

**GREATER GOLDEN HILL  
COMMUNITY DEVELOPMENT  
CORPORATION**

**Compliance Report  
For the Contract Year Ended  
June 30, 2011**

To the Board of Directors  
Greater Golden Hill Community Development Corporation

### Independent Accountants' Report

We have examined managements' assertions that Greater Golden Hill Community Development Corporation (a nonprofit organization) complied with all terms on conditions set forth in the agreement between the City of San Diego ("City") and the Greater Golden Hill Community Development Corporation ("GGHCDC") as to the Agreement for the Operation of the Greater Golden Hill Maintenance Assessment District ("MAD") during the MAD contract year ended June 30, 2011. Management is responsible for GGHCDC compliance with those requirements. Our responsibility is to express an opinion on managements' assertions about GGHCDC compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and accordingly, includes examining, on a test basis, evidence about GGHCDC compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on GGHCDC's compliance with specified requirements.

In our opinion, managements' assertion the GGHCDC complied, in all material respects, with aforementioned requirements during the MAD contract year ended June 30, 2011.

This report is intended solely for the information and use of the board and management of GGHCDC and the awarding governmental agency and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 23, 2011  
San Diego, California

A handwritten signature in green ink, appearing to read "Batten Accountancy, Inc.", is written above the printed name of the firm.  
Batten Accountancy Inc.

**GREATER GOLDEN HILL  
COMMUNITY DEVELOPMENT  
CORPORATION**

**Financial Statements and  
Independent Auditors' Report  
For the Year Ended  
August 31, 2011**

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To the Board of Directors  
Greater Golden Hill Community Development Corporation

Independent Auditors' Report

We have audited the accompanying statement of financial position of Greater Golden Hill Community Development Corporation (a nonprofit organization) as of August 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Golden Hill Community Development Corporation as of August 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

December 23, 2011  
San Diego, California

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Batten Accountancy Inc.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT  
CORPORATION**

**STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2011**

**ASSETS**

**CURRENT ASSETS:**

Cash	\$	10,721
Accounts receivable		5,566
Total current assets		16,287

**PROPERTY AND EQUIPMENT (at cost):**

Land		110,000
Buildings		108,257
Property and equipment		7,271
Leasehold improvements		88,799
Accumulated depreciation		(101,561)
Total property and equipment		212,766

**OTHER ASSETS:**

Investment in partnership		100
Security deposit		1,275
Total other assets		1,375

Total assets	\$	230,428
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Current portion of long-term debt	\$	2,963
Accounts payable		53,632
Grant funds payable		63,316
Agency funds payable		10,682
Accrued payroll and related liabilities		231
Tenant deposits		3,245
Deferred grant revenue		2,678
Total current liabilities		136,747

LONG-TERM DEBT: Notes payable, net of current portion		316,261
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Total liabilities		453,008
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UNRESTRICTED NET ASSETS		(222,580)
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Total liabilities and net assets	\$	230,428
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See accompanying notes to the financial statements.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT  
CORPORATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2011**

CHANGE IN UNRESTRICTED NET ASSETS:

REVENUES AND OTHER SUPPORT:

Maintenance Assessment District Agreement income	\$ 396,155
Grant income	500
Membership income	3,090
Rental income	47,056
Management fee	10,833
Contributions	7,908
Event income	378
Interest income	1
Donated goods and services	920
Total revenues and other support	<u>466,841</u>

EXPENSES:

General and administrative expenses	53,480
Maintenance Assessment District expenses	417,700
Revitalization	267
Events	1,616
Housing	20,652
Total expenses	<u>493,715</u>

Decrease in unrestricted net assets	(26,874)
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UNRESTRICTED NET ASSETS - BEGINNING	<u>(195,706)</u>
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UNRESTRICTED NET ASSETS - ENDING BALANCE	<u><u>\$ (222,580)</u></u>
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**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT  
CORPORATION**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from agreements	\$ 361,208
Cash received from grants	500
Cash received from customers	73,378
Cash received from contributions and memberships	10,800
Cash paid to employees, suppliers, and vendors	<u>(496,773)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(50,887)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Repayment of note payable	<u>(2,432)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(2,432)</u>
NET DECREASE IN CASH	(53,319)
CASH AT BEGINNING OF YEAR	<u>64,040</u>
CASH AT END OF YEAR	<u><u>\$ 10,721</u></u>
 <b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Change in net assets	\$ (26,874)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	7,897
Accrued interest expense	1,291
Decrease in accounts receivable	13,584
Increase in security deposit	(525)
Decrease in accounts payable	(12,621)
Increase in agency funds payable	1,268
Decrease in accrued payroll and related liabilities	(4,348)
Decrease in deferred grant revenue	<u>(30,559)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (50,887)</u></u>

See accompanying notes to the financial statements.

# GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

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### NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Business

The Greater Golden Hill Community Development Corporation (CDC) is a nonprofit public benefit corporation, incorporated in January 1991, organized under the California Nonprofit Public Benefit Law for public and charitable purposes. The CDC manages, operates, and administers the Greater Golden Hill District by supporting activities that support the general welfare of its residents and promoting economic development and community revitalization.

Additional monies are received from grants and agreements with the City and County of San Diego including a Maintenance Agreement with the City of San Diego whereby the CDC provides administration of the contracts for goods and services pertaining to litter control, tree maintenance and replacement, other landscape maintenance and repair, graffiti control, sidewalk safety hazards, lighting services, decoration and banner installation, and trail and canyon beautification within the Greater Golden Hill Maintenance Assessment District (District) through a property tax assessment approved by a majority of property owners in the district.

The CDC also provides low-income housing to its community. The CDC owns and manages two duplexes that provide affordable housing to low-income families.

While the CDC solicits funds in the form of donations and sponsorships from local business, the CDC does not conduct fund raising campaigns aimed at the general public.

#### Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-210-45-9; 958-210-45-10. Under these standards, the CDC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the CDC and/or the passage of time.

Permanently restricted net assets: Net assets to be held in perpetuity as directed by donors. The income from the contributions is available to support activities as designated by the donors.

# GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

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### NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Equipment and Improvements

The cost of office equipment, buildings, and leasehold improvements for rental properties, are capitalized and depreciated using the straight-line method. Office equipment is depreciated over seven years and building and leasehold improvements of rental properties are depreciated over 27.5 years. The CDC capitalizes office equipment and leasehold improvements in excess of \$500.

Expenditures for major renewals and betterments that extend the useful lives of property are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation expense totaled \$7,897 for the year ended August 31, 2011.

#### Contributions

The accounting for contributions follows the recommendation of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-605-45-3. In accordance with this standard, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. As of August 31, 2011, there were no temporarily or permanently restricted contributions.

Contributed services – A number of unpaid volunteers have made contributions of their time to develop and support the CDC's programs. The value of the contributed time is not reflected in the financial statements, as it is not susceptible to objective measurement or valuation. The CDC records the value of donated professional services when there is an objective basis available to measure the value. No donated services were recorded as of August 31, 2011.

#### Income Taxes

The CDC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Internal Revenue Service determined that the CDC is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The CDC may be subject to income taxes on any unrelated business income over \$1,000. There was no unrelated business income for the year ended August 31, 2011.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT  
CORPORATION**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

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NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Uncertainty in Income Taxes

There are no unrecognized tax benefits reflected in the financial statements. The Company's tax years that remain open and could be subject to examination by tax jurisdictions are as follows:

Federal	2008-2010
California	2007-2010

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Management's Review

The CDC has evaluated subsequent events through December 23, 2011, the date which the financial statements were available to be issued.

NOTE 2. ACCOUNTS RECEIVABLE

The balances in accounts receivable as of August 31, 2011, are as follows:

City of San Diego-MAD contract	\$ 4,388
Memberships, fiscal fees, and other	<u>1,178</u>
Total accounts receivable	<u>\$ 5,566</u>

The management of the CDC believes all accounts receivable are fully collectable. No allowance for doubtful accounts is considered necessary.

# GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

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### NOTE 3. INVESTMENT IN PARTNERSHIP

The CDC is the Managing General Partner in San Diego Golden Villas, a California Limited Liability Partnership. The Partnership owns a 32 unit low-income residential building in San Diego, California.

### NOTE 4. GRANT FUNDS PAYABLE

The CDC was unable to fulfill the obligation set forth in two grant agreements. The CDC is required to return the unused grant money to the grantors. The balance in grant funds payable as of August 31, 2011, consists of the following:

City of San Diego – LISC	\$ 38,316
County of San Diego – Architectural Foundation	<u>25,000</u>
Total grant funds payable	<u>\$ 63,316</u>

Of the balance in grant funds payable, \$25,000 was included in deferred grant revenue on the statement of financial position as of August 31, 2010. The reclass of deferred grant revenue to grant funds payable was a non-cash transaction that is not included on the statement of cash flows as of August 31, 2011.

### NOTE 5. AGENCY FUNDS PAYABLE

Prior to the year ended August 31, 2011, the CDC acted as a fiscal agent for several events in conjunction with community partners. The CDC does not have ownership of the event or the related assets. As of August 31, 2011, the amount to be remitted to Community Partners is as follows:

Old House Fair	\$ 6,086
Cesar Chavez Event	3,596
Moose Lodge	<u>1,000</u>
Total agency funds payable	<u>\$ 10,682</u>

### NOTE 6. DEFERRED GRANT REVENUE:

The balance in deferred grant revenue as of August 31, 2011, consists of the following:

City of San Diego – Maintenance Assessment District	\$ 2,678
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# GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

### NOTE 7. NOTES PAYABLE

Gregory Street Building notes payable consist of the following:

3.00% Note payable, payments of \$160 per month due April 2028, secured by a first deed of trust on land, building, and improvements with net book value of \$98,373	\$ 25,191
3.00% Note payable, annual payments equal to 50% of residual receipts, all principal and accrued interest is due February 2053, secured by a second deed of trust on land, building, and improvements with net book value of \$98,373. Accrued interest for the note totaled \$23,763 as of August 31, 2011.	116,962

Felton Street Building notes payable consist of the following:

3.00% Note payable, payments of \$215 per month due January 2029, secured by a first deed of trust on land, building, and improvements with net book value of \$113,109.	35,096
3.00% Note payable, annual payments equal to 50% of residual receipts, all principal and accrued interest is due December 2053, secured by a second deed of trust on land, building, and improvements with net book value of \$113,109. Accrued interest for the note totaled \$20,565 as of August 31, 2011.	141,975

Less current portion	(2,963)
	\$ 316,261

Maturities of long-term debt are as follows:

2012	\$ 2,963
2013	2,822
2014	2,907
2015	2,996
2016	3,087
Future years	\$ 304,449
	\$ 319,224

### NOTE 8. OPERATING LEASE COMMITMENTS

The CDC leases office space at 1235 28<sup>th</sup> Street, San Diego, California. The CDC entered into a month-to-month lease agreement to occupy the property for a term commencing June 19, 2009, at a monthly rent of \$840 and terminated the lease on April 30, 2011. Rent for the year ended August 31, 2011 is \$6,720.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT  
CORPORATION**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

**NOTE 8. OPERATING LEASE COMMITMENTS**  
(continued)

On May 1, 2011, the CDC began leasing office space at 1504 30<sup>th</sup> Street, San Diego, California. The CDC entered into a month-to-month lease agreement to occupy the property for a term commencing May 1, 2011, at a monthly rent of \$500; the lease includes a sublet option that when exercised will increase the rent up to \$2,000 per month, off-set by the sublet income. Rent for the year ended August 31, 2011 is \$2,000.

**NOTE 9. CITY OF SAN DIEGO MAD AGREEMENT**

Maintenance Assessment District (MAD)

The CDC has a Maintenance Agreement with the City of San Diego (City) whereby the CDC is to provide administration of maintenance services to the Greater Golden Hill Maintenance Assessment District in return for reimbursement of funds by the City. The contract with the City is on an annual basis and corresponds with the City's fiscal year ended June 30, 2011. The City has required specific requirements be maintained as terms of the agreement. In the event of non-compliance, the MAD funds previously reimbursed may be required to be returned and the agreement may not be renewed for future years.

**STATEMENT OF EXPENDITURES FOR THE CITY OF SAN DIEGO MAD AGREEMENT  
FOR THE CONTRACT YEAR ENDED JUNE 30, 2011**

	ACTUAL	BUDGET	DIFFERENCE (\$)	DIFFERENCE (%)
<b>OPERATING REVENUE:</b>				
Carryover from previous years	\$ -	\$ 237,582	\$ (237,582)	(100) %
Assessments	389,027	487,054	(98,027)	(21) %
2% income	-	-	-	- %
Total operating revenue	<u>389,027</u>	<u>724,636</u>	<u>(335,609)</u>	<u>(47) %</u>
<b>EXPENSES:</b>				
Contractual	268,865	440,776	(171,911)	(39) %
Utilities	1,682	2,300	(618)	(27) %
Incidental/Administration	118,480	121,560	(3,080)	(3) %
Contingency reserve	-	160,000	(160,000)	(100) %
Total expense	<u>389,027</u>	<u>724,636</u>	<u>(335,609)</u>	<u>(47) %</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>- %</u>

**NOTE 10. CONCENTRATIONS**

For the year ended August 31, 2011, the Maintenance Agreement from the City of San Diego made up approximately 85%, of the monies received by the CDC.

# GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

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### NOTE 11. RELATED PARTY

The CDC received management fee income and incentive fee income for the year ended August 31, 2011, in the amount of \$10,833 from its partnership in the San Diego Golden Villas, LLP. This revenue makes up approximately 3% of the CDC's total income.

### NOTE 12. LEGAL MATTER

A lawsuit was filed against the City of San Diego challenging the constitutionality of the creation of Maintenance Assessment Districts (MAD) by the City of San Diego. A verdict against the City was reached in November 2009, but the City attorney plans to appeal the verdict. While the CDC is not a defendant in the lawsuit, the outcome of the appeal could affect the reimbursement of future expenditures. Under the direction of the City Attorney's office the CDC is continuing to operate the MAD Program.

### NOTE 13. GOING CONCERN

The accompanying financial statements have been prepared assuming the CDC will continue as a going concern. The basis of accounting contemplates the recovery of the CDC's assets and the satisfaction of its liabilities in the normal course of business. At August 31, 2011, the CDC's current liabilities exceeded its current assets by approximately \$120,460. In addition, the CDC has a net assets deficit of \$222,580. Those factors, as well as the Organization's dependence on the agreement with the City of San Diego to operate the Maintenance Assessment District (described in Supplementary Information) which is currently in legal dispute (described in Note 11) creates an uncertainty about the Organization's ability to continue as a going concern.

To appropriately sustain its operations and reduce expenses, the Board of Directors and management are taking the following steps:

- The Board of Directors has assumed all management functions in order to reduce salary and wage expense.
- The CDC is focused on increasing its membership programs, expanding grant sources, and increasing events.
- The CDC staff is working closely with the Board of Directors to establish a budget development and monitoring process.
- The CDC is working on a short-term and long-term plan to address financial and programmatic challenges and opportunities.
- As of December 23, 2011, the City Council of the City of San Diego conditionally approved the fiscal year 2011-2012 agreement, thereby extending the MAD program until further notice.
- The CDC has used the University of San Diego's Internal Control Study to develop and implement internal control processes.