



DATE ISSUED: January 3, 2012

ATTENTION: Honorable Chair and Members of the Audit Committee
Docket of January 9, 2012

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Fiscal Year 2011 Audited Financial Statements Pertaining to the
Operations of the Centre City Development Corporation – General

COUNCIL DISTRICTS: District 2 and District 8

REFERENCE: Fiscal Year 2011 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 2011 Audited Financial Statements (“FY11 Audited Financials”) of the Centre City Development Corporation (“Corporation”).

STAFF RECOMMENDATION: That the Audit Committee receive and file the FY11 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 19, 2011, the Corporation Audit Committee heard this item and voted unanimously to receive and file the FY11 Audited Financials and forward this item to the Corporation Board. On November 16, 2011, the Corporation Board voted unanimously to receive and file the FY11 Audited Financials and forward this item to the Audit Committee.

ENVIRONMENTAL IMPACT: This activity is not a “project” for purposes of the California Environmental Quality Act (CEQA) because it does not fit within the definition of a “project” set forth in Public Resources Code Section 21065 or State CEQA Guidelines Section 15378. Thus, this activity is not subject to CEQA pursuant to State CEQA Guidelines Section 15060(c)(3).

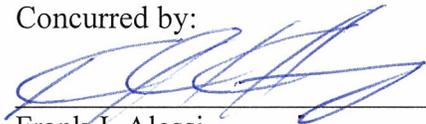
CONCLUSION: The Centre City Development Corporation is required to submit to the Agency an audit provided by an independent certified public accountant each year. Staff is requesting the Audit Committee receive and file the Fiscal Year 2011 Audited Financial Statements and forward to the Agency.

Respectfully submitted,

Concurred by:



Andrew T. Phillips
Assistant Vice President/Controller



Frank J. Alessi
Executive Vice President & Chief Financial Officer



Margarita Garcia
Business Manager/Accountant

Attachments: Attachment A – Fiscal Year 2011 Audited Financial Statements
Attachment B – Corporation’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 Reports, Management's
Discussion and Analysis, Basic Financial Statements
and Required Supplementary Information

For the Years Ended June 30, 2011 and 2010

 **Certified Public Accountants.**

ATTACHMENT A

CENTRE CITY DEVELOPMENT CORPORATION, INC.
For the Years Ended June 30, 2011 and 2010

Table of Contents

	<i>Page(s)</i>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited)	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statements of Net Assets (Deficit)	11
Statements of Activities.....	12
Fund Financial Statements:	
Balance Sheets – General Fund	13
Reconciliations of the General Fund Balance Sheets to the Government-Wide Statements of Net Assets (Deficit)	14
Statements of Revenues, Expenditures and Changes in Fund Balance – General Fund.....	15
Reconciliations of the General Fund Statements of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statements of Activities	16
Notes to the Basic Financial Statements	17
Required Supplementary Information (Unaudited):	
Budgetary Comparison Schedules – General Fund.....	30
Note to Budgetary Comparison Schedules – General Fund	32
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 <i>Government Auditing Standards</i>	33



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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the general fund of the Centre City Development Corporation, Inc. (Corporation), a component unit of the City of San Diego, California, as of and for the years ended June 30, 2011 and 2010, which collectively comprise Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation'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 Corporation'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 the Corporation as of June 30, 2011 and 2010, 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.

As discussed in Note 2 to the basic financial statements, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As described in Note 9, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation. Accordingly, because the Redevelopment Agency of the City of San Diego is the primary funding source for the Corporation, the outcome of this matter may create significant impediments to the Corporation's future operations.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011, on our consideration of the Corporation'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, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Macias Jini & O'Connell LLP

San Diego, California
October 21, 2011

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis
(Unaudited)

As management of the Centre City Development Corporation, Inc. (Corporation), a component unit of the City of San Diego (City), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the years ended June 30, 2011 and 2010. The information contained in the Management's Discussion and Analysis is unaudited and represents management's analysis for the years ended June 30, 2011 and 2010. The audited financial statements can be found beginning on page 11. The purpose of Management's Discussion and Analysis (MD&A) 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 the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements. The basic financial statements are also accompanied by required supplementary information, which includes this Management's Discussion and Analysis and the Budgetary Comparison Schedule for the general fund.

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

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

The Statement of Activities presents information showing changes in the Corporation's net assets during the most recent year and the preceding 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 compensated absences).

The Government-Wide Financial Statements can be found on pages 11 and 12 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 Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation uses a general fund for recording its activities.

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.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

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 the Corporation's general fund 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 Corporation's near-term financial decisions. Both the general fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the general fund and governmental activities. The general fund financial statements can be found on pages 13 through 16 of this report.

Government-Wide Financial Analysis The Corporation is financially reliant on the Redevelopment Agency of the City of San Diego (Agency). As of the year ended June 30, 2011, 2010 and 2009, respectively, the Corporation had the following assets, liabilities and net assets (deficit):

Centre City Development Corporation, Inc.
Comparative Statement of Net Assets (Deficit)
June 30, 2011, 2010 and 2009

	Governmental Activities		
	2011	2010	2009 ¹
ASSETS			
Cash and investments	\$ 824,856	\$ 1,011,190	\$ 911,683
Receivables for reimbursable expenditures from the Redevelopment Agency of the City of San Diego	587,150	684,600	834,398
Prepaid expenses	2,200	2,200	5,019
Capital assets, depreciable, net	121,020	218,140	249,478
Total assets	1,535,226	1,916,130	2,000,578
LIABILITIES			
Accounts payable	602	1,051	325
Accrued expenses	66,186	132,940	209,920
Compensated absences (current)	145,311	128,374	136,874
Compensated absences (non current)	201,024	186,481	179,787
Advance from the Redevelopment Agency of the City of San Diego	1,260,000	1,480,000	1,480,000
Total Liabilities	1,673,123	1,928,846	2,006,906
NET ASSETS (DEFICIT)			
Investment in capital assets	121,020	218,140	249,478
Unrestricted (deficit)	(258,917)	(230,856)	(255,806)
Total net deficit	\$ (137,897)	\$ (12,716)	\$ (6,328)

The net deficit of the Corporation's governmental activities in 2011 increased by \$125,181 producing a net deficit of (\$137,897) primarily due to depreciation of capital assets, an increase in compensated absences, and offset by interest income and the change in the fair value of the Corporation's investment.

¹ For purposes of the MD&A, restatement of the financial statements was reflected in Fiscal Year 2009. For purposes of the Audited Statements of Net Assets (Deficit) on page 11, restatement is reflected as of the beginning of Fiscal Year 2010 as described in Note 10 to the basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

Beginning July 1, 2008, beginning net assets were restated and adjusted to reflect unrealized gain on investment associated with stock ownership related to life insurance policy. As a by-product of purchasing life insurance, the Corporation became entitled to ownership in the life insurance company. In 1999, the insurance company was reorganized converting the company from a mutual life insurance company to a publicly held stock life insurance company through a process called demutualization. As part of the demutualization, policyholder's membership or ownership interest was extinguished and eligible members received consideration in the form of stock, cash or an increase in policy values. The Corporation received consideration in the form of holding company stock. The Corporation became aware of the ownership in June 2011 and retroactively recorded the ownership in the Corporation's financial statements.

In 2011, cash decreased as a result of a reduction in the working capital advance from the Agency. In 2010, cash increased as a result of a decrease in expenses due to a reduced budget for Fiscal Year 2010.

Centre City Development Corporation, Inc.
Comparative Statements of Activities
For the years ended June 30, 2011, 2010 and 2009

Functions/Programs	2011	2010	2009 ²
Governmental Activities			
Program Revenues:			
Operating grants and contributions	\$ 6,949,039	\$ 6,837,510	\$ 8,042,029
Program Expenses:			
General government and support expenses	7,098,317	6,899,191	8,194,189
Net (Expense) and Change in Net Assets	(149,278)	(61,681)	(152,160)
General Revenues:			
Interest and unrealized gain (loss) on investments	3,920	23,384	(36,082)
Miscellaneous	20,177	31,909	31,300
Total general revenues	24,097	55,293	(4,782)
Change in net assets	(125,181)	(6,388)	(156,942)
Net assets (deficit)– beginning of year, as restated	(12,716)	(6,328)	150,614
Net deficit – end of year	\$ (137,897)	\$ (12,716)	\$ (6,328)

² For purposes of the MD&A, restatement of the financial statements was reflected in Fiscal Year 2009. For purposes of the Audited Statements of Activities on page 12, restatement is reflected as of the beginning of Fiscal Year 2010, as described in Note 10 to the basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

The net assets decreased by \$125,181 in 2011 primarily due to a depreciation of capital assets offset by a reduction due to unreimbursed payroll expenses associated with compensated absences. In 2010, net assets decreased by \$6,388 for similar reasons. For purposes of the MD&A, as of July 1, 2008, beginning net assets were restated to reflect an adjustment to record the Corporation's fair value of its investment associated with ownership in stock. Management's Discussion and Analysis on page 5 describes the significant changes in expenditures from the periods 2009 through 2011.

General Fund Financial Analysis The Corporation's general fund financial statements include only the current inflows and outflows of spendable resources and related balances at the end of the fiscal year ended June 30, 2011, 2010 and 2009, respectively.

Centre City Development Corporation, Inc.
Comparative Balance Sheets
General Fund
June 30, 2011, 2010 and 2009

	2011	2010	2009 ³
ASSETS			
Cash and investments	\$ 824,856	\$ 1,011,190	\$ 911,683
Receivables from the Redevelopment Agency of the City of San Diego and Other Assets	589,350	686,800	839,417
Total Assets	\$ 1,414,206	\$ 1,697,990	\$ 1,751,100
LIABILITIES AND FUND BALANCE			
Accounts Payable and Other Current Liabilities	\$ 66,788	\$ 133,991	\$ 210,245
Fund Balance	1,347,418	1,563,999	1,540,855
Total Liabilities and Fund Balance	\$ 1,414,206	\$ 1,697,990	\$ 1,751,100

The general fund excludes the liability associated with compensated absences and the long-term advance payable to the Agency, whereas the government-wide statement of net assets includes such liabilities. Compared to 2010, the 2011 cash and investments balance decreased by \$186,334 or 19% while total liabilities of the general fund decreased by \$67,203 or 50%. Cash decreased primarily as a result of the repayment of \$220,000 against the outstanding advance received from the Agency. Liabilities decreased primarily as a result of less expenses incurred closer to year-end than in the prior year. Fund balance decreased due to the partial repayment of the Agency advance partially offset by unrealized gain on investments. Compared to 2009, the 2010 cash balance increased by \$99,507 or 11% while total liabilities decreased by \$76,254 or 36%.

³ For purposes of the MD&A, restatement of the financial statements was reflected in Fiscal Year 2009. For purposes of the Audited Balance Sheets on page 13, the restatement is reflected as of the beginning of Fiscal Year 2010, as described in Note 10 to the basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

Centre City Development Corporation, Inc.
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the years ended June 30, 2011, 2010 and 2009

	2011	2010	2009
<u>REVENUES:</u>			
Contributions from the Redevelopment Agency of the City of San Diego	\$ 6,949,039	\$ 6,837,510	\$ 8,042,029
Interest and miscellaneous	20,678	32,149	31,664
Unrealized gain/(loss) on investments	3,419	23,144	(36,446)
Total revenues	6,973,136	6,892,803	8,037,247
<u>EXPENDITURES:</u>			
Salaries and benefits	4,959,961	5,084,853	5,592,842
Rent and leasehold improvements	784,923	760,633	764,601
Marketing, printing and reproduction	131,927	158,925	250,634
Legal, computer and auditing services	777,227	516,566	831,159
Furniture and equipment	42,806	105,517	240,041
Insurance	29,755	24,383	35,284
Travel	3,273	5,164	26,663
Recruitment	3,285	2,523	10,589
Other expenses	236,560	211,095	321,880
Payment on Advance from the Redevelopment Agency	220,000	-	-
Total expenditures	7,189,717	6,869,659	8,073,693
Excess (deficiency) of revenues over expenditures	(216,581)	23,144	(36,446)
<u>OTHER FINANCING SOURCES (USES):</u>			
Advance from the Redevelopment Agency	-	-	280,000
Net change in fund balance	(216,581)	23,144	243,554
<u>FUND BALANCE:</u>			
Beginning of year	1,563,999	1,540,855	1,200,000
Prior period adjustment	-	-	97,301
End of year	\$ 1,347,418	\$ 1,563,999	\$ 1,540,855

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

The Comparative Statements of Revenues, Expenditures and Changes in Fund Balance provide a "look back" for two years comparing the various expenditures of the Corporation. Overall, expenditures for the years ended June 30, 2011, 2010 and 2009 were \$7,189,717, \$6,869,659 and \$8,073,693, respectively. In Fiscal Year 2011, expenditures increased by 5% or \$320,058 from 2010. Expenditures decreased in 2010 compared to 2009 by 15% or \$1,204,034.

The most significant changes within the expenditures are as follows:

- The Salaries and Benefits decreased in 2011 by \$124,892, or 2.5%, to \$4,959,961 due to vacant positions and attrition in personnel. Similarly, 2010 decreased by \$507,989, or 9%, to \$5,084,853 due to vacant positions, attrition in personnel and no salary increases.
- Legal, Computer and Auditing Services increased in 2011 by \$260,661 or 50%, from 2010 primarily due to an increase in legal services due to increased legal activity resulting for potential claims and other legal activities. In 2010, it decreased by \$314,593, or 38%, from 2009 primarily due to savings in Computer-Web Services as a result of changing to a new web provider in 2010.
- Furniture and Equipment expenditures decreased in 2011 by \$62,711, or 59%, from 2010 primarily due to less furniture and equipment purchases during the year. In 2010, Furniture and Equipment decreased by \$134,524, or 56%, from 2009 due to an increase in Furniture and Equipment purchases in 2009 associated with the office and Downtown Information Center move.
- Marketing, Printing and Reproduction decreased in 2011 by \$26,998, or 17%, from 2010 due to a decrease in the production of brochures and flyers. In 2010, Marketing, Printing and Reproduction decreased by \$91,709, or 37%, for similar reasons.
- Insurance expenditures increased by \$5,372, or 22% in 2011 due to an increase in property liability insurance. In 2010, Insurance expenditures decreased by \$10,901, or 31%, from 2009 due to a decrease in property liability insurance and a decrease in workers' compensation insurance premiums.
- Other Expenses in 2011 increased by \$25,465, or 12%, from 2010 primarily due to an increase in equal opportunity, office supplies/computer software, postage, and auto and business expenses. Equal opportunity expenses increased by \$6,705, or 30%, due to an increase in expenditures associated with the annual outreach event Subs for Subs. Auto and business expenses increased by \$7,637, or 22%, due to increased parking expenses related to the Centre City Advisory Committee. In 2010, Other Expenses decreased by \$110,785, or 34%, from 2009 due primarily to a decrease in professional development, office supplies, telephone and business expenses due to a reduction of available budget.
- Payment on advance from the Agency increased by \$220,000 due a repayment of the advance from the Agency so that the advance equals 15% of the approved budget.

Budget Comparisons

The Budgetary Comparison Schedules can be found on pages 30 and 31 of this report. The Fiscal Year 2011 expenditures were under budget by \$1,177,283 or 14%. The most significant budget to actual variances were savings in Salaries and Benefits in the amount of \$1,078,039, or 18%, which was primarily due to unfilled positions and attrition in personnel. Significant savings were also in Legal, Computer and Auditing Services in the amount of \$136,273, or 15%, primarily due to savings in legal and computer web services.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

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 and attrition in personnel..

The Corporation may from time to time make budgetary line item adjustments for a net budget change of zero dollars to accommodate the Corporation's administrative operating activities. Budget adjustments are presented to the Board for review and approval. In Fiscal Year 2011, the Corporation's Board approved budget adjustments at the September 29, 2010 Board Meeting, Agenda 696, Item 14, at the April 27, 2011 Board Meeting, Agenda 706, Item 13 and at the June 22, 2011 Board Meeting, Agenda 709, Item 10.

Next Year's Budget

The Corporation and Agency recently adopted the Fiscal Year 2012 Budgets. The Corporation's administrative portion of the budget is \$8,162,000, representing a decrease of \$205,000 or 2.5% from the Fiscal Year 2011 Budget. The decrease reflects:

- A decrease of \$56,000 or 1% for salaries as a result of the elimination of 2.5 positions and adding one new position for a net decrease of 1.5 positions in the FY 2012 Budget.
- A decrease of \$149,000 or 6.4% for non-personnel expenses, which includes a reduction in Leasehold Improvements, Office/Computer Supplies, Advertising/Relocation/Recruitment, Business Expense, Professional Development and Associated Travel, and Communications/Material and Events.

Risk and Uncertainties

The Redevelopment Agency of the City of San Diego is the primary funding source for the Corporation; therefore, any reduction in the Agency's funding could substantially alter the services provided by the Corporation.

The California Legislature recently adopted Assembly Bill 26 (AB26) and Assembly Bill 27 (AB27), which provide for the dissolution of redevelopment agencies but allow the local jurisdiction that formed the redevelopment agency to pay certain funds on an annual basis to the local county auditor-controller for the benefit of the State, in exchange for the continued survival of the redevelopment agency. On August 1, 2011, the City of San Diego enacted an ordinance to allow the continued survival of the Agency under the "opt in" provisions of AB27. However, in a pending lawsuit that challenges the validity of AB26 and AB27, the California Supreme Court has issued a stay of most provisions of these laws, including the "opt in" provisions of AB27. The partial stay places the status of redevelopment agencies in limbo, pending the resolution of the lawsuit on its merits. It is anticipated that the California Supreme Court will issue its final ruling by January 2012. Although the Corporation is currently financially dependent upon the Agency, pursuant to a Cooperation Agreement between the City and the Agency dated February 28, 2011, the Agency transferred funds to the City for costs to be incurred by the City in implementing certain redevelopment projects, which include projects administered by the Corporation. So, while not directly applicable to the Corporation, AB26 and AB27 and the pending litigation may create significant impediments to the Corporation's future operations.

On behalf of the City, the Corporation carries out certain municipal functions such as planning and design review within the Centre City area. The City Council created the Corporation originally to administer redevelopment, but subsequently has added the administration of the design review process and planning functions, consistent with the community plan and planned district ordinances, within the Centre City area. Additionally, the City has designated the Corporation as the Downtown Community Parking District Advisory Board (Downtown CPD), which boundaries are concurrent with those of the Centre City area, to oversee, implement and manage parking within the Centre City area.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Management's Discussion and Analysis (Continued)
(Unaudited)

The Corporation has recently explored the imposition of permit processing fees to applicants in connection with the Corporation's activities, as it relates to the design review and planning, similar to fees that other jurisdictions assess. Additionally, the Corporation, acting as the Downtown CPD, oversees and implements a budget of approximately \$2.5 million to \$3 million annually to carry out the functions of the Downtown CPD.

If AB26 and AB27 are upheld by the California State Supreme Court, jurisdictions that have "opted" in, such as the City of San Diego, may continue redevelopment but with diminished funds due to the required payments to the State under AB27. With diminished funding, the Corporation would have to evaluate its operations and make any necessary adjustments to align the funding levels with the operations, as well as explore any new sources of funding such as permit processing fees or any other resources.

One possible outcome of the pending lawsuit is that the California Supreme Court might uphold AB26, but invalidate AB27, resulting in the elimination of all redevelopment agencies in California. In the event that the Agency is eliminated and the City chooses to have the Corporation continue to carry out its functions independent of redevelopment, the Corporation would have to evaluate its available funding and potential new resources and align the Corporation's operations with such funding levels.

With regards to the fiscal year ending June 30, 2012, the Corporation expects that all operations should continue as budgeted. Funding for the Corporation has been included in the Agency's Enforceable Obligation Payment Schedule, which was submitted to the State Department of Finance. Depending on the outcome of the Court ruling on AB26 and AB27, the Corporation's management will evaluate and implement any necessary adjustments prior to June 30, 2012.

Forward Looking Statements

This MD&A may contain "forward looking" information. Forward looking statements can be identified by use of such words as "plans", "anticipates", "expects", "is expected", "in the event", "approximately" "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These forward looking statements relate to, among other things, the Corporation's assumptions regarding future results of operations. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors that we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

Request for Information

This financial report is designed to provide a general overview of the Corporation'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 (Deficit)
June 30, 2011 and 2010

	Governmental Activities	
	2011	2010
ASSETS		
Current assets:		
Cash and investments	\$ 824,856	\$ 1,011,190
Receivables for reimbursable expenses from the Redevelopment Agency of the City of San Diego	587,150	684,600
Prepaid expenses	2,200	2,200
Capital assets, depreciable, net	121,020	218,140
Total assets	1,535,226	1,916,130
LIABILITIES		
Current liabilities:		
Accounts payable	602	1,051
Accrued expenses	66,186	132,940
Compensated absences - due in one year	145,311	128,374
Long-term liabilities:		
Compensated absences - due after one year	201,024	186,481
Advance from the Redevelopment Agency of the City of San Diego	1,260,000	1,480,000
Total liabilities	1,673,123	1,928,846
NET ASSETS (DEFICIT)		
Invested in capital assets	121,020	218,140
Unrestricted (deficit)	(258,917)	(230,856)
Total net deficit	\$ (137,897)	\$ (12,716)

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Statements of Activities
For the Years Ended June 30, 2011 and 2010

2011			
Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) and Change in Net Assets
Governmental Activities -			
General government and support	\$ 7,098,317	\$ 6,949,039	\$ (149,278)
		General Revenues:	
		Interest and unrealized gain on investments	3,920
		Miscellaneous	20,177
		Total general revenues	24,097
		Change in net assets	(125,181)
		Net deficit - beginning of year	(12,716)
		Net deficit - end of year	\$ (137,897)
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)
		General Revenues:	
		Interest and unrealized gain on investments	23,384
		Miscellaneous	31,909
		Total general revenues	55,293
		Change in net assets	(6,388)
		Net deficit - beginning of year, as restated	(6,328)
		Net deficit - end of year	\$ (12,716)

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Balance Sheets
General Fund
June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash and investments	\$ 824,856	\$ 1,011,190
Receivables for reimbursable expenditures from the Redevelopment Agency of the City of San Diego	587,150	684,600
Prepaid items	2,200	2,200
Total assets	\$ 1,414,206	\$ 1,697,990
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 602	\$ 1,051
Accrued liabilities	66,186	132,940
Total liabilities	66,788	133,991
Fund Balance:		
Nonspendable	2,200	2,200
Unassigned	1,345,218	1,561,799
Total fund balance	1,347,418	1,563,999
Total liabilities and fund balance	\$ 1,414,206	\$ 1,697,990

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 (Deficit)
June 30, 2011 and 2010

	2011	2010
Total fund balance - General Fund	\$ 1,347,418	\$ 1,563,999
Amounts reported for governmental activities in the Statements of Net Assets (Deficit) were different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the General Fund balance sheets.	121,020	218,140
Compensated absences are not due and payable in the current period and, therefore, are not reported in the General Fund balance sheets.	(346,335)	(314,855)
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.	(1,260,000)	(1,480,000)
Net deficit of Governmental Activities	\$ (137,897)	\$ (12,716)

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES:		
Contributions from the Redevelopment Agency of the City of San Diego	\$ 6,949,039	\$ 6,837,510
Interest and unrealized gain on investment	3,920	23,384
Miscellaneous	<u>20,177</u>	<u>31,909</u>
Total revenues	<u>6,973,136</u>	<u>6,892,803</u>
EXPENDITURES:		
Current:		
Salaries and benefits	4,959,961	5,084,853
Rent and leasehold improvements	784,923	760,633
Legal, computer and auditing services	777,227	516,566
Marketing, printing and reproduction	131,927	158,925
Office supplies	108,623	92,328
Furniture and equipment	42,806	105,517
Auto and business	41,618	33,981
Telephone	30,621	31,820
Insurance	29,755	24,383
Equal opportunity	29,296	22,591
Dues and seminars	21,238	25,587
Director fees	5,164	4,788
Recruitment	3,285	2,523
Travel	3,273	5,164
Debt service:		
Payment on advance from the Redevelopment Agency of the City of San Diego	<u>220,000</u>	<u>-</u>
Total expenditures	<u>7,189,717</u>	<u>6,869,659</u>
Net change in fund balance	(216,581)	23,144
FUND BALANCE:		
Beginning of year, as restated	<u>1,563,999</u>	<u>1,540,855</u>
End of year	<u>\$ 1,347,418</u>	<u>\$ 1,563,999</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, 2011 and 2010

	2011	2010
Net change in fund balance - General Fund	\$ (216,581)	\$ 23,144
Amounts reported for governmental activities in the Statement of Activities were different because:		
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 amount of depreciation expense on capital assets in excess of the amount of capitalized expenditures.	(97,120)	(31,338)
In the Statement of Activities, compensated absences (vacation and sick leave) 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 2011, vacation and sick leave earned exceeded the amount used by \$31,480; in fiscal year 2010, vacation and sick leave earned was less than the amount used by \$1,806.	(31,480)	1,806
Payment made on the advance received from the Redevelopment Agency of the City of San Diego consumes current financial resources of the General Fund, but the payments decrease the outstanding balance of the long-term liabilities in the government-wide Statement of Net Assets (Deficit).	220,000	-
Change in net assets of Governmental Activities	\$ (125,181)	\$ (6,388)

See accompanying notes to basic financial statements.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements
For the Years Ended June 30, 2011 and 2010

NOTE 1 – ORGANIZATION AND OPERATIONS

Centre City Development Corporation, Inc. (Corporation) 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). The Corporation is primarily funded by contributions from the Agency.

The Corporation's governing board is approved by the City Council of the City of San Diego (City). The Corporation's budget is approved annually by the Agency. The Corporation provides services to the Agency and the City. The City Council's function is to appoint the Board of Directors of the Corporation and to act as the Agency, represented by the Corporation, in the downtown (Centre City) area. The Corporation administers redevelopment plans adopted by the Agency 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 the Corporation, pursuant to an operating agreement with the Agency, to implement the redevelopment process in the Centre City Area.

The Corporation is a component unit of the City since the City is financially accountable for the Corporation.

On March 22, 2010, the City and the Agency amended and restated the Corporation's Articles of Incorporation and 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 the Corporation, the appointment, termination, and annual performance review of the Corporation President, modifying the required expertise for the Corporation Board Members, as well as various other changes, which would strengthen the reporting responsibilities between the Corporation and the Agency and/or City.

The Corporation 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. The Corporation provided in-kind administrative services totaling \$89,514 and \$122,544 for the years ended June 30, 2011 and 2010, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting / Measurement Focus

The accounts of the Corporation are organized on the basis of fund accounting, where the Corporation's general fund is considered a separate accounting entity. The operations of the general 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 the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

The Corporation's government-wide financial statements include a statement of net assets (deficit) and a statement of activities. These statements present summaries of the Corporation's governmental activities.

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Corporation's assets and liabilities, including long-term assets and liabilities, are included in the accompanying statement of net assets (deficit). 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 the Corporation, 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 the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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 fund balance and the net change in fund balance as presented in these statements to the net assets and change in net assets presented in the government-wide financial statements.

The General Fund is used to account for the activities of the Corporation'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 fund balance.

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, the Corporation 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 Governmental Accounting Standards Board (GASB) Statement No. 34.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

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

Investments

Investments are reported at fair value in accordance with the GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Note 3 contains additional information related to the Corporation's cash and investments.

Capital Assets

Capital assets are reported in the statement of net assets (deficit). 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 and sick leave) are accrued when incurred in the government-wide financial statements. The Corporation provides personal time off (PTO) leave to cover both vacation and sick leave for regular full-time employees. The Corporation's policy permits full-time regular employees to earn between 144 hours to 224 hours annually based on length of service. Regular part-time employees working 20 or more hours per week shall accrue PTO on a prorated basis. PTO leave may be accumulated up to a maximum of twice the number of hours accrued annually based on the employee's length of service.

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 is attributed to the acquisition, construction, or improvement of the assets. The Corporation did not have any debt outstanding related to capital assets at June 30, 2011 and 2010.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws and regulations of other governments. The Corporation did not have any restricted net assets at June 30, 2011 and 2010.

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."

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of 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. Accordingly, actual results could differ from those estimates. Management believes that the estimates made are reasonable.

New Governmental Accounting Standards

Effective, July 1, 2009, the Corporation implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 improves the financial reporting by providing fund balance categories and classifications that are more easily understood. The reserved components of fund balance are eliminated and replaced with restricted, committed, assigned, or unassigned classifications to enhance the consistency between the information reported in the government-wide and the governmental fund financial statements to avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance disclosures seek to give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated.

Fund balances presented in the governmental fund financial statements represent the difference between assets and liabilities. GASB Statement No. 54 requires that the fund balances be classified into the following categories based upon the type of restrictions imposed on the use of funds:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The Corporation did not have any restricted fund balance at June 30, 2011 and 2010.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action by the entity's highest level of decision-making authority. The Corporation did not have any committed fund balance at June 30, 2011 and 2010.

Assigned – This classification includes amounts intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed. The Corporation did not have any assigned fund balance at June 30, 2011 and 2010.

Unassigned – This classification is the residual amount for the Corporation's general fund and includes all spendable amounts not contained in the other classifications.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation reduces restricted amounts first when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available. The Corporation reduces committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 3 – CASH AND INVESTMENTS

Cash

The carrying amount of the Corporation’s cash consisted of the following at June 30, 2011 and 2010:

	2011	2010
Petty cash	\$ 500	\$ 500
Cash – checking	54,764	560,018
Cash – savings	682,174	366,673
Total Cash	\$ 737,438	\$ 927,191

At June 30, 2011 and 2010, the bank balances were \$984,130 and \$714,395, respectively. The difference between the book balances and the bank balances were due to deposits in transit and outstanding checks. Of the bank balances for 2011 and 2010 as noted above, \$250,000 was 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 the Corporation.

Investments

The Corporation received shares of stock as a result and by-product of purchasing a life insurance policy with Standard Insurance Company (Company), a mutual life insurance company. The purchase of the life insurance policy entitled the Corporation to membership interests and ownership in Standard Life Insurance Company. In 1998, the Board of Directors of Standard Insurance Company directed management to develop a plan of demutualization. The plan would convert the Company’s form of organization from a mutual life insurance company to a publicly held, stock life insurance company. Demutualization was approved on September 28, 1998 and upon conversion to a stock company, policyholders’ membership interest, were extinguished and eligible members received consideration in the form of stock, cash or an increase in policy values.

On April 21, 1999, the Corporation received consideration in the form of holding company stock. The Corporation received 1,036 shares in Stancorp Financial Group, with a stock value of \$11,976. On December 9, 2005, the Corporation received an additional 1,036 shares of stock dividend with a stock value of \$53,520. As of June 30, 2011 and 2010, the Corporation owned a total of 2,072 shares of stock. As of June 30, 2011 and 2010, the fair value of the stock based on quoted market prices was \$87,418 and \$83,999, respectively. The Corporation’s investment in stock is not subject to interest rate, credit, or custodial credit risk.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 3 – CASH AND INVESTMENTS (Continued)

The Corporation became aware of its ownership in the stock during the year ended June 30, 2011 and has retroactively recorded the value of its investment and restated net deficit and fund balance as of July 1, 2009. Refer to Note 10.

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2011 and 2010 is as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Capital assets:				
Vehicles	\$ 19,560	\$ -	\$ -	\$ 19,560
Office equipment	292,673	-	-	292,673
Computer equipment	130,980	-	-	130,980
Total capital assets	<u>443,213</u>	<u>-</u>	<u>-</u>	<u>443,213</u>
Less accumulated depreciation:				
Vehicles	(17,605)	-	-	(17,605)
Office equipment	(158,861)	(60,947)	-	(219,808)
Computer equipment	(48,607)	(36,173)	-	(84,780)
Total accumulated depreciation	<u>(225,073)</u>	<u>(97,120)</u>	<u>-</u>	<u>(322,193)</u>
Total capital assets, net	<u>\$ 218,140</u>	<u>\$ (97,120)</u>	<u>\$ -</u>	<u>\$ 121,020</u>

	<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	292,673	-	-	292,673
Computer equipment	76,322	54,658	-	130,980
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	(96,444)	(62,417)	-	(158,861)
Computer equipment	(25,028)	(23,579)	-	(48,607)
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>

The depreciation expense of \$97,120 for the year ended June 30, 2011 and \$85,996 for the year ended June 30, 2010 was reported in general government and support in the statement of activities.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 5 – LONG-TERM LIABILITIES

Annually, the Agency, at its full discretion, provides the Corporation with a working capital advance in order for the Corporation to fund its operating costs and expenditures while the Corporation waits to receive its monthly reimbursement for eligible expenditures. The amount of the working capital advance is adjusted on an annual basis, and is generally determined in an amount that is approximately equal to 15% of the Corporation's approved budget. As a result of the decrease in the Corporation's operating budget, the Corporation made a repayment on the advance to the Agency of \$220,000 during the year ended June 30, 2011.

A summary of changes in the Corporation's long-term liabilities for the years ended June 30, 2011 and 2010 is as follows:

	July 1, 2010	Additions	Deletions	June 30 2011	Due Within One Year
Advance from the Redevelopment Agency of the City of San Diego	\$ 1,480,000	\$ -	\$ (220,000)	\$ 1,260,000	\$ -
Compensated Absences	314,855	320,017	(288,537)	346,335	145,311
Total	\$ 1,794,855	\$ 320,017	\$ (508,537)	\$ 1,606,335	\$ 145,311
	July 1, 2009	Additions	Deletions	June 30 2010	Due Within One Year
Advance from the Redevelopment Agency of the City of San Diego	\$ 1,480,000	\$ -	\$ -	\$ 1,480,000	\$ -
Compensated Absences	316,661	327,373	(329,179)	314,855	128,374
Total	\$ 1,796,661	\$ 327,373	\$ (329,179)	\$ 1,794,855	\$ 128,374

NOTE 6 – PENSION PLANS

The Corporation has a Money Purchase Pension Plan, subject to the Employee Retirement Income Retirement Income Act (ERISA) under Internal Revenue Code (IRC) section 401(a), covering all full-time permanent employees. The plan is a defined contribution plan under which benefits depend solely on amounts contributed by the Corporation 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, the Corporation contributes semi-monthly an amount equal to 8% of the total semi-monthly compensation for all full-time permanent employees. The Corporation's contributions for each employee are fully vested after six years of continuous service. The Corporation's total payroll (excluding benefits) for fiscal year 2011 was approximately \$3,371,460. The Corporation's contributions were calculated using the base salary amount of all full-time permanent employees of \$3,280,034. The Corporation made the required 8% contribution amounting to \$222,821 (net of forfeitures) for fiscal year 2011. The Corporation's total payroll for fiscal year 2010 was \$3,480,670. The Corporation's contributions were calculated using the base salary amount of all full-time permanent employees of \$3,434,061. The Corporation made the required contribution amounting to \$206,683 (net of forfeitures) for fiscal year 2010.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 6 – PENSION PLANS (Continued)

In addition, the Corporation has a Tax Deferred Annuity Plan under section 403(b) of the Internal Revenue Code of 1986 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, the Corporation contributes semi-monthly an amount equal to 16% of the total semi-monthly compensation for all full-time permanent employees. The Corporation's contributions for each employee are fully vested at the time of contribution. The Tax Deferred Annuity Plan includes amounts deposited by employees prior to the Corporation becoming a contributor to the plan. The Corporation made the required 16% contribution amounting to \$524,806 for fiscal year 2011 and \$549,449 for fiscal year 2010.

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

NOTE 7 – NET DEFICITS

The unrestricted net deficit in the amount of \$258,917 and \$230,856 (as restated) as of June 30, 2011 and 2010, respectively, is primarily related to the amount of accrued compensated absences due to all employees, offset by the fair value of investments.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

The Corporation is presently involved in certain matters of litigation that have arisen in the normal course of conducting the Corporation's business. Corporation management believes, based upon consultation with the Corporation's attorneys, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Corporation. The Corporation is covered by various insurance policies for property, liability, workers' compensation and errors and omissions, with deductibles that vary from \$1,000 to \$25,000. The Corporation's management believes that the 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 – The Corporation leases its office facilities under a non-cancelable operating lease, which has been extended through June 30, 2015. As of June 30, 2011, future minimum lease payments for this lease are as follows:

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

Year Ending June 30,	
2012	\$ 683,088
2013	707,196
2014	731,304
2015	<u>758,088</u>
Total	<u>\$ 2,879,676</u>

The Corporation 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, 2011, future minimum lease payments for this lease are as follows:

Year Ending June 30,	
2012	\$ 104,025
2013	107,145
2014	110,360
2015	<u>108,618</u>
Total	<u>\$ 430,148</u>

In addition, the Corporation leases three copiers under a non-cancelable operating lease for a term of 60 months. As of June 30, 2011, future minimum lease payments for these leases are as follows:

Year Ending June 30,	
2012	\$ 39,626
2013	21,128
2014	<u>2,630</u>
Total	<u>\$ 63,384</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 \$0.006 for black and white copies on the second copier in excess of 13,000 per month with \$0.089 for color copies on the second copier in excess of 5,000 per month. A third copier has a \$0.0084 charge for black and white copies and a \$0.0890 charge on prints in excess of 250 per month.

Rental costs associated with all leases totaled \$779,601 and \$775,352 for 2011 and 2010, respectively.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 9 – ECONOMIC DEPENDENCY AND UNCERTAINTIES

The Redevelopment Agency of the City of San Diego is the primary funding source for the Corporation; therefore, any reduction in the Agency's funding could substantially alter the services provided by the Corporation.

The California Legislature recently adopted Assembly Bill 26 (AB26) and Assembly Bill 27 (AB27), which provide for the dissolution of redevelopment agencies but allow the local jurisdiction that formed the redevelopment agency to pay certain funds on an annual basis to the local county auditor-controller for the benefit of the State, in exchange for the continued survival of the redevelopment agency. On August 1, 2011, the City of San Diego enacted an ordinance to allow the continued survival of the Agency under the "opt in" provisions of AB27. However, in a pending lawsuit that challenges the validity of AB26 and AB27, the California Supreme Court has issued a stay of most provisions of these laws, including the "opt in" provisions of AB27. The partial stay places the status of redevelopment agencies in limbo, pending the resolution of the lawsuit on its merits. It is anticipated that the California Supreme Court will issue its final ruling by January 2012. Although the Corporation is currently financially dependent upon the Agency, pursuant to a Cooperation Agreement between the City and the Agency dated February 28, 2011, the Agency transferred funds to the City for costs to be incurred by the City in implementing certain redevelopment projects, which include projects administered by the Corporation. So, while not directly applicable to the Corporation, AB26 and AB27 and the pending litigation may create significant impediments to the Corporation's future operations.

On behalf of the City, the Corporation carries out certain municipal functions such as planning and design review within the Centre City area. The City Council created the Corporation originally to administer redevelopment, but subsequently has added the administration of the design review process and planning functions, consistent with the community plan and planned district ordinances, within the Centre City area. Additionally, the City has designated the Corporation as the Downtown Community Parking District Advisory Board (Downtown CPD), which boundaries are concurrent with those of the Centre City area, to oversee, implement and manage parking within the Centre City area.

The Corporation has recently explored the imposition of permit processing fees to applicants in connection with the Corporation's activities, as it relates to the design review and planning, similar to fees that other jurisdictions assess. Additionally, the Corporation, acting as the Downtown CPD, oversees and implements a budget of approximately \$2.5 million to \$3 million annually to carry out the functions of the Downtown CPD.

If AB26 and AB27 are upheld by the California State Supreme Court, jurisdictions that have "opted" in, such as the City of San Diego, may continue redevelopment but with diminished funds due to the required payments to the State under AB27. With diminished funding, the Corporation would have to evaluate its operations and make any necessary adjustments to align the funding levels with the operations, as well as explore any new sources of funding such as permit processing fees or any other resources.

One possible outcome of the pending lawsuit is that the California Supreme Court might uphold AB26, but invalidate AB27, resulting in the elimination of all redevelopment agencies in California. In the event that the Agency is eliminated and the City chooses to have the Corporation continue to carry out its functions independent of redevelopment, the Corporation would have to evaluate its available funding and potential new resources and align the Corporation's operations with such funding levels.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2011 and 2010

NOTE 9 – ECONOMIC DEPENDENCY AND UNCERTAINTIES (Continued)

With regards to the fiscal year ending June 30, 2012, the Corporation expects that all operations should continue as budgeted. Funding for the Corporation has been included in the Agency’s Enforceable Obligation Payment Schedule, which was submitted to the State Department of Finance. Depending on the outcome of the Court ruling on AB26 and AB27, the Corporation’s management will evaluate and implement any necessary adjustments prior to June 30, 2012.

NOTE 10 – RESTATEMENT NET ASSETS/FUND BALANCE

As of July 1, 2009, beginning net assets/fund balance were restated as follows:

	General Fund	Governmental Activities
Beginning net assets/fund balance, as previously reported	\$ 1,480,000	\$ (67,183)
Fair value of stock	60,855	60,855
Beginning net assets/fund balance, as restated	\$ 1,540,855	\$ (6,328)

Beginning net assets/fund balance has been restated to reflect the Corporation’s ownership of stock, which was not previously recorded as described in Note 3. Also, as a result of the restatement, the Corporation’s interest and unrealized gain on investments as reported in the Statement of Activities and the General Fund’s Statement of Revenues, Expenditures, and Changes in Fund Balance for the year ended June 30, 2010, increased \$23,144 to \$23,384. The amount previously reported represented interest and was \$240.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2011
(Unaudited)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
REVENUES:				
Contributions from the Redevelopment Agency of the City of San Diego	\$ 8,367,000	\$ 8,367,000	\$ 6,949,039	\$ (1,417,961)
Interest and unrealized gain on investments	-	-	3,920	3,920
Miscellaneous	-	-	20,177	20,177
Total revenues	8,367,000	8,367,000	6,973,136	(1,393,864)
EXPENDITURES:				
Current:				
Salaries and benefits	6,038,000	6,038,000	4,959,961	1,078,039
Rent and leasehold improvements	831,000	795,000	784,923	10,077
Legal, computer and auditing services	600,000	913,500	777,227	136,273
Marketing, printing and reproduction	263,000	183,000	131,927	51,073
Office supplies	159,000	129,000	108,623	20,377
Furniture and equipment	117,000	83,000	42,806	40,194
Auto and business	82,000	62,000	41,618	20,382
Telephone	58,000	38,000	30,621	7,379
Insurance	52,000	37,000	29,755	7,245
Equal opportunity	25,000	25,000	29,296	(4,296)
Dues and seminars	102,000	37,000	21,238	15,762
Directors fees	10,000	10,000	5,164	4,836
Recruitment	20,000	5,000	3,285	1,715
Travel	-	11,500	3,273	8,227
Other	10,000	-	-	-
Debt service::				
Payment on advance from the Redevelopment Agency of the City of San Diego	-	-	220,000	(220,000)
Total expenditures	8,367,000	8,367,000	7,189,717	1,177,283
Net change in fund balance	-	-	(216,581)	(216,581)
FUND BALANCE:				
Beginning of year	1,563,999	1,563,999	1,563,999	-
End of year	\$ 1,563,999	\$ 1,563,999	\$ 1,347,418	\$ (216,581)

See accompanying note to budgetary comparison schedules.

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

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
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 and unrealized gain on investments	-	-	23,384	23,384
Miscellaneous	-	-	31,909	31,909
Total revenues	8,900,000	8,900,000	6,892,803	(2,007,197)
EXPENDITURES:				
Current:				
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
Legal, computer and auditing services	625,000	700,000	516,566	183,434
Marketing, printing and reproduction	288,000	273,000	158,925	114,075
Furniture and equipment	158,000	148,000	105,517	42,483
Office supplies	202,500	202,500	92,328	110,172
Auto and business	90,000	80,000	33,981	46,019
Telephone	60,000	60,000	31,820	28,180
Dues and seminars	100,000	65,000	25,587	39,413
Insurance	53,000	53,000	24,383	28,617
Equal opportunity	34,500	34,500	22,591	11,909
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
Other	10,000	5,000	-	5,000
Total expenditures	8,900,000	8,900,000	6,869,659	2,030,341
Net change in fund balance	-	-	23,144	23,144
FUND BALANCE:				
Beginning of year, as restated	1,540,855	1,540,855	1,540,855	-
End of year	<u>\$ 1,540,855</u>	<u>\$ 1,540,855</u>	<u>\$ 1,563,999</u>	<u>\$ 23,144</u>

See accompanying note to budgetary comparison schedules.

CENTRE CITY DEVELOPMENT CORPORATION, INC.
Notes to Budgetary Comparison Schedules – General Fund
For the Years Ended June 30, 2011 and 2010

NOTE 1 – BUDGETARY INFORMATION

The Corporation prepares its annual budget on the modified accrual basis of accounting in a format required by the Redevelopment Agency of the City of San Diego (Agency). The budget is approved by the Corporation's Board of Directors (Board) and the Agency. The Corporation's 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. For fiscal year 2011, the Equal Opportunity expenditure line item exceeded budgeted expenditures due to increased expenditures associated with the annual outreach event Subs for Subs, which is held every June.



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

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

We have audited the financial statements of the governmental activities and the general fund of the Centre City Development Corporation, Inc. (Corporation), a component unit of the City of San Diego, California (City) as of and for the year ended June 30, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated October 21, 2011. Our report included an explanatory paragraph indicating that the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and an explanatory paragraph describing an uncertainty as to the future of redevelopment agencies in the State of California and the related impact on the Corporation's future operations. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation'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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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 the Corporation, and 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.

Macias Jini & O'Connell LLP

San Diego, California
October 21, 2011



November 30, 2011

To the Audit Committee of the City of San Diego

The following is Centre City Development Corporation's (Corporation) financial management teams responses to the City of San Diego's Audit Committee question asked with respect to the Corporation's Fiscal Year 2011 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 preformed 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)?
There were no adjustments to the current year. Prior year balances were restated as described in Note 3 of the Financial Statements.
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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Frank J. Alessi", is written over a horizontal line.

Frank J. Alessi
Executive Vice President & Chief Financial Officer

ATTACHMENT B



December 5, 2011

To the Audit Committee
of the City of San Diego

This letter is in response to the following questions asked by the City of San Diego’s (City’s) Audit Committee with respect to the audit of Centre Center Development Corporation’s (CCDC) financial statements for the year ended June 30, 2011.

- 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 effective July 1 of each year attesting to their independence related to all of our clients. MGO staff are provided with a complete listing of all active clients for review prior to completing the annual independence statement. The annual independence statements are reviewed by our Human Resources department and all instances of potential conflicts of interest are forwarded to the firm’s Quality Control Partner for resolution. All prospective work with existing clients is reviewed in advance to determine potential conflicts of interest. MGO does not compensate staff for “selling” additional work. We are not aware of any independence issues related to the services performed for CCDC.

- 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?**

Yes, the audit was performed in accordance with GAAS and 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.

ATTACHMENT C

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?**

Yes. As disclosed in Note 2 to the financial statements, CCDC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

We did not recommend any changes in the accounting principles used or their application.

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 communicate them to the appropriate level of management. There were no misstatements detected as a result of our audit procedures for CCDC's FY 2010/11 audit.

All known accounting adjustments (corrected or uncorrected) identified during the FY 2009/10 audit were disclosed in the schedule attached to our Statement on Auditing Standards No. 114, "The Auditor's Communication with Those Charged with Governance" (SAS 114) letter for the year ended June 30, 2010.

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.

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 FY 2010/11 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?**

Based on our audit procedures, we did not note any attempts by management to commit management override, nor did we notice any biases with respect to accounting estimates made by management.

ATTACHMENT C

- 10. Did you encounter any difficulties in dealing with management in performing the audit, including any disagreements with management regarding any accruals, estimates, reserves or accounting principles? Did you have the full cooperation of management and staff?**

We did not experience any significant difficulties in dealing with management throughout the audit process nor did we have any significant disagreements with management regarding accruals, estimates, or accounting principles. We received full cooperation from management and staff.

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

No. We did not seek the advice of other audit firms, nor did we consult with regulatory bodies concerning accounting issues related to CCDC's FY 2010/11 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.**

Based upon our audit and dealings with management throughout the process, we noted an attitude of consistency, completeness, accuracy and transparency with respect to the CCDC's financial statements and related disclosures.

- 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.

ATTACHMENT C

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?

The following table outlines the new accounting and reporting standards that could have a future impact on CCDC's financial statements.

<i>New Accounting Standard</i>	<i>Required Implementation Date</i>
<i>GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements</i>	<i>FY 2012/13</i>
<i>GASB Statement No. 61, The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34</i>	<i>FY 2012/13</i>
<i>GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position</i>	<i>FY 2012/13</i>

With respect to potential financial risk affecting future financial statements the following matter has been highlighted in our audit opinion and disclosed in Note 9 to CCDC's financial statements:

The California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation. Accordingly, because the Redevelopment Agency of the City of San Diego is the primary funding source for the Corporation, the outcome of this matter may create significant impediments to the Corporation's future operations.

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 in comparison with that of other government entities, particularly with respect to governance and the establishment of a functioning Audit Committee.

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

There were no significant deficiencies or material weaknesses identified.

ATTACHMENT C

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

No.

Sincerely,

Macias Fini & O'Connell LLP

ATTACHMENT C