

**CITY OF SOUTH SAN FRANCISCO  
REDEVELOPMENT AGENCY  
BASIC COMPONENT UNIT  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
 BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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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, 2011, 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, 2011 and the results of its operations for the year then ended in conformity with generally accepted accounting principles in the United States of America.

As disclosed in Note 13, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. These conditions raise substantial doubt about the Agency's ability to continue as a going concern. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the partial stay did not include the section of ABx1 26 that suspends all new redevelopment activities. As a result, the accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of July 1, 2010, the City adopted the provision of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. As discussed in Note 1G to the financial statements, the provisions of this statement affect the classification of fund balances reported in the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, 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.

Mare & Associates

December 7, 2011

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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, 2011. 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, gross property tax increment declined \$241,000 to a total of \$37.2 million, a decrease of 0.6% from 2009-10, reflecting the continued effects of the recession and subsequent housing market decline. Accordingly, transfers out to the Low Mod Housing Fund and pass-through payments to other agencies were also slightly lower. In addition, the State of California balanced its budget in part by requiring payments from Redevelopment Agencies for the second year in a row, taking \$8.5 million in 2009-10 and another \$1.8 million from the South San Francisco RDA in 2010-11.

The Agency funded \$2.2 million in capital improvement projects in 2010-11, including the 418 Linden Avenue Housing Development, City Building Improvements, and the RDA Area Improvement Project. In addition, the Agency purchased property at 207 Grand Avenue, 217-219 Grand Avenue, and 636 El Camino Real. The latter is a 109-unit, mixed-use residential and commercial development (108 units are affordable to low- and moderate-income households), sponsored by Mid Peninsula Housing. The Agency also appropriated \$10.0 million to assist the developer with construction: those funds were transferred from the Agency to the new Public Improvement Agreement Fund, where they will be expended in the form of residual receipt loans.

On March 2 and March 9, 2011, the City Council and the Redevelopment Agency Board both approved actions that resulted in a transfer of \$67.7 million to a new Public Improvement Agreement Fund to facilitate the acquisition and completion of various improvement projects by the City of South San Francisco. With that transfer of funds came a transfer of responsibility from the Redevelopment Agency to the City of South San Francisco to complete these projects. The projects include \$12.5 million for Oak Avenue improvements, \$9 million for the acquisition of the former Ford Motors sites, \$2.9 million for Miller Avenue Parking Structure phases 1 & 2, \$2.5 million for Harbor District Improvements, and \$18 million Oyster Point Improvements related to a developer agreement with SKS Properties.

Along with the transfer of funds and project responsibility, the City Council and Redevelopment Agency Board transferred 29 Agency-owned properties, located in or near the Downtown/Central, El Camino Real, and Gateway Project Areas, to the City. This permits the City to implement the Agency's long-term redevelopment projects and programs, which are outlined in the Agency's current Five-Year Implementation Plan, in concert with the City's responsibility to complete the capital projects mentioned in the previous paragraph.

Also in March 2011, the City Council and Redevelopment Agency Board forgave a loan from the Agency to the Parking District Fund that was undertaken to complete construction of the Miller Avenue Parking Garage. The project was initiated in 2009-10 and completed in 2010-11, and the garage opened to the public in February 2011.

After the transfer of funds in March, and after meeting all of its operating and debt service obligations, the Agency had \$8.2 million in remaining bond funds at year end to be used for capital projects. All funds have been allocated to capital projects, and are expected to be fully drawn down over the next year.

## **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, 2011**

	2011	2010
Current and other assets	\$ 72,595,438	\$ 138,017,619
Capital assets	5,162,702	44,047,117
Total assets	<u>77,758,140</u>	<u>182,064,736</u>
Current and other liabilities	9,939,343	18,673,247
Long-term liabilities	70,851,000	72,912,000
Total liabilities	<u>80,790,343</u>	<u>91,585,247</u>
Net assets:		
Invested in capital assets	4,470,000	
Restricted	65,730,468	32,647,794
Unrestricted	(73,232,671)	57,831,695
Total net assets	<u>\$ (3,032,203)</u>	<u>\$ 90,479,489</u>

- Current and other assets decreased \$65.4 million from 2009-10 to \$72.6 million in 2010-11. This is due to the \$67.7 million transfer of funds out of the Merged Redevelopment Fund to the new Public Improvement Agreement Fund, as approved by the Redevelopment Agency Board and the City Council in March 2011. The transfer of assets will facilitate development activity that the City is now obligated to carry out.
- Capital assets decreased \$39.1 million, leaving \$4.9 million in the RDA. This is due to the transfer of ownership of 29 redevelopment area properties to the City. The remaining capital assets consist primarily of property at 636 El Camino Real that was purchased with funds from the Low Mod Housing Fund in 2010-11.
- Total liabilities decreased \$10.8 million to \$80.8 million. This is due primarily to the decline in long term liabilities, as principal payments reduced debt obligations for the 2006 Merged RDA bonds, a loan from the U.S. Department of Housing (HUD), the remaining Housing Set-Aside Bonds (part of the Agency's 1999 Revenue Bonds), the 1999 Certificates of Participation (the SSF Conference Center project), and transfer of property tax settlement liabilities to the City.

## Change in Net Assets

Table 2 presents details on the change in Net Assets:

**TABLE 2  
CHANGE IN NET ASSETS**

	<u>2010-11</u>	<u>2009-10</u>
Beginning net assets	\$ 90,479,489	\$ 103,808,669
Redevelopment	(12,696,486)	(24,698,966)
Other	(99,778)	(93,437)
Interest on long-term debt	<u>(3,568,276)</u>	<u>(3,644,855)</u>
Total expenses	(16,364,540)	(28,437,258)
Revenues:		
Tax increment	37,234,939	37,476,145
Interest and rental	3,040,784	3,569,059
Other	<u>508,741</u>	<u>121,772</u>
Total revenues	40,784,464	41,166,976
Transfer in from City	40,420	
Transfer out to City	<u>(117,972,036)</u>	<u>(26,058,898)</u>
Ending net assets	<u>\$ (3,032,203)</u>	<u>\$ 90,479,489</u>

Redevelopment expenses decreased dramatically due to a much lower payment to the County Supplemental Education Revenue Augmentation Funds (SEREF). This State budget-balancing action took redevelopment funds totaling \$8.5 million from the Agency in 2009-10, and another \$1.8 million in 2010-11. California voters approved Proposition 22 in November 2010 which would prevent future such actions by the State.

In addition, the Agency incurred some large project expenses in 2009-10, including the purchase of three properties, the funding of the Emergency Operations Center project, and the contribution of funds towards improving the breakwater at the South San Francisco Oyster Point Harbor, needed for the completion of the South San Francisco Ferry Terminal project.

Revenues decreased due to the decline in property tax increment while the decline in interest rates resulted in a decrease in interest revenue by \$0.5 million. The change in "other" reflects the transfer of \$67.7 million in tax increment to the new Public Improvement Agreement Fund, along with the transfer in ownership of 29 Agency-owned properties to the City.

## **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 2010-11, \$8.2 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. The Agency funded \$2.2 million in capital improvements in 2010-11, including the 418 Linden Avenue Housing Development, City Building Improvements, and the RDA Area Improvement Project. In addition, the Merged Redevelopment Project Area Fund purchased property at 207 Grand Avenue and 217-219 Grand Avenue for a total of \$1.9 million.

The Agency also transferred \$11.2 million to the Parking District to cover the construction of the Miller Avenue Parking Garage. This was initially a loan between the Merged Redevelopment Project Area and the Parking District; that loan was forgiven by the Redevelopment Board and City Council in March 2011.

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

- ⇒ Activity in 2010-11 was very similar to that in 2009-10, 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) gross property tax increment that must be set aside for low and moderate income housing needs. The fund received \$7.4 million in such revenues, slightly lower than last year, as gross tax increment declined. In 2010-11, the Low Mod Housing Fund purchased property at 636 El Camino Real for \$4.5 million, and transferred \$4.1 million to the new Public Improvement Agreement Fund for a loan to Mid Peninsula Housing to develop affordable housing at that same location.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of year end, the Agency had \$5.2 million invested in a variety of capital assets as reflected in the below Table 3, which reflects the transfer of ownership of 29 redevelopment area properties to the City. The largest remaining capital asset is the property at 636 El Camino Real that was purchased with funds from the Low Mod Housing Fund in 2010-11 for \$4.5 million.

**TABLE 3**  
**CAPITAL ASSETS AT JUNE 30, 2011**  
**(Net of Depreciation)**

	<u>2011</u>	<u>2010</u>
Land	\$ 4,470,000	\$ 40,004,095
Buildings & Improvements	-	4,024,426
Land Improvements	-	-
Infrastructure	-	-
Machinery & Equipment	94,946	125,076
Office Equipment	23,452	23,452
Furniture & Fixtures	21,506	21,506
Vehicles	123,792	123,792
Construction in progress	<u>645,425</u>	<u>360,341</u>
Less: Accumulated depreciation	<u>(216,419)</u>	<u>(635,571)</u>
Total	<u>\$ 5,162,702</u>	<u>\$ 44,047,117</u>

## Debt Outstanding

The following table outlines outstanding debt. As of year-end, the Agency had \$72.2 million in debt outstanding compared to \$74.1 million in the prior year-end, reflecting principal payments made on the 2006 RDA bonds and the following other long-term obligations:

**TABLE 4**  
**OUTSTANDING DEBT AT JUNE 30, 2011**

	<u>2011</u>	<u>2010</u>
California Health Facilities Financing (CHFFA) Revenue Bonds 1989	\$0	\$0
2006 Revenue Bonds	64,530,000	65,910,000
Tax Allocation Bonds Series B 1999 (Housing)	1,925,000	2,120,000
Certificates of Participation 1999 (Conference Center)	4,610,000	4,765,000
HUD Section 108 Loan 2000	<u>1,166,000</u>	<u>1,278,000</u>
Total	<u>✓ \$72,231,000</u>	<u>✓ \$74,073,000</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.

**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, 2011**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$32,946,867
Receivables:	
Accounts	59,413
Accrued interest	303,539
Loans	6,742,153
Advance to the City (Note 3)	14,690,839
Restricted cash and investments (Note 2)	15,952,627
Land held for redevelopment	1,900,000
Capital assets (Note 5):	
Nondepreciable	5,115,425
Depreciable, net of accumulated depreciation	<u>47,277</u>
 Total assets	 <u>77,758,140</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	6,734,212
Deposits	27,555
Unearned revenue	50,000
Other payable	53,203
Interest payable	1,157,373
Current portion of long-term debt (Note 6)	1,917,000
Noncurrent portion of pollution remediation	537,000
Noncurrent portion of long-term debt (Note 6)	<u>70,314,000</u>
 Total liabilities	 <u>80,790,343</u>
<b>NET ASSETS (Note 1F)</b>	
Invested in capital assets, net of related debt	4,470,000
Restricted for:	
Low and moderate income housing	37,359,857
Capital projects	22,970,132
Debt service	<u>5,400,479</u>
 Total restricted net assets	 65,730,468
 Unrestricted	 <u>(73,232,671)</u>
 Total net assets	 <u><u>(\$3,032,203)</u></u>

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Governmental</b>
Expenses:	
Redevelopment	\$12,696,486
Other	99,778
Interest on long-term debt	3,568,276
Total Expenses	16,364,540
General revenues:	
Tax allocation increment	37,234,939
Interest and rental	3,040,784
Charges for services	565
Other	508,176
Total general revenues	40,784,464
Transfers in from City	40,420
Transfer (out) to City	(117,972,036)
Change in Net Assets	(93,511,692)
Net Assets-Beginning	90,479,489
Net assets-Ending	(\$3,032,203)

See accompanying notes to financial statements

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## FUND FINANCIAL STATEMENTS

All Agency Funds were determined to be Major Funds in fiscal 2011. 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 **REDEVELOPMENT DEBT SERVICE FUND** – This fund accounts for debt repayments for the 1999 revenue bonds, 1997 Downtown Tax Allocation Bonds, 2007A Tax Allocations Bonds, and 1999 Certificates of Participation.

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	<b>Merged Redevelopment Project Area</b>	<b>Low/Mod Income Housing Fund</b>	<b>Redevelopment Debt Service Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and investments	\$4,982,681	\$27,962,924	\$1,262	\$32,946,867
Receivables:				
Accounts	50,413	9,000		59,413
Accrued interest	166,229	137,310		303,539
Loans	1,651,536	5,090,617		6,742,153
Advance to the City	14,690,839			14,690,839
Restricted cash and investments	8,212,243	2,341,167	5,399,217	15,952,627
Land held for redevelopment		1,900,000		1,900,000
	<u>\$29,753,941</u>	<u>\$37,441,018</u>	<u>\$5,400,479</u>	<u>\$72,595,438</u>
<b>LIABILITIES</b>				
Accounts payable	\$6,730,106	\$4,106		\$6,734,212
Deposits	500	27,055		27,555
Deferred revenue		50,000		50,000
Other payable	53,203			53,203
	<u>6,783,809</u>	<u>81,161</u>		<u>6,864,970</u>
<b>FUND BALANCES:</b>				
Restricted for:				
Low and moderate income housing		37,359,857		37,359,857
Redevelopment activities	22,970,132			22,970,132
Debt service			\$5,400,479	5,400,479
	<u>22,970,132</u>	<u>37,359,857</u>	<u>5,400,479</u>	<u>65,730,468</u>
Total Fund Balances	<u>22,970,132</u>	<u>37,359,857</u>	<u>5,400,479</u>	<u>65,730,468</u>
Total Liabilities and Fund Balances	<u>\$29,753,941</u>	<u>\$37,441,018</u>	<u>\$5,400,479</u>	<u>\$72,595,438</u>

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, 2011**

Total Fund Balances reported on the governmental funds balance sheet \$65,730,468

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. 5,162,702

**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.

Interest Payable (1,157,373)

**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:

Pollution remediation (537,000)  
 Long-term debt (72,231,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$3,032,203)

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, 2011

	<u>CAPITAL PROJECTS FUNDS</u>			<u>Total Governmental Funds</u>
	<u>Merged Redevelopment Project Area</u>	<u>Low/Mod Income Housing Fund</u>	<u>Redevelopment Debt Service Fund</u>	
REVENUES:				
Tax allocation increment	\$37,234,939			\$37,234,939
Interest and rental	1,967,623	\$846,015	\$227,146	3,040,784
Intergovernmental	1,500			1,500
Charges for services	565			565
Others	506,576	100		506,676
	<u>39,711,203</u>	<u>846,115</u>	<u>227,146</u>	<u>40,784,464</u>
Total Revenues				
EXPENDITURES:				
Economic and Community Development	14,166,015	367,103		14,533,118
Non-departmental	94,573		5,205	99,778
Capital outlay	2,168,464	4,481,300		6,649,764
Debt service:				
Principal retirement			1,842,000	1,842,000
Interest and fiscal charges	31,333		3,561,659	3,592,992
	<u>16,460,385</u>	<u>4,848,403</u>	<u>5,408,864</u>	<u>26,717,652</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>23,250,818</u>	<u>(4,002,288)</u>	<u>(5,181,718)</u>	<u>14,066,812</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4)		7,446,987	5,176,950	12,623,937
Transfers (out) (Note 4)	(12,345,627)	(278,310)		(12,623,937)
Transfers in from City	40,420			40,420
Transfer (out) to City for capital outlay	(235,081)			(235,081)
Transfer (out) to City for Public Improvement Fund (Note 12)	(63,604,046)	(4,101,413)		(67,705,459)
Transfer (out) to City for Parking District Fund (Note 3)	(11,221,170)			(11,221,170)
	<u>(87,365,504)</u>	<u>3,067,264</u>	<u>5,176,950</u>	<u>(79,121,290)</u>
Total other financing sources (uses)				
CHANGE IN FUND BALANCES	(64,114,686)	(935,024)	(4,768)	(65,054,478)
Fund balance, July 1	87,084,818	38,294,881	5,405,247	130,784,946
Fund balance, June 30	<u>\$22,970,132</u>	<u>\$37,359,857</u>	<u>\$5,400,479</u>	<u>\$65,730,468</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, 2011**

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 (\$65,054,478)

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	(103,025)
Capital assets addition	8,456,720
Loss on retirement	(11,299)
Transfer of capital assets to City	(47,226,811)

**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
Interest expenses	24,716

**LONG-TERM DEBT PAYMENTS**

Repayment of debt principal is added back to fund balance	1,842,000
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**TO ADJUST TAXES REFUND PAYABLE**

Governmental funds reported transfers out to City as other financing uses. However, this expense was already reported in prior year entity-wide level statements.	8,416,485
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<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>(\$93,511,692)</b>
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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 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.

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

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

**Redevelopment Debt Service Funds** – In fiscal year 2011, the City combined the Merged Redevelopment Project Area and the Redevelopment Agency Low Mod Housing funds for presentation purposes. The Merged Redevelopment Project Area 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 Redevelopment Agency Low Mod Housing accounts for debt repayments for the 1999 revenue bonds.

- 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. The capitalization level is \$20,000 for vehicles, and \$100,000 for all else, including all other equipment that is not a vehicle.

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	50 years
Clean Water Facilities and Transmission Lines	40 years
Land Improvements	30 years
Infrastructure	20-40 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-** 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.

The Agency's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Agency to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Agency prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendables* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the Agency Board which may be altered only by formal action of the Agency Board. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

*Assigned* fund balances are amounts constrained by the Agency's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Agency Board or its designee and may be changed at the discretion of the Agency Board or its designee. This category includes encumbrances; Nonspendables, when it is the Agency's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

- 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, 2011 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	\$32,946,867
Restricted cash and investments	<u>15,952,627</u>
Total cash and investments	<u><u>\$48,899,494</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.

	Remaining maturity		Total
	Less than 1 year	More than Five Years	
Money Market Funds	\$6,449,729		\$6,449,729
Collateralized Investment Agreements		\$3,497,250	3,497,250
California Asset Management Pool	407,963		407,963
U.S. Agency Securities:			
Non-callable	3,033,281		3,033,281
City of South San Francisco Treasury (A)	35,511,271		35,511,271
<b>Total Cash and Investments</b>	<b>\$45,402,244</b>	<b>\$3,497,250</b>	<b>\$48,899,494</b>

(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, 2011, these investments have an average maturity of 237 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, 2011 for each of the Agency's investment types as provided by Standard and Poor's investment rating system:

<b>AAA rated:</b>	
Money Market Funds	\$6,449,729
Federal Home Loan Mortgage Corporation	3,033,281
<b>Not rated:</b>	
Collateralized Investment Agreements	3,497,250
California Asset Management Pool	407,963
City of South San Francisco Treasury (A)	35,511,271
Total Cash and Investments	\$48,899,494

(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.

**F. U.S. Credit Downgrade**

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating on the United States of America.

On August 8, 2011, S&P lowered its issuer credit ratings and related issue ratings on ten of twelve Federal Home Loan Banks (FHLBs) and the senior debt issued by the FHLB System from AAA to AA+. S&P also lowered the ratings on the senior debt issued by the Federal Farm Credit Banks (FFCB) from AAA to AA+, and lowered the senior issue ratings on Fannie Mae (FNMA) and Freddie Mac (FHLMC) from AAA to AA+. The A subordinated debt rating and the C rating on the preferred stock of these entities remained unchanged. As of June 30, 2011, the Agency's investment in FHLMC was \$3,033,281.

**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, 2011:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal agency securities	\$3,033,281
AIG Match Funding Corporation	Investment agreement	3,497,250

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

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

As of June 30, 2011, 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 \$12,734,101. The advance bears 4.585% interest annually and the outstanding balance will be paid off from the future developer fees.

The City Sewer Enterprise Fund owed the Merged Redevelopment Project Area Capital Projects Fund for development of sewer infrastructures in the amount of \$1,956,738. The advance bears 4.8% interest and the outstanding balance will be paid off from future sewer fees.

At the beginning of fiscal 2011, the City Parking District Enterprise Fund owed the Merged Redevelopment Project Area Capital Projects Fund in the amount of \$4,470,000. In March 2011 the Agency made required findings in accordance with Health and Safety Code Sections 33445 to allow for the forgiveness of the outstanding balance of the advance from the Redevelopment Project Area Capital Projects Fund to the City Parking District Enterprise Fund. The Agency Board decided that an investment in the downtown parking structure was a good use of redevelopment funds, and that the redevelopment of downtown would be much furthered by the use of Agency funds. Therefore the advance was forgiven.

**NOTE 4 – INTER-FUND TRANSACTIONS**

Transfers between funds during the fiscal year ended June 30, 2011 were as follows:

<u>Transfer Out:</u>	<u>Transfer in:</u>	<u>AMOUNT:</u>
<b>Redevelopment Agency Capital Project Funds:</b>		
Merged Redevelopment Capital Projects Fund	Low/Mod Income Housing Capital Project Fund	\$7,446,987 (A)
	Redevelopment Debt Service Funds	4,898,640 (B)
Low/Mod Income Housing Capital Projects Fund	Redevelopment Debt Service Funds	<u>278,310 (B)</u>
		<u>\$12,623,937</u>
	Total	

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, 2010	Additions	Transfers	Retirements	Transfers to City	Balance June 30, 2011
<b>Governmental activities</b>						
Capital assets not being depreciated:						
Land	\$40,004,095	\$6,095,662	\$1,228,410		(\$42,858,167)	\$4,470,000
Construction in Progress	360,341	2,135,902	(1,850,818)			645,425
Total capital assets not being depreciated	<u>40,364,436</u>	<u>8,231,564</u>	<u>(622,408)</u>		<u>(42,858,167)</u>	<u>5,115,425</u>
Capital assets being depreciated:						
Buildings and Improvements	4,024,426	225,156	622,408		(4,871,990)	
Machinery and Equipment	125,076			(\$30,130)		94,946
Office Equipment	23,452					23,452
Furniture and Fixtures	21,506					21,506
Vehicles	123,792					123,792
Total capital assets being depreciated	<u>4,318,252</u>	<u>225,156</u>	<u>622,408</u>	<u>(30,130)</u>	<u>(4,871,990)</u>	<u>263,696</u>
Less accumulated depreciation for:						
Buildings and Improvements	(420,411)	(82,935)			503,346	
Land Improvements Infrastructure						
Machinery and Equipment	(105,873)	(3,404)		18,831		(90,446)
Office Equipment	(23,452)					(23,452)
Furniture and Fixtures	(16,023)	(1,218)				(17,241)
Vehicles	(69,812)	(15,468)				(85,280)
Total accumulated depreciation	<u>(635,571)</u>	<u>(103,025)</u>		<u>18,831</u>	<u>503,346</u>	<u>(216,419)</u>
Net capital assets being depreciated	<u>3,682,681</u>	<u>122,131</u>	<u>622,408</u>	<u>(11,299)</u>	<u>(4,368,644)</u>	<u>47,277</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$44,047,117</u></u>	<u><u>\$8,353,695</u></u>		<u><u>(\$11,299)</u></u>	<u><u>(\$47,226,811)</u></u>	<u><u>\$5,162,702</u></u>

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

In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33430 and 33432 to allow the conveyance of twenty-five parcels that had been recorded as capital assets with a book value of \$47,498,349 to the City.

**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, 2011, follows:

Type of Obligation	Authorized and Issued	Principal Outstanding June 30, 2010	Retirements	Principal Outstanding June 30, 2011	Current Portion
2006 Revenue Bonds, 3.75 to 5.13%, due 9/1/35 (A)	\$70,675,000	\$65,910,000	\$1,380,000	\$64,530,000	\$1,435,000
2000 HUD Section 108, 4.4 to 6.6%, due 8/1/23 (B)	1,750,000	1,278,000	112,000	1,166,000	112,000
1999 Revenue Bonds, 3.3 to 5.0%, due 9/1/18 (C)	31,720,000	2,120,000	195,000	1,925,000	205,000
1999 Certificates of Participation, 3.2 to 5.0%, due 4/1/29 (D)	6,145,000	4,765,000	155,000	4,610,000	165,000
Total Redevelopment Agency	<u>\$110,290,000</u>	<u>\$74,073,000</u>	<u>\$1,842,000</u>	<u>\$72,231,000</u>	<u>\$1,917,000</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, 2011, \$8,535,000 and \$17,035,000 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 \$112,147,279 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 2011, the merged Redevelopment Project Area Capital Project Fund tax increment revenue of \$37,234,939; less \$7,446,987 of 20% set-aside, amounted to \$29,787,952 which represented coverage of 3.9 over the \$7.7 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, 2011, the Housing Set-Aside's portion of the bonds outstanding was \$1,925,000.

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, 2011, \$5,560,000 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 2011, the merged Redevelopment Project Area Capital Project Fund tax increment revenue of \$37,234,939; less \$7,446,987 of 20% set-aside, amounted to \$29,787,952 which represented coverage of 76 over the \$393,250 in debt service.

As of June 30, 2011, future debt service is as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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	2,237,000	3,118,495
2017-2021	12,090,000	13,942,016
2022-2026	13,626,000	10,841,875
2027-2031	16,495,000	7,042,484
2032-2036	19,690,000	2,557,000
Totals	<u>\$72,231,000</u>	<u>\$50,898,006</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 2010-2011, the Agency calculated and remitted \$6,945,738 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>
2012	\$51,800
2013	51,800
2014	51,800
2015	51,800
2016	51,800
Thereafter	<u>2,331,000</u>
	<u><u>\$2,590,000</u></u>

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.

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

**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.

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.

Two of the parcels impacted by the April ruling are in the Downtown Redevelopment Project Area, and the County has since estimated that the Agency will have a total of \$7.04 million deducted from its property tax payments in the future. The Agency has set those dollars aside. In March 2011, the Agency and the City Council transferred the liability and funding associated with the liability to a new City Governmental Fund, the Public Improvement Agreement Capital Project Fund.

**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 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, and its second payment in the amount of \$1,755,786 in fiscal year 2010-11.

**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.

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

**NOTE 12 PUBLIC IMPROVEMENT AGREEMENT FUND ACTIONS IN MARCH 2011**

In March 2011, the Agency Board and the City Council transferred funding of \$67.7 million as well as the legal obligation to carry out various redevelopment activities associated with that funding to the City under a new Public Improvement Agreement Fund agreement.

**NOTE 13 – SUBSEQUENT EVENT**

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an “alternative voluntary redevelopment program” requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated \$1.7 billion for fiscal year 2012 and an estimated \$400 million in each succeeding year. If the City fails to make the voluntary program payment, the Agency would become subject to the dissolution provisions of AB1x 26.

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of AB1x 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

The suspension provisions of ABx1 26 prohibit all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule on August 24, 2011.

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the redevelopment agency. The State Controller’s Office has not yet provided any information about the timing or the process for this statewide asset transfer review.

The Agency is currently subject to the suspension provisions as described above. These facts indicate that there is more than a remote possibility the Agency may not continue as a going concern beyond October 1, 2011. The continuation of the Agency beyond October 1, 2011 will initially depend upon whether the Supreme Court rules in favor of the petitioners. There are three possible consequences to the Agency from a decision of the Supreme Court, when it is rendered:

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

**NOTE 13 – SUBSEQUENT EVENT (Continued)**

1. If the Supreme Court determines that both AB1x 26 and AB1x 27 are valid, then the City will consider whether it will enact an ordinance to opt-in to the alternative voluntary redevelopment program. If enacted, the City would be required to make annual payments to the County Auditor-Controller and the Agency would no longer be subject to the suspension provisions. It is anticipated that the City's annual remittances would be reimbursed by the Agency from tax increment revenues generated in the Merged Project Areas. The State Department of Finance calculated the City's Voluntary Program payment for fiscal year 2012 to be \$15,675,034.
2. If the Supreme Court determines that both AB1x 26 and AB1x 27 are valid and the City decides not to participate in the alternative voluntary redevelopment program, or if the Supreme Court determines that AB1x 26 is valid, but AB1x 27 is not valid, the Agency will continue to be subject to the suspension provisions and would be dissolved in accordance with certain provisions of AB1x 26. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011 to the City including those discussed in Notes 4 and 5, that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. Upon dissolution, all assets and obligations of the Agency would be transferred to a successor agency.
3. If the Supreme Court determines that both AB1x 26 and AB1x 27 are invalid, the Agency would no longer be subject to the suspension provisions and would continue in existence under California Redevelopment Law as it existed prior to the enactment of AB1x 26 and AB1x 27.

As of December 7, 2011, the Supreme Court has not ruled on the case and the Agency is subject to the suspension provisions as discussed above. A ruling is expected in January 2012.

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, 2011

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
Tax allocation increment	\$37,540,000	\$37,234,939	(\$305,061)
Interest and rental	2,000,000	1,967,623	(32,377)
Intergovernmental		1,500	1,500
Charges for services		565	565
Other		506,576	506,576
	<u>39,540,000</u>	<u>39,711,203</u>	<u>171,203</u>
<b>EXPENDITURES:</b>			
Economic and Community Development	14,975,562	15,407,976	(432,414)
Non-departmental	58,000	94,573	(36,573)
Capital outlay	12,593,347	2,168,464	10,424,883
Debt service:			
Interest and fiscal charges	30,765	31,333	(568)
	<u>27,657,674</u>	<u>17,702,346</u>	<u>9,955,328</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>11,882,326</u>	<u>22,008,857</u>	<u>10,126,531</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in from City	50,000	40,420	(9,580)
Transfers (out)	(12,909,261)	(12,345,627)	563,634
Transfer (out) to City for capital outlay	(1,107,304)	(235,081)	872,223
Transfer (out) to City for Public Improvement Fund (Note 12)	(63,604,046)	(63,604,046)	
Transfer (out) to City for Parking District Fund (Note 3)	(179,285)	(11,221,170)	(11,041,885)
	<u>(77,749,896)</u>	<u>(87,365,504)</u>	<u>(9,615,608)</u>
<b>CHANGE IN FUND BALANCES</b>	<u>(\$65,867,570)</u>	<u>(65,356,647)</u>	<u>\$510,923</u>
Adjustment to budgetary basis:			
Encumbrance adjustments		1,241,961	
Fund balance, July 1		<u>87,084,818</u>	
Fund balance, June 30		<u>\$22,970,132</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, 2011

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest and rental	\$400,000	\$846,015	\$446,015
Others		100	100
	400,000	846,115	446,115
EXPENDITURES:			
Economic and Community Development	4,255,682	396,597	3,859,085
Capital outlay	7,631,224	4,481,300	3,149,924
	11,886,906	4,877,897	7,009,009
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(11,486,906)	(4,031,782)	7,455,124
OTHER FINANCING SOURCES (USES)			
Transfers in	7,808,000	7,446,987	(361,013)
Transfers (out)	(347,117)	(278,310)	68,807
Transfers (out) to City for Public Improvement Fund	(4,101,413)	(4,101,413)	
	3,359,470	3,067,264	(292,206)
CHANGE IN FUND BALANCES	(\$8,127,436)	(964,518)	\$7,162,918
Adjustment to budgetary basis:			
Encumbrance adjustments		29,494	
Fund balance, July 1		38,294,881	
Fund balance, June 30		\$37,359,857	

CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY  
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, 2011

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Interest and rentals		\$227,146	\$227,146
Total Revenues		227,146	227,146
EXPENDITURES:			
Current:			
Non-departmental		5,205	(5,205)
Debt service			
Principal retirement	\$1,892,429	1,842,000	50,429
Interest and fiscal charges	3,555,949	3,561,659	(5,710)
Total Expenditures	5,448,378	5,408,864	39,514
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,448,378)	(5,181,718)	266,660
OTHER FINANCING SOURCES (USES)			
Transfers in	5,448,378	5,176,950	(271,428)
Total other financing sources (uses)	5,448,378	5,176,950	(271,428)
CHANGE IN FUND BALANCES	5,448,378	(4,768)	(\$4,768)
Fund balance, July 1		5,405,247	
Fund balance, June 30		\$5,400,479	

**CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY**  
**Supplemental Information**

Excess surplus is defined in Health and Safety Code Section 33334.12(b) as any unexpended and unencumbered amount in an Agency's Low and Moderate Income Housing Fund that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the Low and Moderate Income Housing Fund during the preceding four fiscal years, as of the beginning of the fiscal year.

If excess surplus exists, the Agency must lawfully spend the excess or transfer it to a housing authority or other public agency in the following fiscal year, expend or encumber in the next two fiscal years or face sanctions. Essentially, agencies have a three-year window to expend, encumber, or transfer the excess surplus.

	<b>Low and Moderate Income Housing Funds -- Merged Project Areas July 1, 2010</b>	
<b>Opening Fund Balance -- July 1, 2010</b>		\$38,294,881
<b>Less Unavailable Amounts:</b>		
Encumbrances (Section 33334.12(g)(2))	(62,945)	
Land held for resale	(\$1,900,000)	
Restricted assets	(2,306,935)	
Rehabilitation loans	(9,248,524)	
		(13,518,404)
Available Low and Moderate Income Housing Funds		24,776,477
<b>Limitation (greater of \$1,000,000 or four years set-aside)</b>		
Set-Aside for last four years - fiscal years ended:		
June 30, 2010	7,495,228	
June 30, 2009	8,197,403	
June 30, 2008	5,561,842	
June 30, 2007	4,600,681	
Total	\$25,855,154	
Base limitation	\$1,000,000	
Greater amount		25,855,154
<b>Computed Excess Surplus - July 1, 2010</b>		<b>None</b>

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the City of South San Francisco as of and for the year ended June 30, 2011, and have issued our report thereon dated December 7, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and the implementation of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. 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***

Management of the City of South San Francisco is responsible for establishing and maintaining effective 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. 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 7, 2011, which is an integral part of our audit and should be read in conjunction with this report.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, the State Controller's Office, 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.

Mare & Associates

December 7, 2011

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH THE  
CALIFORNIA HEALTH AND SAFETY CODE  
AS REQUIRED BY SECTION 33080.1**

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

***Compliance***

We have audited City of South San Francisco Redevelopment Agency's compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June, 30, 2011. However, the results of our audit procedures disclosed instances of noncompliance that are required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, which are described in the accompanying Schedule of Current Year Findings.

### *Internal Control Over Compliance*

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We did not audit the Agency's responses to the findings included in the Schedule of Current Year Findings and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, the State Controller's Office, 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.

*Mare & Associates*

December 7, 2011

**SCHEDULE OF CURRENT YEAR FINDINGS  
OTHER COMPLIANCE VIOLATIONS**

**Finding 2011-01: Compliance with California Government Health and Safety Code Section 33080.1**

Health and Safety Code Section 33808.1 requires the Agency to submit to its legislative body an annual report within six months of the end of the fiscal year. During our tests of the Agency's compliance with the requirements of the Health and Safety Code using the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, we found the Agency submitted its fiscal year 2010 annual report to the Council in June 2011, which is not within the required six month timeframe. We suggest the Agency establish procedures to ensure the annual report is submitted to Council within six months of the close of every fiscal year.

***Management's Response:***

The Agency's final financial statements are not published in time to agendaize and report to the Agency Board in time to meet the 6 month deadline. Staff considered submitting a draft report in December to meet the Health and Safety Code requirements, but to do so would require us to bring the financial statements to the Agency Board twice, once in draft and once in final. Because the Board typically only meets in early December the timing was also problematic. If the State indicates they have a concern with our filing date (which we have not heard), then we will begin sending the Board a draft and a final report.

**Finding 2011-02: Compliance with California Government Health and Safety Code Section 33080.1**

Health and Safety Code Section 33808.1 requires the Agency to annually report to the State Controller's Office the time limit for the commencement for eminent domain proceedings to acquire property within a given project area. During our tests of the Agency's compliance with the requirements of the Health and Safety Code using the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, we found the Agency did not appear to include the time limit for eminent domain proceedings within the submitted State Controller's Report for fiscal year 2010. We recommend the Agency develop procedures to ensure the time limit for eminent domain proceedings are included in the annual State Controller's Report.

***Management's Response:***

This was an oversight this year, and will be corrected in the 2010-11 filing. The deadline for eminent domain proceedings has passed prior to this audit year.