



DATE ISSUED: January 5, 2011

ATTENTION: Honorable Chair and Members of the Audit Committee
Docket of January 10, 2011

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Fiscal Year 2010 Audited Financial Statements Pertaining to the
Operations of the Corporation – General

COUNCIL DISTRICTS: District 2 and District 8

REFERENCE: Fiscal Year 2010 Audited Financial Statements

STAFF CONTACT: Frank Alessi, Executive Vice President & Chief Financial Officer ~ 619-533-7130
Andrew Phillips, Assistant Vice President/Controller ~ 619-533-7127

REQUESTED ACTION: That the Audit Committee receive and file the Fiscal Year 2010 Audited Financial Statements (“FY10 Audited Financials”) of the Centre City Development Corporation (“Corporation”).

STAFF RECOMMENDATION: That the Audit Committee receive and file the FY10 Audited Financials of the Corporation.

SUMMARY: Section 2.17(b) of the Operating Agreement between the Redevelopment Agency of the City of San Diego and Centre City Development Corporation requires that after the close of each fiscal year, the Corporation submits to the Agency audited financial statements prepared by an independent certified public accountant covering the operations of the Corporation. The annual financial audit was conducted for the Corporation by Macias, Gini & O’Connell, LLP, which is included as Attachment A. CCDC’s Financial Management Team’s written responses to the audit questions are included as Attachment B.

FISCAL CONSIDERATIONS: None.

ECONOMIC IMPACT: None.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On October 27, 2010, the Corporation Audit Committee heard this item and voted unanimously to receive and file the FY10 Audited Financials and forward this item to the Corporation Board. On October 27, 2010, the Corporation Board voted unanimously to receive and file the FY10 Audited Financials and forward this item to the Audit Committee.

ENVIRONMENTAL IMPACT: This activity is not a “project” under the definition set forth in CEQA Guidelines Section 15378. Therefore, pursuant to CEQA Guidelines Section 15060(c)(3), the activity is not subject to CEQA.

CONCLUSION: The Centre City Development Corporation is required to submit to the Agency an audit provided by an independent certified public accountant each year. Staff is requesting the Audit Committee receive and file the Fiscal Year 2010 Audited Financial Statements and forward to the Agency.

Respectfully submitted,



Andrew T. Phillips
Assistant Vice President/Controller

Concurred by:



Frank J. Alessi
Executive Vice President & Chief Financial Officer



Margarita Garcia
Business Manager/Accountant

Attachments: Attachment A – Fiscal Year 2010 Audited Financial Statements
Attachment B – Corporation’s Financial Team’s written response to Audit Questions
Attachment C – Outside Auditor’s written response to Audit Questions

**CENTRE CITY DEVELOPMENT
CORPORATION, INC.**
(A component unit of the City of San Diego, California)

Independent Auditor's Report, Basic Financial
Statements and Required Supplementary Information

For the Years Ended June 30, 2010 and 2009

CENTRE CITY DEVELOPMENT CORPORATION, INC.
For the Years Ended June 30, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Centre City Development Corporation, Inc.
San Diego, California

We have audited the accompanying financial statements of the governmental activities and the general fund of the Centre City Development Corporation (CCDC), a component unit of the City of San Diego, California, as of and for the years ended June 30, 2010 and 2009, which collectively comprise CCDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCDC's management. Our responsibility is to express opinions 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 CCDC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of CCDC as of June 30, 2010 and 2009, and the respective changes in financial position thereof 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 September 27, 2010, on our consideration of CCDC'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 for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedules, as listed in the table of contents are not a required part of the basic financial statements but are 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.

Macias Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
September 27, 2010

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

As management of the Centre City Development Corporation, Inc. ("CCDC"), a component unit of the City of San Diego, we offer readers of the Corporation financial statements this narrative overview and analysis of the financial activities of CCDC for the fiscal year ended June 30, 2010 and 2009. The information contained in the Management's Discussion and Analysis is unaudited and represents management's analysis for the year ended June 30, 2010 and 2009. The audited financial statements can be found beginning on page 9. The purpose of a Management's Discussion and Analysis is to inform the reader on management's insights about the reporting entity and to increase the readers understanding and the usefulness of the financial reports as well as providing accessible information about the entity and its operation, successes, challenges and the future. 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 an introduction to CCDC's basic financial statements. CCDC'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.

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

The Statement of Net Assets presents information of all CCDC'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 CCDC is improving or deteriorating.

The Statement of Activities presents information showing changes in CCDC's net assets during the most recent fiscal year and the preceding 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. 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 government-wide financial statements can be found on pages 9 and 10 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. CCDC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. CCDC uses a governmental fund.

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 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 financial 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 the governmental fund and governmental activities. The basic governmental fund financial statements can be found on pages 11 through 14 of this report.

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Government-Wide Financial Analysis CCDC is financially reliant on the Redevelopment Agency of the City of San Diego ("Agency"). This reliance eliminates the need for fund balance or fund equity. As of fiscal year ending June 30, 2010, CCDC had the following assets and liabilities:

**Centre City Development Corporation, Inc.
Statement of Net Assets
June 30, 2010, 2009 and 2008**

	Governmental Activities		
	2010	2009	2008
ASSETS			
Cash	\$927,191	\$850,828	\$364,118
Receivables for reimbursable expenditures from the Redevelopment Agency of the City of San Diego	684,600	834,398	1,306,954
Prepaid expenses	2,200	5,019	4,519
Capital assets, depreciable, net	218,140	249,478	293,520
Total assets	<u>1,832,131</u>	<u>1,939,723</u>	<u>1,969,111</u>
LIABILITIES			
Accounts payable	1,051	325	300,990
Accrued expenses	132,940	209,920	174,601
Compensated absences (current)	128,374	136,874	90,234
Compensated absences (non current)	186,481	179,787	149,973
Advance from the Redevelopment Agency of the City of San Diego	1,480,000	1,480,000	1,200,000
Total Liabilities	<u>1,928,846</u>	<u>2,006,906</u>	<u>1,915,798</u>
NET ASSETS			
Investment in capital assets	218,140	249,478	293,520
Unrestricted (deficit)	<u>(314,855)</u>	<u>(316,661)</u>	<u>(240,207)</u>
Total net assets (deficit)	<u><u>\$(96,715)</u></u>	<u><u>\$(67,183)</u></u>	<u><u>\$53,313</u></u>

The net assets of CCDC's governmental activities in 2010 decreased by \$29,532 producing a net assets deficit of \$(96,715) primarily due to a decrease arising from depreciation exceeding additions to capital assets, which was partially offset by a reduction in unreimbursed payroll expenses.

Comparatively, in 2009 the net assets decreased by \$120,496, producing net assets deficit of \$(67,183), primarily due to the unreimbursed payroll expenses associated with compensated absences and regular accrued payroll expenses.

In 2010, cash increased due to collections on receivables. In 2009, cash increased as a result of an additional increase in the working capital advance from the Agency as well as the receipt of a tenant improvement allowance for the Downtown Information Center.

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Centre City Development Corporation, Inc.
Comparative Statements of Activities
For the years ended June 30, 2010, 2009 and 2008**

Functions/Programs	2010	2009	2008
Governmental Activities			
Program Revenues			
Operating Grants and Contributions	\$6,837,510	\$8,042,029	\$7,961,179
General government and support expenses	6,899,191	8,194,189	7,750,899
Net (Expense) Revenues and Changes in Net Assets	(61,681)	(152,160)	210,280
General Revenues:			
Interest	240	364	578
Miscellaneous	31,909	31,300	17,225
Total general revenues	32,149	31,664	17,803
Change in net assets	(29,532)	(120,496)	228,083
Net assets – beginning of year	(67,183)	53,313	(174,770)
Net assets – end of year	(\$96,715)	(\$67,183)	\$53,313

The net assets decreased by \$29,532 in 2010 primarily due to depreciation of capital assets partially offset by a reduction of unreimbursed payroll expenses associated with compensated absences. In 2009, net assets decreased by \$120,496 primarily due to unreimbursed payroll expenses associated with compensated absences and a decrease in capital assets due to depreciation expense. Program Revenues are generally equal to Program Expenses as a result of CCDC being reliant on the Redevelopment Agency for its funding. The Management Discussion and Analysis on page 7 describes the significant changes in expenses from the periods 2008 through 2010.

Government Fund Financial Analysis Government Fund financials include only the current inflows and outflows of spendable resources and related balances at the end of the fiscal year ending June 30, 2010.

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Centre City Development Corporation, Inc.
Balance Sheets
June 30, 2010, 2009 and 2008**

	Governmental Activities		
	2010	2009	2008
ASSETS			
Cash	\$927,191	\$850,828	\$364,118
Receivables from the Redevelopment Agency of the City of San Diego and Other Assets	686,800	839,417	1,311,473
Total Assets	\$1,613,991	\$1,690,245	\$1,675,591
LIABILITIES AND FUND BALANCES			
Accounts Payable and Other Current Liabilities	\$133,991	\$210,245	\$475,591
Total Liabilities	133,991	210,245	475,591
Fund Balances	1,480,000	1,480,000	1,200,000
Total Liabilities and Fund Balances	\$1,613,991	\$1,690,245	\$1,675,591

The Government Fund excludes the liability associated with compensated absences, whereas Government-Wide statements include such liabilities. Compared to 2009, the 2010 cash balance increased by \$76,363 or 9% while Total Liabilities of the Governmental Fund decreased by \$76,254 or 36%.

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Centre City Development Corporation, Inc.
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the years ended June 30, 2010, 2009 and 2008**

	2010	2009	2008
<u>REVENUES:</u>			
Contributions from the Redevelopment Agency of the City of San Diego	\$6,837,510	\$8,042,029	\$7,961,179
Miscellaneous	32,149	31,664	17,803
Total revenues	6,869,659	8,073,693	7,978,982
<u>EXPENDITURES:</u>			
Salaries and benefits	5,084,853	5,592,842	5,847,440
Rent and leasehold improvements	760,633	764,601	872,972
Marketing, printing and reproduction	158,925	250,634	236,208
Legal, computer and auditing services	516,566	831,159	194,940
Furniture and equipment	105,517	240,041	288,616
Insurance	24,383	35,284	24,825
Travel	5,164	26,663	26,771
Recruitment	2,523	10,589	31,778
Other expenses	211,095	321,880	455,432
Total expenditures	6,869,659	8,073,693	7,978,982
Excess of revenues over expenditures	-	-	-
<u>OTHER FINANCING SOURCES:</u>			
Advance from Redevelopment Agency	-	280,000	-
Net change in fund balance	-	280,000	-
<u>FUND BALANCE:</u>			
Beginning of year	1,480,000	1,200,000	1,200,000
End of year	\$1,480,000	\$1,480,000	\$1,200,000

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The Comparative Statements of Revenues, Expenditures and Changes in Fund Balance provide for a "look back" for two years comparing the various expenditures of the Corporation. Revenues are equal to the actual expenditures. Overall, expenditures for the twelve-month period ended June 30, 2010, 2009 and 2008 were \$6,869,659, \$8,073,693 and \$7,978,982, respectively. In Fiscal Year 2010, revenues and expenditures decreased by 15% or \$1,204,034 from 2009. In 2009 revenues and expenditures increased by 1.2% or \$94,711 from 2008.

The most significant changes within the expenditures are as follows:

- The Salaries and Benefits decreased by 9% in 2010 to \$5,084,853 due to vacant positions, attrition in personnel and no salary increases. Similarly, 2009 decreased by 4% to \$5,592,843 due to attrition in personnel and no salary increases.
- Legal, Computer and Auditing Services decreased by \$314,593, or 38%, from 2009 primarily due to savings in Legal, Computer Services and Computer-Web Services. Computer-Web Services decreased as we changed to a new web provider, achieving savings in 2010. In 2009, Legal, Computer and Auditing Services increased by \$636,218, or 326%, from 2008 due to the performance audit expense and additional legal expenses incurred in 2009.
- The Furniture and Equipment expenditures in 2010 decreased by \$134,524, or 56%, from 2009 due to less furniture and equipment purchases in 2010. In 2009, Furniture and Equipment decreased by \$48,579, or 17%, from 2008.
- Recruitment expenditures decreased in 2010 by \$8,066, or 76%, from 2009 due to less recruitment activities in 2010. In 2009 Recruitment decreased by \$21,189 from 2008 for similar reasons.
- Insurance expenditures decreased by \$10,901, or 31%, in 2010 due to a decrease in Property Liability Insurance and a decrease Workers' Compensation Insurance Premiums. In 2009, Insurance increased by \$10,459, or 43%, due to an increase in Property Liability Insurance.
- Travel expenditures decreased by \$21,500, or 81%, in 2010 from 2009 resulting from lower staff attendance of conferences and seminars. There was no significant change in 2009 from 2008.
- Other Expenses in 2010 decreased by \$110,784, or 34%, from 2009 due primarily to a decrease in professional development, office supplies, telephone and business expenses. In 2009, Other Expenses decreased by \$119,234, or 17%, from 2008 primarily as a result of a decrease in telephone, professional development, Director and business expenses.

**CENTRE CITY DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Budget Comparisons

The Budgetary Comparison Schedules can be found on pages 23 and 24 of this report. The Fiscal Year 2010 expenditures were under budget by \$2,030,341 or 23%. The most significant budget to actual variances were savings in Salaries and Benefits in the amount of \$1,339,147 or 21%, which was primarily due to unfilled positions, attrition in personnel and no salary increases. Significant savings were also in Legal, Computer and Auditing Services in the amount of \$183,434 or 26% primarily due to savings in legal and computer web services.

The Fiscal Year 2009 expenditures were under budget by 2,402,807 or 23%. The most significant budget to actual variance were savings in Salaries and Benefits in the amount of \$1,585,158 or 22%, which was primarily due to unfilled positions and attrition in personnel and no salary increases. Significant savings were also in rent and leasehold improvements in the amount of \$244,399 or 24%. This was as a result of savings in rent expenditures for the first month and a half of Fiscal Year 2009 resulting from a credit provided by the landlord for moving the Downtown Information Center out of the old office by June 30, 2008, no operating expenditure pass-throughs for the first year for the corporate office, and also as of a result of a tenant allowance in leasehold improvement for the Downtown Information Center.

CCDC may from time to time make budgetary line item adjustments for a net budget change of zero dollars to accommodate CCDC's administrative operating activities. Budget adjustments are presented to the Board for review and approval. In Fiscal Year 2010, CCDC Board approved a budget adjustment at the November 18, 2009 Board Meeting, Agenda 686, Item 14.

Next Year's Budget

CCDC, the Agency, and City of San Diego City Council recently adopted the Fiscal Year 2011 Budgets. CCDC's administrative portion of the budget is \$8,367,000, representing a decrease of \$533,000 or 6% from the Fiscal Year 2010 Budget. The decrease reflects:

- A decrease of \$385,000 or 6% for salaries as a result of the elimination of 5.75 positions and adding one new position for a net decrease of 4.75 positions in the Fiscal year 2011 Budget.
- A decrease of \$91,000 in fringe benefits due to the elimination of the 5.75 positions.
- A decrease of \$147,000 or 5.9% for non-personnel expenses which includes a reduction in Rent-Equipment, Leasehold Improvements, Advertising/Relocation/Recruitment, Office/Computer Supplies, Professional Development and associated Travel, Communications/Material & Events, Furniture and Equipment/Computer Equipment and Consultants.

Request for Information

This financial report is designed to provide a general overview of CCDC's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Executive Vice President and Chief Financial Officer at Centre City Development Corporation, Inc., 401 B Street, Suite 400, San Diego, CA 92101.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Statements of Net Assets
June 30, 2010 and 2009

	Governmental Activities	
	2010	2009
ASSETS		
Current assets:		
Cash	\$ 927,191	\$ 850,828
Receivables for reimbursable expenses from the Redevelopment Agency of the City of San Diego	684,600	834,398
Prepaid expenses	2,200	5,019
Capital assets, depreciable, net	218,140	249,478
Total assets	1,832,131	1,939,723
LIABILITIES		
Current liabilities:		
Accounts payable	1,051	325
Accrued expenses	132,940	209,920
Long-term liabilities:		
Compensated absences - due in one year	128,374	136,874
Compensated absences - due after one year	186,481	179,787
Advance from the Redevelopment Agency of the City of San Diego	1,480,000	1,480,000
Total liabilities	1,928,846	2,006,906
NET ASSETS		
Invested in capital assets	218,140	249,478
Unrestricted (deficit)	(314,855)	(316,661)
Total net assets (deficit)	\$ (96,715)	\$ (67,183)

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Statements of Activities
For the Years Ended June 30, 2010 and 2009

2010			
Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) and Change in Net Assets
Governmental Activities -			
General government and support	\$ 6,899,191	\$ 6,837,510	\$ (61,681)
Total governmental activities	<u>\$ 6,899,191</u>	<u>\$ 6,837,510</u>	<u>(61,681)</u>
	General Revenues:		
	Interest		240
	Miscellaneous		31,909
	Total general revenues		<u>32,149</u>
	Change in net assets		(29,532)
	Net assets (deficit) - beginning of year		<u>(67,183)</u>
	Net assets (deficit) - end of year		<u>\$ (96,715)</u>
2009			
Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net Revenue and Change in Net Assets
Governmental Activities -			
General government and support	\$ 8,194,189	\$ 8,042,029	\$ (152,160)
Total governmental activities	<u>\$ 8,194,189</u>	<u>\$ 8,042,029</u>	<u>(152,160)</u>
	General Revenues:		
	Interest		364
	Miscellaneous		31,300
	Total general revenues		<u>31,664</u>
	Change in net assets		(120,496)
	Net assets (deficit) - beginning of year		<u>53,313</u>
	Net assets (deficit) - end of year		<u>\$ (67,183)</u>

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Balance Sheets
General Fund
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash	\$ 927,191	\$ 850,828
Receivables for reimbursable expenditures from the Redevelopment Agency of the City of San Diego	684,600	834,398
Prepaid items	<u>2,200</u>	<u>5,019</u>
Total assets	<u>\$ 1,613,991</u>	<u>\$ 1,690,245</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 1,051	\$ 325
Accrued liabilities	<u>132,940</u>	<u>209,920</u>
Total liabilities	<u>133,991</u>	<u>210,245</u>
Fund Balance - unreserved	<u>1,480,000</u>	<u>1,480,000</u>
Total liabilities and fund balance	<u>\$ 1,613,991</u>	<u>\$ 1,690,245</u>

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Reconciliations of the General Fund Balance Sheets
to the Government-Wide Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
Total Fund Balance - General Fund	\$ 1,480,000	\$ 1,480,000
Amounts reported for governmental activities in the Statements of Net Assets were different because:		
Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported in the General Fund balance sheets.	218,140	249,478
Compensated absences are not due and payable in the current period and therefore are not reported in the General Fund balance sheets.	(314,855)	(316,661)
Long-term advance from the Redevelopment Agency of the City of San Diego was not due and payable in the current period and therefore was not reported in the General Fund balance sheets.	(1,480,000)	(1,480,000)
Net assets (deficit) of Governmental Activities	\$ (96,715)	\$ (67,183)

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPEMENT CORPORATION, INC.
Statements of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES:		
Contributions from the Redevelopment Agency of the City of San Diego	\$ 6,837,510	\$ 8,042,029
Interest	240	364
Miscellaneous	<u>31,909</u>	<u>31,300</u>
Total revenues	<u>6,869,659</u>	<u>8,073,693</u>
EXPENDITURES:		
Salaries and benefits	5,084,853	5,592,842
Rent and leasehold improvements	760,633	764,601
Marketing, printing and reproduction	158,925	250,634
Office supplies	92,328	150,203
Legal, computer and auditing services	516,566	831,159
Auto and business expenditures	33,981	48,610
Furniture and equipment	105,517	240,041
Insurance	24,383	35,284
Dues and seminars	25,587	50,084
Telephone	31,820	43,525
Travel	5,164	26,663
Director fees	4,788	3,463
Recruitment	2,523	10,589
Equal opportunity expenditures	<u>22,591</u>	<u>25,995</u>
Total expenditures	<u>6,869,659</u>	<u>8,073,693</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES:		
Advance from Redevelopment Agency of the City of San Diego	<u>-</u>	<u>280,000</u>
Net change in fund balance	-	280,000
FUND BALANCE:		
Beginning of year	<u>1,480,000</u>	<u>1,200,000</u>
End of year	<u>\$ 1,480,000</u>	<u>\$ 1,480,000</u>

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Reconciliations of the General Fund Statements of Revenues, Expenditures, and
Changes in Fund Balance to the Government-Wide Statements of Activities
For the Years Ended June 30, 2010 and 2009

	2010	2009
Net Change in Fund Balance - General Fund	\$ -	\$ 280,000
<p>Amounts reported for governmental activities in the Statement of Activities were different because:</p>		
<p>Governmental funds report capital asset purchases as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the excess (deficiency) of capital asset purchases over depreciation expense.</p>	(31,338)	(44,042)
<p>In the Statement of Activities, compensated absences (vacation) is measured by the amounts earned during the year. In the General Fund, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). In fiscal year 2010, vacation earned fell below the amount used by \$1,806; in fiscal year 2009, vacation earned exceeded the amounts used by \$76,454.</p>	1,806	(76,454)
<p>Proceeds from the advance from the Redevelopment Agency of the City of San Diego provide current financial resources to the General Fund, but the advance increases long-term liabilities in the government-wide Statement of Net Assets.</p>	-	(280,000)
Change in Net Assets of Governmental Activities	\$ (29,532)	\$ (120,496)

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements
For the Years Ended June 30, 2010 and 2009

NOTE 1 – ORGANIZATION AND OPERATIONS

Centre City Development Corporation, Inc. (CCDC) is a not-for-profit public benefit corporation organized in February 1975 to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego (Agency). CCDC is primarily funded by contributions from the Agency.

CCDC's budget and governing board are approved by the City of San Diego's (City) Council, and CCDC provides services exclusively to the Agency and the City. The City Council's function is to appoint the Board of Directors of CCDC and to act as the Agency, represented by CCDC, in the downtown (Centre City) area. CCDC administers redevelopment plans adopted by the City including the Horton Plaza Redevelopment Plan adopted in July 1972 and the Centre City Redevelopment Project. The Centre City Redevelopment Project was created in May 1992 by the merger of the former Marina and Columbia Redevelopment Plans adopted in December 1976, the Gaslamp Redevelopment Plan adopted in 1982, and the expansion of the project area with approximately 1,000 additional acres of land. Responsibilities are carried out by CCDC, pursuant to an operating agreement with the Agency, to implement the redevelopment process in the Centre City Area.

CCDC is a component unit of the reporting entity of the City since the City is financially accountable for CCDC.

On March 22, 2010 the City and the Agency amended and restated the Corporation's Articles of Incorporation, By-Laws and the Operating Agreement with the Agency. The amendments included, but were not limited to, granting greater authority and oversight by the Mayor (as Executive Director of the Agency) and the City Council (as the Agency) over CCDC, the appointment, termination, and annual performance review of the CCDC President, modifying the required expertise for CCDC Board Members, as well as various other changes which would strengthen the reporting responsibilities between CCDC and the Agency and/or City.

CCDC hosts the Horton Plaza Theatres Foundation, a not-for-profit organization to operate and maintain one or more legitimate theatres in the City of San Diego, in its office. CCDC provided in-kind administrative services totaling \$122,544 and \$88,060 for the years ended June 30, 2010 and 2009, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting / Measurement Focus

The accounts of CCDC are organized on the basis of fund accounting, where the fund is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Generally, governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

CCDC's government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of governmental activities for CCDC.

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of CCDC's assets and liabilities, including long-term liabilities, are included in the accompanying statement of net assets. The statement of activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for CCDC, such as operating grants and contributions.

Amounts reported as program revenues are classified as operating grants and contributions that are received primarily from the Agency. When both restricted and unrestricted resources are available for use, it is CCDC's policy to use restricted resources first, then unrestricted resources as they are needed.

CCDC reports only one governmental fund (general fund), which is CCDC's operating fund that accounts for all financial resources of CCDC.

General Fund Financial Statements

General Fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balance. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

The General Fund is used to account for the activities of CCDC's operations. As with all governmental funds, the General Fund is accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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. For this purpose, CCDC considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due at year-end.

The reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Cash

The CCDC's cash consists of cash on hand and on deposit.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

During fiscal year 2010 the Corporation changed its capitalization policy for assets. The Corporation lowered the threshold to capitalized assets from \$10,000 to \$5,000. The impact of this change on CCDC's financial statements is minimal. Capital assets are reported in the statement of net assets. Capital assets are defined as assets with an initial cost of more than \$5,000 and a useful life of greater than one year. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Vehicles	5
Office Equipment	5-7
Computer Equipment	3

Compensated Absences

Accumulated leave benefits (accrued vacation) are accrued when incurred in the government-wide financial statements.

Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. CCDC did not have any debt outstanding related to capital assets at June 30, 2010 and 2009.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws and regulations of other governments. CCDC did not have any restricted assets at June 30, 2010 and 2009.

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.”

Estimates

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

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 3 – CASH

The carrying amount of CCDC's cash consisted of the following at June 30,

	2010	2009
Petty Cash	\$ 500	\$ 500
Cash – checking	560,018	363,896
Cash – savings	366,673	486,432
Total Cash	\$ 927,191	\$ 850,828

At June 30, 2010 and 2009, the bank balances were \$714,395 and \$895,510, respectively. The difference between the book balances and the bank balances were substantially due to deposits in transit and outstanding checks. Of the bank balances noted above for 2010 and 2009, \$250,000 were covered by federal depository insurance (FDIC). The remaining balances for both years were collateralized by securities held by the financial institution and are considered to be held in the name of CCDC.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2010 and 2009 is as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Capital assets:				
Vehicles	\$ 19,560	\$ -	\$ -	\$ 19,560
Office equipment	<u>368,995</u>	<u>54,658</u>	<u>-</u>	<u>423,653</u>
Total capital assets	<u>388,555</u>	<u>54,658</u>	<u>-</u>	<u>443,213</u>
Less accumulated depreciation:				
Vehicles	(17,605)	-	-	(17,605)
Office equipment	<u>(121,472)</u>	<u>(85,996)</u>	<u>-</u>	<u>(207,468)</u>
Total accumulated depreciation	<u>(139,077)</u>	<u>(85,996)</u>	<u>-</u>	<u>(225,073)</u>
Total capital assets, net	<u>\$ 249,478</u>	<u>\$ (31,338)</u>	<u>\$ -</u>	<u>\$ 218,140</u>

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Capital assets:				
Vehicles	\$ 19,560	\$ -	\$ -	\$ 19,560
Office equipment	<u>329,529</u>	<u>39,466</u>	<u>-</u>	<u>368,995</u>
Total capital assets	<u>349,089</u>	<u>39,466</u>	<u>-</u>	<u>388,555</u>
Less accumulated depreciation:				
Vehicles	(17,605)	-	-	(17,605)
Office equipment	<u>(37,964)</u>	<u>(83,508)</u>	<u>-</u>	<u>(121,472)</u>
Total accumulated depreciation	<u>(55,569)</u>	<u>(83,508)</u>	<u>-</u>	<u>(139,077)</u>
Total capital assets, net	<u>\$ 293,520</u>	<u>\$ (44,042)</u>	<u>\$ -</u>	<u>\$ 249,478</u>

The depreciation expense of \$85,996 for the year ended June 30, 2010 and \$83,508 for the year ended June 30, 2009 was allocated to governmental activities.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 5 – COMPENSATED ABSENCES

A summary of changes in compensated absences for the years ended June 30 is as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 316,661	\$ 240,207
Additions	327,373	360,029
Deletions	<u>(329,179)</u>	<u>(283,575)</u>
Balance, end of year	<u>\$ 314,855</u>	<u>\$ 316,661</u>

NOTE 6 – PENSION PLANS

CCDC has a Money Purchase Pension Plan covering all full-time permanent employees. The plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each year, CCDC contributes semi-monthly an amount equal to 8% of the total semi-monthly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service. CCDC's total payroll (excluding benefits) for fiscal year 2010 was approximately \$3,480,670. CCDC contributions were calculated using the base salary amount of approximately \$3,434,061. CCDC made the required 8% contribution amounting to approximately \$206,683 (net of forfeitures) for fiscal year 2010. CCDC's total payroll for fiscal year 2009 was approximately \$3,964,487. CCDC contributions were calculated using the base salary amount of approximately \$3,783,913. CCDC made the required contribution amounting to approximately \$278,310 (net of forfeitures) for fiscal year 2009.

In addition, CCDC has a Tax Deferred Annuity Plan covering all full-time permanent employees. The plan is a defined contribution plan under which benefits depend solely on amounts contributed to the plan by the employer and the employees, plus investment earnings. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 16% of the total semi-monthly compensation for all employees. CCDC's contributions for each employee are fully vested at time of contribution. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to CCDC becoming a contributor to the plan. CCDC made the required 16% contribution amounting to \$549,449 for fiscal year 2010 and approximately \$609,803 for fiscal year 2009.

The fiduciary responsibilities of CCDC consist of making contributions and remitting deposits collected. The pension plans are not component units of CCDC and are therefore not reported in the basic financial statements.

NOTE 7 – GOVERNMENT-WIDE STATEMENT OF NET ASSETS DISCLOSURES

The unrestricted net assets deficit in the amount of \$314,855 and \$316,661 as of June 30, 2010 and 2009, respectively, represented the amount of accrued vacation due to all employees, referred to as compensated absences. The liability decreased due to vacation taken and/or vacation paid out due to attrition.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The CCDC is presently involved in certain matters of litigation that have arisen in the normal course of conducting CCDC business. CCDC management believes, based upon consultation with the CCDC attorneys, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the CCDC. Additionally, CCDC management believes that the CCDC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize. There were no claim settlements that exceeded insurance coverage during the past three fiscal years.

Operating Leases – CCDC leases its office facilities under a non-cancelable operating lease, which has been extended through June 30, 2015. As of June 30, 2010, future minimum lease payments for this lease are as follows:

Year Ending June 30,	
2011	\$ 658,980
2012	683,088
2013	707,196
2014	731,304
2015	<u>758,088</u>
Total	<u>\$ 3,538,656</u>

CCDC also leases space for its Information Center under a non-cancelable operating lease which has been extended through June 14, 2015. As of June 30, 2010 future minimum lease payments for this lease are as follows:

Year Ending June 30,	
2011	\$ 101,121
2012	104,155
2013	107,279
2014	110,498
2015	<u>108,934</u>
Total	<u>\$ 531,987</u>

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2010 and 2009

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

In addition, CCDC leases four copiers under a non-cancelable operating lease for a term of 60 months. As of June 30, 2010, future minimum lease payments for these leases are as follows:

Year Ending June 30,	
2011	\$ 39,626
2012	39,626
2013	21,128
2014	<u>2,630</u>
Total	<u>\$ 103,010</u>

There is also a contingent per copy rental charge of \$0.006 for copies in excess of 110,000 per month on the main copier and \$.006 for black and white copies on the second copier in excess of 13,000 per month with \$.089 for color copies on the second copier in excess of 5,000 per month. A third copier has a \$.0084 charge for black and white copies and a .0890 charge on prints in excess of 250 per month.

Rental costs associated with all leases totaled \$775,352 and \$664,202 for 2010 and 2009, respectively.

NOTE 9 – ECONOMIC DEPENDENCY

CCDC receives its support from the Redevelopment Agency of the City of San Diego. The support received from the Agency is its major funding source; therefore any reduction in funding could substantially alter the services provided by CCDC.

CENTRE CITY CORPORATION, INC.
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Contributions from the Redevelopment Agency of the City of San Diego	\$ 8,900,000	\$ 8,900,000	\$ 6,837,510	\$ (2,062,490)
Interest	-	-	240	240
Miscellaneous	-	-	31,909	31,909
Total revenues	8,900,000	8,900,000	6,869,659	(2,030,341)
EXPENDITURES:				
Salaries and benefits	6,424,000	6,424,000	5,084,853	1,339,147
Rent and leasehold improvements	800,000	800,000	760,633	39,367
Marketing, printing and reproduction	288,000	273,000	158,925	114,075
Office supplies	202,500	202,500	92,328	110,172
Legal, computer and auditing services	625,000	700,000	516,566	183,434
Auto and business expenditures	90,000	80,000	33,981	46,019
Furniture and equipment	158,000	148,000	105,517	42,483
Insurance	53,000	53,000	24,383	28,617
Dues and seminars	100,000	65,000	25,587	39,413
Telephone	60,000	60,000	31,820	28,180
Travel	20,000	20,000	5,164	14,836
Directors fees	10,000	10,000	4,788	5,212
Recruitment	25,000	25,000	2,523	22,477
Equal opportunity expenditures	34,500	34,500	22,591	11,909
Other	10,000	5,000	-	5,000
Total expenditures	8,900,000	8,900,000	6,869,659	2,030,341
Excess of revenues over expenditures	-	-	-	-
FUND BALANCE:				
Beginning of year	1,480,000	1,480,000	1,480,000	-
End of year	<u>\$ 1,480,000</u>	<u>\$ 1,480,000</u>	<u>\$ 1,480,000</u>	<u>\$ -</u>

See accompanying note to budgetary comparison schedules.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Contributions from the Redevelopment Agency of the City of San Diego	\$ 9,876,500	\$ 10,476,500	\$ 8,042,029	\$ (2,434,471)
Interest	-	-	364	364
Miscellaneous	-	-	31,300	31,300
Total revenues	9,876,500	10,476,500	8,073,693	(2,402,807)
EXPENDITURES:				
Salaries and benefits	7,178,000	7,178,000	5,592,842	1,585,158
Rent and leasehold improvements	1,059,000	1,009,000	764,601	244,399
Marketing, printing and reproduction	304,300	319,300	250,634	68,666
Office supplies	204,700	204,700	150,203	54,497
Legal, computer and auditing services	360,000	1,025,000	831,159	193,841
Auto and business expenditures	88,000	88,000	48,610	39,390
Furniture and equipment	291,000	300,000	240,041	59,959
Insurance	53,000	44,000	35,284	8,716
Dues and seminars	127,000	112,000	50,084	61,916
Telephone	57,000	57,000	43,525	13,475
Travel	72,000	57,000	26,663	30,337
Directors fees	13,000	13,000	3,463	9,537
Recruitment	25,000	25,000	10,589	14,411
Equal opportunity expenditures	34,500	34,500	25,995	8,505
Other	10,000	10,000	-	10,000
Total expenditures	9,876,500	10,476,500	8,073,693	2,402,807
Excess of revenues over expenditures	-	-	-	-
OTHER FINANCING SOURCES:				
Advance from Redevelopment Agency of the City of San Diego	-	-	280,000	280,000
Net change in fund balance	-	-	280,000	280,000
FUND BALANCE:				
Beginning of year	1,200,000	1,200,000	1,200,000	-
End of year	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>	<u>\$ 1,480,000</u>	<u>\$ 280,000</u>

See accompanying note to budgetary comparison schedules.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Note to Budgetary Comparison Schedules – General Fund
For the Years Ended June 30, 2010 and 2009

NOTE 1 – BUDGETARY INFORMATION

CCDC prepares its annual budget on the modified accrual basis in a format required by the Agency. The budget is approved by CCDC's Board of Directors and the Agency. CCDC expenditures are controlled at the line item level with transfers between line items requiring Board approval, and transfers between salaries and benefits and all other line items requiring both Board and Agency approval. Please see page 8, MD&A for discussion on significant variances in the budget comparison schedules.

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
Centre City Development Corporation, Inc.
San Diego, California

We have audited the financial statements of the governmental activities and the general fund of the Centre City Development Corporation, Inc. (CCDC), a component unit of the City of San Diego, California, (City) as of and for the year ended June 30, 2010, which collectively comprise CCDC's basic financial statements and have issued our report thereon dated September 27, 2010. 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 CCDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CCDC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCDC'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 CCDC, the City Council of the City of San Diego, and is not intended to be and should not be used by anyone other than these specified parties.

Maclar Fini & O'Connell LLP

Certified Public Accountants
San Diego, California
September 27, 2010

September 27, 2010

To the Board of Directors
Centre City Development Corporation, Inc.
San Diego, California

We have audited the financial statements of the governmental activities and the general fund of the Centre City Development Corporation, Inc (CCDC) for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 9, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CCDC are described in Note 2 to the financial statements. As described in Note 2, CCDC changed the capitalization threshold for capital assets from \$10,000 to \$5,000. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the CCDC's financial statements were:

- Depreciation estimates for capital assets are based on the straight-line method and the useful lives assigned to depreciable properties.
- Management's estimate of the compensated absences is based on employees' accrued paid time off (PTO) hours and current salary rates.

We evaluated the key factors and assumptions used to develop the above accounting estimates in determining that they reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule lists the material misstatement detected as a result of our audit procedures that was corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of CCDC and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Macias Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
September 27, 2010

CENTRE CITY DEVELOPMENT CORPORATION, INC.
SCHEDULE OF CORRECTED MISSTATEMENT
June 30, 2010

1	Cash	\$528,549
	Due from Agency	(\$528,549)

To record May 2010 reimbursement from the Agency.

January 4, 2011

To the Audit Committee of the City of San Diego

The following is Centre City Development Corporation's (CCDC) financial management teams responses to the City of San Diego's Audit Committee question asked with respect to the CCDC Fiscal Year 2010 audited financial statements.

1. Do you believe the financial statements fairly present the unit's net assets and activities in accordance with generally accepted accounting with generally accepted accounting principles (GAAP) or some other acceptable comprehensive basis of Accounting?
Yes
2. To the best of your knowledge was the audit performed in accordance with generally accepted auditing standards (GAAP standards) or generally accepted government auditing standards (GAGAS standards) If not, why?
Yes
3. Do the Financial Statements contain deviation from generally accepted accounting principles (GAAP)? If so, why?
No
4. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?
All accounting adjustments have been identified in the auditor's Statement on Auditing Standards No.114 (SAS114) letter.
5. Are you satisfied that an appropriate audit was performed by the independent auditors?
Yes
6. Is there any activity at any level within the unit that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP or other then those already identified?
No
7. Are there any questions we have not asked that should have been asked? If so what are those questions?
None

ATTACHMENT B

January 10, 2010

To the Audit Committee
Of the City of San Diego

The letter is in response to the following questions asked us by the City of San Diego's (City's) Audit Committee with respect to the fiscal year ended June 30, 2010 (FY10) financial statement audit of the Centre City Development Corporation (CCDC).

1. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?

No.

2. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Do any non-audit services performed for CCDC or its related entities affect the work that you do or the manner in which the engagement team or others are compensated?

All MGO staff sign an annual independence statement attesting to their independence from our clients. In addition, during our planning procedures, the manager goes through and ascertains that all staff assigned to the engagement are independent with respect to that particular client. In addition, all prospective work with existing clients is reviewed in advance to determine potential conflicts of interest.

3. Was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?

This audit was performed in accordance with GAGAS.

4. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?

The financial statements do not contain material deviations from GAAP.

5. Were any new accounting principles adopted, were any changes made, or did you recommend any changes, in the accounting policies used or their application?

As described in the note 2 of CCDC's FY10 financial statements, CCDC changed its capitalization threshold for capital assets from \$10,000 to \$5,000.

6. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicated them to the appropriate level of management. CCDC management has corrected all such misstatements as described in our communication to you under SAS 114 (*The Auditor's Communication with Those Charged with Governance*). For the FY10 financial statement audit, none of the misstatement detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken a whole.

7. Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?

No. We believe that the financial statements and disclosures are appropriate in accordance with Generally Accepted Accounting Principles (GAAP).

8. Have you expressed any concerns or comments to management with respect to how our presentation, including the notes or Management's Discussion & Analysis, could be improved?

Management has incorporated our comments into CCDC's financial statements.

9. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?

We have not noted that any attempts by management to commit management override. Also, we have not noticed any biases with respect to accounting estimates made by management.

10. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?

We do not have any concerns that there are attempts by management to commit management override. Also, we have not noticed any biases with respect to accounting estimates made by management.

11. Were there any accounting issues on which you sought the advice of other audit firms or regulatory bodies?

No. We do utilize a professional standards reviewer who attends regulatory setting bodies meetings on various GAAP issues and updates us that provides us on with the latest issues at the national level. However, we did not seek the advice of other audit firms, nor did we consult with regulatory bodies relating to issues for the CCDC's fiscal year 2010 financial statements.

12. Describe any difficulties you encountered while performing the audit (e.g., delays by management in allowing you to begin the audit, lack of access to information, unreasonable timetables, unavailability of personnel, etc.).

We did not encounter any significant difficulties in performing the audit.

13. Discuss your impressions of the performance of the CCDC's financial management in terms of the completeness, accuracy and faithfulness of the financial reporting process.

Our procedures have revealed a consistent, complete, and accurate financial reporting process by CCDC.

14. Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP.

We are not aware of any situation in which management has attempted to circumvent the spirit of generally accepted accounting principles.

15. Would you characterize management's application of GAAP as conservative, aggressive or somewhere in between?

Management's application of GAAP is conservative in nature.

16. Are there any new pronouncements and or areas of potential financial risk affecting future financial statements of which the Audit Committee should be aware?

CCDC will be required to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in the next fiscal year (FY11). There are no other significant new pronouncements and or areas of potential financial risk with respect to CCDC that we believe the audit committee should be aware of.

17. How would you compare CCDC's financial reporting with that of comparable government entities with which you are familiar?

CCDC has achieved a fairly high level of expertise in its financial reporting comparing with comparable government entities.

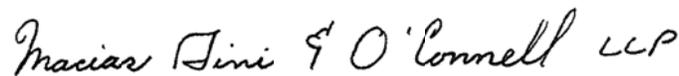
18. Please explain the significance of any reportable conditions or material weaknesses referenced in your letter or report dealing with the CCDC's internal controls.

There are no reportable conditions or material weaknesses identified.

19. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.

Sincerely,



Macias Gini & O'Connell LLP