$ -	\$1,868,726
Total Deposits and Investments	<u>\$ -</u>	<u>\$1,868,726</u>	<u>\$ -</u>	<u>\$1,868,726</u>

**5. RECEIVABLES**

The Authority has a lease agreement with the City for the expansion of the Convention Center. The Authority obtained financing for the project through the issuance of lease revenue bonds (see Note 6) secured by lease payments made by the City to the Authority. The City has pledged revenues to finance the lease payments in an amount equal to the principal and interest requirements of the associated lease revenue bonds. The total amount of leases receivable expected within one year are \$13,697,875.

**6. GENERAL LONG-TERM DEBT**

General long-term debt consists of lease revenue bonds. A summary of these obligations follows:

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance June 30, 2002</u>
Lease Revenue Bonds, Issued September 1, 1998	3.8-5.25- 4.75%	2028	\$205,000,000	\$200,980,000
Total			<u>\$205,000,000</u>	<u>\$200,980,000</u>

**CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT**

**6. GENERAL LONG-TERM DEBT (Continued)**

The following is a summary of changes in general long-term debt for the year ended June 30, 2002:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2002</u>
Lease Revenue Bonds	\$205,000,000	\$ -	\$4,020,000	\$200,980,000
 Total	 <u>\$205,000,000</u>	 <u>\$ -</u>	 <u>\$4,020,000</u>	 <u>\$200,980,000</u>

The annual requirements to amortize lease revenue bonds outstanding as of June 30, 2002, including interest payments to maturity, are as follows:

<u>Year Ending June 30,</u>	
2003	\$13,697,875
2004	13,699,415
2005	13,700,545
2006	13,700,545
2007	13,698,665
2008 - 2012	68,497,307
2013 - 2017	68,491,014
2018 - 2022	68,492,138
2023 - 2027	68,496,225
2028	<u>13,696,063</u>
 Total	 356,169,792
Less - Amount representing interest	<u>(155,189,792)</u>
 Total General Long-Term Debt	 <u>\$200,980,000</u>

**7. RESTATEMENT OF BEGINNING BALANCES**

As a result of changes in accounting policies and implementation of GASB No. 34, the fund balances and net assets as of June 30, 2001 have been restated as follows:

	<u>Improvement (General) Fund</u>
Fund Balances/net assets, June 30, 2001, as previously reported	\$12,738,318
Adjustment	<u>(7,175,359)</u>
Fund Balances/net assets, June 30, 2001, as restated	<u>\$5,562,959</u>

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# CALDERON, JAHAM & OSBORN

AN ACCOUNTANCY CORPORATION

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Convention Center Expansion Financing Authority  
San Diego, California

We have audited the component unit financial statements of the Convention Center Expansion Financing Authority (the "Authority"), as of and for the year ended June 30, 2002, and have issued our report thereon dated November 27, 2002. 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.

### Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Governors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 27, 2002

*Calderon, Jaham & Osborn*

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**SUPPLEMENTAL INFORMATION**  
**(UNAUDITED)**

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## STATEMENT OF FUTURE DEBT REQUIREMENTS BY YEARS June 30, 2002

### LEASE REVENUE BONDS

Year Ending June 30,	Principal	Interest	Total
2003	\$ 4,170,000	\$ 9,527,875	\$ 13,697,875
2004	4,330,000	9,369,415	13,699,415
2005	4,500,000	9,200,545	13,700,545
2006	4,680,000	9,020,545	13,700,545
2007	4,870,000	8,828,665	13,698,665
2008	5,075,000	8,624,125	13,699,125
2009	5,290,000	8,408,438	13,698,438
2010	5,520,000	8,180,968	13,700,968
2011	5,760,000	7,938,088	13,698,088
2012	6,065,000	7,635,688	13,700,688
2013	6,380,000	7,317,275	13,697,275
2014	6,715,000	6,982,325	13,697,325
2015	7,070,000	6,629,788	13,699,788
2016	7,440,000	6,258,613	13,698,613
2017	7,830,000	5,868,013	13,698,013
2018	8,210,000	5,486,300	13,696,300
2019	8,615,000	5,086,063	13,701,063
2020	9,020,000	4,676,850	13,696,850
2021	9,450,000	4,248,400	13,698,400
2022	9,900,000	3,799,525	13,699,525
2023	10,370,000	3,329,275	13,699,275
2024	10,860,000	2,836,700	13,696,700
2025	11,380,000	2,320,850	13,700,850
2026	11,920,000	1,780,300	13,700,300
2027	12,485,000	1,214,100	13,699,100
2028	<u>13,075,000</u>	<u>621,063</u>	<u>13,696,063</u>
	<u>\$ 200,980,000</u>	<u>\$ 155,189,792</u>	<u>\$ 356,169,792</u>

# CONVENTION CENTER EXPANSION FINANCING AUTHORITY ANNUAL FINANCIAL REPORT

## STATEMENT OF LONG-TERM DEBT BY ISSUES June 30, 2002

### LEASE REVENUE BONDS

Series 1998A, due April 1	Issued	Rate of Interest	Retired 2001-02	Outstanding
2002	\$ 4,020,000	3.80	\$ 4,020,000	\$ -
2003	4,170,000	3.80	-	4,170,000
2004	4,330,000	3.90	-	4,330,000
2005	4,500,000	4.00	-	4,500,000
2006	4,680,000	4.10	-	4,680,000
2007	4,870,000	4.20	-	4,870,000
2008	5,075,000	4.25	-	5,075,000
2009	5,290,000	4.30	-	5,290,000
2010	5,520,000	4.40	-	5,520,000
2011	5,760,000	5.25	-	5,760,000
2012	6,065,000	5.25	-	6,065,000
2013	6,380,000	5.25	-	6,380,000
2014	6,715,000	5.25	-	6,715,000
2015	7,070,000	5.25	-	7,070,000
2016	7,440,000	5.25	-	7,440,000
2017	7,830,000	4.875	-	7,830,000
2018	8,210,000	4.875	-	8,210,000
2019-2028	<u>107,075,000</u>	4.75	-	<u>107,075,000</u>
<b>TOTAL SERIES 1998A BONDS .....</b>	<b>\$ <u>205,000,000</u></b>		<b>\$ <u>4,020,000</u></b>	<b>\$ <u>200,980,000</u></b>

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