

**CITY OF SOUTH SAN FRANCISCO  
REDEVELOPMENT AGENCY  
BASIC COMPONENT UNIT  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2009**

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**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board of the  
City of South San Francisco Redevelopment Agency  
South San Francisco, California

We have audited the accompanying basic component unit financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South San Francisco Redevelopment Agency (Agency), a component unit of the City of South San Francisco, as of and for the year ended June 30, 2009, as listed in the Table of Contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the component unit financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the component unit 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 component unit financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the Agency at June 30, 2009 and the results of its operations for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2009 on our consideration of the City of South San Francisco Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is supplementary information required by the Government Accounting Standards Board, but is not part of the basic component unit financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Information listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the government-wide and fund financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Max S. Associates*

November 20, 2009

The discussion and analysis of the Redevelopment Agency of the City of South San Francisco financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with accompanying basic financial statements.

Management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Agency's financial activity, (c) identify changes in the Agency's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, it should be read in conjunction with the Agency's financial statements.

## **FINANCIAL HIGHLIGHTS**

Overall, property tax increment grew \$13.3 million to a total of \$40.7 million, an increase of 49%. Of that increase, \$1.1 million was a one-time prior years' audit adjustment in which the County found that Genentech's equipment should have been charged a higher property tax amount.

The increase comes primarily, however, from new development coming on the rolls in the Shearwater (\$3.8 million) and the Downtown (\$8.3 million) project areas. The Shearwater increase is primarily due to the new construction activity that has taken place in the Britannia project located along Veterans Boulevard. A large portion of the tax increment increase in this area is from the 96,500 square foot Amgen building that was largely completed in 2007 and did not get recorded on the tax rolls by the County until 2008-09.

The Downtown increase is primarily due to new construction activity that has taken place in both the Britannia East Grand project and the Britannia Pointe Grand project. Approximately half of the tax increment increase in the Downtown area was from the East Grand project. The Pointe Grand project along with the two new R&D buildings located on East Jamie Court comprised the majority of the remainder of the increase in tax increment in the Downtown area.

Bond Funds from the 2006 bond sale were used to make the following capital project expenditures:

- Completion of Lindenville Stormwater improvements;
- Preliminary work on the Caltrain station improvements.

## **USING THIS ANNUAL REPORT**

The primary focus of the report is on both the Agency as a whole (government-wide) and the major individual funds (programs). Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison, and enhance the Agency's accountability.

## **Government-Wide Financial Statements**

The *Statement of Net Assets*, which is similar to a Balance Sheet, reports all financial and capital resources for the Agency. The statement is presented in the format where assets minus liabilities, equals “Net Assets”, formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as “Current” (convertible into cash within one year), and “Non-current”.

The focus of the Statement of Net Assets (the “Unrestricted Net Assets”) is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Agency. Net Assets (formerly equity) are reported in three broad categories:

**Net Assets, Invested in Capital Assets, Net of Related Debt:** This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Assets:** This component of Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

**Unrestricted Net Assets:** Consists of Net Assets that do not meet the definition of “Net Assets Invested in Capital Assets, Net of Related Debt”, or “Restricted Net Assets”.

The *Statement of Activities* presents information showing how the government’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise 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.

The focus of the Statement of Activities is the “Change in Net Assets”, which is similar to Net Income or Loss.

## **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the Agency’s Board establishes other funds to help it control and manage money or meet legal responsibilities for using certain taxes, grants and other money.

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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s 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 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

### Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

**TABLE 1  
NET ASSETS  
June 30, 2009**

	2009	2008	
Current and other assets	\$ 132,333,741	\$ 103,669,323	
Capital assets	65,920,620	62,432,471	
Total assets	198,254,361	166,101,794	
Current and other liabilities	20,309,056	13,409,401	
Long-term liabilities	74,136,636	75,960,434	
Total liabilities	94,445,692	89,369,835	
Net assets:			
Restricted	32,959,281	38,544,809	
Unrestricted	70,849,388	38,187,150	
Total net assets	\$ 103,808,669	\$ 76,731,959	

- Current and other assets increased \$29 million to a total of \$132 million, due to the large growth in property tax increment described above.
- Capital assets increased \$3.5 million as the Redevelopment Agency used bond proceeds to complete the Lindenville storm drainage improvements. Those improvements will assist in preventing future flooding during heavy storms.
- Total liabilities increased \$5.1 million to \$94.4 million. Of this increase, \$6.9 million in Accounts Payable was due to RDA Pass Throughs accrued at year-end but not paid till July 2009. Long term liabilities declined \$1.8 million as principal payments reduced debt obligations for the 2006 Merged RDA bonds, and for a loan from the U.S. Department of Housing (HUD).

**Change in Net Assets**

Table 2 presents details on the change in Net Assets:

**TABLE 2  
CHANGE IN NET ASSETS**

	<u>2008-09</u>	<u>2007-08</u>
Beginning net assets	\$ 76,731,959	\$ 65,879,819
Redevelopment	(15,294,178)	(10,469,346)
Other	(111,697)	
Interest on long-term debt	<u>(3,718,037)</u>	<u>(3,791,730)</u>
Total expenses	(19,123,912)	(14,261,076)
Revenues:		
Tax increment	40,714,049	27,363,682
Interest and rental	3,559,894	6,130,782
Other	<u>1,926,679</u>	<u>35,237</u>
Total revenues	46,200,622	33,529,701
Assumption of debt		
Special item - Property Tax		(8,416,485)
Ending net assets	<u>\$ 103,808,669</u>	<u>\$ 76,731,959</u>

Redevelopment expenses increased for two main reasons. First there was an increase in Pass Through Payments required to taxing entities. Those payments are tied to property tax increment revenue received so as tax increment grows, so do payments to taxing entities (such as the County and the School District). In addition, the Agency made a large payment to the County for the remainder of its obligation towards County housing and open space in the Redevelopment areas, dating back to an agreement with the County from 2006.

Revenues increased due to the growth in Property Tax increment described above.

**ANALYSIS OF THE AGENCY’S MAJOR FUNDS**

***Merged Project Redevelopment Capital Project Fund***

The Redevelopment Agency’s (RDA) project areas were fiscally merged during 2005-06, allowing the Agency to tap into a larger tax base with which to sell bonds for redevelopment purposes. At the end of 2008-09, \$25 million remained in bond funds to be used. All funds have been allocated to capital projects, and are expected to be fully drawn down over the next two years. During the year, the largest project expenditures were for storm water improvements in the Downtown/Lindenville area, to improve the storm water system to prevent flooding during rainy periods.

***Merged Redevelopment Project Area Debt Service Fund***

⇒ Activity in 2008-09 was very similar to that in 2007-08, as no new debt service obligations were incurred. Fund balance reflects bond reserves on hand, as required by bond covenants.

***Low and Moderate Income Housing Capital Project Fund***

This fund holds the 20% in annual Redevelopment Agency (RDA) property tax increment that must be set aside for low and moderate income housing needs. The fund received \$8.2 million in such revenues, up from \$5.6 million last year. The major activity of the year was \$4.5 million in new housing loans, primarily to Mid Peninsula Housing for a major new affordable housing project on 636 El Camino Real. Additional loans were made to first time homebuyers.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of year end, the Agency had \$65.9 million invested in a variety of capital assets as reflected in the below Table 3, which represents a net addition of \$3.5 million from the end of the prior year. The most significant additions were the storm drainage infrastructure added in the Lindenville area, to control flooding.

**TABLE 3  
CAPITAL ASSETS AT JUNE 30, 2009  
(Net of Depreciation)**

	2009	2008
Land	\$ 43,825,478	\$ 43,825,478
Buildings & Improvements	8,097,245	8,097,245
Land Improvements	2,125,119	2,125,119
Infrastructure	3,722,610	188,297
Machinery & Equipment	125,076	125,076
Office Equipment	23,452	23,452
Furniture & Fixtures	21,506	21,506
Vehicles	110,151	105,645
Construction in progress	9,567,296	9,256,164
Less: Accumulated depreciation	(1,697,313)	(1,335,511)
Total	\$ 65,920,620	\$ 62,432,471

**Debt Outstanding**

As of year-end, the Agency had \$75.9 million in debt outstanding compared to \$77.7 million in the prior year-end, reflecting principal payments made on the 2007 RDA bonds and the HUD loan.

**TABLE 4**  
**OUTSTANDING DEBT AT JUNE 30, 2009**

	<u>2009</u>	<u>2008</u>
California Health Facilities Financing (CHFFA) Revenue Bonds 1989	\$110,434	\$153,860
2006 Revenue Bonds	67,240,000	68,515,000
Tax Allocation Bonds Series B 1999 (Housing)	2,305,000	2,485,000
Certificates of Participation 1999 (Conference Center)	4,915,000	5,060,000
HUD Section 108 Loan 2000	<u>1,390,000</u>	<u>1,502,000</u>
Total	<u>\$75,960,434</u>	<u>\$77,715,860</u>

**FINANCIAL CONTACT**

Questions about this report or requests for additional financial information should be directed to the City of South San Francisco Finance Department, P.O. Box 711, South San Francisco, CA 94083, phone (650) 877- 8513.

**STATEMENT OF NET ASSETS AND  
STATEMENT OF ACTIVITIES**

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Agency's Governmental Activities in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$72,796,514
Receivables:	
Accounts	23,807
Accrued interest	397,584
Loans	9,576,412
Advance to the City (Note 3B)	14,717,778
Restricted cash and investments (Note 2)	32,921,646
Land held for redevelopment	1,900,000
Capital assets (Note 5):	
Nondepreciable	53,392,774
Depreciable, net of accumulated depreciation	12,527,846
Total assets	198,254,361
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	7,937,749
Tax refund payable	8,966,485
Deposits	27,555
Advance from the City (Note 3A)	346,748
Interest payable	1,206,721
Current portion of long-term debt (Note 6)	1,823,798
Noncurrent portion of long-term debt (Note 6)	74,136,636
Total liabilities	94,445,692
<b>NET ASSETS (Note 1F)</b>	
Invested in capital assets, net of related debt	22,068,677
Restricted for:	
Debt service	5,479,891
Capital projects	27,479,390
Total restricted net assets	32,959,281
Unrestricted	70,849,388
Total net assets	\$103,808,669

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Governmental Activities</b>
Expenses:	
Redevelopment	\$15,294,178
Other	111,697
Interest on long-term debt	3,718,037
Total Expenses	19,123,912
General revenues:	
Tax allocation increment	40,714,049
Charges for services	165
Interest and rental	3,559,894
Other	1,925,200
Total general revenues	46,199,308
Transfer in from City	1,314
Change in Net Assets	27,076,710
Net Assets-Beginning	76,731,959
Net assets-Ending	\$103,808,669

See accompanying notes to financial statements

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## FUND FINANCIAL STATEMENTS

All Agency Funds were determined to be Major Funds in fiscal 2009. They are described below:

The **MERGED REDEVELOPMENT PROJECT AREA CAPITAL PROJECTS FUND** – This fund accounts for property tax increment revenues used for capital projects connected with the Gateway, Downtown, Shearwater and El Camino project areas.

The **LOW AND MODERATE INCOME HOUSING CAPITAL PROJECTS FUND** – This fund accounts for the 20% share of property tax increment revenue directed toward low and moderate income housing projects.

The **MERGED REDEVELOPMENT PROJECT AREA DEBT SERVICE FUND** – This fund accounts for principal and interest associated with the 1999 Revenue Bonds, 1997 Downtown Tax Allocation Bonds, 2007A Tax Allocation Bonds, and 1999 Certificates of Participation.

The **LOW AND MODERATE INCOME HOUSING DEBT SERVICE FUND** – This fund accounts for debt repayments for the 1999 revenue bonds.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2009**

	<b>CAPITAL PROJECTS FUNDS</b>		<b>DEBT SERVICE FUNDS</b>		<b>Total Governmental Funds</b>
	<b>Merged Redevelopment Project Area</b>	<b>Low/Mod Income Housing Fund</b>	<b>Merged Redevelopment Project Area</b>	<b>Low/Mod Income Housing Fund</b>	
<b>ASSETS</b>					
Cash and investments	\$54,440,108	\$18,318,771	\$37,635		\$72,796,514
Receivables:					
Accounts	23,807				23,807
Accrued interest	261,072	136,512			397,584
Loans	487,155	9,089,257			9,576,412
Advance to the City	14,717,778				14,717,778
Restricted cash and investments	25,208,130	2,271,260	4,916,047	\$526,209	32,921,646
Land held for redevelopment		1,900,000			1,900,000
<b>Total Assets</b>	<b>\$95,138,050</b>	<b>\$31,715,800</b>	<b>\$4,953,682</b>	<b>\$526,209</b>	<b>\$132,333,741</b>
<b>LIABILITIES</b>					
Accounts payable	\$7,920,221	\$17,528			\$7,937,749
Deposits	500	27,055			27,555
Deferred revenue	500,000	50,000			550,000
Advance from the City		346,748			346,748
<b>Total Liabilities</b>	<b>8,420,721</b>	<b>441,331</b>			<b>8,862,052</b>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances	1,194,658	89,377			1,284,035
Advances	14,717,778				14,717,778
Loans receivable	487,155	9,089,257			9,576,412
Future loan obligations		1,026,633			1,026,633
Debt service			\$4,953,682	\$526,209	5,479,891
Restricted assets	25,282,212	2,271,260			27,553,472
Land held for redevelopment		1,900,000			1,900,000
Unreserved					
Designated:					
Property tax appeal	8,416,485				8,416,485
Capital projects and maintenance	1,435,265	6,983,801			8,419,066
Undesignated	35,183,776	9,914,141			45,097,917
<b>Total Fund Balances</b>	<b>86,717,329</b>	<b>31,274,469</b>	<b>4,953,682</b>	<b>526,209</b>	<b>123,471,689</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$95,138,050</b>	<b>\$31,715,800</b>	<b>\$4,953,682</b>	<b>\$526,209</b>	<b>\$132,333,741</b>

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
GOVERNMENTAL FUNDS  
BALANCE SHEET - RECONCILIATION OF GOVERNMENTAL  
FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2009**

Total Fund Balances reported on the governmental funds balance sheet \$123,471,689

Amounts reported for Governmental Activities in the Statement of  
Net Assets are different from those reported in the Governmental Funds above because of the following:

**CAPITAL ASSETS**

Capital assets used in Governmental Activities are not current assets  
or financial resources and therefore are not reported in the Governmental Funds. 65,920,620

**ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES**

Revenues which are deferred on the Fund Balance Sheets because they are not available currently  
are taken into revenue in the Statement of Activities.

Tax refund payable - Property tax refund	(8,416,485)
Interest Payable	(1,206,721)

**LONG-TERM ASSETS AND LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore  
are not reported in the Funds:

Long-term debt	<u>(75,960,434)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$103,808,669</u></u>
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See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>CAPITAL PROJECTS FUNDS</u>		<u>DEBT SERVICE FUNDS</u>		<u>Total Governmental Funds</u>
	<u>Merged Redevelopment Project Area</u>	<u>Low/Mod Income Housing Fund</u>	<u>Merged Redevelopment Project Area</u>	<u>Low/Mod Income Housing Fund</u>	
REVENUES:					
Tax allocation increment	\$40,714,049				\$40,714,049
Interest and rental	2,578,968	\$719,137	\$27,406	\$234,383	3,559,894
Charges for services	165				165
Others	25,000	1,900,200			1,925,200
<b>Total Revenues</b>	<b>43,318,182</b>	<b>2,619,337</b>	<b>27,406</b>	<b>234,383</b>	<b>46,199,308</b>
EXPENDITURES:					
Economic and Community Development	13,397,454	982,305			14,379,759
Non-departmental	101,608		10,089		111,697
Capital outlay	3,851,268				3,851,268
Debt service:					
Principal retirement			1,575,426	180,000	1,755,426
Interest and fiscal charges	23,913		3,602,579	115,145	3,741,637
<b>Total Expenditures</b>	<b>17,374,243</b>	<b>982,305</b>	<b>5,188,094</b>	<b>295,145</b>	<b>23,839,787</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>25,943,939</u>	<u>1,637,032</u>	<u>(5,160,688)</u>	<u>(60,762)</u>	<u>22,359,521</u>
OTHER FINANCING SOURCES (USES)					
Transfer in from City	1,314				1,314
Transfer (out) to City for capital outlay	(551,300)				(551,300)
Transfers in (Note 4A)		8,214,710	5,115,751	279,723	13,610,184
Transfers (out) (Note 4A)	(13,330,461)	(279,723)			(13,610,184)
<b>Total other financing sources (uses)</b>	<b>(13,880,447)</b>	<b>7,934,987</b>	<b>5,115,751</b>	<b>279,723</b>	<b>(549,986)</b>
CHANGE IN FUND BALANCES	12,063,492	9,572,019	(44,937)	218,961	21,809,535
Fund balance, July 1	74,653,837	21,702,450	4,998,619	307,248	101,662,154
Fund balance, June 30	<u>\$86,717,329</u>	<u>\$31,274,469</u>	<u>\$4,953,682</u>	<u>\$526,209</u>	<u>\$123,471,689</u>

See accompanying notes to the financial statements.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Reconciliation of the**  
**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**  
**with the**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$21,809,535
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

**CAPITAL ASSETS TRANSACTIONS**

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense is deducted from the fund balance	(361,802)
Capital assets addition, net	3,849,951

**ACCRUAL OF NON-CURRENT ITEMS**

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest expenses	23,600
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**LONG-TERM DEBT PAYMENTS**

Repayment of debt principal is added back to fund balance	<u>1,755,426</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$27,076,710</u></u>
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See accompanying notes to financial statements

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**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Description of The City of South San Francisco Redevelopment Agency and Redevelopment Plan -* The City of South San Francisco Redevelopment Agency (Agency) was established in 1981 under the provisions of the Community Redevelopment Law (California Health and Safety Code), for clearance and rehabilitation of areas determined to be in a declining condition in the City of South San Francisco.

The Agency is authorized to finance the Redevelopment Plan from various sources, including assistance from the City, the State and federal government, property tax increments, interest income and the issuance of Agency notes and bonds. Management and administrative support services are provided by the City. The City Manager serves as the Executive Director, the City Economic and Community Development Director as the Assistant Director and Secretary, and the City Finance Director as the Finance Officer of the Agency.

The Agency is an integral part of the City of South San Francisco and, accordingly, the accompanying financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

The Agency is engaged in the redevelopment of four areas described below:

The Shearwater Redevelopment Project (Shearwater) consists of a privately owned land parcel, formerly owned and operated by U.S. Steel. The Property is currently under development.

The *Gateway Redevelopment Project (Gateway)* consists of privately owned land parcels. The largest property owner, Hines Development Company, has undertaken a large scale, phased development over a multi-year period provided in the amended and restated Owner Participation and Development Agreement dated August 20, 1992 between the Agency and Homart Development Company, the previous land owner (the Homart Agreement).

The *Downtown Center Redevelopment Project (Downtown)* consists of various land parcels in the downtown area and in other commercial and industrial areas within the City, which are primarily located east of the Bayshore Freeway (U.S. 101). The Board has undertaken plans to upgrade these areas and to encourage better land use through public improvements.

The *El Camino Corridor Redevelopment Project (El Camino)* consists primarily of undeveloped and under developed parcels along the central arterial street west of U.S. 101. This area, which is bisected by a creek and railroad tracks, is being developed in conjunction with the recent Bay Area Rapid Transit (BART) railway extension to the San Francisco International Airport.

In fiscal year 2006, the Agency amended the existing four Redevelopment Plans in order to fiscally merge the four project areas into one. The merger allows the Agency to unite financial resources and facilitate its efforts to better implement its Redevelopment Program in order to alleviate blight and adverse conditions in the four project areas. Each of the four project areas will continue to be governed by its own Redevelopment Plan with its respective set of redevelopment goals, and time and other fiscal limits. However, the merger allows the Agency to combine tax increment collection and outstanding indebtedness limits of the existing project areas.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

**B. Basis of Presentation** - The Agency's Component Unit Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Agency. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

**C. Major Funds** -

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency may also select other funds it believes should be presented as major funds. The Agency reported all of its governmental funds in the accompanying financial statements as major funds:

**Merged Redevelopment Project Area Capital Projects Fund-** This fund accounts for property tax increment revenues used for capital projects connected with the Gateway, Downtown, Shearwater and El Camino project areas.

**Low And Moderate Income Housing Capital Projects Fund** – This fund accounts for the 20% share of property tax increment revenue directed toward low and moderate income housing projects.

**Merged Redevelopment Project Area Debt Service Fund-** for principal and interest associated with the 1999 Revenue Bonds, 1997 Downtown Tax Allocation Bonds, 2007A Tax Allocation Bonds, and 1999 Certificates of Participation.

**Low and Moderate Income Housing Debt Service Fund** - This fund accounts for debt repayments for the 1999 revenue bonds.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

**D. Basis of Accounting** - The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include interest and charges for services.

Under the terms of grant agreements, the Agency may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and unrestricted redevelopment revenues. Thus, both restricted and unrestricted net assets are available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by unrestricted redevelopment revenues if necessary.

**E. Capital Assets** - All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets excluding infrastructure are capitalized if costs exceed \$5,000. The similar threshold for infrastructure is \$100,000.

The Agency record all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks and drainage systems. Infrastructure assets are transferred to the City upon completion as the City will maintain them and they are excluded from the Agency's financial statements and included in the City's financial statements.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

All capital assets with limited useful lives are depreciated over their estimated useful lives. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Agency has assigned the useful lives listed below to capital assets.

Buildings & Improvements	50 years
Land Improvements	30 years
Infrastructure	65 years
Machinery and Equipment	5-20 years
Furniture and Fixtures	12 years

**F. Net Assets** - Net Assets, is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Assets is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include resources received for debt service requirements; redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

**G. Fund Balance Reserves and Designations** - Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Reserved are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The Agency has reserved fund balances as follows:

Reserved for Encumbrances – To account for assets set aside for goods and services to be received.

Reserved for Advances – To account for advance payments received set aside to represent amounts that do not represent available current resources.

Reserved for Loans Receivable – To account for assets that have been set aside to represent loans receivable amounts that do not represent available current resources.

Reserved for Future Loan Obligations – To account for bond proceeds to be loaned for future redevelopment projects.

Reserved for Debt Service – To account for assets that are restricted for future debt service payments.

Reserved for Restricted Assets – To account for assets that are restricted pursuant to the Agency's long-term debt agreements.

Reserved for land held for redevelopment – To account for the carry value of property held by the Agency, which is reserved since it is not an available spendable resource.

Unreserved-designated – To reflect amounts specifically designated for projects/activities by official action of the Agency.

Designations are imposed by the City of South San Francisco Redevelopment Agency to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by The City of South San Francisco Redevelopment Agency.

**H. Budgets and Budgetary Accounting** – Prior to June 1, the City Manager submits to the City Council a proposed operating and capital budget for the upcoming fiscal year. The proposed budget includes a summary of proposed expenditures and forecasted revenues of the Agency's governmental funds. The City Council adopts the budget by June 30 through passage of an adopted resolution.

The Agency Executive Director may transfer appropriations from one program, activity, or object to another within the same fund. However, transfers of appropriations which increase total fund appropriations must be approved by the Agency Board. All unexpended appropriations lapse at the end of the fiscal year.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

*I. Property Tax Increment* - All property taxes are levied and collected by the County Auditor of the County of San Mateo and paid to the various taxing entities including the Agency. Secured taxes are due on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured taxes are due on July 1 and become delinquent on August 31. The lien date for secured and unsecured property taxes is January 1 of the preceding fiscal year. Property tax increment revenues include only property taxes resulting from increased assessed values and are recognized in the fiscal year for which the taxes have been levied, provided they become available and measurable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**NOTE 2 - CASH AND INVESTMENTS**

Agency cash not held by the Trustee is included in a Citywide cash and investment pool. The City's cash is fully collateralized with securities held by an agent of the pledging financial institution in the City's name. The Agency's goal is to invest at the maximum yield, consistent with safety and liquidity, while individual funds can process payments for expenditures at any time. The Agency's investments are carried at fair value, as required by generally accepted accounting principles. The Agency adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

*A. Classification*

Cash and investments as of June 30, 2009 are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or Agency agreements.

**Financial Statement Presentation:**

Statement of net assets:

Cash and investments available for operations	\$72,796,514
Restricted cash and investments	<u>32,921,646</u>
Total cash and investments	<u><u>\$105,718,160</u></u>

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***B. Investments Authorized by Debt Agreements***

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>
U.S. Treasury Obligations	N/A	N/A	No Limit
U.S. Agency Securities	N/A	N/A	No Limit
Banker's Acceptances	360 days	Highest Rating Category	No Limit
Commercial Paper	270 days	Highest Rating Category	No Limit
State and Local Investment Pool	N/A	Highest Rating Category	No Limit
Guaranteed Investment Contracts (fully collateralized) (A)	N/A	AAA	No Limit
Municipal Obligations	N/A	Highest Rating Category	No Limit
State Obligations	N/A	Two Highest Rating Categories	No Limit

(A) Guaranteed Investment Contracts must be fully collateralized with U.S. Treasury Obligations or U.S. Agency Obligations.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**C. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

	<u>Remaining maturity</u>		<u>Total</u>
	<u>Less than 1 year</u>	<u>More than Five Years</u>	
Local Agency Investment Fund	\$37,430,631		\$37,430,631
Money Market Funds	339,059		339,059
Collateralized Investment Agreements		\$4,258,550	4,258,550
California Asset Management Pool	27,595,997		27,595,997
U.S. Agency Securities			
Callable	961,545		961,545
City of South San Francisco Treasury (A)	35,132,378		35,132,378
Total Cash and Investments	<u>\$101,459,610</u>	<u>\$4,258,550</u>	<u>\$105,718,160</u>

(A) The Agency participates in the City of South San Francisco Cash and Investments pool, detail of which is presented in the City's Comprehensive Annual Financial Report.

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Agency reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**D. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2009 for each of the Agency's investment types as provided by Standard and Poor's investment rating system:

Investment Type	
<b>AAA rated:</b>	
Money Market Funds	\$339,059
U.S. Agency Securities	961,545
<b>Not rated:</b>	
Collateralized Investment Agreements	4,258,550
California Asset Management Pool	27,595,997
Local Agency Investment Fund	37,430,631
City of South San Francisco Treasury (A)	<u>35,132,378</u>
Total Cash and Investments	<u><u>\$105,718,160</u></u>

(A) The Agency participates in the City of South San Francisco Cash and Investments pool, detail of which is presented in the City's Comprehensive Annual Financial Report.

**E. Concentration of Credit Risk**

The Agency's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Entity-wide investments and by major fund investments at June 30, 2009.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 3 – ADVANCES WITH THE CITY OF SOUTH SAN FRANCISCO**

**A. Advance from the City**

As of June 30, 2009, the Low/Mod Income Housing Projects Fund owed the City Community Development Block Grant Fund in the amount of \$346,748. The advance bears no interest and the outstanding balances will be paid off from the low and moderate rental revenues generated from the Agency owned apartment complex located on 339-341 Commercial Avenue.

**B. Advance to the City**

As of June 30, 2009, the City Capital Improvement Capital Projects Fund owed the Merged Redevelopment Project Area Capital Projects Fund for developer fees in the amount of \$12,521,718 for the Flyover and Hookramps Projects that were completed in prior years. The advance bears 4.585% interest annually and the outstanding balance will be paid off from the future developer fees.

The City Sewer Rental Enterprise Fund owed the Merged Redevelopment Project Area Capital Projects Fund for development of sewer infrastructures in the amount of \$1,705,616. The advance bears no interest and the outstanding balance will be paid off from future sewer fees.

The City Parking District Enterprise Fund owned the Merged Redevelopment Project Area Capital Projects Fund in the amount of \$490,444. The advance bears 4.585% interest annually and the outstanding balance will be paid off from parking fees.

**NOTE 4 – INTER-FUND TRANSACTIONS**

**A. Transfers**

Transfers between funds during the fiscal year ended June 30, 2009 were as follows:

<u>FROM FUND:</u>	<u>TO FUND:</u>	<u>AMOUNT:</u>
<b>Redevelopment Agency Capital Project Funds:</b>		
Merged Redevelopment	Low/Mod Income Housing Capital Project Fund	\$8,214,710 (A)
	Merged Project Area Debt Service Fund	\$5,115,751 (B)
Low/Mod Income Housing	Merged Redevelopment Debt Service Fund	<u>279,723 (B)</u>
	Total	<u><u>\$13,610,184</u></u>

The reasons for these transfers are set forth below:

- (A) Set aside 20% of property tax increment for Low and Moderate Housing Capital Project Fund.
- (B) For debt service

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 5 – CAPITAL ASSETS**

Changes in the Capital Assets consisted of the following:

	Balance June 30, 2008	Additions	Transfers	Balance June 30, 2009
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$43,825,478			\$43,825,478
Construction in Progress	9,256,164	\$3,845,445	(\$3,534,313)	9,567,296
Total capital assets not being depreciated	53,081,642	3,845,445	(3,534,313)	53,392,774
Capital assets being depreciated:				
Buildings and Improvements	8,097,245			8,097,245
Land Improvements	2,125,119			2,125,119
Infrastructure	188,297		3,534,313	3,722,610
Machinery and Equipment	125,076			125,076
Office Equipment	23,452			23,452
Furniture and Fixtures	21,506			21,506
Vehicles	105,645	4,506		110,151
Total capital assets being depreciated	10,686,340	4,506	3,534,313	14,225,159
Less accumulated depreciation for:				
Buildings and Improvements	(683,937)	(217,757)		(901,694)
Land Improvements	(449,416)	(70,837)		(520,253)
Infrastructure	(34,521)	(50,456)		(84,977)
Machinery and Equipment	(90,420)	(8,733)		(99,153)
Office Equipment	(23,452)			(23,452)
Furniture and Fixtures	(13,299)	(1,505)		(14,804)
Vehicles	(40,466)	(12,514)		(52,980)
Total accumulated depreciation	(1,335,511)	(361,802)		(1,697,313)
Net capital assets being depreciated	9,350,829	(357,296)	3,534,313	12,527,846
<b>Governmental activity capital assets, net</b>	<b>\$62,432,471</b>	<b>\$3,488,149</b>		<b>\$65,920,620</b>

Depreciation expense has been allocated to the Redevelopment activity on the statement of activities.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 6 - LONG-TERM OBLIGATIONS**

A summary of governmental activities long-term debt changes for the fiscal year ended June 30, 2009, follows:

Type of Obligation	Authorized and Issued	Principal Outstanding June 30, 2008	Retirements	Principal Outstanding June 30, 2009	Current Portion
2006 Revenue Bonds, 3.75 to 5.13%, due 9/1/35 (A)	\$70,675,000	\$68,515,000	\$1,275,000	\$67,240,000	\$1,330,000
2000 HUD Section 108, 4.4 to 6.6%, due 8/1/23 (B)	1,750,000	1,502,000	112,000	1,390,000	112,000
1999 Revenue Bonds, 3.3 to 5.0%, due 9/1/18 (C)	31,720,000	2,485,000	180,000	2,305,000	185,000
1999 Certificates of Participation, 3.2 to 5.0%, due 4/1/29 (D)	6,145,000	5,060,000	145,000	4,915,000	150,000
1989 California Health Facilities Financing Authority (CHFFA) Revenue Bonds, 7.2%, due 9/23/11 (E)	563,000	153,860	43,426	110,434	46,798
Total Redevelopment Agency	<u>\$110,853,000</u>	<u>\$77,715,860</u>	<u>\$1,755,426</u>	<u>\$75,960,434</u>	<u>\$1,823,798</u>

(A) On April 19, 2006, the Agency issued \$70,675,000 of **Tax Allocation Revenue Bonds, Series 2006A** to advance refund and defease \$9,920,000 of the 1997 Downtown Tax Allocation Bonds and \$23,860,000 of the 1999 Revenue Bonds, and to finance various redevelopment projects. Net proceeds of \$9,364,974 and \$3,753,130 plus an additional \$801,925 and \$20,039,830 from the 1997 and 1999 bonds were used to purchase U.S. government securities for the 1997 Downtown Tax Allocation Bonds and 1999 Revenue Bonds, respectively. Those securities were deposited in irrevocable trust with an escrow agent to provide for all future debt service payments. The 1997 and 1999 bonds are considered to be defeased and the liabilities for those bonds have been removed. As of June 30, 2009, \$9,130,000 and \$20,600,000 of principal remained outstanding on the defeased 1997 and 1999 bonds, respectively. Interest on the 2006 Bonds is payable on each March 1 and September 1.

The 2006 Bonds are special obligation of the Redevelopment Agency payable solely from and secured by a pledge of tax revenues generated within the project area. Interest on the 2006A Bonds is payable on each March 1 and September 1. Principal payments are due each September 1. The pledge of future tax revenue ends upon repayment of the \$121,192,542 in remaining debt service on the bonds which is scheduled to occur in 2036. As disclosed in the originating offering documents, projected net revenues are expected to provide coverage over debt service of 3.41 over the life of the bonds. For fiscal year 2009, the merged Redevelopment Project Area Capital Project Fund net tax revenue, including all revenues and expenditures, but excluding debt service amounted to \$12.1 million which represented coverage of 2.7 over the \$4.5 million in debt service.

(B) In May 2000, the City and Redevelopment Agency secured a "Contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, in the aggregate principal amount of \$1,750,000 (the **2000 HUD Section 108** Loan). The proceeds of the HUD Section 108 Loan were used to finance the acquisition of real property (and related relocation), rehabilitation of rental housing, and the rehabilitation of a public facility, pursuant to 24 CFR Statute 570.703(a), (d), (h) and (l).

Under the Contract, the City and the Redevelopment Agency pledge: (a) all allocations or grants under Section 106 of Title I, or Section 108 (q) of Title I; (b) program income, as defined at 24 CFR Section 570.500 (a); (c) tax increment revenues and receipts available to the Redevelopment Agency; (d) all proceeds from foregoing; and (e) all funds or investments in accounts established by the Contract.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 6 - LONG-TERM OBLIGATIONS (Continued)**

(C) On February 1, 1999, the City of South San Francisco Capital Improvements Financing Authority (CIFA) issued \$31,720,000 of **1999 Revenue Bonds** to finance tax allocation bonds of the Redevelopment Agency. The 1999 revenue bonds are obligations of the CIFA although the Redevelopment Agency is required to make bond principal and interest payments from the Gateway increment tax and housing set-aside revenues. The 1999 Revenue Bonds are, in substance, obligations of the Redevelopment Agency, and have therefore been recorded as such in these financial statements. On April June 30, 2009, the Housing Set-Aside's portion of the bonds outstanding was \$2,305,000.

The 1999 Revenue Bonds were issued to provide funds to pay loans (Homart Development), to finance redevelopment activities and to refund the 1993 Gateway tax allocation bonds, which were due in 2018. Net proceeds of \$9,614,978 plus an additional \$956,470 of 1993 bond reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, the 1993 bonds are considered to be defeased and the liability for those bonds has been removed. As of June 30, 2009, \$6,515,000 of principal remained outstanding on the defeased 1993 bonds.

(D) On February 1, 1999, the City issued \$6,145,000 of **1999 Certificates of Participation (COPs)** to finance the acquisition of the land and improvements used and operated as the City of South San Francisco Conference Center. During fiscal 2003/04, pursuant to a resolution of the Redevelopment Agency Board, tax increment revenues were pledged to pay debt service on the 1999 COPS. The pledge of future tax increment revenue ends upon repayment of the \$7,887,776 in remaining debt service on the bonds which is scheduled to occur in 2029. For fiscal year 2009, the merged Redevelopment Project Area Capital Project Fund net tax revenue, including all revenues and expenditures, but excluding debt service amounted to \$12.1 million which represented coverage of 2.7 over the \$4.5 million in debt service.

(E) On April 6, 1989 the City received \$563,000 from the California Health Facilities Financial Authority for construction of the adult day care facility in the Magnolia Senior Center. Tax increment revenues were pledged to pay debt service on the bonds.

As of June 30, 2009, future debt service is as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$1,823,798	\$3,633,084
2011	1,892,429	3,555,950
2012	1,930,207	3,475,450
2013	1,982,000	3,394,307
2014	2,057,000	3,310,146
2015-2019	11,660,000	15,047,532
2020-2024	12,600,000	12,134,183
2025-2029	15,700,000	8,675,172
2030-2034	17,860,000	4,433,500
2035-2036	8,455,000	427,875
Totals	<u>\$75,960,434</u>	<u>\$58,087,199</u>

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 7 – PASS-THROUGH PAYMENTS**

Pursuant to California Redevelopment Law (Health and Safety Code Section 33607.5), the Agency is obligated to pass-through a portion of the gross tax increment received on the Project Area to jurisdictions within the project area. In fiscal 2008-2009, the Agency calculated and remitted \$8,336,351 in pass-through payments to the affected jurisdictions.

The State also directed that the above amounts be included in the Agency’s total incremental property tax receipts for purposes of calculating the amounts to be set aside for Low and Moderate Income Housing.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

The Agency leases land to a private developer, Magnolia Plaza Associates, who built and operates low and moderate income multi-family housing on the leased land. At the end of the 75-year lease, May 1, 2062, title to all improvements on the land shall vest to the Agency. Lease revenue is included in interest and rental revenues. Future minimum payments to be received under the land as follows:

Year ending June 30,	Land Lease Payments
2010	\$51,800
2011	51,800
2012	51,800
2013	51,800
2014	51,800
Thereafter	<u>2,434,600</u>
	<u><u>2,693,600</u></u>

In fiscal year 2005, the Agency approved a Settlement and Release Agreement with the County of San Mateo to mitigate the County’s financial losses due to the proposed plan amendments and the fiscal merger of the four redevelopment project areas. The agreement calls for the Agency to fund the cost of certain County public improvements or rent waivers up to \$5,000,000, with payments not to exceed \$2,000,000 during fiscal years 2006 and 2007 and \$3,000,000 during the period commencing with fiscal year 2008. During fiscal year 2009 the Agency made a payment of \$1,027,594 to the County.

The Agency is involved in several legal proceedings arising from its normal operations. It is the opinion of management that any obligations which may result from such legal proceedings will not have a material effect on the financial position of the Agency.

**NOTE 9 – UPDATE IN PROPERTY TAX SETTLEMENT**

On April 1, 2008, the San Mateo County Superior Court ruled that in a prior decision going back several years for several parcels in South San Francisco, the San Mateo County Assessment Appeals Board (AAB) “did not hear (the applicant’s appeals case) within the time frame specified in California Revenue and Taxation Code Section 1604(c)”. As a result of the untimely hearing, the court ruled that the applicant “is entitled to have enrolled its opinion of value (for affected parcels)” rather than the County’s opinion of value for the parcels and years in question. The applicant was a large biotechnology company based in South San Francisco.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Notes to Basic Component Unit Financial Statements**

**NOTE 9 – UPDATE IN PROPERTY TAX SETTLEMENT (Continued)**

The difference between the applicant’s opinion of value and the County’s opinion of value totaled \$18.1 million for all affected prior tax years, including interest due to the applicant. The Court ruled that the amount must be refunded to the large biotechnology firm. Money for that refund comes from two sources. About half of the refund will come from the South San Francisco Redevelopment Agency, and the remainder will come from all taxing entities in San Mateo County.

Two of the parcels impacted by the April 1 ruling are in the Downtown Redevelopment Project Area, and the County will be deducting that refund amount directly from the Redevelopment Agency’s December 2008 property tax payment. The County applies all supplemental roll adjustments for Redevelopment area parcels directly back to those areas. The County has indicated that the refund amount for these areas, including interest, totals \$8.9 million. The Agency has already identified sufficient funds in 2008-09 to cover this refund, with no resulting impact on the Agency’s debt service payments or other legal obligations.

The April Superior Court ruling covered numerous prior tax years, and the ruling further stated that it would remain in effect “until the fiscal year in which the AAB holds a hearing and makes a final determination on the” application. Since the AAB subsequently held a hearing and made a determination prior to June 30, 2008 for the 2008 roll year, the County’s assessment of value for the impacted parcels, and not the applicant’s, will be in effect for on an ongoing basis for tax years 2008 and beyond, absent any future successful challenges. Therefore, the ruling on the untimely hearing by the County is a one-time event.

As of June 30, 2009, the Agency has designated \$8.4 million of fund balance in the Merged Redevelopment Project Area Capital Projects Fund as designated for pending property tax refund. To reflect the financial statements on a full accrual basis, the agency has recorded \$9.0 million of tax refund payable on the Statement of Net Assets as of June 30, 2009.

**NOTE 10 – SUBSEQUENT EVENT**

The State of California adopted ABX426 in July 2009 which directs a portion of the incremental property taxes received by redevelopment agencies be paid to the County Supplemental Educational Revenue Augmentation Fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance will determine each agency’s SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. Based on the calculations in ABX426, the Agency’s payments are estimated to be \$8,519,894 in fiscal year 2009-10 and \$1,754,096 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The payment due in fiscal year 2009-10 represents 12% of the Agency’s cash and investments available for operations at June 30, 2009. The obligation to make the SERAF payment is subordinate to obligations to repay bonds. However, if the Agency fails to make a SERAF payment the Agency may not encumber or expend future funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF payments are paid in full. The Agency has budgeted for the SERAF payment in fiscal year 2009-10. That payment will come from reserves set aside for future capital projects, and will not impact debt service obligations.

CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 LOW/MOD INCOME HOUSING CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest and rental	\$544,190	\$719,137	\$174,947
Others		1,900,200	1,900,200
Total Revenues	544,190	2,619,337	2,075,147
EXPENDITURES:			
Economic and Community Development	8,999,109	1,071,682	7,927,427
Capital outlay	5,131,224		5,131,224
Total Expenditures	14,130,333	1,071,682	13,058,651
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,586,143)	1,547,655	15,133,798
OTHER FINANCING SOURCES (USES)			
Transfers in	8,197,404	8,214,710	17,306
Transfers (out)	(345,591)	(279,723)	65,868
Total other financing sources (uses)	7,851,813	7,934,987	83,174
CHANGE IN FUND BALANCES	(\$5,734,330)	9,482,642	\$15,216,972
Adjustment to budgetary basis:			
Encumbrance adjustments		89,377	
Fund balance, July 1		21,702,450	
Fund balance, June 30		\$31,274,469	

CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 MERGED REDEVELOPMENT PROJECT AREA CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Tax allocation increment	\$25,046,883	\$40,714,049	\$15,667,166
Interest and rental	2,955,843	2,578,968	(376,875)
Charges for services	29,588	165	(29,423)
Other		25,000	25,000
	<u>28,032,314</u>	<u>43,318,182</u>	<u>15,285,868</u>
EXPENDITURES:			
Economic and Community Development	15,391,891	13,397,454	1,994,437
Non-departmental	119,305	101,608	17,697
Capital outlay	13,731,907	3,851,268	9,880,639
Debt service:			
Interest and fiscal charges		23,913	(23,913)
	<u>29,243,103</u>	<u>17,374,243</u>	<u>11,868,860</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,210,789)</u>	<u>25,943,939</u>	<u>27,154,728</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	8,835,517	1,314	(8,834,203)
Transfers out	(34,388,249)	(13,881,761)	20,506,488
	<u>(25,552,732)</u>	<u>(13,880,447)</u>	<u>11,672,285</u>
CHANGE IN FUND BALANCES	<u>(\$26,763,521)</u>	<u>12,063,492</u>	<u>\$38,827,013</u>
Fund balance, July 1		<u>74,653,837</u>	
Fund balance, June 30		<u>\$86,717,329</u>	

CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 MERGED REDEVELOPMENT PROJECT AREA DEBT SERVICE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest and rentals		\$27,406	\$27,406
Total Revenues		<u>27,406</u>	<u>27,406</u>
EXPENDITURES:			
Current:			
Non-departmental	\$5,400	10,089	(4,689)
Debt service			
Principal retirement	1,752,819	1,575,426	177,393
Interest and fiscal charges	<u>3,865,617</u>	<u>3,602,579</u>	<u>263,038</u>
Total Expenditures	<u>5,623,836</u>	<u>5,188,094</u>	<u>435,742</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,623,836)</u>	<u>(5,160,688)</u>	<u>463,148</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>5,184,263</u>	<u>5,115,751</u>	<u>(68,512)</u>
Total other financing sources (uses)	<u>5,184,263</u>	<u>5,115,751</u>	<u>(68,512)</u>
CHANGE IN FUND BALANCES	<u>(\$439,573)</u>	<u>(44,937)</u>	<u>\$394,636</u>
Fund balance, July 1		<u>4,998,619</u>	
Fund balance, June 30		<u><u>\$4,953,682</u></u>	

CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 LOW/MOD INCOME HOUSING DEBT SERVICE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Interest and rentals		\$234,383	\$234,383
Total Revenues		234,383	234,383
EXPENDITURES			
Debt service:			
Principal repayments	\$180,000	180,000	
Interest and fiscal charges	115,145	115,145	
Total Expenditures	295,145	295,145	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(295,145)	(60,762)	234,383
OTHER FINANCING SOURCES (USES)			
Transfers in	279,723	279,723	
CHANGE IN FUND BALANCES	(15,422)	218,961	\$234,383
Fund balance, July 1		307,248	
Fund balance, June 30		\$526,209	

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**REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Governing Board of the  
City of South San Francisco Redevelopment Agency  
South San Francisco, California

We have audited the financial statements of the Redevelopment Agency of the City of South San Francisco as of and for the year ended June 30, 2009, and have issued our report thereon dated November 20, 2009. We have conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the Guidelines for Compliance Audits of California Redevelopment Agencies. 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 that are required to be reported under *Government Auditing Standard*.

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

Maze & Associates

November 20, 2009