

**SOUTHEASTERN ECONOMIC DEVELOPMENT  
CORPORATION  
FINANCIAL STATEMENTS  
JUNE 30, 2010**



**Leaf & Cole, LLP**  
*Certified Public Accountants*

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

Steven W. Northcote, C.P.A.  
Michael S. Schreiberman, C.P.A.  
Michael J. Zizzi, C.P.A.  
Julie A. Firl, C.P.A.  
Nicholas M. Gines, C.P.A.

*Members*  
American Institute of Certified Public Accountants  
California Society of Certified Public Accountants

## **Independent Auditor's Report**

To the Board of Directors  
Southeastern Economic Development Corporation  
404 Euclid Avenue, Suite 221  
San Diego, California 92114

We have audited the accompanying financial statements of the governmental activities and the general fund of the Southeastern Economic Development Corporation (SEDC), a component unit of the City of San Diego, California (City) as of and for the year ended June 30, 2010, which collectively comprise SEDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SEDC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 SEDC, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2010, on our consideration of SEDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Leaf & Cole LLP*  
San Diego, California  
October 27, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Southeastern Economic Development Corporation's (SEDC), financial performance provides an overview of SEDC's financial activities for the year ended June 30, 2010. Please read it in conjunction with SEDC's financial statements which begin on page 7.

SEDC is a nonprofit public benefit corporation that administers redevelopment and economic development projects within the communities of southeastern San Diego. SEDC's administrative activities are funded by the Redevelopment Agency of the City of San Diego (Agency) through increases in the amount of property tax revenues received over a base-figure established at the time a redevelopment project area is adopted. This increase is known as tax-increment. The redevelopment activities are funded by bonds and other types of debt that are also repaid through tax increment. The redevelopment projects belong to and the revenue and expenses are recorded by the Agency, and therefore, are not included in these financial statements.

### **Financial Statements**

This discussion and analysis provides an introduction and a brief description of SEDC's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. SEDC's financial statements include three components:

- Government-Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statement

### **Government-Wide Financial Statements**

Government-Wide financial statements provide both short-term and long-term information about SEDC's overall financial status. Fund financial statements focus on the individual activities of SEDC, reporting more detail than the Government-Wide financial statements.

The Government-Wide financial statements are designed to provide readers with a broad overview of SEDC's finances, in a manner similar to a private-sector business. These statements are presented on the "economic resources" measurement focus and the accrual basis of accounting.

The statement of net assets presents information on all of SEDC's assets and liabilities, with the difference between the two presented as net assets. Net assets are reported as one of three categories: 1) invested in capital assets, net of related debt, 2) restricted or 3) unrestricted. Over time, increases or decreases in SEDC's net assets are one indicator of whether its financial health is improving or deteriorating.

### **Fund Financial Statements**

The fund financial statements begin on page 9 and provide detailed information about SEDC's fund not SEDC as a whole. SEDC's basic services are reported in a governmental fund, which focuses on how money flows into and out of the fund. Funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of SEDC's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance SEDC's operations. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation immediately following the fund financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Notes to the Financial Statements

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

### Financial Highlights

During the year ended June 30, 2010, SEDC's net assets decreased by \$146,854 to \$286,382. SEDC's revenues decreased \$444,431 to \$1,858,833 while operating expenses decreased \$314,926 to \$1,921,815. For the year ended June 30, 2010, operating expenses exceeded operating revenues by \$62,982.

### Financial Analysis of SEDC

SEDC's net assets decreased between fiscal years ending 2010 and 2009, from \$35,403 to \$(33,591). Net assets invested in capital assets, net of related debt decreased \$(15,517). The following is a summary of SEDC's statements of net assets:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b><u>Assets:</u></b>			
Cash	\$ 88,265	\$ 188,184	\$ (99,919)
Receivable from Redevelopment Agency	179,899	174,234	5,665
Other current assets	-	37,083	(37,083)
Capital assets, net	<u>18,218</u>	<u>33,735</u>	<u>(15,517)</u>
<b>Total Assets</b>	<u>286,382</u>	<u>433,236</u>	<u>(146,854)</u>
<b><u>Liabilities:</u></b>			
Accounts payable	4,974	25,254	(20,280)
Accrued payroll	35,447	36,119	(672)
Compensated absences	47,502	42,190	5,312
Advance from Redevelopment Agency	<u>232,050</u>	<u>294,270</u>	<u>(62,220)</u>
<b>Total Liabilities</b>	<u>319,973</u>	<u>397,833</u>	<u>(77,860)</u>
<b><u>Net Assets:</u></b>			
Invested in capital assets	18,218	33,735	(15,517)
Unrestricted	<u>(51,809)</u>	<u>1,668</u>	<u>(53,477)</u>
<b>Total Net Assets</b>	<u>(33,591)</u>	<u>35,403</u>	<u>(68,994)</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 286,382</u>	<u>\$ 433,236</u>	<u>\$ (146,854)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

SEDC's operating revenues are derived from the reimbursement of eligible costs by the Redevelopment Agency of the City of San Diego (Agency). Operating revenues decreased from 2009 to 2010 as a direct result of a decrease in the budget.

SEDC's actual operating expenses decreased \$314,926 from 2009 to \$1,921,815 in 2010. Salaries and wages and employee benefits decreased \$66,722 principally due to layoffs. The following is a summary of SEDC's statements of activities:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b><u>Revenues:</u></b>			
<b>Program Revenues:</b>			
Operating contributions and grants	\$ 1,858,833	\$ 2,304,264	\$ (445,431)
<b>Total Program Revenues</b>	<u>1,858,833</u>	<u>2,304,264</u>	<u>(445,431)</u>
<b><u>Program Expenses:</u></b>			
Operating expenses	1,921,815	2,236,741	(314,926)
<b>Total Program Expenses</b>	<u>1,921,815</u>	<u>2,236,741</u>	<u>(314,926)</u>
<b><u>General Revenues:</u></b>			
Loss on disposal of capital assets	(6,012)	-	(6,012)
Change in Net Assets	<u>\$ (68,994)</u>	<u>\$ 67,523</u>	<u>\$ (135,517)</u>

### **Capital Assets**

Capital assets include leasehold improvements, office equipment, and computer equipment. At June 30, 2010, SEDC had invested \$59,111 in capital assets net of \$40,893 of accumulated depreciation. This amount represents a net decrease of \$(15,517) from the prior year. The decrease was the result of leasehold improvements that were disposed when SEDC relocated its operations. Depreciation expense for the year ended June 30, 2010, totaled \$9,505.

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Leasehold improvements	\$ -	\$ 21,037	\$ (21,037)
Office equipment	24,147	24,147	-
Computer equipment	34,964	34,964	-
<b>Total</b>	<u>\$ 59,111</u>	<u>\$ 80,148</u>	<u>\$ (21,037)</u>

### **Debt**

At June 30, 2010, SEDC has received advances from the Redevelopment Agency of the City of San Diego. The following is a detail:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Payable Within One Year
Advance from the Redevelopment Agency	\$ 294,270	\$ -	\$ (62,220)	\$ 232,050	\$ 232,050

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Budget Comparison**

The original budget of \$2,345,600 was established based on anticipated expenditures relative to the Corporation receiving tax increment consistent with previous years. The unanticipated shifting of tax increment from California redevelopment agencies by the State of California and the unforeseen county reduction in assessed property values, forced SEDC to reduce its staff by 40%. This reduction in staff and extensive cost cutting efforts resulted in SEDC's actual costs being \$438,602, or 19% below the original budget for the year ended June 30, 2010.

### **Economic Factors**

The Redevelopment Agency of the City of San Diego (Agency) and SEDC signed an Amended and Restated Operating Agreement during FY 2010. SEDC also restated and amended its bylaws at the same time. No major financial impacts to SEDC were included in these amended documents.

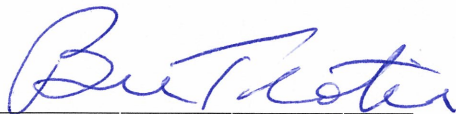
The County Assessor reduced property values throughout the County of San Diego in June 2009. The financial impact to SEDC was a reduction of tax increment of approximately \$1 million.

The State of California adopted its fiscal year 2010 budget in July 2009 that shifted \$1.7 billion from state redevelopment agencies to the Supplemental Educational Revenue Augmentation Fund (SERAF). The Agency's share of the shift was \$56.7 million, with SEDC's share being \$2.3 million. The financial impact of this shift, coupled with the assessed property value reductions resulted in SEDC staff reductions of 40%, and some of the redevelopment activities for SEDC's project areas to be delayed until fiscal years 2011 and 2012.

The former president has filed a lawsuit against SEDC to recover a severance payment allegedly due under her termination agreement.

### **Contacting SEDC's Financial Management**

This financial report is designed to provide a general overview of the SEDC's finances and to demonstrate SEDC's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at Southeastern Economic Development Corporation, 404 Euclid Avenue, Suite 221, San Diego, California 92114.



Brian L. Trotier  
Acting President/Chief Executive Officer



Terry Darden  
Chief Financial Officer

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

**ASSETS**

**Assets:** (Notes 1, 2, 3 and 4)

Cash	\$	88,265
Receivable from Redevelopment Agency		179,899
Capital assets, net		<u>18,218</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u><u>286,382</u></u></b>

**LIABILITIES AND NET ASSETS**

**Liabilities:** (Notes 1 and 5)

Accounts payable	\$	4,974
Accrued payroll		35,447
Compensated absences		47,502
Advance from Redevelopment Agency		<u>232,050</u>
Total Liabilities		<u><u>319,973</u></u>

**Commitments and Contingencies** (Notes 6, 7 and 8)

**Net Assets:** (Note 1)

Invested in capital assets		18,218
Unrestricted		<u>(51,809)</u>
Total Net Assets		<u><u>(33,591)</u></u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u><u>286,382</u></u></b>
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The accompanying notes are an integral part of the financial statements.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues Operating Grants and Contributions</u></b>	<b><u>Net (Expense) Revenues and Changes in Net Assets</u></b>
<b>Governmental Activities:</b>			
General Fund	\$ <u>1,921,815</u>	\$ <u>1,858,833</u>	\$ <u>(62,982)</u>
Total Governmental Activities	\$ <u><u>1,921,815</u></u>	\$ <u><u>1,858,833</u></u>	\$ <u><u>(62,982)</u></u>
<b>General Revenues:</b>			
Loss on disposal of capital assets			\$ <u>(6,012)</u>
Total General Revenues			<u>(6,012)</u>
Change in Net Assets			(68,994)
Net Assets (Deficit) at Beginning of the Year			<u>35,403</u>
<b>Net Assets at End of the Year</b>			<b>\$ <u><u>(33,591)</u></u></b>

The accompanying notes are an integral part of the financial statements.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION  
BALANCE SHEET  
GENERAL FUND  
JUNE 30, 2010**

**ASSETS**

**Assets:**

Cash	\$	88,265
Receivable from Redevelopment Agency		<u>179,899</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u><u>268,164</u></u></b>

**LIABILITIES AND FUND BALANCE**

**Liabilities:**

Accounts payable	\$	4,974
Accrued payroll		<u>35,447</u>
Total Liabilities		<u><u>40,421</u></u>

**Commitments**

**Fund Balance:**

Fund balance		<u>227,743</u>
Total Fund Balance		<u><u>227,743</u></u>

<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$</b>	<b><u><u>268,164</u></u></b>
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The accompanying notes are an integral part of the financial statement.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION  
RECONCILIATION OF THE BALANCE SHEET - GENERAL FUND  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010**

Total Fund Balance - General Fund	\$	227,743
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund balance sheet		18,218
Compensated absences were not due and payable in the current period and therefore were not reported in the general fund balance sheet		(47,502)
Long-term advances from the Redevelopment Agency were not due and payable in the current period and therefore were not reported in the general fund balance sheet		<u>(232,050)</u>
Net Assets of Governmental Activities	\$	<u><u>(33,591)</u></u>

The accompanying notes are an integral part of the financial statements.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**Operating Revenue:**

Contributions from the Redevelopment Agency	\$ 1,796,377
Other revenue	236
Total Operating Revenue	1,796,613

**Operating Expenditures:**

Personnel expenditures	
Salaries and wages	766,664
Employee benefits	225,266
Total personnel expenditures	991,930
Non-personnel expenditures	
Consultants and professional services	237,464
Office rent	227,228
Temporary employment services	193,049
Moving costs	48,988
Office expense	38,529
Public relations and advertising	34,853
Repairs and maintenance	33,600
Equipment rental	30,847
Utilities and telephone	25,699
Travel	10,554
Office furniture and equipment	9,492
Memberships and subscriptions	8,589
Other operating expenses	7,048
Offsite facilities rental	6,544
Conferences, seminars and education	2,579
Reproduction	5
Total non-personnel expenditures	915,068
Total Operating Expenditures	1,906,998

Net Change in Fund Balance (110,385)

Fund Balance at Beginning of Year 338,128

**FUND BALANCE AT END OF YEAR** **\$ 227,743**

The accompanying notes are an integral part of the financial statements.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GENERAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balance - General Fund	\$ (110,385)
The change in net assets reported for governmental activities in the statement of activities is different because:	
Depreciation expense on capital assets was reported in the statement of activities, but did not require the use of current financial resources; therefore, depreciation expense was not reported as an expenditure in the general fund.	(9,505)
Loss on disposal of capital assets was reported in the statement of activities, but did not require the use of current financial resources; therefore, the loss was not reported in the general fund.	(6,012)
Changes in compensated absences reported in the statement of net assets did not require the use of current financial resources; therefore, they were not reported as expenditures in the general fund	(5,312)
Changes in advances from the Redevelopment Agency of the City of San Diego represent contributions from the Redevelopment Agency that were reported in the statement of activities that do not represent the receipt of current resources.	<u>62,220</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (68,994)</u></u>

The accompanying notes are an integral part of the financial statements.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 1 - Organization and Significant Accounting Policies:**

**Organization**

Southeastern Economic Development Corporation (SEDC) is a nonprofit public benefit corporation organized in 1980 to administer redevelopment and economic development projects within the communities of southeastern San Diego and provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego (Agency). These activities are carried out pursuant to an amended and restated operating agreement with the Agency under which the Agency agrees to reimburse SEDC for all eligible costs (as defined) incurred in connection with such activities.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14 as amended by GASB Statement No. 39. SEDC is a component unit of the City. Component units are those entities which are financially accountable to the primary government, either because the primary government appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the primary government. The City Council appoints the Board of Directors of SEDC.

**Significant Accounting Policies**

A summary of SEDC's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**Basis of Presentation**

**Government-Wide Statements**

SEDC's basic financial statements include both government-wide (reporting the entity as a whole) and fund financial statements (reporting the entity's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. SEDC's general fund is classified as a governmental activity. SEDC has no business-type activities.

In the government-wide statement of net assets, the governmental funds are reported on a full accrual, economic resource basis, which recognizes all long-term assets as well as long-term debt and obligations. SEDC's net assets may be reported in three parts; invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. The statement of net assets includes all funds of the reporting entity.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each program of the governmental activities. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Basis of Presentation (Continued)**

**Fund Financial Statements**

Fund financial statements report detailed information about the SEDC. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on major funds in the governmental categories. Nonmajor funds by category are summarized into a single column, if any. Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The funds of SEDC are described below:

**Governmental Funds**

The focus of the governmental funds measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. SEDC reports the general fund as a major governmental fund.

**Measurement Focus and Basis of Accounting**

**Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual**

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Measurement Focus and Basis of Accounting (Continued)**

**Modified Accrual**

The governmental funds' financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. SEDC considers all revenue available if collected within 60 days after year-end. SEDC considers interest to be susceptible to accrual. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on long-term debt, if any, is recognized when due.

**Estimates**

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

**Capital Assets**

Capital assets are defined by SEDC as assets with an initial, individual cost of at least \$5,000 and an estimated useful life greater than one year. Acquisitions of capital assets are recorded at historical cost. Contributed assets are recorded at their fair market value on the date of donation. Self-constructed assets are recorded at the amount of direct labor, material, and certain overhead and interest costs. Depreciation has been provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Leasehold improvements	7 years
Office equipment	5 years
Computer equipment	3 years

Depreciation aggregated \$9,505 for the year ended June 30, 2010.

**Compensated Absences**

SEDC records a liability equal to 100% of vacation and sick leave earned by employees, which totaled \$47,502 at June 30, 2010, and is included in compensated absences.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Risk Management**

SEDC 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 disasters. SEDC is insured under a policy or policies purchased by the Redevelopment Agency of the City of San Diego. Coverage under these policies includes \$7 million for commercial general liability insurance with a \$5,000 deductible; automobile liability with a combined single limit of \$7 million and uninsured motorist coverage of \$1 million and errors and omission coverage for directors and officers of \$7 million per occurrence and annual aggregate with a \$5,000 deductible. Also, SEDC carries \$2 million of employment practices coverage with a \$10,000 deductible. In addition, SEDC carries workers' compensation and employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Economic Dependency**

SEDC receives virtually all of its revenues from the Agency. Interruption of this source would impact SEDC negatively.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, SEDC considers all investment instruments purchased with a maturity of three months or less to be cash.

**Subsequent Events**

In preparing these financial statements, the SEDC has evaluated events and transactions for potential recognition or disclosure through October 27, 2010, the date the financial statements were available to be issued.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 2 - Cash and Cash Equivalents:**

The table below identifies the investment types that are authorized for SEDC by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that would be governed by the provisions of debt agreements of SEDC, rather than the general provision of the California Government Code. SEDC does not have an investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 Days	40%	30%
Commercial Paper	270 Days	25%	10%
Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	None	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	N/A
San Diego County Treasurer's Pooled Money Fund	N/A	None	N/A
Other Local Agency (within CA only)	3 years	None	None
State Instruments	3 years	None	None

Cash and cash equivalents held by SEDC were comprised of the following at June 30, 2010:

	<u>Maturity in Years</u> <u>1 Year or Less</u>	<u>Total</u>
Cash on hand	\$ 400	\$ 400
Deposits with financial institutions	87,865	87,865
Total Cash and Cash Equivalents	<u>\$ 88,265</u>	<u>\$ 88,265</u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SEDC manages its exposure to interest rate risk is by only holding cash and cash equivalents which are not subject to interest rate risk.

Information about the sensitivity of the fair values of SEDC's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's cash and investments by maturity as of June 30, 2010.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 2 - Cash and Investments: (Continued)**

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In an effort to reduce credit risk, SEDC holds only cash and cash equivalents at year end.

**Concentration of Credit Risk**

Concentration of credit is the risk of loss attributed to the magnitude to SEDC's investment in a single issue.

SEDC does not limit the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. SEDC holds no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SEDC will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer), SEDC will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure SEDC's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, none of SEDC's deposits with financial institutions exceeded the federal depository insurance. No investments were held by the same broker-dealer (counterparty) that was used by SEDC to buy the securities. SEDC holds no investments at June 30, 2010.

**Note 3 - Receivable from Redevelopment Agency:**

Receivables for reimbursable expenditures from the Agency totaled \$179,899 at June 30, 2010. Management believes these receivables to be fully collectible. Therefore, no allowance for doubtful accounts has been established at June 30, 2010.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 4 - Capital Assets:**

Capital asset activity for SEDC for the year ended June 30, 2010, follows:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
<b>Capital Assets Being Depreciated:</b>				
Leasehold improvements	\$ 21,037	\$ -	\$ (21,037)	\$ -
Office equipment	24,147	-	-	24,147
Computer equipment	34,964	-	-	34,964
Total	<u>80,148</u>	<u>-</u>	<u>(21,037)</u>	<u>59,111</u>
Less Accumulated Depreciation for:				
Leasehold improvements	(15,025)	-	15,025	-
Office equipment	(24,147)	-	-	(24,147)
Computer equipment	(7,241)	(9,505)	-	(16,746)
Total Accumulated Depreciation	<u>(46,413)</u>	<u>(9,505)</u>	<u>15,025</u>	<u>(40,893)</u>
Net Capital Assets Being Depreciated	<u>33,735</u>	<u>(9,505)</u>	<u>(6,012)</u>	<u>18,218</u>
<b>Net Capital Assets</b>	<u>\$ 33,735</u>	<u>\$ (9,505)</u>	<u>\$ (6,012)</u>	<u>\$ 18,218</u>

**Note 5 - Advance From the Redevelopment Agency:**

Under the operating agreement between the City of San Diego, and SEDC the City shall cause a six week working capital advance to be deposited to the order of SEDC, which shall draw against this account for payment of eligible expenses as defined in the operating agreement. As soon as practicable after the end of each calendar month, SEDC shall deliver to the City a voucher for the total of eligible expenses paid out of the account during the previous calendar month. Amounts advanced under this agreement totaled \$232,050 at June 30, 2010. The following is a detail:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Advance from the Redevelopment Agency	\$ <u>294,270</u>	<u>\$ -</u>	<u>\$ 62,220</u>	<u>\$ 232,050</u>

**Note 6 - Pension Plans:**

SEDC has a 403(b) Tax Sheltered Annuity Plan (Defined Contribution Plan) covering all employees. The Plan is currently administered by VLP Corporate Services, LLP with Merrill Lynch as the investment advisor. Employees are eligible on their date of employment, and SEDC contributes an amount equal to 12% of all employees' salaries. SEDC's total payroll in fiscal year 2010 was \$766,664 and SEDC made the required 403(b) contributions totaling \$107,555. Plan members contributed an additional \$53,870.

The investments of the pension plan are not included in the financial statements of SEDC.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 7 - Litigation:**

SEDC is presently involved in certain matters of litigation that have arisen in the normal course of conducting business. SEDC's management believes, based upon consultation with the attorneys that these cases in aggregate, are not expected to result in any material adverse financial impact on SEDC. Additionally, SEDC's management believes that SEDC's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

**Note 8 - Leases:**

SEDC terminated its office lease in May 2010 and paid a \$43,197 early termination fee as a result. SEDC entered into a new operating lease for office facilities that expires in May 2013. SEDC has two 3-year options to extend this operating lease. The monthly rental payments under the terms of the new operating lease total \$5,403 per month with 3% annual increases. SEDC is also committed to operating leases for computers and various office equipment with varying termination dates through December 2015. Total costs for such leases amounted to \$264,619 for the year ended June 30, 2010. Future minimum lease payments for these operating leases are as follows for the year ended June 30:

<u>Years Ended June 30:</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2011	\$ 80,840	\$ 30,922	\$ 111,762
2012	82,785	11,610	94,395
2013	77,723	8,194	85,917
2014	-	7,061	7,061
2015	-	357	357
Total	<u>\$ 241,349</u>	<u>\$ 58,144</u>	<u>\$ 299,492</u>

**Note 9 - New Governmental Accounting Standards:**

**GASB No. 45**

In June 2004, the Government Accounting Standards Board issued Statement No. 45 "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension." This pronouncement is effective for the first fiscal year beginning after December 15, 2008 for Phase 3 governments, like SEDC, as defined in GASB Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This pronouncement requires significant changes to the accounting and disclosures associated with postemployment benefits (OPEB). SEDC does not offer post employment benefits.

**GASB No. 51**

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51 "Accounting and Financial Reporting for Intangible Assets." This pronouncement is effective for periods beginning after June 15, 2009. Retroactive reporting of these intangible assets is encouraged but not required. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. SEDC has no intangible assets at June 30, 2010.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 9 - New Governmental Accounting Standards: (Continued)**

**GASB No. 53**

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53 “Accounting and Financial Reporting for Derivative Investments.” This pronouncement is effective for periods beginning after June 15, 2009 with earlier application encouraged. The Statement requires governments to measure most derivative instruments at fair value in their financial statements that are prepared on the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. SEDC has no derivative instruments at June 30, 2010.

**GASB No. 54**

In March 2009, the Government Accounting Standards Board issued Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This pronouncement is effective for periods beginning after June 15, 2010 with early implementation encouraged. This pronouncement 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. The initial distinction that is made in reporting information in reporting fund balance information is identifying amounts that are considered non-spendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific accounts can be spent. Fund balance reclassifications made to conform to the provisions of this statement should be applied retroactively by restating fund balance for all periods presented. SEDC has not yet determined the effect on the financial statements in the year of adoption.

**GASB No. 57**

In December 2009, the Government Accounting Standards Board issued Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.” This Statement amends Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 members to use the alternate measurement method, at its option, regardless of the number of total plan members in the agent-multiple employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a requirement in Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” that a defined benefit OPEB plan obtained an actuarial valuation. The amendment permits the requirement to be satisfied for an agent-multiple employer OPEB plan by reporting an aggregation of results of actuarial valuation of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, the Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan’s financial reporting requirements. As noted previously, SEDC does not offer post employment benefits.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Note 9 - New Governmental Accounting Standards: (Continued)**

**GASB No. 58**

In December 2009, the Governmental Accounting Standards Board issued Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies." This pronouncement is effective for periods beginning after June 15, 2009. Early application is encouraged. Retroactive application is required for all periods presented during which the government was in bankruptcy. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the court approved a new payment plan. SEDC has not filed bankruptcy protection as of June 30, 2010.

**GASB No. 59**

In June 2010, the Governmental Accounting Standards Board issued Statement No. 59, "Financial Instruments Omnibus." This pronouncement is effective for periods beginning after June 15, 2010. Earlier application is encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. SEDC has not determined the effect on the financial statement in the year of adoption.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b><u>Operating Revenue</u></b>				
Contributions from the Redevelopment Agency	\$ 2,345,600	\$ 2,345,600	\$ 1,796,377	\$ (549,223)
Other revenues	-	-	236	236
Total Revenue	2,345,600	2,345,600	1,796,613	(548,987)
<b><u>Operating Expenditures</u></b>				
Personnel expenditures				
Salaries and wages	926,300	879,000	766,664	112,336
Employee benefits	305,000	251,800	225,266	26,534
Total personnel expenditures	1,231,300	1,130,800	991,930	138,870
Non-personnel expenditures				
Consultants and professional services	301,800	304,300	237,464	66,836
Office rent	212,200	232,000	227,228	4,772
Temporary employment services	224,000	216,000	193,049	22,951
Moving costs	-	51,000	48,988	2,012
Office expense	55,950	60,950	38,529	22,421
Public relations and advertising	82,700	75,400	34,853	40,547
Repairs and maintenance	51,800	51,800	33,600	18,200
Equipment rental	38,100	38,100	30,847	7,253
Utilities and telephone	36,700	36,700	25,699	11,001
Travel	27,500	27,500	10,554	16,946
Office furniture and equipment	12,050	21,050	9,492	11,558
Memberships and subscriptions	8,800	8,800	8,589	211
Other operating expenses	19,550	31,550	7,048	24,502
Offsite facilities rental	-	8,000	6,544	1,456
Conferences, seminars and education	19,400	7,900	2,579	5,321
Reproduction	15,000	15,000	5	14,995
Leasehold improvements	-	20,000	-	20,000
Tuition reimbursement	8,750	8,750	-	8,750
Total non-personnel expenditures	1,114,300	1,214,800	915,068	299,732
Total operating expenditures	\$ 2,345,600	\$ 2,345,600	1,906,998	\$ 438,602
Net Change in Fund Balance			(110,385)	
Fund Balance at Beginning of Year			338,128	
Fund Balance at End of Year			\$ 227,743	



Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

Steven W. Northcote, C.P.A.  
Michael S. Schreiberman, C.P.A.  
Michael J. Zizzi, C.P.A.  
Julie A. Firl, C.P.A.  
Nicholas M. Gines, C.P.A.

*Members*  
American Institute of Certified Public Accountants  
California Society of Certified Public Accountants

**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  
Southeastern Economic Development Corporation

We have audited the financial statements of the governmental activities and the general fund of Southeastern Economic Development Corporation as of and for the year ended June 30, 2010, which collectively comprise Southeastern Economic Development Corporation's basic financial statements and have issued our report thereon dated October 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 Southeastern Economic Development 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 Southeastern Economic Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southeastern Economic Development 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 Southeastern Economic Development 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, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leaf & Cole LLP  
San Diego, California  
October 27, 2010

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

There were no findings or questioned costs for the year ended June 30, 2010.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Findings 09-1 - Cash Receipts:**

**Condition**

Cash receipts are received by the receptionist either through the mail, over the counter, or by courier and are forwarded to the staff accountant who makes a copy of the receipts, endorses the checks, prepares the deposit slip and takes the deposit to the bank. Several of these functions are considered incompatible. No employee should have access to the assets of SEDC and the accounting records that account for those assets.

**Recommendation**

We suggest that the receptionist prepare a daily list of receipts before forwarding to the staff accountant. The Chief Financial Officer could periodically compare this log with the bank statement to see that receipts are being deposited intact and timely. In addition, pre-numbered receipts should be used for all cash received and their population should be controlled. Accounts receivable records should not be maintained by individuals with access to the underlying receipts.

**Status**

A cash receipts log is now prepared daily and matched by two employees. In addition, all material revenues from the City are received by wire transfer.

**Findings 09-1 - Cash Disbursements:**

**Condition**

Signed checks are returned to the staff accountant for mailing.

**Recommendation**

We suggest that the signed checks not be returned to anyone involved in the recording of accounts payable.

**Status**

Due to reductions in staffing, checks are currently returned to the chief financial officer for mailing.