

**SOUTHEASTERN ECONOMIC
DEVELOPMENT CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2011**



Leaf & Cole, LLP
Certified Public Accountants

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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 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, 2011, 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 the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2011, 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 September 22, 2011, on our consideration of the 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 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 management's discussion and analysis and budgetary comparison schedule on pages 3 through 6 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the 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
September 22, 2011

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, 2011. 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 Statements

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 focus 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, 2011, SEDC's net assets decreased by \$(10,532) to \$(44,123). SEDC's total program revenues decreased \$394,693 to \$1,464,140 while operating expenses decreased \$446,643 to \$1,475,172. For the year ended June 30, 2011, operating expenses exceeded operating revenues by \$11,032.

Financial Analysis of SEDC

SEDC's net assets (deficit) increased between fiscal years ending 2011 and 2010, from \$(33,591) to \$(44,123). Net assets invested in capital assets, net of related debt decreased \$(9,505). The following is a summary of SEDC's statements of net assets:

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Cash and cash equivalents	\$ 126,900	\$ 88,265	\$ 38,635	43.77
Receivable from Redevelopment Agency	161,219	179,899	(18,680)	(10.38)
Capital assets, net	8,713	18,218	(9,505)	(52.17)
Total Assets	<u>296,832</u>	<u>286,382</u>	<u>10,450</u>	3.65
<u>Liabilities:</u>				
Accounts payable	4,210	4,974	(764)	(15.36)
Accrued payroll	56,326	35,447	20,879	58.90
Compensated absences	48,369	47,502	867	1.83
Advances from Redevelopment Agency	232,050	232,050	-	-
Total Liabilities	<u>340,955</u>	<u>319,973</u>	<u>20,982</u>	6.56
<u>Net Assets:</u>				
Invested in capital assets	8,713	18,218	(9,505)	(52.17)
Unrestricted	(52,836)	(51,809)	(1,027)	(1.98)
Total Net Assets	<u>(44,123)</u>	<u>(33,591)</u>	<u>(10,532)</u>	(31.35)
Total Liabilities and Net Assets	<u>\$ 296,832</u>	<u>\$ 286,382</u>	<u>\$ 10,450</u>	3.65

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 2010 to 2011 as a direct result of a decrease in SEDC's budget.

SEDC's actual operating expenses decreased \$446,643 to \$1,475,172 in 2011. Salaries and wages and employee benefits decreased \$118,824 principally due to layoffs that took place in the prior year. The following is a summary of SEDC's statements of activities:

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percentage Change</u>
<u>Revenues:</u>				
Program Revenues:				
Operating contributions and grants	\$ 1,389,640	\$ 1,858,833	\$ (469,193)	(25.24)
Legal settlements	75,000	-	75,000	100.00
Total Program Revenues	<u>1,464,640</u>	<u>1,858,833</u>	<u>(394,193)</u>	<u>(21.21)</u>
<u>Program Expenses:</u>				
Operating expenses	1,475,172	1,921,815	(446,643)	(23.24)
Total Program Expenses	<u>1,475,172</u>	<u>1,921,815</u>	<u>(446,643)</u>	<u>(23.24)</u>
<u>General Revenues:</u>				
Loss on disposal of capital assets	-	(6,012)	6,012	100.00
Change in Net Assets	<u>\$ (10,532)</u>	<u>\$ (68,994)</u>	<u>\$ 58,462</u>	<u>84.73</u>

Capital Assets

Capital assets include leasehold improvements, office equipment, and computer equipment. At June 30, 2011, SEDC had invested \$28,515 in capital assets net of \$19,802 of accumulated depreciation. This amount represents a net decrease of \$(9,505) from the prior year. The decrease was the result of depreciation expense, which totaled \$9,505 for the year ended June 30, 2011. The total amount invested in capital assets decreased \$30,449 as a result of disposing of several fully-depreciated items.

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percentage Change</u>
Office equipment	\$ -	\$ 24,147	\$ (24,147)	(100.00)
Computer equipment	28,515	34,964	(6,449)	(18.44)
Total	<u>\$ 28,515</u>	<u>\$ 59,111</u>	<u>\$ (30,449)</u>	<u>(51.76)</u>

Debt

At June 30, 2011, SEDC has received advances from the Redevelopment Agency of the City of San Diego. The following is a detail:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Payable Within One Year
Advances from Redevelopment Agency	\$ 232,050	\$ -	\$ -	\$ 232,050	\$ 232,050

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budget Comparison

The original budget of \$1,547,000 was amended to \$1,721,000 in January 2011. The original budget was established based on an anticipated reduction from a shift of tax increment from California redevelopment agencies by the State of California and the county reduction in assessed property values. This forced SEDC to reduce its staff by 40% in late 2010. This reduction in staff and extensive cost cutting efforts throughout 2011 resulted in SEDC's actual costs being \$256,200, or 14.9%, below the final amended budget for the year ended June 30, 2011.

During the year ended June 30, 2011, SEDC received a settlement for a lawsuit filed against a former vendor. In addition, SEDC settled a civil and counter civil lawsuit between SEDC and its former President. There is other litigation pending in which SEDC is the plaintiff, which management believes will be resolved during the year ended June 30, 2012.

Economic Factors

On January 31, 2011, the State of California announced its intentions to adopt a budget, shifting funding from the state redevelopment agencies to other areas. Although this has not been signed into law, SEDC, like many other redevelopment agencies in the State, has delayed many of its redevelopment activities until fiscal years 2012 and 2013 until the outcome of the California State Budget can be determined.

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.



Jerry Groomes
Chief Executive Officer

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

<u>Assets:</u> (Notes 1, 2, 3 and 4)	
Cash and cash equivalents	\$ 126,900
Receivable from Redevelopment Agency	161,219
Capital assets, net	<u>8,713</u>
TOTAL ASSETS	\$ <u><u>296,832</u></u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Notes 1, 5 and 6)	
Accounts payable	\$ 4,210
Accrued payroll	56,326
Compensated absences	48,369
Advances from Redevelopment Agency	<u>232,050</u>
Total Liabilities	<u><u>340,955</u></u>
 <u>Commitments and Contingencies</u> (Notes 7, 8 and 9)	
 <u>Net Assets:</u> (Note 1)	
Invested in capital assets	8,713
Unrestricted	<u>(52,836)</u>
Total Net Assets	<u><u>(44,123)</u></u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>296,832</u></u>

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

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Governmental Activities:			
General Fund	\$ <u>1,475,172</u>	\$ <u>1,464,640</u>	\$ <u>(10,532)</u>
Total Governmental Activities	\$ <u><u>1,475,172</u></u>	\$ <u><u>1,464,640</u></u>	\$ <u><u>(10,532)</u></u>
Change in Net Assets			(10,532)
Net Assets (Deficit) at Beginning of Year			<u>(33,591)</u>
NET ASSETS (DEFICIT) AT END OF YEAR			<u><u>\$ (44,123)</u></u>

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

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET - GENERAL FUND
JUNE 30, 2011**

ASSETS

Assets:

Cash and cash equivalents	\$	126,900
Receivable from Redevelopment Agency		<u>161,219</u>
TOTAL ASSETS	\$	<u><u>288,119</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	4,210
Accrued payroll		<u>56,326</u>
Total Liabilities		<u><u>60,536</u></u>

Commitments and Contingencies

Fund Balance:

Fund balance		<u>227,583</u>
Total Fund Balance		<u><u>227,583</u></u>

TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>288,119</u></u>
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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, 2011**

Total fund balance - general fund	\$ 227,583
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	8,713
Compensated absences were not due and payable in the current period and therefore were not reported in the general fund balance sheet	(48,369)
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>
Total net assets - governmental activities	<u><u>\$ (44,123)</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, 2011

Operating Revenue:

Contributions from the Redevelopment Agency	\$ 1,389,140
Legal Settlements	75,000
Other revenue	500
Total Operating Revenue	1,464,640

Operating Expenditures:

Personnel expenditures	
Salaries and wages	661,849
Employee benefits	208,834
Total personnel expenditures	870,683
Non-personnel expenditures	
Consultants and professional services	264,799
Temporary employment services	100,560
Office rent	79,410
Equipment rental	33,091
Repairs and maintenance	22,918
Office expense	20,203
Public relations and advertising	12,735
Offsite facilities rental	12,416
Utilities and telephone	10,701
Office furniture and equipment	8,693
Travel	8,147
Moving costs	4,730
Conferences, seminars and education	6,887
Leasehold improvements	4,298
Other operating expenses	2,969
Memberships and subscriptions	1,560
Total non-personnel expenditures	594,117
Total Operating Expenditures	1,464,800

Net Change in Fund Balance	(160)
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Fund Balance at Beginning of Year	227,743
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FUND BALANCE AT END OF YEAR	\$ 227,583
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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, 2011**

Net change in fund balance - general fund	\$ (160)
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)
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	<u>(867)</u>
Change in net assets - governmental activities	<u><u>\$ (10,532)</u></u>

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

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 is 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, 2011

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 Method of Accounting

Method of Accounting

Method 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, 2011

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

Significant Accounting Policies (Continued)

Measurement Focus and Method 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 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Revenue Recognition

SEDC recognizes revenues from contributions from the Redevelopment Agency and other fees when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, SEDC considers contributions from the Redevelopment Agency and other fees to be operating revenues.

Allowance for Doubtful Accounts

Management believes that all receivables from the Redevelopment Agency were fully collectible; therefore, no allowance for doubtful accounts was recorded as of June 30, 2011.

Capital Assets

Capital assets purchased or acquired with an initial, individual cost exceeding \$2,500 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Office equipment	5 years
Computer equipment	3 years

Depreciation aggregated \$9,505 for the year ended June 30, 2011.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation and sick leave totaling \$48,369 is accrued when incurred at June 30, 2011.

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. 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 equivalents.

Subsequent Events

In preparing these financial statements, SEDC has evaluated events and transactions for potential recognition or disclosure through September 22, 2011, the date the financial statements were available to be issued.

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.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2 - Cash and Cash Equivalents: (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency 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%
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Time Deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Cash and cash equivalents held by SEDC were comprised of the following at June 30, 2011:

	<u>Maturity in Years</u> <u>1 Year or Less</u>	<u>Total</u>
Cash and cash equivalents on hand	\$ 400	\$ 400
Deposits with financial institutions	126,500	126,500
Total Cash and Cash Equivalents	<u>\$ 126,900</u>	<u>\$ 126,900</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, which is 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, 2011.

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.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2 - Cash and Cash Equivalents: (Continued)

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of 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 issuer.

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.

At June 30, 2011, 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, 2011.

Note 3 - Receivable from Redevelopment Agency:

Receivables for reimbursable expenditures from the Agency totaled \$161,219 at June 30, 2011. Management believes these receivables to be fully collectible.

Note 4 - Capital Assets:

Capital assets consist of the following at June 30:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Capital Assets Being Depreciated:				
Office equipment	\$ 24,147	\$ -	\$ (24,147)	\$ -
Computer equipment	34,964	-	(6,449)	28,515
Total	<u>59,111</u>	<u>-</u>	<u>(30,596)</u>	<u>28,515</u>
Less Accumulated Depreciation for:				
Office equipment	(24,147)	-	(24,147)	-
Computer equipment	(16,746)	(9,505)	6,449	(19,802)
Total Accumulated Depreciation	<u>(40,893)</u>	<u>(9,505)</u>	<u>30,596</u>	<u>(19,802)</u>
Net Capital Assets Being Depreciated	<u>18,218</u>	<u>(9,505)</u>	<u>-</u>	<u>8,713</u>
Net Capital Assets	<u>\$ 18,218</u>	<u>\$ (9,505)</u>	<u>\$ -</u>	<u>\$ 8,713</u>

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 5 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Advances from Redevelopment Agency (Note 6)	\$ 232,050	\$ -	\$ -	\$ 232,050
Compensated Absences (Note 1)	<u>47,502</u>	<u>867</u>	<u>-</u>	<u>48,369</u>

Note 6 - Advances From 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, 2011.

Note 7 - 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 2011 was \$664,348 and SEDC made the required 403(b) contributions totaling \$83,291. Plan members contributed an additional \$36,400.

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

Note 8 - 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 9 - Leases:

SEDC entered into an 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. Rental expense under these leases totaled \$112,501 for the year ended June 30, 2011.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 9 - Leases: (Continued)

Future minimum lease payments are as follows:

Years Ended June 30	Office	Equipment	Total
2012	\$ 82,785	\$ 11,254	\$ 94,039
2013	77,723	8,194	85,917
2014	-	7,061	7,061
2015	-	1,428	1,428
2016	-	655	655
Total	<u>\$ 160,508</u>	<u>\$ 28,592</u>	<u>\$ 189,100</u>

Note 10 - New Governmental Accounting Standards:

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. Implementation of this pronouncement did not have a material effect on the financial statements of SEDC.

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, 2011

Note 10 - New Governmental Accounting Standards: (Continued)

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. This pronouncement did not have a material effect on SEDC’s financial statement for the year ended June 30, 2011.

GASB No. 60

In November 2010, the Governmental Accounting Standards Board issued Statement No. 60, “Accounting and Financial Reporting for Service concession Arrangements”. This pronouncement is effective for periods beginning after December 15, 2011 and its provisions are generally required to be applied retroactively. The objective of this statement is to address issues related to service concession arrangements (SCA’s) which are a type of public-private or public-public partnership. An SCA is an arrangement between the transferor (a government) and an operator in which (1) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public assets in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. SEDC does not have any SCA’s as of June 30, 2011.

GASB No. 61

In November 2010, the Governmental Accounting Standards Board issued Statement No. 61, “The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34”. This pronouncement is effective for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this statement is to address reporting entity issues that have arisen since the issuance of Statements No.14 and No. 34. SEDC does not have any component units as of June 30, 2011.

GASB No. 62

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, “Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”. This pronouncement is effective for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements of the FASB and the AICPA that was issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This pronouncement is not anticipated to have a material effect on the financial statements of SEDC in the year of implementation.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance with Final Amended Budget Favorable (Unfavorable)
<u>Operating Revenue</u>				
Contributions from the Redevelopment Agency	\$ 1,547,000	\$ 1,600,000	\$ 1,389,140	\$ (210,860)
Legal Settlements	-	120,500	75,000	(45,500)
Other revenues	-	500	500	-
Total Revenue	<u>1,547,000</u>	<u>1,721,000</u>	<u>1,464,640</u>	<u>(256,360)</u>
<u>Operating Expenditures</u>				
Personnel expenditures				
Salaries and wages	660,000	721,200	661,849	59,351
Employee benefits	<u>225,700</u>	<u>238,800</u>	<u>208,834</u>	<u>29,966</u>
Total personnel expenditures	<u>885,700</u>	<u>960,000</u>	<u>870,683</u>	<u>89,317</u>
Non-personnel expenditures				
Consultants and professional services	170,000	288,000	264,799	23,201
Office rent	90,000	100,000	79,410	20,590
Temporary employment services	112,500	112,500	100,560	11,940
Moving costs	3,000	5,000	4,730	270
Office expense	42,300	34,050	20,203	13,847
Public relations and advertising	38,700	35,800	12,735	23,065
Repairs and maintenance	26,000	30,000	22,918	7,082
Equipment rental	35,000	35,000	33,091	1,909
Utilities and telephone	19,500	14,500	10,701	3,799
Travel	13,600	13,600	8,147	5,453
Office furniture and equipment	3,200	13,200	8,693	4,507
Memberships and subscriptions	5,600	5,600	1,560	4,040
Other operating expenses	14,800	15,500	2,969	12,531
Offsite facilities rental	16,500	13,250	12,416	834
Conferences, seminars and education	9,600	11,600	6,887	4,713
Leasehold improvements	15,000	14,000	4,298	9,702
Contingency	<u>46,000</u>	<u>19,400</u>	-	<u>19,400</u>
Total non-personnel expenditures	<u>661,300</u>	<u>761,000</u>	<u>594,117</u>	<u>166,883</u>
Total operating expenditures	<u>\$ 1,547,000</u>	<u>\$ 1,721,000</u>	<u>1,464,800</u>	<u>\$ 256,200</u>
Net Change in Fund Balance			(160)	
Fund Balance at Beginning of Year			<u>227,743</u>	
Fund Balance at End of Year			<u>\$ 227,583</u>	



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 (SEDC), a component unit of the City of San Diego, California (City), as of and for the year ended June 30, 2011, which collectively comprise SEDC's basic financial statements and have issued our report thereon dated September 22, 2011. 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 opinion 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, 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
September 22, 2011