

**CITY OF SOUTH SAN FRANCISCO  
REDEVELOPMENT AGENCY  
BASIC COMPONENT UNIT  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2010**

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**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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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, 2010, 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, 2010 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 24, 2010, 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.

December 14, 2010

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**

**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, 2010**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$74,140,204
Receivables:	
Accounts	44,488
Accrued interest	456,479
Loans	10,122,409
Advance to the City (Note 3B)	18,706,362
Restricted cash and investments (Note 2)	32,647,677
Land held for redevelopment	1,900,000
Capital assets (Note 5):	
Nondepreciable	40,364,436
Depreciable, net of accumulated depreciation	3,682,681
Total assets	182,064,736
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	6,308,370
Tax refund payable	8,966,485
Deposits	27,555
Advance from the City (Note 3A)	346,748
Interest payable	1,182,089
Current portion of long-term debt (Note 6)	1,842,000
Noncurrent portion of accrued insurance losses	144,000
Noncurrent portion of pollution remediation	537,000
Noncurrent portion of long-term debt (Note 6)	72,231,000
Total liabilities	91,585,247
<b>NET ASSETS (Note 1F)</b>	
Invested in capital assets, net of related debt	292,482
Restricted for:	
Debt service	5,405,247
Capital projects	27,242,547
Total restricted net assets	32,647,794
Unrestricted	57,831,695
Total net assets	\$90,479,489

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Governmental Activities</b>
Expenses:	
Redevelopment	\$24,410,810
Other	93,437
Interest on long-term debt	3,644,855
Total Expenses	28,149,102
General revenues:	
Tax allocation increment	37,187,989
Interest and rental	3,569,059
Other	121,772
Total general revenues	40,878,820
Transfer out to City	(26,058,898)
Change in Net Assets	(13,329,180)
Net Assets-Beginning	103,808,669
Net assets-Ending	\$90,479,489

See accompanying notes to financial statements

## FUND FINANCIAL STATEMENTS

All Agency Funds were determined to be Major Funds in fiscal 2010. 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, 2010**

	<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	\$48,998,352	\$25,141,735	\$117		\$74,140,204
Receivables:					
Accounts	44,488				44,488
Accrued interest	309,721	146,758			456,479
Loans	873,885	9,248,524			10,122,409
Advance to the City	18,706,362				18,706,362
Restricted cash and investments	24,935,612	2,306,935	4,990,362	\$414,768	32,647,677
Land held for redevelopment		1,900,000			1,900,000
<b>Total Assets</b>	<b>\$93,868,420</b>	<b>\$38,743,952</b>	<b>\$4,990,479</b>	<b>\$414,768</b>	<b>\$138,017,619</b>
<b>LIABILITIES</b>					
Accounts payable	\$6,283,102	\$25,268			\$6,308,370
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>6,783,602</b>	<b>449,071</b>			<b>7,232,673</b>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances	933,359	62,945			996,304
Advances	18,706,362				18,706,362
Loans receivable	873,885	9,248,524			10,122,409
Future loan obligations					
Debt service			\$4,990,479	\$414,768	5,405,247
Restricted assets	21,350,450	2,306,935			23,657,385
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	6,772,173	6,931,224			13,703,397
Future loan commitment		9,509,000			9,509,000
Undesignated	30,032,104	8,336,253			38,368,357
<b>Total Fund Balances</b>	<b>87,084,818</b>	<b>38,294,881</b>	<b>4,990,479</b>	<b>414,768</b>	<b>130,784,946</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$93,868,420</b>	<b>\$38,743,952</b>	<b>\$4,990,479</b>	<b>\$414,768</b>	<b>\$138,017,619</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, 2010**

Total Fund Balances reported on the governmental funds balance sheet	\$130,784,946
<p>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:</p>	
<p><b>CAPITAL ASSETS</b></p>	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	44,047,117
<p><b>ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES</b></p>	
<p>Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.</p>	
Tax refund payable - Property tax refund	(8,416,485)
Interest Payable	(1,182,089)
<p><b>LONG-TERM ASSETS AND LIABILITIES</b></p>	
<p>The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:</p>	
Accrued insurance losses	(144,000)
Pollution remediation	(537,000)
Long-term debt	(74,073,000)
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$90,479,489</b>

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, 2010**

	<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>	
REVENUES:					
Tax allocation increment	\$37,187,989				\$37,187,989
Interest and rental	2,353,539	\$907,249	\$277,636	\$30,635	3,569,059
Intergovernmental	15,000				15,000
Others	36,573	70,199			106,772
<b>Total Revenues</b>	<b>39,593,101</b>	<b>977,448</b>	<b>277,636</b>	<b>30,635</b>	<b>40,878,820</b>
EXPENDITURES:					
Economic and Community Development	19,951,940	1,158,197			21,110,137
Non-departmental	67,282		16,155	10,000	93,437
Capital outlay	6,181,604				6,181,604
Debt service:					
Principal retirement			1,592,000	295,434	1,887,434
Interest and fiscal charges	36,635		3,519,449	113,403	3,669,487
<b>Total Expenditures</b>	<b>26,237,461</b>	<b>1,158,197</b>	<b>5,127,604</b>	<b>418,837</b>	<b>32,942,099</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,355,640	(180,749)	(4,849,968)	(388,202)	7,936,721
OTHER FINANCING SOURCES (USES)					
Transfer (out) to City for capital outlay	(623,464)				(623,464)
Transfers in (Note 4A)	17,307	7,495,228	4,886,765	276,761	12,676,061
Transfers (out)	(12,381,994)	(294,067)			(12,676,061)
<b>Total other financing sources (uses)</b>	<b>(12,988,151)</b>	<b>7,201,161</b>	<b>4,886,765</b>	<b>276,761</b>	<b>(623,464)</b>
CHANGE IN FUND BALANCES	367,489	7,020,412	36,797	(111,441)	7,313,257
Fund balance, July 1	86,717,329	31,274,469	4,953,682	526,209	123,471,689
Fund balance, June 30	\$87,084,818	\$38,294,881	\$4,990,479	\$414,768	\$130,784,946

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, 2010**

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	\$7,313,257
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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	(107,705)
Capital assets addition, net	3,669,636
Transfer of capital assets to City	(25,435,434)

**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):

Accrued insurance losses	(144,000)
Pollution remediation	(537,000)
Interest expenses	24,632

**LONG-TERM DEBT PAYMENTS**

Repayment of debt principal is added back to fund balance	<u>1,887,434</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(\$13,329,180)</u></u>
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See accompanying notes to financial statements

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, 2010

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Tax allocation increment	\$28,240,426	\$37,187,989	\$8,947,563
Interest and rental	2,805,000	2,353,539	(451,461)
Intergovernmental		15,000	15,000
Other		36,573	36,573
	<u>31,045,426</u>	<u>39,593,101</u>	<u>8,547,675</u>
EXPENDITURES:			
Economic and Community Development	14,743,971	19,951,940	(5,207,969)
Non-departmental		67,282	(67,282)
Capital outlay	20,432,733	6,181,604	14,251,129
Debt service:			
Interest and fiscal charges		36,635	(36,635)
	<u>35,176,704</u>	<u>26,237,461</u>	<u>8,939,243</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(4,131,278)</u>	<u>13,355,640</u>	<u>17,486,918</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	9,822,718	17,307	(9,805,411)
Transfers out	(23,142,386)	(13,005,458)	10,136,928
	<u>(13,319,668)</u>	<u>(12,988,151)</u>	<u>331,517</u>
CHANGE IN FUND BALANCES	<u>(\$17,450,946)</u>	<u>367,489</u>	<u>\$17,818,435</u>
Fund balance, July 1		<u>86,717,329</u>	
Fund balance, June 30		<u>\$87,084,818</u>	

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, 2010

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest and rental	\$400,000	\$907,249	\$507,249
Others		70,199	70,199
	400,000	977,448	577,448
EXPENDITURES:			
Economic and Community Development	15,280,183	1,221,142	14,059,041
Capital outlay	5,131,224		5,131,224
	20,411,407	1,221,142	19,190,265
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,011,407)	(243,694)	19,767,713
OTHER FINANCING SOURCES (USES)			
Transfers in	6,550,172	7,495,228	945,056
Transfers (out)	(345,431)	(294,067)	51,364
	6,204,741	7,201,161	996,420
CHANGE IN FUND BALANCES	(\$13,806,666)	6,957,467	\$20,764,133
Adjustment to budgetary basis:			
Encumbrance adjustments		62,945	
Fund balance, July 1		31,274,469	
Fund balance, June 30		\$38,294,881	

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, 2010

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest and rentals		\$277,636	\$277,636
Total Revenues		277,636	277,636
EXPENDITURES:			
Current:			
Non-departmental		16,155	(16,155)
Debt service			
Principal retirement	\$1,862,224	1,592,000	270,224
Interest and fiscal charges	3,594,656	3,519,449	75,207
Total Expenditures	5,456,880	5,127,604	329,276
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,456,880)	(4,849,968)	606,912
OTHER FINANCING SOURCES (USES)			
Transfers in	5,456,880	4,886,765	(570,115)
Total other financing sources (uses)	5,456,880	4,886,765	(570,115)
CHANGE IN FUND BALANCES		36,797	\$36,797
Fund balance, July 1		4,953,682	
Fund balance, June 30		\$4,990,479	

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, 2010

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Interest and rentals		\$30,635	\$30,635
Total Revenues		30,635	30,635
EXPENDITURES			
Non-departmental		10,000	(10,000)
Debt service:			
Principal repayments		295,434	(295,434)
Interest and fiscal charges		113,403	(113,403)
Total Expenditures		418,837	(418,837)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		(388,202)	(388,202)
OTHER FINANCING SOURCES (USES)			
Transfers in		276,761	276,761
Transfers out			
Total other financing sources (uses)		276,761	276,761
CHANGE IN FUND BALANCES		(111,441)	(111,441)
Fund balance, July 1		526,209	
Fund balance, June 30		\$414,768	

**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 six 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 *Downtown Added Project (Downtown Added)* consists primarily of the marina area. The Board is currently planning this area.

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.

The *El Camino Added Project (El Camino Added)* consists primarily of privately owned parcels with plans for future upgrading.

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

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

In fiscal year 2006, the Agency amended the existing six Redevelopment Plans in order to fiscally merge the six 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 six 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.

- 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.

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.

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

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

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.

- 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.

Reserves 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.

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

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

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' 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.

- 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.

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

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

**A. Classification**

Cash and investments as of June 30, 2010 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	\$74,140,204
Restricted cash and investments	<u>32,647,677</u>
Total cash and investments	<u><u>\$106,787,881</u></u>

**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:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio
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>		Total
	<u>Less than 1 year</u>	<u>More than Five Years</u>	
Local Agency Investment Fund	\$14,859,366		\$14,859,366
Money Market Funds	1,222,143		1,222,143
Collateralized Investment Agreements		\$4,258,550	4,258,550
California Asset Management Pool	9,209,925		9,209,925
U.S. Agency Securities			
Callable		3,029,063	3,029,063
Non-callable	6,301,215	6,297,469	12,598,684
City of South San Francisco Treasury (A)	61,610,150		61,610,150
Total Cash and Investments	<u>\$93,202,799</u>	<u>\$13,585,082</u>	<u>\$106,787,881</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. At, June 30, 2010, these investments have an average maturity of 203 days

**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, 2010 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	\$1,222,143
U.S. Agency Securities	15,627,747
<b>Not rated:</b>	
Collateralized Investment Agreements	4,258,550
California Asset Management Pool	9,209,925
Local Agency Investment Fund	14,859,366
City of South San Francisco Treasury (A)	61,610,150
Total Cash and Investments	\$106,787,881

(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. 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 are as follows at June 30, 2010:

Issuer	Investment Type	Amount
Federal National Mortgage Association	Federal agency securities	\$6,125,653
Federal Home Loan Bank	Federal agency securities	3,118,406
Federal Home Loan Mortgage Corporation	Federal agency securities	6,383,688

**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, 2010, 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, 2010, the City Oyster Point Improvements Impact Fund owed the Merged Redevelopment Project Area Capital Projects Fund for developer fees for the Flyover and Hookramps Projects that were completed in prior years in the amount of \$12,175,839. 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 \$1,700,000. The advance bears no interest and the outstanding balance will be paid off from future sewer fees.

The City Parking District Enterprise Fund owed the Merged Redevelopment Project Area Capital Projects Fund in the amount of \$4,830,523. 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, 2010 were as follows:

<u>FROM FUND:</u>	<u>TO FUND:</u>	<u>AMOUNT:</u>
<b>Redevelopment Agency Capital Project Funds:</b>		
Merged Redevelopment Capital Projects Fund	Low/Mod Income Housing Capital Project Fund	\$7,495,228 (A)
	Merged Project Area Debt Service Fund	4,886,766 (B)
Low/Mod Income Housing Capital Projects Fund	Merged Redevelopment Capital Projects Fund	17,307 (C)
	Low/Mod Income Housing Debt Service Fund	<u>276,760 (B)</u>
	Total	<u><u>\$12,676,061</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
- (C) For capital projects

**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, 2009	Additions	Transfers	Transfers to City	Balance June 30, 2010
<b>Governmental activities</b>					
Capital assets not being depreciated:					
Land	\$43,825,478		\$3,303,605	(\$7,124,988)	\$40,004,095
Construction in Progress	9,567,296	\$3,655,995	(3,580,043)	(\$9,282,907)	360,341
<b>Total capital assets not being depreciated</b>	<b>53,392,774</b>	<b>3,655,995</b>	<b>(276,438)</b>	<b>(16,407,895)</b>	<b>40,364,436</b>
Capital assets being depreciated:					
Buildings and Improvements	8,097,245		276,438	(4,349,257)	4,024,426
Land Improvements	2,125,119			(2,125,119)	
Infrastructure	3,722,610			(3,722,610)	
Machinery and Equipment	125,076				125,076
Office Equipment	23,452				23,452
Furniture and Fixtures	21,506				21,506
Vehicles	110,151	13,641			123,792
<b>Total capital assets being depreciated</b>	<b>14,225,159</b>	<b>13,641</b>	<b>276,438</b>	<b>(10,196,986)</b>	<b>4,318,252</b>
Less accumulated depreciation for:					
Buildings and Improvements	(901,694)	(82,934)		564,217	(420,411)
Land Improvements	(520,253)			520,253	
Infrastructure	(84,977)			84,977	
Machinery and Equipment	(99,153)	(6,720)			(105,873)
Office Equipment	(23,452)				(23,452)
Furniture and Fixtures	(14,804)	(1,219)			(16,023)
Vehicles	(52,980)	(16,832)			(69,812)
<b>Total accumulated depreciation</b>	<b>(1,697,313)</b>	<b>(107,705)</b>		<b>1,169,447</b>	<b>(635,571)</b>
<b>Net capital assets being depreciated</b>	<b>12,527,846</b>	<b>(94,064)</b>	<b>276,438</b>	<b>(9,027,539)</b>	<b>3,682,681</b>
<b>Governmental activity capital assets, net</b>	<b>\$65,920,620</b>	<b>\$3,561,931</b>		<b>(\$25,435,434)</b>	<b>\$44,047,117</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, 2010, follows:

Type of Obligation	Authorized and Issued	Principal Outstanding June 30, 2009	Retirements	Principal Outstanding June 30, 2010	Current Portion
2006 Revenue Bonds, 3.75 to 5.13%, due 9/1/35 (A)	\$70,675,000	\$67,240,000	\$1,330,000	\$65,910,000	\$1,380,000
2000 HUD Section 108, 4.4 to 6.6%, due 8/1/23 (B)	1,750,000	1,390,000	112,000	1,278,000	112,000
1999 Revenue Bonds, 3.3 to 5.0%, due 9/1/18 (C)	31,720,000	2,305,000	185,000	2,120,000	195,000
1999 Certificates of Participation, 3.2 to 5.0%, due 4/1/29 (D)	6,145,000	4,915,000	150,000	4,765,000	155,000
1989 California Health Facilities Financing Authority (CHFFA) Revenue Bonds, 7.2%, due 9/23/11 (E)	563,000	110,434	110,434		
Total Redevelopment Agency	<u>\$110,853,000</u>	<u>\$75,960,434</u>	<u>\$1,887,434</u>	<u>\$74,073,000</u>	<u>\$1,842,000</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, 2010, \$8,840,000 and \$18,600,000 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 \$116,668,673 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 2010, the merged Redevelopment Project Area Capital Project Fund net tax revenue, including all revenues and expenditures, but excluding debt service amounted to \$480,079 which represented coverage of 0.1 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, 2010, the Housing Set-Aside's portion of the bonds outstanding was \$2,120,000.

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, 2010, \$6,055,000 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 \$7,493,000 in remaining debt service on the bonds which is scheduled to occur in 2029. For fiscal year 2010, the merged Redevelopment Project Area Capital Project Fund net tax revenue, including all revenues and expenditures, but excluding debt service amounted to \$480,079 which represented coverage of 1.2 over the \$394,776 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, 2010, future debt service is as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$1,842,000	\$3,553,010
2012	1,917,000	3,475,291
2013	1,982,000	3,394,307
2014	2,057,000	3,310,146
2015	2,137,000	3,216,392
2016-2020	11,870,000	14,506,575
2021-2025	13,103,000	11,496,792
2026-2030	16,080,000	7,872,128
2031-2035	18,755,000	3,518,125
2036-2040	4,330,000	108,250
Totals	<u>\$74,073,000</u>	<u>\$54,451,016</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 2009-2010, the Agency calculated and remitted \$6,953,550 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:

<u>Year ending June 30,</u>	<u>Land Lease Payments</u>
2011	\$51,800
2012	51,800
2013	51,800
2014	51,800
2015	51,800
Thereafter	<u>2,382,800</u>
	<u><u>2,641,800</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 2010 the Agency did not make payment 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 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, 2010, 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, 2010.

**NOTE 10 – TAX INCREMENT SHIFT TO SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF)**

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies, based on the property taxes received in fiscal year 2006-07, be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance determines each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. The Agency made its first SERAF payment of \$8,528,106 in fiscal year 2009-10.

Based on the calculations in AB26 4X, the Agency's SERAF payment is estimated to be \$1,754,096 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The obligation to make the SERAF payment is subordinate to obligations to repay bonds. However, if the Agency fails to make the full SERAF payment, the Agency may not encumber or expend 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 is paid in full.

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

**NOTE 11 – POLLUTION REMEDIATION**

In fiscal 2010, the Redevelopment Agency purchased an unimproved parcel adjacent to the Caltrain Commuter Rail station from the State of California. The current rail station is among the oldest on the peninsula, is under the freeway, is small, has limited parking, and is not adjacent to the Downtown due to the freeway. The Agency will contribute that site to the County Transportation Agency for the future reconfiguration of that rail station after the County secures necessary funding from other sources. The Agency's contribution will include use of the purchased parcel in order to make the station safer, more visually pleasing, more usable to commuters and business shuttles, and to make the Downtown accessible to pedestrians to and from the train station. As part of that land purchase, the price paid by the Agency to the State was discounted to give the Agency credit in the amount of \$537,000 against known pollution remediation costs on the site. If the funding from the County for the station reconfiguration does not materialize, and if construction does not occur on that site, the pollution mitigation costs will be much less.

**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**

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

We have audited the financial statements of City of South San Francisco Redevelopment Agency as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether 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 or other matters that are required to be reported under Government Auditing Standards.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated December 14, 2010.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 14, 2010