

**GREATER GOLDEN HILL
COMMUNITY DEVELOPMENT
CORPORATION**

**Financial Statements and
Independent Auditors' Report
For the Year Ended
August 31, 2010**

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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 non-profit organization) as of August 31, 2010, and the related statement 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, 2010, 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.

August 8, 2011
San Diego, California


Batten Accountancy Inc.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT
CORPORATION**

**STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2010**

ASSETS

CURRENT ASSETS:	
Cash	\$ 60,308
Restricted cash	3,732
Accounts receivable	19,150
Total current assets	83,190
 PROPERTY AND EQUIPMENT (at cost):	
Land	110,000
Buildings	108,257
Property and equipment	7,271
Leasehold improvements	88,799
Accumulated depreciation	(93,664)
Total property and equipment	220,663
 OTHER ASSETS:	
Investment in partnership	100
Security deposit	750
Total other assets	850
Total assets	\$ 304,703

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 2,658
Accounts payable	66,253
Grant funds payable	37,048
Agency funds payable	10,682
Accrued payroll and related liabilities	4,579
Tenant deposits	3,245
Deferred grant revenue	58,237
Total current liabilities	182,702
LONG-TERM DEBT: Notes payable, net of current portion	317,707
Total liabilities	500,409
UNRESTRICTED NET ASSETS	(195,706)
Total liabilities and net assets	\$ 304,703

See accompanying notes and accountants' report.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT
CORPORATION**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2010**

CHANGE IN UNRESTRICTED NET ASSETS:

REVENUES AND OTHER SUPPORT:

Maintenance Assessment District Agreement income	\$ 420,387
Grant income	4,731
Membership income	2,960
Rental income	46,929
Management fee	32,500
Contributions	5,825
Event income	14,651
Interest income	1
Other income	11,325
Donated goods and services	608
Total revenues and other support	539,917

EXPENSES:

General and administrative expenses	143,529
Maintenance Assessment District expenses	420,387
Revitalization	882
Events	3,750
Housing	35,440
Youth programs	2,644
Total expenses	606,632
Decrease in unrestricted net assets	(66,715)

UNRESTRICTED NET ASSETS - BEGINNING	(156,068)
Prior period adjustments: To record accounts receivable	37,372
Prior period adjustments: To record agency funds payable	(10,295)
UNRESTRICTED NET ASSETS - BEGINNING (as restated)	(128,991)
UNRESTRICTED NET ASSETS - ENDING BALANCE	\$ (195,706)

See accompanying notes and accountants' report.

**GREATER GOLDEN HILL COMMUNITY DEVELOPMENT
CORPORATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from agreements	\$ 587,443
Cash received from grants	3,000
Cash received from customers	116,061
Cash received from contributions and memberships	8,785
Interest received	1
Cash paid to employees, suppliers, and vendors	<u>(662,232)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>53,058</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	<u>(1,006)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,006)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of note payable	<u>(2,578)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(2,578)</u>
NET INCREASE IN CASH	49,474
CASH AT BEGINNING OF YEAR	<u>14,566</u>
CASH AT END OF YEAR	<u><u>\$ 64,040</u></u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in net assets	\$ (66,715)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,429
Accrued interest expense	1,253
Decrease in accounts receivable	152,741
Increase in security deposit	(250)
Decrease in accounts payable	(57,487)
Increase in agency funds payable	387
Decrease in accrued payroll and related liabilities	(17,391)
Increase in tenant deposits	585
Increase in deferred grant revenue	<u>31,506</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 53,058</u></u>

See accompanying notes and accountants' report.

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010**

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 provides Critical Hours After School Programs funded by the County of San Diego to provide a variety of services to prevent and reduce risky behavior in middle school children. The program is not in existence after the year ended August 31, 2010.

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.

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

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 \$8,429 for the year ended August 31, 2010.

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, 2010, 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, 2010.

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, 2010.

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

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	2007-2009
California	2006-2009

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 August 8, 2011, the date which the financial statements were available to be issued.

NOTE 2. RESTRICTED CASH

Restricted cash consists of a checking account maintained in compliance with the 32nd Canyon grant agreement to maintain an area within the district. The balance in restricted cash as of August 31, 2010, is \$3,732. The grant agreement terminated during the year ended August 31, 2010 and the amount in restricted cash matches the amount in Grant Fund Payable (see Note 5).

NOTE 3. ACCOUNTS AND GRANT RECEIVABLE

The balances in accounts receivable as of August 31, 2010, are as follows:

Event income	\$ 10,675
Management fee – rental properties	5,416
IRS Refund – Penalty Abatement (See Note 10)	3,059
Total accounts receivable	<u>\$ 19,150</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, 2010

NOTE 4. 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 5. 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, 2010, consists of the following:

City of San Diego – LISC	\$ 33,316
32 Canyon Grant	3,732
Total grant funds payable	<u>\$ 37,048</u>

The balance in grant funds payable were included in deferred grant revenue on the statement of financial position as of August 31, 2009. 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, 2010.

NOTE 6. AGENCY FUNDS PAYABLE

During the year ended August 31, 2010, 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, 2010, the amount to be remitted to Community Partners is as follows:

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

NOTE 7. DEFERRED GRANT REVENUE:

The balance in deferred grant revenue as of August 31, 2010, consists of the following:

City of San Diego – Maintenance Assessment District	\$ 33,237
San Diego Architectural Foundation	25,000
Total deferred grant revenue	<u>\$ 58,237</u>

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

NOTE 8. 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 \$101,572	\$ 26,244
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 \$101,572. Accrued interest for the note totaled \$23,071 as of August 31, 2010.	116,270

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 \$117,075	36,475
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 \$117,075. Accrued interest for the note totaled \$19,966 as of August 31, 2010.	141,376

Less current portion	<u>(2,658)</u>
	<u>\$ 317,707</u>

Maturities of long-term debt are as follows:

2010	\$ 2,658
2011	2,738
2012	2,822
2013	2,907
2014	2,996
Future years	<u>\$ 306,244</u>
	<u>\$ 320,365</u>

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010**

NOTE 9. COMPLIANCE WITH AGREEMENT WITH THE CITY OF SAN DIEGO

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, 2010. The City has required specific requirements be maintained as terms of the agreement.

The CDC is in compliance with the terms of the agreement for the contract year ended June 30, 2010.

**STATEMENT OF EXPENDITURES FOR THE CITY OF SAN DIEGO MAD AGREEMENT
FOR THE CONTRACT YEAR ENDED JUNE 30, 2010**

	ACTUAL	BUDGET	DIFFERENCE (\$)	DIFFERENCE (%)
OPERATING REVENUE:				
Carryover from previous years	\$ 190,880	\$ 590,000	\$ (399,120)	(68) %
Assessments	243,527	243,527	-	-%
2% income	-	-	-	-%
Total operating revenue	<u>434,407</u>	<u>833,527</u>	<u>(399,120)</u>	<u>(48) %</u>
EXPENSES:				
Contractual	337,879	713,186	(375,307)	(53) %
Utilities	1,497	2,000	(503)	(25) %
Incidental/Administration	95,031	93,341	1,690	2 %
Contingency reserve	-	25,000	(25,000)	(100) %
Total expense	<u>434,407</u>	<u>833,527</u>	<u>(399,120)</u>	<u>(48) %</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-%</u>

NOTE 10. OTHER INCOME

During the year ended August 31, 2009, the CDC received a notice from the Internal Revenue Service (IRS) regarding a 2006 payroll matter. According to the IRS, the CDC had incurred \$11,325 of penalties for failure to file W-2s. The penalty was included in accrued payroll and related liabilities on the statement of financial position as of August 31, 2010.

The CDC believed the payroll reports were timely filed and worked with the IRS to resolve the matter. On May 23, 2011, the IRS issued a statement removing the penalty and returning any payments received. The following activity is included in the financial statements for the year ended August, 31, 2010:

Accounts Receivable	\$ 3,059
Other income	\$ 11,325
Interest expense	\$ (181)

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

NOTE 11. OPERATING LEASE COMMITMENTS

The CDC leases office space at 1235 28th 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, 2010 is \$10,080.

On May 1, 2011, the CDC began leasing office space at 1504 30th 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.

NOTE 12. RELATED PARTY

The CDC received management fee income and incentive fee income for the year ended August 31, 2010, in the amount of \$12,500 and \$20,000, respectively, from its partnership in the San Diego Golden Villas, LLP. This revenue makes up approximately 6% of the CDC's total income.

NOTE 13. CONCENTRATIONS

For the year ended August 31, 2010, agreements and grants from the City of San Diego and other Organizations make up approximately 79% and 6%, respectively, of the monies received by the CDC.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in the understatement of accounts receivable and revenues and the understatement of agency funds payable and expense as of August 31, 2009 were discovered by management during the current year. Accordingly, an adjustment has been made to unrestricted net assets to correct the errors as follows:

Accounts Receivable – Rental Property	\$ 37,372
Agency funds payable – OHF	<u>(10,295)</u>
	<u>\$ 27,077</u>

The prior period adjustment has no effect on the Statement of Cash Flows for the year ended August 31, 2009.

GREATER GOLDEN HILL COMMUNITY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

NOTE 15. 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 16. 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, 2010, the CDC's current liabilities exceeded its current assets by approximately \$82,717. In addition, the CDC has a net assets deficit of \$178,911. 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 Note 9) which is currently in legal dispute (described in Note 15) 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 July 26, 2011, the City Council of the City of San Diego conditionally approved the fiscal year 2011-2012 for three months, thereby extending the MAD program thru November 30, 2011.
- The CDC has used the University of San Diego's Internal Control Study to develop and implement internal control processes.