

CIVIC SAN DIEGO

(A component unit of the City of San Diego, California)

Independent Auditor's Reports, Management's
Discussion and Analysis, Basic Financial Statements,
and Required Supplementary Information

For the Year Ended June 30, 2014

CIVIC SAN DIEGO
For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Civic San Diego

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Civic San Diego (Corporation), a component unit of the City of San Diego, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information for the General Fund and the Downtown Community Parking Program major special revenue fund, listed as required supplementary information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2015, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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* in considering the Corporation's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
January 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CIVIC SAN DIEGO
Management's Discussion and Analysis
(Unaudited)

As management of Civic San Diego (Corporation), a component unit of the City of San Diego (City), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended June 30, 2014. On behalf of the City, the Corporation carries out certain municipal functions such as planning and design review within the Centre City area. The City Council created the Corporation originally to administer redevelopment, but subsequently has added the administration of the design review process and planning functions, consistent with the community plan and planned district ordinances, within the Centre City area. Additionally, the City has designated the Corporation as the Downtown Community Parking District Advisory Board (Downtown CPD), which boundaries are concurrent with those of the Centre City area, to oversee, implement and manage parking within the Centre City area.

The information contained in the Management's Discussion and Analysis (MD&A) is unaudited and represents management's analysis for the year ended June 30, 2014. The audited financial statements can be found beginning on page 12. The purpose of MD&A is to inform the reader on management's insights about the reporting entity and to increase the readers' understanding and the usefulness of the financial reports as well as providing accessible information about the entity and its operation, successes, challenges, and the future. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements. The basic financial statements are also accompanied by required supplementary information, which includes this MD&A and the Budgetary Comparison Schedules for the General Fund and the Downtown Community Parking Program special revenue fund.

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

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

The Statement of Activities presents information showing changes in the Corporation's net position during the most recent year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues, and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused compensated absences).

The Government-Wide Financial Statements can be found on pages 12 and 13 of this report.

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

Fund Financial Statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation uses a general fund and special revenue funds for recording its activities.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the Corporation's governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Corporation's near-term financial decisions. Both the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities. The governmental funds financial statements can be found on pages 14 through 17 of this report.

Government-Wide Financial Analysis The Corporation is financially reliant on the Successor Agency of the Redevelopment Agency of the City of San Diego ("Successor Agency"). As presented in the table on the following page, as of June 30, 2014 and 2013, respectively, the Corporation had the following assets, liabilities and net position:

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

CIVIC SAN DIEGO
Comparative Statements of Net Position
June 30, 2014 and 2013

| | <u>FY 2014</u> | <u>FY 2013*</u> | <u>Difference</u> |
|---|---------------------|-------------------|-------------------|
| <u>Assets:</u> | | | |
| Cash and investments | \$ 2,084,525 | \$ 1,307,035 | \$ 777,490 |
| Restricted cash | 5,513,655 | 5,105,764 | 407,891 |
| Receivables for reimbursable expenses from the City of San Diego | 567,726 | 1,392,993 | (825,267) |
| Accounts receivable | 262,190 | 133,150 | 129,040 |
| Prepaid expenses | 2,200 | 2,200 | - |
| Capital assets - nondepreciable | 136,062 | 7,822 | 128,240 |
| Capital assets - depreciable (net) | 50,459 | 44,320 | 6,139 |
| Long-term investments | 2,292 | - | 2,292 |
| Total assets | <u>8,619,109</u> | <u>7,993,284</u> | <u>625,825</u> |
| <u>Liabilities:</u> | | | |
| Accrued expenses | 352,918 | 435,697 | (82,779) |
| Deposits held for others | 81,711 | 111,084 | (29,373) |
| Compensated absences (current) | 73,629 | 89,548 | (15,919) |
| Compensated absences (long-term) | 108,403 | 141,173 | (32,770) |
| Advances from the City of San Diego (long-term) | 6,754,759 | 6,817,752 | (62,993) |
| Total liabilities | <u>7,371,420</u> | <u>7,595,254</u> | <u>(223,834)</u> |
| <u>Net Position:</u> | | | |
| Net investment in capital assets | 50,459 | 44,320 | 6,139 |
| Restricted | 933,584 | 117,025 | 816,559 |
| Unrestricted | 263,646 | 236,685 | 26,961 |
| Total net position | <u>\$ 1,247,689</u> | <u>\$ 398,030</u> | <u>\$ 849,659</u> |

*Amounts have been reclassified from those previously reported to conform with the current year's presentation.

The Corporation's net position increased in 2014 by \$849,659. Ending net position of the Corporation as of June 30, 2014 was \$1,247,689. Of the \$849,659 increase in net position, \$128,240 is associated with investments in capital assets. During the 2014 fiscal year, the Corporation had construction in progress ("CIP") on two capital projects, the "Portland Loo" project and the Island Avenue Pop-Out and Sidewalk replacement project. At the end of the 2013 fiscal year, the City had provided the Corporation with a \$400,000 capital advance in order to design, procure and install two "Portland Loos" in Downtown San Diego as a pilot project for public restrooms. As of June 30, 2014, the Corporation had capitalized CIP associated with the Portland Loo project in an amount of \$68,398. Additionally, the Island Avenue Pop-

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

Out and Sidewalk Replacement project was an active CIP for the Downtown Community Parking District during the 2014 fiscal year. As of June 30, 2014, the Corporation had capitalized CIP associated with the Island Avenue Project in the amount of \$67,664. Additionally, the net position increased by \$721,419, which is primarily attributable to \$690,000 of one time fees earned associated with the closing of the YMCA New Market Tax Credit transaction, offset by a decrease in accrued expenses and accrued compensated absences payable to employees and increase in the fair value of the Corporation's investments. In 2014, cash balances increased as a result of the collection of receivable due from the City and one time fees earned associated with the closing of the YMCA New Market Tax Credit transaction.

CIVIC SAN DIEGO
Comparative Statements of Activities
For the years ended June 30, 2014 and 2013

| | <u>FY 2014</u> | <u>FY 2013*</u> | <u>Difference</u> |
|--|---------------------|-------------------|-------------------|
| <u>Program Revenues:</u> | | | |
| Charges for Services | \$ 1,632,077 | \$ 978,784 | \$ 653,293 |
| Operating Grants and Contributions | 4,629,223 | 4,570,297 | 58,926 |
| <u>General Revenues:</u> | | | |
| Interest and unrealized gain on investments | 31,547 | 26,157 | 5,390 |
| Sublease | 143,600 | 85,343 | 58,257 |
| Miscellaneous | 78,103 | 67,310 | 10,793 |
| Total revenues | <u>6,514,550</u> | <u>5,727,891</u> | <u>786,659</u> |
| <u>Program Expenses:</u> | | | |
| General Government and Support | 3,518,244 | 3,927,048 | (408,804) |
| Planning | 977,466 | 784,604 | 192,862 |
| Downtown Parking Program | 829,369 | 745,555 | 83,814 |
| Economic Development | 222,201 | 239,265 | (17,064) |
| New Market Tax Credit Program | 117,611 | - | 117,611 |
| Total operating expenses | <u>5,664,891</u> | <u>5,696,472</u> | <u>(31,581)</u> |
| Change in net position | <u>849,659</u> | <u>31,419</u> | <u>818,240</u> |
| Net position - beginning of year | 398,030 | 3,340 | 394,690 |
| Restatement - incorporation of SEDC as a blended component unit of the Corporation | - | 363,271 | (363,271) |
| Net position - end of year | <u>\$ 1,247,689</u> | <u>\$ 398,030</u> | <u>\$ 849,659</u> |

*Amounts have been reclassified from those previously reported to conform with the current year's presentation.

The net position increased by \$849,659 in 2014. This increase was primarily a result of several factors. First, the Corporation received one time fees associated with closing the YMCA New Market Tax Credit transaction in the amount of \$690,000, plus annual fees of approximately \$92,000 to cover costs associated with the administration of the New Market Tax Credit program.

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

General Fund Financial Analysis The Corporation's general fund financial statements include only the current inflows and outflows of spendable resources and related balances as of and during the years ended June 30, 2014 and 2013, respectively.

CIVIC SAN DIEGO
Comparative Balance Sheets
General Fund
June 30, 2014 and 2013

| | <u>FY 2014</u> | <u>FY 2013*</u> | <u>Difference</u> |
|---|---------------------|---------------------|---------------------|
| <u>Assets:</u> | | | |
| Cash and investments | \$ 1,423,646 | \$ 1,298,318 | \$ 125,328 |
| Restricted cash and investments | 1,788,761 | 1,715,968 | 72,793 |
| Receivables for reimbursable expenses from the City of San Diego | 396,646 | 1,093,634 | (696,988) |
| Accounts receivable | 86,935 | 91,650 | (4,715) |
| Prepaid items | 2,200 | 2,200 | - |
| Advances to other funds | 3,418,030 | 3,418,030 | - |
| Total assets | <u>\$ 7,116,218</u> | <u>\$ 7,619,800</u> | <u>\$ (503,582)</u> |
| <u>Liabilities:</u> | | | |
| Accrued liabilities | \$ 106,803 | \$ 286,036 | \$ (179,233) |
| Deposits held for others | 81,711 | 111,084 | (29,373) |
| Total liabilities | <u>188,514</u> | <u>397,120</u> | <u>(208,606)</u> |
| <u>Fund Balance:</u> | | | |
| Nonspendable | 3,420,230 | 3,420,230 | - |
| Restricted | 3,143,400 | 3,439,179 | (295,779) |
| Unassigned | 364,074 | 363,271 | 803 |
| Total fund balance | <u>6,927,704</u> | <u>7,222,680</u> | <u>(294,976)</u> |
| Total liabilities and fund balance | <u>\$ 7,116,218</u> | <u>\$ 7,619,800</u> | <u>\$ (503,582)</u> |

*Amounts have been reclassified from those previously reported to conform with the current year's presentation.

In 2014, the Corporation is comprised of the General Fund and two major special revenue funds, the Economic Growth and Neighborhood Investment Fund, or the New Market Tax Credit ("NMTC") fund and the Downtown Community Parking Program (DCPP) Fund. The NMTC fund is a blended component unit of the Corporation. Since there was no financial information for the NMTC fund for fiscal year 2013 there is no comparative financial information for this fund.

The General Fund excludes the liability associated with compensated absences and the long-term advances payable to the City, whereas the government-wide statement of net position includes such liabilities. Compared to 2013, the 2014 cash and investments balance increased by \$125,328 or 10% while total liabilities of the General Fund decreased by \$208,606 or 53%. Cash increased primarily due to the collection of receivables from the City, the annual management fees associated with the YMCA New Market Tax Credit transaction, increase in the sublease revenue of roughly \$58,000, as well as the unrealized gain on investments. Liabilities decreased primarily as a result of less expenditures incurred at year-end associated with deposits being held on behalf of developers and the \$144,000 accrual as of June 30, 2013 related to the buyout for the Downtown Information Center lease.

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

CIVIC SAN DIEGO
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance
General Fund
For the Years Ended June 30, 2014 and 2013

| | <u>FY 2014</u> | <u>FY 2013</u> | <u>Difference</u> |
|---|---------------------|---------------------|---------------------|
| Revenues: | | | |
| Contributions from the City of San Diego | \$ 3,743,221 | \$ 4,000,983 | \$ (257,762) |
| Charges for services | 958,227 | 978,784 | (20,557) |
| Sublease | 143,600 | 85,343 | 58,257 |
| Interest and unrealized gain on investments | 31,541 | 26,157 | 5,384 |
| Miscellaneous | 5,575 | 5,272 | 303 |
| Total revenues | <u>4,882,164</u> | <u>5,096,539</u> | <u>(214,375)</u> |
| Expenditures: | | | |
| General government and support | 3,566,474 | 3,739,917 | (173,443) |
| Planning | 977,466 | 784,604 | 192,862 |
| Parking district | 316,865 | 272,402 | 44,463 |
| Economic development | 222,201 | 239,265 | (17,064) |
| New market tax credit program | 108,469 | - | 108,469 |
| Capital outlay | 67,175 | 7,822 | 59,353 |
| Debt service: | | | |
| Payment on advances from the City of San Diego | - | 1,224,000 | (1,224,000) |
| Total expenditures | <u>5,258,650</u> | <u>6,268,010</u> | <u>(1,009,360)</u> |
| Deficiency of revenues under expenditures | <u>(376,486)</u> | <u>(1,171,471)</u> | <u>794,985</u> |
| Other Financing Sources: | | | |
| Proceeds on advances from the City of San Diego | 81,510 | 6,717,752 | (6,636,242) |
| Extraordinary Item: | | | |
| Dissolution of SEDC and transfer of assets to Civic San Diego | - | 363,650 | (363,650) |
| Net change in fund balance | <u>(294,976)</u> | <u>5,909,931</u> | <u>(6,204,907)</u> |
| Fund balance - beginning of year | <u>7,222,680</u> | <u>1,312,749</u> | <u>5,909,931</u> |
| Fund balance - end of year | <u>\$ 6,927,704</u> | <u>\$ 7,222,680</u> | <u>\$ (294,976)</u> |

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

For comparative purposes, the table below represents expenditures incurred for the years ended June 30, 2014 and 2013, as reported in the General Fund.

| <u>EXPENDITURES</u> | <u>FY 2014</u> | <u>FY 2013</u> |
|---|----------------------------|----------------------------|
| Salaries and Benefits | \$ 3,486,197 | \$ 3,202,964 |
| Rent and Leasehold Improvements | 762,272 | 1,104,660 |
| Legal, Computer and Auditing Services | 523,564 | 362,946 |
| Insurance | 157,457 | 141,626 |
| Office Expenditures | 88,227 | 66,925 |
| Marketing, Printing and Reproduction | 59,302 | 49,583 |
| Furniture and Equipment | 35,130 | 17,900 |
| Telephone, Internet and Communications | 24,093 | 25,252 |
| Recruitment, Advertisement and Relocation | 20,147 | 18,536 |
| Other Expenditures | 35,086 | 45,796 |
| Capital Outlay | 67,175 | 7,822 |
| Payment on Advances | - | 1,224,000 |
| | <u><u>\$ 5,258,650</u></u> | <u><u>\$ 6,268,010</u></u> |

The Comparative Statements of Revenues, Expenditures and Changes in Fund Balance for the General Fund provides a “look back” for the two most recent years comparing the various expenditures of the Corporation. Overall, expenditures for the years ended June 30, 2014 and 2013 were \$5,258,650 and \$6,268,010, respectively. In fiscal year 2014, expenditures decreased by 16% or \$1,009,360 from 2013.

The most significant changes within the Corporation’s expenditures, excluding the capital outlay and payment on advances, are as follows:

- The Salaries and Benefits increased in 2014 by \$283,233, or 9%, to \$3,486,197 as a result of the addition of new positions offset by attrition of employees.
- Rent and Leasehold Improvements decreased in 2014 by \$342,388, or 31%. During 2013 the Corporation bought out of the Downtown Information Center, and subleased a portion of office space. A commission fee was paid for the sublease of the office space and the construction costs incurred associated with the subleasing of the office space.
- Legal, Computer and Auditing Services increased in 2014 by \$160,618 or 44%, from 2013 as a result of an increase in legal services from potential claims and other legal activities; increase in audit and tax preparation fees associated with the changes in the Corporation’s organizational structure , and additional consultant costs associated with development and other projects.
- Marketing, Printing and Reproduction increased in 2014 by \$9,719, or 20%, due to an increase use of printing and copying services during the year.
- Insurance expenditures increased in 2014 by \$15,831, or 11%, as a result of increases of insurance policy premiums.
- Recruitment, Advertisement and Relocation increased by \$1,611 or 8% from 2013 due to an increase in advertising costs associated with recruitment efforts and costs associated with public notice advertisements.

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

General Fund Budget Comparison

The Budgetary Comparison Schedules can be found on pages 30 and 31 of this report. The General Fund fiscal year 2014 overall expenditures were under budget by \$886,350, or 14%, primarily due to savings for Salaries and Benefits in the amount of \$493,803, or 12% of the Salary line item and 8% of the overall budget. The savings in Salaries and Benefits was a result of significant attrition during the fiscal year. Seven positions or 22% of the staffing turned over during the fiscal year, which led to unfilled positions while recruitment took place and a corresponding saving when compared to the budget. Significant budget savings occurred in the Rent and Leasehold Improvements line item of \$140,227 or 16% of the line item and 2% of the overall budget. This was due to the lease buy-out of the Downtown Information Center, which was structured in installment payments. The first installment was due in April 2013 (fiscal year 2013) when the premises were vacated and a second installment payment due on July 1, 2013 (fiscal year 2014). The fiscal year 2014 budget assumed a \$144,000 installment payment on July 1, 2013. While the payment was made July 1, 2014, the expenditure was accrued and reflected against fiscal year 2013's budget since the premises were vacated in April 2013. Other significant line item savings include savings in Legal, Computer, and Auditing Services in the amount of \$196,436, or 21% of the line item and 3% of the overall budget. This saving was primarily due to not needing the full service budgeted in legal and computer consulting services.

The Corporation may from time to time make budgetary line item adjustments for a net budget change of zero dollars to accommodate the Corporation's administrative operating activities. Budget adjustments are presented to the Corporation's Board for review and approval. In fiscal year 2014, the Corporation's Board approved budget adjustments at the October 23, 2013 Board Meeting, Agenda 26, Item 6.

Next Year's Budget

The Corporation and City of San Diego have adopted the Fiscal Year 2015 Budget. The Fiscal Year 2015 administrative portion of the budget for the Corporation is \$6,760,000, representing an increase of \$615,000 or 9% from the Corporation's Fiscal Year 2014 Budget. The increase reflects the following:

- The Personnel expense line item has increased by 9% or \$360,000 for fiscal year 2015 compared to fiscal year 2014. The Personnel line item is comprised of 35 Full-Time Equivalents (FTE's), an increase of three FTE's compared to fiscal year 2014, with \$3.15 million budgeted for salaries and \$1.19 million budgeted for taxes and benefits.
- The fiscal year 2015 Non-Personnel expense budget increased by 10%, or \$255,000, as compared to the fiscal year 2014 budget. The changes are primarily a result of: 1) Increases to the Professional/Consulting Services line item attributable to cost associated with hiring of a consultant to design the East Village Green Park and 14th Street Promenade; cost associated with the reuse of the Old Library and the TOD Investment fund research; 2) Increases in Insurance expenditures due to estimated increase in premiums ranging from 5% to 18% for health insurance, worker's compensation insurance, director and officer insurance, general liability insurance and property insurance. These increases are offset by reduction in the line item for Rent, Telephone and Postage. The most significant decrease was attributable to the Rent expense, which decreased by approximately \$100,000 as compared to fiscal year 2014. This is due to the buy-out of the Downtown Information Center lease, which was finalized and rent payments ceased in fiscal year 2014.

The Fiscal Year 2015 Budget is categorized by function and each function's respective revenue source(s). The functions include permit processing for which the Corporation will collect permit application fees, Downtown Community Parking District activities for which the Corporation will seek reimbursement for the cost from the City from parking meter revenues, Successor Agency Administration and Project Management for which the Corporation will seek reimbursement from the Successor Agency to the Redevelopment Agency of the City of San Diego in the wind-down process underway pursuant to AB X1

CIVIC SAN DIEGO
Management's Discussion and Analysis (Continued)
(Unaudited)

26, Housing Successor Agency administration and project management fees for which the Corporation will seek reimbursement from the Housing Successor Agency; and Economic Development and other activities for which the Corporation will offset the cost by seeking grants and other sources of revenues such as the FAR Bonus fees collected by the Corporation, or seeking reimbursement from the fund allocated to the Corporation through the City of San Diego's (City) General Fund, Development Impact Fees funds or other funds the City makes available to the Corporation. In addition, the Corporation is a registered Community Development Entity (CDE) with the U.S. Treasury Department through the Community Development Financial Institution Fund (CDFI) and is eligible to apply for and be allocated New Market Tax Credits (NMTC). The CDFI Fund's mission is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States. In April 2013, the Corporation was awarded an allocation of the 2012 NMTC and prepared an application for the 2013 NMTC round, which was awarded in April 2014.

Risk and Uncertainties

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

Forward Looking Statements

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

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer and Chief Operating Officer at Civic San Diego, 401 B Street, Suite 400, San Diego, CA 92101.

BASIC FINANCIAL STATEMENTS

CIVIC SAN DIEGO
Statement of Net Position
June 30, 2014

ASSETS

Current assets:

| | | |
|---|----|-----------|
| Cash and investments | \$ | 2,084,525 |
| Restricted cash | | 5,513,655 |
| Receivables for reimbursable expenses from the City of San Diego | | 567,726 |
| Accounts receivable | | 262,190 |
| Prepaid expenses | | 2,200 |

Noncurrent assets:

| | | |
|----------------------------------|--|---------|
| Long-term investments | | 2,292 |
| Capital assets, nondepreciable | | 136,062 |
| Capital assets, depreciable, net | | 50,459 |

| | | |
|--|--|-----------|
| | | 8,619,109 |
|--|--|-----------|

LIABILITIES

Current liabilities:

| | | |
|--|--|---------|
| Accrued expenses | | 352,918 |
| Deposits held for others | | 81,711 |
| Compensated absences - due in one year | | 73,629 |

Long-term liabilities:

| | | |
|---|--|-----------|
| Compensated absences - due after one year | | 108,403 |
| Advances from the City of San Diego | | 6,754,759 |

| | | |
|--|--|-----------|
| | | 7,371,420 |
|--|--|-----------|

NET POSITION

| | | |
|----------------------------------|--|---------|
| Net investment in capital assets | | 50,459 |
| Restricted: | | |
| Economic development | | 530,343 |
| Parking district | | 403,241 |
| Unrestricted | | 263,646 |

| | | |
|--|----|-----------|
| | \$ | 1,247,689 |
|--|----|-----------|

See accompanying notes to the basic financial statements.

CIVIC SAN DIEGO
Statement of Activities
For the Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | Net Revenue (Expense) and Change in Net Position |
|---|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| General government and support | \$ 3,518,244 | \$ 244,174 | \$ 3,218,514 | \$ (55,556) |
| Planning | 977,466 | 605,584 | 344,503 | (27,379) |
| Downtown parking program | 829,369 | - | 850,262 | 20,893 |
| Economic development | 222,201 | - | 215,944 | (6,257) |
| New market tax credit program | 117,611 | 782,319 | - | 664,708 |
| Total governmental activities | <u>\$ 5,664,891</u> | <u>\$ 1,632,077</u> | <u>\$ 4,629,223</u> | <u>596,409</u> |
| General Revenues: | | | | |
| Interest and unrealized gain on investments | | | | 31,547 |
| Sublease | | | | 143,600 |
| Miscellaneous | | | | 78,103 |
| Total general revenues | | | | <u>253,250</u> |
| Change in net position | | | | 849,659 |
| Net position - beginning of year | | | | <u>398,030</u> |
| Net position - end of year | | | | <u>\$ 1,247,689</u> |

See accompanying notes to the basic financial statements.

CIVIC SAN DIEGO
Balance Sheet
Governmental Funds
June 30, 2014

| | General Fund | Special Revenue Funds | | Total Governmental Funds |
|---|---------------------|--|---------------------------------------|--------------------------------|
| | Civic San Diego | Economic Growth and Neighborhood Investment Fund | Downtown Community Parking Program | |
| ASSETS | | | | |
| Cash and investments | \$ 1,423,646 | \$ 660,879 | \$ - | \$ 2,084,525 |
| Restricted cash | 1,788,761 | - | 3,724,894 | 5,513,655 |
| Receivables for reimbursable expenditures from the City of San Diego | 354,960 | - | 212,766 | 567,726 |
| Accounts receivable | 128,621 | 38,333 | 95,236 | 262,190 |
| Prepaid items | 2,200 | - | - | 2,200 |
| Long-term investments | - | 2,292 | - | 2,292 |
| Advance to other funds | 3,418,030 | - | - | 3,418,030 |
| Total assets | <u>\$ 7,116,218</u> | <u>\$ 701,504</u> | <u>\$ 4,032,896</u> | <u>\$ 11,850,618</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accrued expenses | \$ 106,803 | \$ 34,490 | \$ 211,625 | \$ 352,918 |
| Deposits held for others | 81,711 | - | - | 81,711 |
| Advance from other funds | - | - | 3,418,030 | 3,418,030 |
| Total liabilities | <u>188,514</u> | <u>34,490</u> | <u>3,629,655</u> | <u>3,852,659</u> |
| Fund Balances: | | | | |
| Nonspendable | 3,420,230 | 2,292 | - | 3,422,522 |
| Restricted | 3,143,400 | 664,722 | 403,241 | 4,211,363 |
| Unassigned | 364,074 | - | - | 364,074 |
| Total fund balances | <u>6,927,704</u> | <u>667,014</u> | <u>403,241</u> | <u>7,997,959</u> |
| Total liabilities and fund balances | <u>\$ 7,116,218</u> | <u>\$ 701,504</u> | <u>\$ 4,032,896</u> | <u>\$ 11,850,618</u> |

See accompanying notes to the basic financial statements.

CIVIC SAN DIEGO
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

| | 2014 |
|--|--------------|
| Total fund balances - Governmental Funds | \$ 7,997,959 |
| Amounts reported for governmental activities in the Statement of Net Position were different because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. | 186,521 |
| Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds. | (182,032) |
| Long-term advances from the City of San Diego are not due and payable in the current period and, therefore, are not reported in the governmental funds | (6,754,759) |
| Net position of Governmental Activities | \$ 1,247,689 |

See accompanying notes to the basic financial statements.

CIVIC SAN DIEGO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

| | General Fund | Special Revenue Funds | | | Total Governmental Funds |
|--|---------------------|--|---------------------------------------|------------------|--------------------------------|
| | Civic San Diego | Economic Growth and Neighborhood Investment Fund | Downtown Community Parking Program | Eliminations | |
| REVENUES: | | | | | |
| Contributions from the City of San Diego: | | | | | |
| Successor agency | \$ 3,218,514 | \$ - | \$ - | \$ - | \$ 3,218,514 |
| Planning | - | - | - | - | - |
| Parking meters | 308,763 | - | 726,885 | (224,196) | 811,452 |
| Economic development | 215,944 | - | - | - | 215,944 |
| Charges for services: | | | | | |
| Placement and servicing fees | - | 690,000 | - | - | 690,000 |
| Management fees | 108,469 | 92,319 | - | (108,469) | 92,319 |
| Permit fees | 605,584 | - | - | - | 605,584 |
| Developer deposits | 244,174 | - | - | - | 244,174 |
| Intergovernmental - SANDAG grant | - | - | 38,810 | - | 38,810 |
| Sublease | 143,600 | - | - | - | 143,600 |
| Interest and unrealized gain | 31,541 | 6 | - | - | 31,547 |
| Miscellaneous | 5,575 | 2,300 | 70,228 | - | 78,103 |
| Total revenues | <u>4,882,164</u> | <u>784,625</u> | <u>835,923</u> | <u>(332,665)</u> | <u>6,170,047</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General government and support | 3,566,474 | - | - | - | 3,566,474 |
| Planning | 977,466 | - | - | - | 977,466 |
| Parking district | 316,865 | - | 804,363 | (224,196) | 897,032 |
| Economic development | 222,201 | - | - | - | 222,201 |
| New market tax credit program | 108,469 | 117,611 | - | (108,469) | 117,611 |
| Capital outlay | 67,175 | - | - | - | 67,175 |
| Debt service: | | | | | |
| Payment on advances from the City of San Diego | - | - | 100,000 | - | 100,000 |
| Total expenditures | <u>5,258,650</u> | <u>117,611</u> | <u>904,363</u> | <u>(332,665)</u> | <u>5,947,959</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(376,486)</u> | <u>667,014</u> | <u>(68,440)</u> | <u>-</u> | <u>222,088</u> |
| OTHER FINANCING SOURCES: | | | | | |
| Proceeds on advances from the City of San Diego | 81,510 | - | 300,000 | - | 381,510 |
| Net change in fund balances | <u>(294,976)</u> | <u>667,014</u> | <u>231,560</u> | <u>-</u> | <u>603,598</u> |
| FUND BALANCES: | | | | | |
| Beginning of year | 7,222,680 | - | 171,681 | - | 7,394,361 |
| End of year | <u>\$ 6,927,704</u> | <u>\$ 667,014</u> | <u>\$ 403,241</u> | <u>\$ -</u> | <u>\$ 7,997,959</u> |

See accompanying notes to the basic financial statements.

CIVIC SAN DIEGO
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2014

| | 2014 |
|---|------------|
| Net change in fund balances - total Governmental Funds | \$ 603,598 |
| Amounts reported for governmental activities in the Statement of Activities were different because: | |
| <p>Governmental funds report capital asset purchases as expenditures, however, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. The amounts below represent the depreciation expense on capital assets and capital asset purchases.</p> | |
| Capital outlay | 134,838 |
| Depreciation expense | (459) |
| <p>In the Statement of Activities, compensated absences (vacation and sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (the amounts actually paid) and any amounts due and payable at year-end. During fiscal year 2014, vacation and sick leave earned was less than the amount used by \$48,689.</p> | |
| | 48,689 |
| <p>Payments made on advances received from the City of San Diego consumes current financial resources of governmental funds, but the payments decrease the outstanding balance of the long-term liabilities in the government-wide Statement of Net Position.</p> | |
| | 100,000 |
| <p>Revenues recognized in the Statement of Activities for services rendered, that resulted in an increase in current financial resources in the governmental funds for proceeds received on advances from the City of San Diego in a previous year.</p> | |
| | 344,503 |
| <p>Advances received from the City of San Diego increases current financial resources, but increases the outstanding balance of long-term liabilities in the government-wide Statement of Net Position.</p> | |
| | (381,510) |
| Change in net position of Governmental Activities | \$ 849,659 |

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CIVIC SAN DIEGO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 – ORGANIZATION AND OPERATIONS

Financial Reporting Entity

Civic San Diego (Corporation), is a nonprofit public benefit corporation originally incorporated on March 31, 1975 as Centre City Development Corporation, Inc. The Corporation was established to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the former Redevelopment Agency of the City of San Diego (Redevelopment Agency), now the City of San Diego (City) as the Successor Agency. The Corporation, pursuant to a Memorandum of Understanding (MOU) with the City of San Diego, acting as the Downtown Community Parking District Advisory Board, also administers the Downtown Community Parking District Program (DCPD Program). The Corporation is primarily funded by contributions from the City of San Diego. The Corporation is governed by a nine member board of directors whom are appointed by the mayor of the City of San Diego.

The Corporation is a blended component unit of the City since the City is financially accountable for the Corporation. The Corporation's annual budget and governing board are approved by the City Council of the City of San Diego. The Corporation provides services to the Successor Agency and the City. The City Council's function is to appoint the Board of Directors of the Corporation and to act as the Successor Agency, represented by the Corporation, in the downtown (Centre City) area. The Corporation, on behalf of the former Redevelopment Agency, also carries out the wind-down functions of the former project areas administered by the Corporation and the former Southeastern Economic Development Corporation (SEDC), including other planning, parking, and economic development functions on behalf of the City of San Diego.

On June 25, 2012, the City, as the designated Successor Agency to the former Redevelopment of the City of San Diego (Successor Agency), and the sole member of the Corporation, amended both the Corporation's and SEDC's Articles of Incorporation and Bylaws, restructuring and reorganizing the two nonprofit corporations into a single corporation named Civic San Diego, a California nonprofit public benefit corporation.

As required by accounting principles generally accepted in the United States of America (GAAP), the Corporation's financial statements present the primary government and its component units. The Corporation represents the primary government while entities for which the Corporation is considered to be financially accountable represent its component units. Collectively, the primary government and component units comprise the reporting entity.

Blended component units represent separate legal entities, which are so intertwined with the primary government that they are, in substance the same as the primary government. Included within the Corporation's reporting entity is the Civic San Diego Economic Growth and Neighborhood Investment Fund.

Civic San Diego Economic Growth and Neighborhood Investment Fund (Growth Fund) is a nonprofit public benefit corporation organized to make qualified low income community investments in the City of San Diego or other activities, which qualify for New Market Tax Credits (NMTC). The Growth Fund's purpose is also to engage in other activities, such as (1) raising equity for the investment by the Growth Fund or its affiliated entities; (2) form subsidiary limited liability companies, which the Growth Fund serves as manager or managing member, or subsidiary limited partnerships in which the Growth Fund serves as general partner; (3) apply on behalf of such subsidiaries for certification as a qualified community development entity (CDE) as defined in Section 45D of the Internal Revenue Code; (4) transfer any allocations of NMTCs that it receives to subsidiary CDEs; and (5) raise equity for investment in subsidiary CDEs.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 1 – ORGANIZATION AND OPERATIONS (Continued)

In December 2012, the Community Development Financial Institutions Fund (CDFI Fund) of the United States Department of Treasury certified the Growth Fund as a qualified CDE. Subsequently, in March 2013, the Growth Fund established the following subsidiary limited liability companies:

Civic San Diego Economic Growth and Neighborhood Investment Fund Sub-CDE I, LLC
Civic San Diego Economic Growth and Neighborhood Investment Fund Sub-CDE II, LLC
Civic San Diego Economic Growth and Neighborhood Investment Fund Sub-CDE III, LLC

The Growth Fund is governed by a nine member board of directors, which consists of the Corporation's board of directors. As such, the Corporation can impose its will on the Growth Fund. As the Managing Member of the limited liability companies, the Growth Fund is a 0.01% investor and receives a management fee for services provided. The limited liability companies are not considered component units of the Growth Fund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting / Measurement Focus

The accounts of the Corporation are organized on the basis of fund accounting, in which each fund is considered to be a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Generally, governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Corporation's government-wide financial statements include a statement of net position and a statement of activities. These financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting and summarize the Corporation's governmental activities. Accordingly, all of the Corporation's assets and liabilities, including long-term assets and liabilities, are included in the accompanying statement of net position. The Corporation does not currently have any deferred outflows or inflows of resources. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Certain types of transactions are reported as program revenues for the Corporation, such as charges to customers or applicants who use or directly benefit from services or privileges provided by a particular function (charges for services) and operating grants and contributions. Charges for services revenue consists of placement and servicing fees, management fees, permit application fees, and earned developer deposits for providing development review services. Operating grants and contributions primarily represent contributions received from the City of San Diego to carry out various activities, such as economic development, planning, and parking.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds Financial Statements

Governmental funds financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for each of the Corporation's funds. An accompanying schedule is presented to reconcile and explain the differences between total fund balances of the Corporation's governmental funds and the net change in total fund balances as presented in these statements to the net position and change in net position presented in the government-wide financial statements. The reconciliation of the governmental funds financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach of Governmental Accounting Standards Board (GASB) Statement No. 34.

Governmental funds are accounted for on a "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet, with the exception that long-term interfund loans are recognized in the respective funds. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance.

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due at year-end.

The Corporation reports the following major governmental funds:

General Fund (Civic San Diego) – represents the primary operating fund of the Corporation, which accounts for the financial resources and activities of the Corporation not required to be accounted for in another fund.

Economic Growth and Neighborhood Investment Fund Special Revenue Fund – accounts for the activities of the Corporation's blended component unit, the Growth Fund.

Downtown Parking Program Special Revenue Fund – accounts for the activities of the Corporation associated with administering the Downtown Community Parking District Program.

Cash

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

Investments

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

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Investment

The Corporation through the Growth Fund makes certain long-term investments by virtue of its activities in the NMTC Program. With each NMTC transaction, the Growth Fund invest funds into a special-purpose entity to carry out the allocation of NMTCs. As of June 30, 2014, the Corporation invested \$2,292 in the Sub-CDE 1, LLC (Copley-Price YMCA).

Capital Assets

Capital assets are reported in the statement of net position. Capital assets are defined as assets with an initial cost of more than \$5,000 and a useful life of greater than one year. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset</u> | <u>Years</u> |
|--------------------|--------------|
| Vehicles | 5 |
| Office Equipment | 5-7 |
| Computer Equipment | 3 |

Compensated Absences

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

Net Position

In the government-wide financial statements, net position consists of the following categories:

Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted consists of restricted assets reduced by liabilities related to those assets. Resources that are restricted typically arise from external creditors, grantors, contributors, or laws and regulations of other governments. Restricted amounts are primarily associated with the Corporation's activities related to the Growth Fund and the DCPD Program. Restricted balances of the Growth Fund are limited to activities associated with investment in low income communities, or other activities in furtherance of the purpose of the growth fund such as raising capital or equity for investment by the Corporation or its affiliated entities, and to receiving, investing and utilizing (i) gross receipts from activities related to the Corporation's exempt functions, and (ii) funds and property acquired through solicitation of contribution, donations, gifts, grants, bequest and the like. Restricted balances in the Downtown Community Parking Program fund are limited to activities associated with the management of the Downtown Community Parking District including addressing the supply of parking and mobility issues within the district. Such activities may include increasing the supply of parking or promoting the use of alternative forms of transportation, as well as, other parking related programs.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

Unrestricted represents resources that do not meet the definition of “net investment in capital assets” or “restricted net position”.

Fund balances presented in the governmental fund financial statements represent the difference between assets and liabilities and are classified into the following categories based upon the type of restrictions imposed on the use of funds:

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

Restricted – This classification includes amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Restricted fund balance in the General Fund primarily represents proceeds from funds advanced from the City of San Diego that can only be used for the purposes for which the advances were provided, such as the construction of capital assets or maintenance of assets. Restricted amounts are primarily associated with the Corporation’s activities related to the Growth Fund and the DCPD Program. Restricted balances of the Growth Fund are limited to activities associated with investment in low income communities, or other activities in furtherance of the purpose of the growth fund such as raising capital or equity for investment by the Corporation or its affiliated entities, and to receiving, investing and utilizing (i) gross receipts from activities related to the Corporation’s exempt functions, and (ii) funds and property acquired through solicitation of contribution, donations, gifts, grants, bequest and the like. Restricted balances in the Downtown Community Parking Program fund are limited to activities associated with the management of the Downtown Community Parking District including addressing the supply of parking and mobility issues within the district. Such activities may include increasing the supply of parking or promoting the use of alternative forms of transportation, as well as, other parking related programs.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action by the entity’s highest level of decision-making authority. The Corporation did not have any committed fund balance as of June 30, 2014.

Assigned – This classification includes amounts intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed. The Corporation did not have any assigned fund balance as of June 30, 2014.

Unassigned – This classification is the residual amount for the Corporation’s General Fund that includes all spendable amounts not contained in the other classifications.

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

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Eliminations

Amounts reported in the elimination column in the Statement of Revenues, Expenditures and Changes in Fund Balances represent revenue recognized by the Corporation's General Fund for expenditures incurred for performing services related to activities of the new market tax credit and parking district programs. The amounts are being eliminated for purposes of properly reporting revenues and expenses in the Statement of Activities for the Corporation as a reporting entity, thereby not double counting the same amounts already being recognized in the Economic Growth and Neighborhood Investment Fund and Downtown Community Parking Program Special Revenue Funds.

Estimates

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

NOTE 3 – CASH AND INVESTMENTS

Cash

The carrying amount of the Corporation's cash consisted of the following at June 30, 2014:

| | |
|-----------------|----------------------------|
| Petty cash | \$ 500 |
| Cash – checking | 4,862,203 |
| Cash – savings | <u>2,602,869</u> |
| Total Cash | <u><u>\$ 7,465,572</u></u> |

As of June 30, 2014, the bank balance was \$7,888,049. The difference between the carrying value of the Corporation's cash balances and the bank balances were due to deposits in transit and outstanding checks. Of the bank balances \$250,000 was covered by federal depository insurance (FDIC). The remaining balances were collateralized by securities held by the financial institution and are considered to be held in the name of the Corporation.

Investments

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

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 3 – CASH AND INVESTMENTS (Continued)

On April 21, 1999, the Corporation received consideration in the form of holding company stock. The Corporation received 1,036 shares in Stancorp Financial Group, with a stock value of \$11,976. On December 9, 2005, the Corporation received an additional 1,036 shares of stock dividend with a stock value of \$53,520. As of June 30, 2014, the Corporation owned a total of 2,072 shares of stock with a fair value of \$132,608, which was based on quoted market prices. The Corporation's investment in stock is not subject to interest rate, credit, or custodial credit risk.

Restricted Cash

Restricted cash reported in the Civic San Diego General Fund represents funds specifically for the Floor Area Ratio (FAR) Bonus Payment Program (Program) within the Centre City Planned District. FAR Bonus Payments collected through the Program, must be used for the acquisition, design and development of public parks and enhanced public right-of-way improvements.

Restricted cash reported in the Downtown Community Parking Program special revenue fund are limited to activities associated with the management of the Downtown Community Parking District including addressing the supply of parking and mobility issues within the district.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

| | <u>July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2014</u> |
|----------------------------------|---------------------|-------------------|------------------|----------------------|
| Nondepreciable capital assets: | | | | |
| Construction in progress | \$ 7,822 | \$ 128,240 | \$ - | \$ 136,062 |
| Depreciable capital assets: | | | | |
| Vehicles | 19,560 | - | - | 19,560 |
| Office equipment | 292,673 | 6,598 | - | 299,271 |
| Computer equipment | 130,980 | - | - | 130,980 |
| Total capital assets | <u>443,213</u> | <u>6,598</u> | <u>-</u> | <u>449,811</u> |
| Less accumulated depreciation: | | | | |
| Vehicles | (17,605) | - | - | (17,605) |
| Office equipment | (263,406) | (459) | - | (263,865) |
| Computer equipment | (117,882) | - | - | (117,882) |
| Total accumulated depreciation | <u>(398,893)</u> | <u>(459)</u> | <u>-</u> | <u>(399,352)</u> |
| Total depreciable capital assets | <u>44,320</u> | <u>6,139</u> | <u>-</u> | <u>50,459</u> |
| Total capital assets, net | <u>\$ 52,142</u> | <u>\$ 134,379</u> | <u>\$ -</u> | <u>\$ 186,521</u> |

Depreciation expense of \$459 for the year ended June 30, 2014 is reported in general government and support in the statement of activities.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 5 – LONG-TERM LIABILITIES

Advances from the City of San Diego

Successor Agency and Housing Successor Agency

Pursuant to the Agreement for Consulting Services by and between the City of San Diego and Civic San Diego for Successor Agency and Housing Successor Agency (Exhibit B, Section B.1), the City of San Diego (City) is to provide working capital to the Corporation to pay its operating costs and expenses while the Corporation waits to receive its monthly reimbursement of expenditures. The total amount of the working capital advance shall not be less than One Twelfth (1/12th) of the Approved Consultants Services Budget for the cost to perform services under the agreement. Any unused funds from the working capital advance are to be returned to the City upon termination of the agreement. As of June 30, 2014, the outstanding advance from the City was \$674,302.

Planning, Downtown Community Parking District and Economic Development Services

Pursuant to the Agreement for Consulting Services by and between the City of San Diego and Civic San Diego for Administration of certain Planned Districts, the Downtown Community Parking District and Economic Development Services (Exhibit B, Section B.1), the City is to provide working capital to the Corporation to pay its operating costs and expenses while the Corporation waits to receive its monthly reimbursement of expenses. The total amount of the working capital advance shall not be less than One Twelfth (1/12th) of the Approved Consultants Services Budget for the cost to perform services under the agreement. Any unused funds from the working capital advance shall be returned to the City upon termination of the agreement. As of June 30, 2014, the outstanding advance from the City totaled \$473,773.

Centre City Floor Area Ratio Bonus Program (FAR Bonus Program)

Pursuant to Resolution number R-04145, on May 22, 2007, the former Redevelopment Agency (Agency) approved a Floor Area Ratio (FAR) Bonus Payment Program (Program) within the Centre City Planned District. Pursuant to Exhibit A of Resolution number R-04145, the FAR Bonus Payments collected through the Program, must be deposited into an FAR Bonus Fund specifically established for the Program and to be maintained and operated by the Corporation, acting as the City's designee. FAR Bonus payments shall be used for the acquisition, design and development of public parks and enhanced public right-of-way improvements.

During the unwinding of the former Redevelopment Agency and as part of the transition from Centre City Development Corporation (CCDC) to Civic San Diego, the Program funds were transferred to the City. In accordance with the consultant agreement between the City and the Corporation, the City transferred the Program funds to the Corporation for the implementation of the FAR Bonus Program. The Corporation will collect FAR Bonus fees directly from developers on a go forward basis. As of June 30, 2014, the outstanding advance from the City totaled \$1,788,654.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Advances from the City of San Diego

Parking District

On March 4, 1997, pursuant to Resolution number R-288408, the City Council established Council Policy 100-18, which establishes the Parking Meter Revenue Allocation and Expenditure Policy. This policy establishes a revenue sharing between the Community Parking Districts and the City whereby the City allocates 45% of the parking meter revenue generated in a community parking district back to the parking districts in order to devise and implement parking management solutions to meet the specific needs of parking impacts in the community parking district. On December 2, 1997, pursuant to R-289520, the City Council designated the Corporation, as the advisory board for Parking District 1 (Downtown) and allocated parking meter funds to the Downtown Community Parking District (DCPD) and implemented the Comprehensive Downtown Parking Plan. Under this resolution, the City Council approved allocating parking meter revenue to the DCPD for twenty-five years in order to facilitate bond financing for the development of Downtown public parking facilities. Annually, the City Council enters into a Memorandum of Understanding (MOU) with the Corporation.

The City Council entered into an MOU for fiscal year 2013 designating the Corporation as the City designee to implement and operate the DCPD. The Corporation is to provide services related to the DCPD, and as the City's Agent, to manage the day-to-day administration of the parking facilities, including the programming and expenditure of surplus funds pursuant to the Operating agreement between the City and the former Redevelopment Agency. Pursuant to the consulting agreement between the City and the Corporation (Exhibit A-5, Task 6), the Corporation is to program any surplus revenues, as defined in the Parking Operating Agreement, to the implementation of the Comprehensive Downtown Parking Plan in accordance with the Parking Operating Agreement. The City shall cause to be transferred at the end of each fiscal year any Surplus revenues to the Corporation so that it may be programmed and utilized in the next fiscal year.

During the unwinding of the former Redevelopment Agency, and as part of the transition from CCDC to the Corporation, the surplus funds of the Parking Garages were transferred to the City. In accordance with the MOU and the consulting agreement, the City in turn transferred the surplus funds to the Corporation, as the City designee, for the implementation and operation of the DCPD consistent with the Parking Garages' bond documents. As of June 30, 2014, the outstanding advance from the City totaled \$3,418,030.

Portland Loos Project

Pursuant to Resolution number R-308030, Section 2a, the City appropriated \$400,000 to purchase and install two downtown public restrooms. The Corporation was tasked by the City to implement and oversee the construction of the downtown public restrooms pursuant to the Consulting Agreement between the City and the Corporation to perform Economic Development services and to oversee the implementation of economic development projects in cooperation with the City. Funds for this project were received in June 2013. The construction is expected to be completed within one year. Upon completion of the project, any unused funds will be returned to the City and the capital assets will be transferred to the City. As of June 30, 2014, the outstanding advance from the City totaled \$400,000.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 5 – LONG-TERM LIABILITIES (Continued)

A summary of changes in the Corporation’s long-term liabilities for the years ended June 30, 2014 is as follows:

| | July 1, 2013 | Additions | Deletions | June 30, 2014 | Due Within One Year |
|-------------------------------------|---------------------|-------------------|---------------------|---------------------|------------------------|
| Advances from the City of San Diego | \$ 6,817,752 | \$ 381,510 | \$ (444,503) | \$ 6,754,759 | \$ - |
| Compensated Absences | 230,721 | 215,518 | (264,207) | 182,032 | 87,637 |
| Total | <u>\$ 7,048,473</u> | <u>\$ 597,028</u> | <u>\$ (708,710)</u> | <u>\$ 6,936,791</u> | <u>\$ 87,637</u> |

NOTE 6 – PENSION PLANS

The Corporation sponsors a Tax Deferred Annuity Plan (Plan) under section 403(b) of the Internal Revenue Code of 1986, which is provided to all full-time regular employees. The Plan is a defined contribution plan under which benefits depend solely on amounts contributed to the Plan by the employer and the employees, plus investment earnings. All full-time regular employees are eligible to participate on their first day of employment and contribute an amount equal to 7.5% of their semi-monthly Plan compensation.

Effective on the first payroll following three months of employment, the Corporation contributes an amount equal to 12% of the total semi-monthly Plan compensation for all full-time regular employees.

The Corporation’s contributions for each employee are fully vested at the time of contribution. The Corporation’s total payroll (excluding benefits) for fiscal year 2014 was \$2,545,367. The Corporation’s contributions were calculated based on the Plan’s compensation amounts for all eligible employees, which totaled \$2,533,593. The Corporation made its required contribution amounting to \$297,913 for fiscal year 2014.

The fiduciary responsibilities of the Corporation consist of making timely contributions and remitting deposits collected. The Plan is not a component unit of the Corporation and is therefore not reported in the basic financial statements.

During the year ended June 30, 2013, there were two amendments made to the Plan. The Corporation amended the employer contribution percentage for each eligible participant. Effective July 1, 2012, the Corporation’s employer contribution percentage was changed from 16% to 12% of each eligible participant’s compensation.

Finally, the Corporation defined that an eligible participant is a permanent and full-time employee that normally works at least 30 hours per week. An employee is considered to work at least 30 hours per week, if for the 12-month period beginning on the date the employee’s employment commenced, the Corporation reasonably expects the employee to work at least 1,500 service hours and, for each Plan year ending after the close of that 12-month period, the employee has worked at least 1,500 service hours.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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

The Corporation is presently involved in certain matters of litigation that have arisen in the normal course of conducting the Corporation's business. Corporation management believes, based upon consultation with the Corporation's attorneys, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Corporation. The Corporation is covered by various insurance policies for property, liability, workers' compensation and errors and omissions, with deductibles that vary from \$1,000 to \$25,000. The Corporation's management believes that the insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

There were no claim settlements that exceeded insurance coverage during the past three fiscal years.

Civic San Diego as Lessee

The Corporation leases its office facilities under a non-cancelable operating lease, which has been extended through June 30, 2015. As of June 30, 2014, future minimum lease payments for this lease are \$758,088.

In addition, the Corporation leases copiers under a non-cancelable operating lease for a term of 60 months. Monthly payments include the following: maintenance, servicing of and supplies (including toner) for the new lease photocopiers; and the maintenance, servicing of and supplies (including toner); and maintenance, monitoring of and supplies (including toner) for Corporation-owned desktop printers.

As of June 30, 2014, the future minimum lease payments for the copier leases are as follows:

| Year Ending | |
|--------------------|--------------------------|
| June 30, | |
| 2015 | \$ 47,400 |
| 2016 | 47,400 |
| 2017 | <u>15,800</u> |
| Total | <u><u>\$ 110,600</u></u> |

Total costs associated with all leases amounted to \$795,876 for the year ended June 30, 2014.

Civic San Diego as Lessor

The Corporation entered into a sublease agreement for office space for an initial term of 34 months, from September 1, 2012 through June 30, 2015. Base monthly rent is \$11,516 for the first 12 months, \$11,888 for the second year, and \$12,260 for the final 10 months of the sublease agreement. Future minimum annual lease revenues are estimated to be \$146,376 for the year ending June 30, 2015.

Rental income related to the sublease was \$143,600 for the year ended June 30, 2014.

CIVIC SAN DIEGO
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

NOTE 8 – ECONOMIC DEPENDENCY AND UNCERTAINTIES

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

CIVIC SAN DIEGO
Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget to Actual - General Fund
For the Year Ended June 30, 2014

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|---|--------------------|------------------|---------------------|-------------------------------|
| REVENUES: | | | | |
| Contributions from the City of San Diego: | | | | |
| Successor agency | \$ 3,980,172 | \$ 3,980,172 | \$ 3,218,514 | \$ (761,658) |
| Parking meters | 396,077 | 396,077 | 308,763 | (87,314) |
| Economic development | 304,000 | 354,000 | 215,944 | (138,056) |
| Charges for services: | | | | |
| Management fees | 150,000 | 150,000 | 108,469 | (41,531) |
| Permit fees | 981,156 | 981,156 | 605,584 | (375,572) |
| Developer deposits | 100,000 | 100,000 | 244,174 | 144,174 |
| Sublease | 110,000 | 110,000 | 143,600 | 33,600 |
| Interest and unrealized gain on investments | - | - | 31,541 | 31,541 |
| Miscellaneous | 73,595 | 73,595 | 5,575 | (68,020) |
| Total revenues | <u>6,095,000</u> | <u>6,145,000</u> | <u>4,882,164</u> | <u>(1,262,836)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government and support | 4,323,455 | 4,373,455 | 3,566,474 | 806,981 |
| Planning | 999,189 | 999,189 | 977,466 | 21,723 |
| Parking district | 403,357 | 403,357 | 316,865 | 86,492 |
| Economic development | 243,999 | 243,999 | 222,201 | 21,798 |
| New market tax credit program | 125,000 | 125,000 | 108,469 | 16,531 |
| Capital outlay | - | - | 67,175 | (67,175) |
| Total expenditures | <u>6,095,000</u> | <u>6,145,000</u> | <u>5,258,650</u> | <u>886,350</u> |
| Deficiency of revenues under expenditures | - | - | (376,486) | (376,486) |
| OTHER FINANCING SOURCES: | | | | |
| Proceeds on advances from the City of San Diego | - | - | 81,510 | 81,510 |
| Net change in fund balance | - | - | (294,976) | (294,976) |
| FUND BALANCE: | | | | |
| Beginning of year | - | - | 7,222,680 | 7,222,680 |
| End of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,927,704</u> | <u>\$ 6,927,704</u> |

See accompanying note to required supplementary information.

CIVIC SAN DIEGO
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget
to Actual - Downtown Community Parking Program Special Revenue Fund
For the Year Ended June 30, 2014

| | Original Budget | Final Budget | Actual Amount | Variance with Final Budget |
|--|--------------------|-------------------|-------------------|-------------------------------|
| REVENUES: | | | | |
| Contributions from the City of San Diego: | | | | |
| Parking meters | \$ 12,112,500 | \$ 12,497,500 | \$ 726,885 | \$ (11,770,615) |
| Intergovernmental - SANDAG grant | 1,635,329 | 1,635,329 | 38,810 | (1,596,519) |
| Miscellaneous | 1,987,615 | 1,987,615 | 70,228 | (1,917,387) |
| Total revenues | <u>15,735,444</u> | <u>16,120,444</u> | <u>835,923</u> | <u>(15,284,521)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Parking district: | | | | |
| Administration | 450,000 | 450,000 | 224,196 | 225,804 |
| Parking meter GIS system | 45,000 | 45,000 | 2,095 | 42,905 |
| New technology | 1,000,000 | 1,000,000 | - | 1,000,000 |
| Downtown parking and circulation plans/environmental impact report | 900,000 | 900,000 | 58,941 | 841,059 |
| Bicycle mobility/rack purchase and installation | 120,000 | 200,000 | 78,549 | 121,451 |
| Way finding systems | 1,564,000 | 1,599,500 | 60,162 | 1,539,338 |
| Electronic parking information system | 2,279,615 | 2,422,444 | 252 | 2,422,192 |
| Cedar Gateway garage operations | 5,000,000 | 5,000,000 | - | 5,000,000 |
| Little Italy parking program | 239,329 | 366,000 | 354,304 | 11,696 |
| Downtown shuttle program | 500,000 | 500,000 | 25,864 | 474,136 |
| Reconfigure existing on-street parking | 750,000 | 750,000 | - | 750,000 |
| Pedestrian improvements | 1,700,000 | 1,700,000 | - | 1,700,000 |
| Landscape improvements | 350,000 | 350,000 | - | 350,000 |
| Operating contingency | 837,500 | 837,500 | - | 837,500 |
| Debt service: | | | | |
| Payment on advance from the City of San Diego | - | - | 100,000 | (100,000) |
| Total expenditures | <u>15,735,444</u> | <u>16,120,444</u> | <u>904,363</u> | <u>15,216,081</u> |
| Excess of revenues over expenditures | <u>-</u> | <u>-</u> | <u>(68,440)</u> | <u>(68,440)</u> |
| OTHER FINANCING SOURCES: | | | | |
| Proceeds on advances from the City of San Diego | - | - | 300,000 | 300,000 |
| Net change in fund balance | - | - | 231,560 | 231,560 |
| FUND BALANCE: | | | | |
| Beginning of year | - | - | 171,681 | 171,681 |
| End of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 403,241</u> | <u>\$ 403,241</u> |

See accompanying note to required supplementary information.

CIVIC SAN DIEGO
Note to Budgetary Comparison Schedules
For the Year June 30, 2014

NOTE 1 – BUDGETARY INFORMATION

The Corporation prepares its annual budget on the accrual basis of accounting in a format required by the City of San Diego (City). The budget is approved by the Corporation's Board of Directors (Board) and the City. The Corporation's expenditures are internally controlled at the line item level (i.e. salaries and benefits, rent and leasehold improvements, insurance, furniture and equipment, etc.), however, the legal level of budgetary control is total expenditures. The Corporation has a legally adopted budget for the General Fund and the Downtown Community Parking Program Special Revenue Fund. The Economic Growth and Neighborhood Investment Fund does not have annual adopted budget.

For the year ended June 30, 2014, expenditures for the payment on advances from the City of San Diego for the Downtown Parking Program Special Revenue Fund exceeded the final budgeted amount by \$100,000. Actual expenditures exceeded the final budgeted amounts because the Corporation does not budget for the payment on advances from the City of San Diego.

OTHER REPORT

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 of
Civic San Diego

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Civic San Diego (Corporation), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements, and have issued our report thereon dated January 26, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation’s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California
January 26, 2015