

**MARIN COUNTY REDEVELOPMENT AGENCY  
COMPONENT UNIT FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2011**

MARIN COUNTY REDEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Marin County Redevelopment Agency  
San Rafael, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Marin County Redevelopment Agency (a component unit of the County of Marin), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Marin County Redevelopment Agency as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the basic financial statements, the Agency has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011.

As further explained in Note 11, the Agency's Redevelopment Plan expires in 2012. Also, the California State Legislature has enacted Assembly Bill 1x 26 (AB 1x 26) that is intended to provide for the dissolution of all redevelopment agencies in the State of California. The constitutionality of AB 1x 26 is currently under review by the California Supreme Court. If AB 1x 26 is held to be constitutional, the Agency will dissolve, and the County of Marin will become the "Successor Agency." If AB 1x 26 is held to be unconstitutional, then the Agency will continue its operations until the year 2025, with no Redevelopment Plan and no project areas. Its sole function will be to collect tax increment revenues and pay debt service on its bonds (See Note 6) and other obligations.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2011 on our consideration of the Marin County Redevelopment Agency's internal control over financial reporting and 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marin County Redevelopment Agency's basic financial statements as a whole. The supplementary information which includes the Combining Statement of Changes in Assets and Liabilities - Agency Funds and the Computation of the Low/Moderate Income Housing Fund - Excess Surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*White Nelson Diehl Evans LLP*

December 9, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

Our discussion and analysis of the Marin County Redevelopment Agency's (the Agency) financial performance for the fiscal year ended June 30, 2011 provides a comparison of current year to prior year ending results based on the government-wide statements, an analysis of the Agency's overall financial position and results of operations to assist users in evaluating the Agency's financial position and a discussion of significant changes that occurred in funds. In addition, it describes the activities during the year for capital assets and long-term debt. We end our discussion and analysis with a description of currently known facts, decisions, and conditions that are expected to have a significant effect on the financial position or results of operations. Please read it in conjunction with the Agency's basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Agency's governmental activities net deficit decreased by \$201,787.
- At the close of the fiscal year, the Agency's governmental funds reported combined ending fund balances of \$1,801,870, a decrease of \$143,823 in comparison with the prior year.
- The Agency's total long-term debt decreased by \$340,000 during the fiscal year, due to principal payments on the debt.
- As further explained in Note 11 to the basic financial statements, the Agency's Redevelopment Plan expires in 2012. Also, the California State Legislature has enacted Assembly Bill 1x 26 (AB 1x 26) that is intended to provide for the dissolution of all redevelopment agencies in the State of California. The constitutionality of AB 1x 26 is currently under review by the California Supreme Court. If AB 1x 26 is held to be constitutional, the Agency will dissolve, and the County of Marin will become the "Successor Agency." If AB 1x 26 is held to be unconstitutional, then the Agency will continue its operations until the year 2025, with no Redevelopment Plan and no project areas. Its sole function will be to collect tax increment revenues and pay debt service on its bonds (See Note 6 to the basic financial statements) and other obligations.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities (on pages 10 and 11) provide information about the activities of the Agency as a whole and present a long-term view of the Agency's finances. Fund financial statements start on page 12. For governmental activities, these fund statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Agency's operation in more detail than the government-wide statements by providing information about the Agency's most significant funds and other funds.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**REPORTING THE AGENCY AS A WHOLE**

**The Statement of Net Assets and the Statement of Activities:**

Our analysis of the Agency as a whole begins on page 10. One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities in a way to answer this question. These statements include all assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's *net assets* and *changes*. Net assets are the difference between assets and liabilities, which is one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net assets (deficit) are an indication of whether its *financial health* is improving or deteriorating.

In the Statement of Activities, we separate the Agency's functions and programs into administrative, contract services, legal and other, capital improvements and project costs, and interest on long-term debt.

**REPORTING THE AGENCY'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements:**

The fund financial statements provide detailed information about the most significant funds and other funds - not the Agency as a whole. Some funds are required to be established by State law and by bond covenants. However, management established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other resources. The Agency only has governmental type funds.

**Governmental funds** - Most of the Agency's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Agency's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**THE AGENCY AS A WHOLE**

The Agency's combined net assets (deficit) decreased \$201,787 from \$(9,305,118) to \$(9,103,331). Our analysis below focuses on the net deficit (Table 1) and changes in net deficit (Table 2) of the Agency's governmental activities.

TABLE 1  
NET ASSETS (DEFICIT)

As of June 30, 2011 and 2010

	Governmental Activities	
	2011	2010
Assets:		
Current and restricted assets	\$ 1,819,262	\$ 2,090,126
Capital assets	30,014	30,014
Total Assets	1,849,276	2,120,140
Liabilities:		
Long-term liabilities outstanding	10,740,000	11,080,000
Other liabilities	212,607	345,258
Total Liabilities	10,952,607	11,425,258
Net Assets (Deficit):		
Invested in capital assets	30,014	30,014
Restricted	1,016,603	1,176,547
Unrestricted	(10,149,948)	(10,511,679)
Total Net Assets (Deficit)	\$ (9,103,331)	\$ (9,305,118)

The Agency's Net Assets are made-up of three components: Investment in Capital Assets, Restricted Net Assets and Unrestricted Net Deficit. Unrestricted net deficit, the part of net deficit that can be used to finance day-to-day operations, decreased from \$10,511,679 to \$10,149,948, or 3.4 percent. The Agency currently has an unrestricted net deficit because of the debt it has issued. Proceeds from the debt were used for capital improvements on behalf of the Agency or County, or were contributed to developers, and are not offset by investments in capital assets.

The Agency's governmental activities total assets did not change significantly from the prior year.

Total liabilities decreased by \$472,651. The majority of the decrease was due to debt service principal payments.

See independent auditors' report.



MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**THE AGENCY AS A WHOLE (CONTINUED)**

TABLE 2  
CHANGES IN NET ASSETS (DEFICIT)

For the year ended June 30, 2011 and 2010

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
General Revenues:		
Tax increment	\$ 1,526,391	\$ 1,700,330
Investment and other income	<u>43,001</u>	<u>22,691</u>
Total General Revenues	<u>1,569,392</u>	<u>1,723,021</u>
Expenses:		
Administrative and other	104,067	199,684
Contract services, legal and other	140,028	234,276
Capital improvements and project costs	388,534	340,671
SERAF contribution	140,916	684,451
Interest on long-term debt	<u>594,060</u>	<u>604,980</u>
Total Expenses	<u>1,367,605</u>	<u>2,064,062</u>
Increase (Decrease) in Net Assets	201,787	(341,041)
Net Assets (Deficit) - Beginning of Year	<u>(9,305,118)</u>	<u>(8,964,077)</u>
Net Assets (Deficit) - End of Year	<u>\$ (9,103,331)</u>	<u>\$ (9,305,118)</u>

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**THE AGENCY AS A WHOLE (CONTINUED)**

**Governmental Activities**

- Total revenues decreased from \$1,723,021 to \$1,569,392 or \$153,629 a 8.9 percent decrease. The decrease was primarily due to an overall decline in market values of properties in the Agency's project area.

The following schedule represents the net cost of providing services:

**GOVERNMENTAL ACTIVITIES - NET EXPENSE**

For the years ended June 30, 2011 and 2010

	2011	2010
Administrative	\$ 104,067	\$ 199,684
Contract services, legal and other	140,028	234,276
Capital improvements and project costs	388,534	340,671
SERAF contribution	140,916	684,451
Interest on long-term debt	594,060	604,980
Total	\$ 1,367,605	\$ 2,064,062

**THE AGENCY'S FUNDS**

On page 12, the governmental funds balance sheet is shown. The combined fund balance of \$1,801,870 decreased from \$1,945,693, or 7.4 percent.

Major funds balance changes are noted below:

- For the Debt Service Fund, the fund balance decreased \$159,944 due primarily to a decrease in tax increment revenues and payment of the SERAF obligation.
- For the Capital Projects Fund, the fund balance increased \$16,121 due primarily to transfers in.

**Budgetary Highlights**

During the year, with the recommendation from the Agency's staff, the Agency's Board adopted a budget with total appropriations of \$2,695,990 and total estimated revenues of \$2,756,543.

Formal budgetary integration was employed as a management control device during the year for the debt service and capital project funds. Budgetary data for the dept service and capital projects funds are not presented herein, as the budgets for these funds are long-term in nature.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2011 and 2010, the Agency had \$30,014 invested in capital assets. There were no capital assets acquired in fiscal year 2010-2011.

The Agency's did not budget for any capital expenditures for the fiscal year 2011.

More detailed information about the capital assets is presented in Note 5 to the basic financial statements.

**Long-Term Debt**

At year-end, the Agency's governmental activities had \$10,740,000 in bonds, versus \$11,080,000 in bonds and loans, last year, a decrease of \$340,000, or 3.1 percent as shown in Table 4.

TABLE 4  
OUTSTANDING DEBT, AT YEAR-END

For the years ended June 30, 2011 and 2010

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
1998 Refunding Revenue Bonds	<u>\$ 10,740,000</u>	<u>\$ 11,080,000</u>

No new debt was issued or refinanced during the fiscal year ended June 30, 2011. The Agency was able to meet its current year debt obligation on a timely matter. Debts issued in the prior year have been used to finance various capital projects.

More detailed information about the long-term debt is presented in Note 6 to the basic financial statements.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

As previously noted herein, the Agency may be required to dissolve under the provisions of AB 1x 26. If AB 1x 26 is held to be constitutional by the California Supreme Court, the County of Marin will be continuing certain operations as the "Successor Agency." The Successor Agency will continue to collect tax increment revenues and pay principal and interest on long-term debt, and other authorized obligations.

Management believes that the Agency will have sufficient funds to pay principal and interest on the 1998 Refunding Revenue Bonds, and all other authorized obligations as they become due, during the fiscal year ending June 30, 2012 and subsequent fiscal years.

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency at 3501 Civic Center Drive, Room 308, San Rafael, CA 94903-4157.

See independent auditors' report.

## **BASIC FINANCIAL STATEMENTS**

MARIN COUNTY REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments held by County of Marin	\$ 1,643,241
Note receivable	110,000
Restricted assets:	
Cash and investments with Fiscal Agent	66,021
Capital assets - not being depreciated	<u>30,014</u>
 TOTAL ASSETS	 <u>1,849,276</u>
LIABILITIES:	
Contracts and accounts payable	17,392
Accrued interest payable	195,215
Noncurrent liabilities:	
Due within one year	370,000
Due in more than one year	<u>10,370,000</u>
 TOTAL LIABILITIES	 <u>10,952,607</u>
NET ASSETS (DEFICIT):	
Invested in capital assets	30,014
Restricted for debt service	1,016,603
Unrestricted (deficit)	<u>(10,149,948)</u>
 TOTAL NET ASSETS (DEFICIT)	 <u><u>\$ (9,103,331)</u></u>

See independent auditors' report and notes to basic financial statements.

MARIN COUNTY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>PRIMARY GOVERNMENT:</b>					
Governmental activities:					
Administrative and other	\$ 104,067	\$ -	\$ -	\$ -	\$ (104,067)
Contract services	140,028	-	-	-	(140,028)
Marin City CLC - Ridgeway Marin LP (Note 10)	305,571	-	-	-	(305,571)
Other expenses	82,963	-	-	-	(82,963)
SERAF contribution	140,916	-	-	-	(140,916)
Interest on long-term debt	594,060	-	-	-	(594,060)
 Total governmental activities	 <u>\$ 1,367,605</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>(1,367,605)</u>
<b>GENERAL REVENUES:</b>					
Taxes:					
Tax increment					1,526,391
Other revenue, and net transfers in from Agency Funds					<u>43,001</u>
TOTAL GENERAL REVENUES					<u>1,569,392</u>
CHANGE IN NET ASSETS					201,787
NET ASSETS (DEFICIT) - BEGINNING OF YEAR					<u>(9,305,118)</u>
NET ASSETS (DEFICIT) - END OF YEAR					<u>\$ (9,103,331)</u>

See independent auditors' report and notes to basic financial statements.

MARIN COUNTY REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS			
Cash and investments held by County of Marin	\$ 950,582	\$ 692,659	\$ 1,643,241
Cash and investments with Bond Trustee	66,021	-	66,021
Note receivable	-	110,000	110,000
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 1,016,603</u>	<u>\$ 802,659</u>	<u>\$ 1,819,262</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Contracts payable, accounts payable and accrued liabilities	\$ -	\$ 17,392	\$ 17,392
	<u>          </u>	<u>          </u>	<u>          </u>
FUND BALANCES:			
Nonspendable for notes receivable	-	110,000	110,000
Restricted for debt service	1,016,603	-	1,016,603
Committed for capital projects	-	675,267	675,267
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>1,016,603</u>	<u>785,267</u>	<u>1,801,870</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,016,603</u>	<u>\$ 802,659</u>	<u>\$ 1,819,262</u>

See independent auditors' report and notes to basic financial statements.



MARIN COUNTY REDEVELOPMENT AGENCY

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2011

Fund balances for governmental funds	\$ 1,801,870
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the Agency as a whole.	30,014
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	(10,740,000)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	<u>(195,215)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (9,103,331)</u></u>

See independent auditors' report and notes to basic financial statements.

MARIN COUNTY REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the year ended June 30, 2011

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
Tax increment	\$ 1,526,391	\$ -	\$ 1,526,391
Investment income	5,371	11,345	16,716
TOTAL REVENUES	<u>1,531,762</u>	<u>11,345</u>	<u>1,543,107</u>
EXPENDITURES:			
Current:			
Administrative and other	4,665	99,402	104,067
Contract services	71,216	68,812	140,028
Payments to Marin City CLC - Ridgeway Marin LP (Note 10)	-	305,571	305,571
SB 2557 fees	28,399	-	28,399
BMR annual fees	54,564	-	54,564
SERAF contribution	140,916	-	140,916
Debt service:			
Bond interest	594,060	-	594,060
Bond principal	340,000	-	340,000
TOTAL EXPENDITURES	<u>1,233,820</u>	<u>473,785</u>	<u>1,707,605</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>297,942</u>	<u>(462,440)</u>	<u>(164,498)</u>
OTHER FINANCING SOURCES (USES) (NOTE 9):			
Transfers in	23,417	544,896	568,313
Transfers out	(481,303)	(66,335)	(547,638)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(457,886)</u>	<u>478,561</u>	<u>20,675</u>
NET CHANGE IN FUND BALANCES	(159,944)	16,121	(143,823)
FUND BALANCES - JULY 1, 2010	<u>1,176,547</u>	<u>769,146</u>	<u>1,945,693</u>
FUND BALANCES - JUNE 20, 2011	<u>\$ 1,016,603</u>	<u>\$ 785,267</u>	<u>\$ 1,801,870</u>

See independent auditors' report and notes to basic financial statements.

MARIN COUNTY REDEVELOPMENT AGENCY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

June 30, 2011

Net Change in fund balances - total governmental funds \$ (143,823)

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of long-term debt is reported as expenditures in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities. 340,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Net change in accrued interest payable for the current period. 5,610

Change in net assets of governmental activities \$ 201,787

See independent auditors' report and notes to basic financial statements.

MARIN COUNTY REDEVELOPMENT AGENCY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2011

ASSETS:

Cash and investments held by County of Marin	\$ 15,044
Cash and investments held by Fiscal Agent	<u>1,092,926</u>

TOTAL ASSETS	<u><u>\$ 1,107,970</u></u>
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LIABILITIES:

Due to bondholders	<u><u>\$ 1,107,970</u></u>
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See independent auditors' report and notes to basic financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The reporting entity "Marin County Redevelopment Agency" includes the accounts of the Agency, the Gateway Improvement Authority (the "GIA"), the Community Facilities District No.1 Marin City U.S.A. Public Improvements (the "District") and the Gateway Refinancing Authority (the "GRA").

The Agency was activated in June 1958. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Agency has been involved in a joint project with the Marin County Department of Public Works, the City of Sausalito and the California Department of Transportation (Caltrans) to construct the "Waldo Interchange Project" (a freeway interchange project, which was completed on October 20, 1995) and to construct certain public improvements in the "Marin City" project. The projects have been funded by a combination of private, philanthropic and public grants, bonds and loans. The GIA was formed under a Joint Powers Agreement dated June 27, 1995 between the County of Marin (the County) and the Agency. The GIA was created for the purpose of financing or refinancing the Marin City capital improvements. The District was formed in 1995 under the provisions of the Mello-Roos Community Facilities Act of 1982 (Section 53311 of the California Government Code) to finance certain portions of the Marin City project.

On September 29, 1995 the GIA sold \$10,285,000 of 1995 Revenue Bonds, Series A (Marin City U.S.A. Community Facilities District and Marin City Redevelopment Project), hereinafter referred to as the "GIA Bonds". The GIA Bonds were issued to provide funds to acquire the Agency's "Marin City Redevelopment Project Tax Allocation Bonds" (the "Agency Bonds") and to acquire the Agency's "Community Facilities District No.1 (Marin City U.S.A. Public Improvements) Special Tax Bonds (the "Special Tax Bonds"). The GIA received net bond proceeds of \$10,069,015. These proceeds were used to acquire Agency Bonds of \$5,000,000 (net of a discount of \$5,285,000) and Special Tax Bonds of \$5,069,015 (net of a discount of \$5,215,985).

The GIA's only assets are its investments in the Agency Bonds and Special Tax Bonds. The GIA's primary sources of revenue are the principal and interest payments it receives on the Agency Bonds and Special Tax Bonds. Agency Bonds are secured by a lien on tax increment revenues received by the Agency. The Special Tax Bonds are secured by annual tax levies on certain real property within the District. For the fiscal year ended June 30, 2011, no special tax was levied against properties in Marin City, as the Agency has accumulated sufficient tax increment revenues to fund debt service.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a. Reporting Entity (Continued):

The GRA was formed under a Joint Powers Agreement dated June 2, 1998 between the County and the Agency. On June 24, 1998, the GRA issued \$13,425,000 of “1998 Revenue Refunding Bonds, Series A (Marin City U.S.A. Community Facilities District and Marin City Redevelopment Project)”, hereinafter referred to as the “GRA Bonds”. Net proceeds of the GRA Bonds totaling \$13,176,822 were designated for the following purposes:

Purchase of GIA Bonds by GRA, in lieu of redemption	\$ 12,074,383
Capital projects of the Agency	961,476
Debt issue costs	<u>140,963</u>
Net GRA Bond Proceeds	<u>\$ 13,176,822</u>

The \$12,074,383 in refunding bond proceeds was used to purchase the GIA Bonds in lieu of redemption. This transaction was accounted for as an “in-substance defeasance” of the GIA Bonds, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 7 (GASB 7). Accordingly, the GIA Bonds were eliminated from the liabilities of the Agency.

All transactions between the Agency, the GIA, the District and the GRA are accounted for in this report as “operating transfers”.

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement 14. The Agency is the primary government unit. Component units are those entities which are financially accountable to the primary government unit, either because the Agency appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the Agency. The Agency has accounted for the GIA, District and the GRA as “blended” component units. Despite being legally separate, these entities are so intertwined with the Agency that they are, in substance, part of the Agency operations. Accordingly, the balances and transactions of these component units are reported within the funds of the Agency.

Separate component unit financial statements for the GIA and GRA are available at the Marin County Community Development Agency office.

See independent auditors’ report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a. Reporting Entity (Continued):

The funds and accounts of the District have been accounted for as agency funds. Although the Agency has certain fiduciary duties for collecting assessments from property owners and remitting these funds to bond holders, the Agency is not legally obligated in any manner on the District's Special Tax Bonds. Accordingly, the bond proceeds received in 1995-96, which were designated for public improvements, were accounted for in a capital project fund, and bond proceeds held as debt service reserves are accounted for in an "Agency Fund". Bond reserve funds and property assessments received are reported as "due to bondholders" in the Agency Funds.

b. Basis of Presentation:

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Marin County Redevelopment Agency has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues of the Agency are not reported as program revenues, but are reported instead as general revenues.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are not included in the government-wide financial statements.

See independent auditors' report.



MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Presentation (Continued):

Fund Financial Statements:

The accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. An emphasis is placed on major funds within the governmental category. A fund is considered major if total assets, liabilities, revenues or expenditures of that individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type.

The major funds of the Agency are described below:

Governmental Funds:

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of tax increment revenues and other resources for, and the payment of, long-term obligation principal, interest and related costs. The funds and accounts of the GRA also are accounted for in this fund.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and project costs.

Also, this fund accounts for the 20% of tax increment revenues which are set aside for the construction or rehabilitation of low and moderate income housing. (All tax increment revenue received by the Agency is recorded in the Debt Service Funds, and then 20% is transferred to the Low and Moderate Income Housing Fund).

Fiduciary Funds:

Agency Funds - These funds are used to account for assets held by the Agency in a custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting:

Measurement Focus:

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

On the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources”, since they do not represent net current assets.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting (Continued):

Basis of Accounting:

Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Revenues which are susceptible to accrual include property taxes levied for and collected within 60 days after year-end.

d. Capital Assets and Depreciation:

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than \$500 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Agency had no infrastructure assets. The Agency does not own any assets which require depreciation.

e. Budgetary Reporting:

Annual budgets are not adopted for all activities of the Agency. Also, many budgetary items are “long-term”, and relate to programs or capital outlays over a number of years. Annual budgetary comparisons are not considered meaningful and, accordingly, budgetary data has not been presented within these financial statements.

See independent auditors’ report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Investments:

Investments are stated at fair value (quoted market price or best available estimate thereof).

g. Property Tax Calendar:

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1
Levy Date	July 1 to June 30
Due Date	November 1 - 1st Installment March 1 - 2nd Installment
Delinquent Date	December 10 - 1st Installment April 10 - 2nd Installment

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the agencies based on complex formulas prescribed by the state statutes.

a. Estimates:

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

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. TAX INCREMENT FINANCING:

The Agency's primary source of revenue comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property within the project area was determined on the date of adoption of the fourth amendment to the Redevelopment Plan as adopted in 1987.
- b. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property as of the adoption date are allocated to the County and other districts.

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on bonds or loans from the County. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the County.

3. CASH AND INVESTMENTS:

At June 30, 2011, cash and investments consisted of:

Governmental Activities:

Cash and investments held by County of Marin	\$ 1,643,241
Cash and investments with Fiscal Agent	66,021

Fiduciary Funds:

Cash and investments held by County of Marin	15,044
Cash and investments with Fiscal Agent	<u>1,092,926</u>

Total Cash and Investments	<u>\$ 2,817,232</u>
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See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments Held by County of Marin

All cash and investments of the Agency are pooled with cash and investments of the County and are under the control of the County Treasurer. Additional disclosures regarding authorized investments, interest rate risk and credit risk are reported in the County's audited financial statements as of and for the year ended June 30, 2011.

At June 30, 2011 the County was holding \$1,658,285 in cash and investments on deposit for the Agency which are reflected in the County's Basic Financial Statements. The monies on deposit with the County of Marin are not categorized.

Cash and Investments with Fiscal Agent

Under terms of the various bond indentures, generally, the Bond Trustee is allowed to deposit funds in federally-insured certificates of deposits or investments authorized for governmental entities which include mutual funds under Section 53601 of the California Government Code. At June 30, 2011, substantially all cash with fiscal agent of \$1,158,947 was held in mutual funds.

Disclosures Relating to Interest Rate Risk for Investments with Fiscal Agent

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the time to 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. The Agency's investments in mutual funds are available on demand and are not subject to interest rate risk.

Disclosures Relating to Credit Risk

Generally, 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. The investment in mutual funds is rated AAA by Standard and Poors.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

4. NOTES RECEIVABLE:

At June 30, 2011, notes receivable consisted of the following:

Note receivable under owner participation agreement, interest at 3% per annum, payments due from 50% of net revenues on project, secured by deed of trust. \$ 110,000

5. CAPITAL ASSETS:

The Agency's capital assets consist of three parcels of land. The Agency does not own any buildings or improvements. Regarding land parcels, during 1995, the Agency entered into transfer agreements to convey title of all but three Agency owned parcels of land located in Marin City to the Marin City Community Land Corporation and the Sausalito-Marín City Sanitary District. There was no change in capital assets from June 30, 2010 to June 30, 2011.

6. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2011 were as follows:

	Balance at July 1, 2010	Deletions	Balance at June 30, 2011	Due Within One Year
1998 Refunding Revenue Bonds, Series A (GRA Bonds)	<u>\$ 11,080,000</u>	<u>\$ 340,000</u>	<u>\$ 10,740,000</u>	<u>\$ 370,000</u>

GRA Bonds:

The GRA Bonds were issued in the aggregate principal amount of \$13,425,000. Net bond proceeds were \$13,176,822 after deducting an original issue discount of \$46,803 and an underwriter's discount of \$201,375. Net bond proceeds of \$12,074,303 were placed in a special GRA "Purchase Fund" to be used in the year 2005 to purchase the GIA Bonds in lieu of redemption.

There are numerous other provisions of the GRA Bonds that are not set forth herein. Refer to the Indenture of Trust for additional details.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

GRA Bonds (Continued):

Noted below is a schedule of principal and interest maturities on the GRA Bonds, with the applicable interest rates.

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>	<u>Total Debt Requirements</u>
9-1-11	\$ 370,000	\$ 292,822		\$ 662,822
3-1-12		283,480	5.0500	283,480
9-1-12	405,000	283,480		688,480
3-1-13		273,253	5.1000	273,253
9-1-13	445,000	273,253		718,253
3-1-14		261,906	5.2000	261,906
9-1-14	480,000	261,906		741,906
3-1-15		249,426	5.2500	249,426
9-1-15	525,000	249,426		774,426
3-1-16		235,645	5.5000	235,645
9-1-16	570,000	235,645		805,645
3-1-17		219,970	5.5000	219,970
9-1-17	620,000	219,970		839,970
3-1-18		202,920	5.5000	202,920
9-1-18	670,000	202,920		872,920
3-1-19		184,495	5.5000	184,495
9-1-19	725,000	184,495		909,495
3-1-20		164,557	5.5500	164,557
9-1-20	785,000	164,557		949,557
3-1-21		142,773	5.5500	142,773
9-1-21	855,000	142,773		997,773
3-1-22		119,047	5.5500	119,047
9-1-22	915,000	119,047		1,034,047
3-1-23		93,656	5.5500	93,656
9-1-23	990,000	93,656		1,083,656
3-1-24		66,183	5.5500	66,183
9-1-24	1,065,000	66,183		1,131,183
3-1-25		36,630	5.5500	36,630
9-1-25	<u>1,320,000</u>	<u>36,630</u>		<u>1,356,630</u>
	<u>\$ 10,740,000</u>	<u>\$ 5,360,704</u>		<u>\$ 16,100,704</u>

See independent auditors' report.



MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

7. TRANSACTIONS WITH COUNTY OF MARIN:

- a. On June 18, 1991 the Agency and the County entered into a "Cooperation Agreement" (the Agreement). Under terms of the Agreement, the County provides various facilities and services to the Agency. The Agency, in turn, has agreed to reimburse the County for all costs and expenses incurred on its behalf. The County allocated certain salaries and certain other administrative costs to the Agency for the year ended June 30, 2011.
- b. Pursuant to a Grant Agreement executed in 1992 between the County and the Agency, the Housing Trust Funds were reclassified as a County asset during the fiscal year ended June 30, 2011:

Cash and Investments	\$ 1,667,312
Notes Receivable	<u>1,996,593</u>
	<u>\$ 3,663,905</u>

8. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS:

The Agency has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. The fund balances reported on the fund statements now consist of the following categories (where applicable):

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

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority.

Assigned Fund Balance - This classification includes amounts to be used by the Agency for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, the assigned fund balance represents the remaining amount that is not restricted or committed.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

8. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS (CONTINUED):

Unassigned Fund Balance – If there is a residual balance, this classification includes all spendable amounts not contained in other classifications. Otherwise, the unassigned classification is used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Agency’s policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Agency’s policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

9. OPERATING TRANSFERS:

Net transfers at June 30, 2011 were as follows:

	Transfers In	Transfers Out
Debt Service Fund	\$ -	\$ 457,886
Capital Projects Fund	544,896	66,335
Agency Funds:		
Housing Trust Funds	66,335	-
Special Tax Bonds Fund	<u>-</u>	<u>87,010</u>
	<u>\$ 611,231</u>	<u>\$ 611,231</u>

The transfer in to the Housing Trust Fund from the Capital Projects Fund of \$66,335 consists of second trust deed notes receivable on low and moderate income housing units in Marin City.

10. LOW AND MODERATE INCOME HOUSING FUND ACTIVITY:

Fund Balance, July 1, 2010	\$ -
Operating transfers in	305,278
Interest income	293
Expenditures and transfers out for low and moderate income housing	<u>(305,571)</u>
Fund Balance, June 30, 2011	<u>\$ -</u>

See independent auditors’ report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

10. LOW AND MODERATE INCOME HOUSING FUND ACTIVITY (CONTINUED):

The Agency pledged the entirety of its 20% housing set-aside to the Gateway/Ridgeway Apartments to maintain affordability levels consist with Community Redevelopment Law. Twice annually, the Agency transfers the fund balance in its Low and Moderate Income Housing Fund to Marin City CLC to be paid to Ridgeway Marin LP pursuant to a Housing Assistance Pledge (HAP) Agreement.

11. COMMITMENTS AND CONTINGENCIES:

**County of Marin General Ledger**

The County of Marin has not closed its general ledger, and the independent audit reports have not been completed and issued, as of, and for the fiscal year ended, June 30, 2011. Adjustments to the general ledger and the records of the Marin County Redevelopment Agency, if any, resulting from the County audit cannot be determined at this time. However, management of both the County of Marin and the Agency expect that any adjustments affecting the Agency's basic financial statements would not be material.

**SERAF Payments**

During the fiscal year 2009-2010, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers.

Pursuant to budget trailer bills, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. The Agency's required contributions were \$684,451 for 2009-2010 and \$140,916 for 2010-2011. On October 20, 2009, the California Redevelopment Association (CRA) filed a class action lawsuit on behalf of all California redevelopment agencies, challenging the SERAF obligations as unconstitutional. The court ruled that the SERAF obligations were not unconstitutional.

**Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 29, 2011, the Governor of the State of California signed Assembly Bills 1x 26 and 27 (AB 1x 26 and 27) as part of the State's budget package. AB 1x 26 requires each California redevelopment agency to dissolve. AB 1x 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

11. COMMITMENTS AND CONTINGENCIES (CONTINUED):

**Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)**

AB 1x 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller can order that the available assets be transferred to the public body designated as the successor agency by AB 1x 26.

The constitutionality of AB 1x 26 is currently under review by the California Supreme Court. If AB 1x 26 is held to be constitutional, the Agency will dissolve, and the County of Marin will become the "Successor Agency." If AB 1x 26 is held to be unconstitutional, then the Agency will continue its operations until the year 2025, with no Redevelopment Plan and no project areas. Its sole function will be to collect tax increment revenues and pay debt service on the GRA Bonds and other obligations.

Management believes that the Agency or its Successor Agency will have sufficient funds to pay principal and interest on its 1998 Refunding Revenue Bonds and other authorized obligations as they become due during the fiscal year ending June 30, 2012 and subsequent fiscal years.

MARIN COUNTY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

11. COMMITMENTS AND CONTINGENCIES (CONTINUED):

**Long-Term Funding Commitments**

During the fiscal year ended June 30, 2011, the Agency's Board of Commissioners passed resolutions authorizing future funding agreements with the following government agencies:

- Marin City Community Complex Improvements,  
for capital improvements \$ 1,250,000
- Marin County Department of Public works,  
For Donahue Underpass capital improvements 169,026
- County of Marin, Amendment No. 1 to Cooperative  
Agreement, authorizing the Agency to reimburse  
the County for up to \$100,000 in annual administrative  
costs (adjusted for inflation) through September 1, 2025 1,863,929
- Housing Authority of County of Marin, agreement to pay  
up to \$100,000 per year.(adjusted for inflation) for  
management services and legal costs, as necessary, to  
administer the "Below Market Rate Homeownership Program" 1,863,929

The above funding agreements were authorized prior to the passage of AB 1x 26.

## **SUPPLEMENTARY INFORMATION**

MARIN COUNTY REDEVELOPMENT AGENCY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS

For the year ended June 30, 2011

	<u>Balance at July 1, 2010</u>	<u>Transfer In and Other Changes</u>	<u>Transfers Out to County</u>	<u>Balance at June 30, 2011</u>
<b><u>HOUSING TRUST FUND</u></b>				
ASSETS				
Cash and investments held by County of Marin	\$ 1,830,833	\$ (163,521)	\$ (1,667,312)	\$ -
Notes Receivable	1,751,758	244,835	(1,996,593)	-
 TOTAL ASSETS	 <u>\$ 3,582,591</u>	 <u>\$ 81,314</u>	 <u>\$ (3,663,905)</u>	 <u>\$ -</u>
LIABILITIES				
Liability for low-income housing obligations	\$ 3,582,591	\$ 81,314	\$ (3,663,905)	\$ -
 <b><u>SPECIAL TAX BONDS</u></b>				
ASSETS				
Cash and investments held by County of Marin: Special Tax Fund	\$ 14,968	\$ 76	\$ -	\$ 15,044
Cash and investments with Bond Trustee:				
Zone No. 1 Bond Reserve Subaccount	525,572	5	(11,326)	514,251
Zone No. 2 Bond Reserve Subaccount	525,571	5	(11,326)	514,250
Zone No. 1 Project Reserve Subaccounts:				
Restricted	64,341	1	(32,129)	32,213
Unrestricted	50	-	(50)	-
Zone No. 2 Project Reserve Subaccounts:				
Restricted	64,340	1	(32,129)	32,212
Unrestricted	50	-	(50)	-
 Total Cash and Investments with Bond Trustee	 <u>1,179,924</u>	 <u>12</u>	 <u>(87,010)</u>	 <u>1,092,926</u>
 TOTAL ASSETS	 <u>\$ 1,194,892</u>	 <u>\$ 88</u>	 <u>\$ (87,010)</u>	 <u>\$ 1,107,970</u>
LIABILITIES				
Due to bondholders	\$ 1,194,892	\$ 88	\$ (87,010)	\$ 1,107,970

See independent auditors' report.

MARIN COUNTY REDEVELOPMENT AGENCY

COMPUTATION OF LOW/MODERATE INCOME  
HOUSING FUND - EXCESS SURPLUS

July 1, 2010

		All Project Areas
		<u>                    </u>
FUND BLANCE OF LOW AND MODERTE INCOME HOUSING FUND - JULY 1, 2010		\$ <u>                    </u> -
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for last four years:		
2009 - 2010	\$ 340,066	
2008 - 2009	346,168	
2007 - 2008	341,300	
2006 - 2007	<u>338,963</u>	
 TOTAL SET-ASIDE FOR LAST FOUR YEARS	 \$ <u>1,366,497</u>	
 Base limitation	 \$ <u>1,000,000</u>	
 GREATER AMOUNT		 <u>1,366,497</u>
COMPUTED EXCESS SURPLUS - JULY 1, 2010		\$ <u>                    </u> -

See accompanying independent auditors' report.



**INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Commissioners  
Marin County Redevelopment Agency  
San Rafael, California

Compliance

We have audited the Marin County Redevelopment Agency's (the Agency) 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 and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

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.

## Compliance (Continued)

As described below, the Agency did not comply with the California Health and Safety Code as required by Section 33080.1. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements referred to above.

Health and Safety Code Section 33080.1(b) requires Redevelopment Agencies to submit a fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5. For the fiscal year ended June 30, 2011, the Agency did not submit all required information on one statement and in the format required by the State Controller's Office.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

## 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.

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.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specific parties.

*White Nelson Diehl Evans LLP*

December 9, 2011  
Irvine, California