Redevelopment Agency of the City of Sunnyvale

Sunnyvale, California

Basic Financial Statements
and Independent Auditors' Reports
For the year ended June 30, 2010

Redevelopment Agency of the City of Sunnyvale
Basic Financial Statements
And Independent Auditors' Reports

For The Fiscal Year Ended

June 30, 2010

City of Sunnyvale

650 West Olive Avenue

Sunnyvale, California 94086

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Prepared by the Department of Finance

Grace K. Leung, Director of Finance

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MAZE &
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INDEPENDENT AUDITORS' REPORT

Members of the Redevelopment Agency
of the City of Sunnyvale
Sunnyvale, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Sunnyvale (Agency), a component unit of the City of Sunnyvale, California, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Agency's component unit basic financial statements 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 financial statements are free of material misstatement. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency at June 30, 2010 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2010 on our consideration of the City of San Carlos' 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.

The accompanying required supplementary information such as the Management's Discussion and Analysis and the respective budgetary comparison information as listed on the table of contents are not required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maze & Associates

November 12, 2010

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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 Redevelopment Agency
of the City of Sunnyvale
Sunnyvale, California

We have audited the financial statements of the Redevelopment Agency of the City of Sunnyvale (Agency) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the *Guidelines for Compliance Audits of California Redevelopment Agencies*. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

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

Maze & Associates

November 12, 2010

Management's Discussion and Analysis

This analysis of the Redevelopment Agency (Agency) of the City of Sunnyvale's (City) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying basic component unit financial statements and the accompanying notes to those component unit financial statements**.**

A. FINANCIAL HIGHLIGHTS

- At June 30, 2010, under accrual basis of accounting, the Agency had net deficits (excess of liabilities over assets) of $66.5 million, which is a reduction of deficits of $1.4 million from the previous year.
- The Agency's total bonded debt decreased $1.0 million due to principal retirement. Prior recognized Town Center pollution remediation obligations was $4.3 million less than the previous year.
- Net tax increment revenues received during the year amounted to $7.7 million, after paying administrative charges and the Supplemental Educational Revenue Augmentation Fund. The Agency relies on tax increment revenue to service its debt. Cash shortages are covered by the City General Fund advances.
- At June 30, 2010, the Agency's loans payable to the City General Fund amounted to $64.7 million, an increase of $0.7 million from last year. The Agency repaid the City $7.1 million using tax increment revenue after paying for Central Core Project debt service. Interest accrued on old loans during the fiscal year was $5.1 million. Besides the City's parking lease base rental payment of $1.2 million, the Agency also received an additional City advance of $1.4 million to pay for debt service, operations and projects due to cash shortage.
- At June 30, 2010, the Agency's cash balance in the City's cash and investment pool was $2.8 million, coming from advances from the City General Fund. The funds will be used for infrastructure improvements, environmental costs and other anticipated costs.
- At June 30, 2010, the Agency's General Fund owed to the Low and Moderate Income Housing Fund $12.6 million, increased by $2.0 million from last year. The Agency has to defer repayments of this interfund liability due to preexisting debt obligations.

B. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

The basic financial statements include only the Redevelopment Agency of the City of Sunnyvale, which is a component unit of the City and is reported in the City's financial statements using the blended method.

The government-wide financial statements present the financial picture of the Agency and provide readers with a broad view of the Agency's finances. These statements present governmental activities and include all assets of the Agency (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Government-Wide Financial Statements

The statement of net assets and the statement of activities and changes in net assets report information about the Agency as a whole and about its activities. 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.

The statement of net assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities and changes in net assets presents information showing how the Agency's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Agency only has governmental activities, which are shown in the statement of net assets and the statement of activities and changes in net assets. All of the Agency's basic services are reported in this category, including Planning and Management, Community Development and Transportation. Property tax and investment income finance these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's individual funds, not the Agency as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes 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 monies.

The fund financial statements include statements for the Agency's governmental activities. These statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The Agency does not have any business-type activities.

Governmental Funds—The 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 funds financial statements focus on current financial resources, which emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the Agency's near-term financial requirements.

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

In order to better understand the Agency's long-term and short-term requirements, it is useful to compare the Agency's governmental fund statements with the governmental activities in the government-wide financial statements. Reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances to facilitate this comparison.

All of the Agency's funds were determined to be major funds. These funds include the General Fund, the Low and Moderate Income Housing Special Revenue Fund, the Debt Service Fund and the Capital Projects Fund, which are reported in detail in the governmental fund financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements, this report also presents certain Required Supplementary Information which includes the Agency's budgetary comparison schedules for the General Fund and the Low and Moderate Income Housing Special Revenue Fund.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the Agency's financial position. At June 30, 2010 the Agency had net deficits of $66.5 million.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2010 and 2009.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Condensed Statements of Net Assets
June 30, 2010 and 2009
(Amounts in Thousands)

	2010	2009	Total % Change
Assets:			
Current Assets	$ 4,683	$ 8,763	(46.6)%
Deferred Charge	392	424	(7.5)%
Capital Assets, Net	13,960	13,960	-
Total Assets	19,035	23,147	(17.8)%
Liabilities:			
Current Liabilities	1,505	2,403	(37.4)%
Advances from City	64,671	63,990	1.1 %
Noncurrent Liabilities	19,330	24,615	(21.5)%
Total Liabilities	85,506	91,008	(6.0)%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	(3,656)	(4,632)	(21.1)%
Restricted	470	3,730	(87.4)%
Unrestricted	(63,285)	(66,959)	(5.5)%
Total Net Assets	$ (66,471)	$ (67,861)	(2.0)%

Current assets were lower because of significant cash disbursements to pay for projects in this year. Current liabilities were substantially higher in the previous year because of the accrual of prior disputed environmental costs, which was liquidated in July 2009.

At June 30, 2010, the Agency reported negative balances in two categories of net assets. Invested in capital assets net of related debt shows a negative balance of $3.7 million, as the debt related to the assets has not yet been liquidated.

Unrestricted net assets also show a negative balance, primarily due to advances from the City. The Agency's ability to repay its debt obligations was undermined by the passage of Proposition 13, which stripped the Agency of approximately two-thirds of its property tax increment. In addition, other state laws, such as caps on the time period of revenue collection and actual revenue limits have further damaged the Agency's ability to repay its loan. Currently the time limit for tax increment collection is 2028 and the total revenue limit is $600 million.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2010 and 2009.

Redevelopment Agency of the City of Sunnyvale
Condensed Statement of Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009
(Amounts in Thousands)

	2010	2009	Total % Change
Revenues	$ 7,707	$ 8,275	(6.9)%
Expenses	6,317	6,852	(7.8)%
Increase (Decrease) in Net Assets	1,390	1,423	(2.3)%
Net Assets - Beginning	(67,861)	(69,284)	(2.1)%
Net Assets - Ending	$ (66,471)	$ (67,861)	(2.0)%

Functional expenses for the fiscal years ended June 30, 2010 and 2009 were as follows (amounts in thousands):

	2010	2009	Total % Change
Planning and Management	$ 295	$ 176	67.6 %
Community Development	241	248	(2.8)%
Environmental Management	(892)	-	N/A
Transportation	671	816	(17.8)%
Total	$ 315	$ 1,240	(74.6)%

Interest expense for fiscal year 2010 was $6 million, about $0.4 million higher than the previous year, mostly due to accrued interest on advances from the City. Revenues consisted of property tax increment, which was lower because the Agency had to pay $2 million to the Supplemental Educational Revenue Augmentation Fund to comply with ABX426, adopted by the State in July 2009.

In fiscal year 2008, the Agency first recognized Environmental Management expense of $9 million to comply with Governmental Accounting Standards Board Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. As of year end, the Agency has disbursed $6.4 million to meet such obligations. The new 2010 Amended Disposition and Development and Owner Participation Agreement (refer to Note 6 B to the Basic Financial Statements) reduces the Agency's future share of environmental costs by an estimated amount of $0.9 million.

D. FUND FINANCIAL STATEMENT ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Agency's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful is assessing the Agency's financing requirements.

As of the end of fiscal year 2010, the Agency's governmental funds reported a combined ending fund deficit of $61.2 million. This deficit was largely due to the advances from the City General Fund.

E. BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council/Agency Board revised the Agency budget as needed. Possible budget amendments fall into the following categories:

- Changes made to the budget as a result of mid-year review.
- New appropriations approved by the City Council/Agency Board.

Existing appropriations for capital improvement projects will not lapse at year end unless completed, closed out, or modified by the City Council/Agency Board.

Refer to Note 6B to the Basic Financial Statements. According to the Infrastructure Improvement Agreement, dated July 17, 2009, the Agency committed $3.7 million to a new project-Town Center/Target Public Improvements.

In mid-year, the Agency revised budgeted tax increment revenues from $6.0 million to $7.4 million due to redevelopment activity in the project area. Budgeted interest income was reduced to an insignificant amount to reflect the extremely low rate of return for safe investments.

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At June 30, 2010, capital assets of the governmental activities totaled $13.9 million, which was the carrying value of the Agency's land.

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

Long-term Obligations

As of June 30, 2010 the Agency had outstanding bonded debt obligations as listed below.

	Amounts in Thousands	
Tax Allocation Bonds	$	5,996
Certificates of Participation		11,620
Total Long-term Bonded Debt	$	17,616

Other than bonded debt obligations, the Agency is also obligated to repay City advances (see Note 4).

Refer to Note 6B for Town Center Pollution Remediation Obligations.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

On April 27, 2004, the Agency selected Fourth Quarter Properties, XLVIII, LLC (Fourth Quarter), as the master developer for the City's Town Center redevelopment project. After negotiations, Fourth Quarter, agreed to a Disposition and Development and Owner Participation Agreement (DDOPA) for redevelopment of the Town Center Mall property with the Agency. In early 2006, however, Fourth Quarter defaulted on the DDOPA.

On October 2, 2006, Fourth Quarter Properties requested permission from the Agency to transfer the project to RREEF America III (RREEF), a large real estate investment trust, which would develop the property in joint venture with Sand Hill Properties, a local developer. After due diligence review, on December 12, 2006, the Agency gave preliminary approval to transfer the project to RREEF and Sand Hill Properties. On February 6, 2007, the Agency approved the Amended and Restated Disposition, Development and Owner Participation Agreement (ARDDOPA) with Downtown Sunnyvale Mixed Use LLC (the Developer), a joint venture of RREEF and Sand Hill Properties Company.

The ARDDOPA required the Developer, among other things, to demolish the Mall buildings; construct and operate an open-air mixed-use development containing retail, office, and residential uses; build, maintain, repair, and replace public parking structures and public streets; and build and maintain a "Redwood Square" of at least 33,000 square feet. According to the ARDDOPA, an exchange of land in equal amounts between the Developer and the Agency occurred in September 2007; the Agency now owns the land under the public streets and public parking structures.

The Developer commenced demolition and construction in spring of 2007. ARDDOPA milestones from starting demolition and excavation to completion of the structural building shells were all met well in advance of due dates. The ARDDOPA was amended to extend the opening of new retail stores to December, 2009 and March, 2010 in anticipation of the economic recovery.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, Continued

The construction of the Sunnyvale Town Center redevelopment project had been well underway until February 2009. The Developer stopped all construction work when additional financing for the Town Center Project could not be secured to complete the Project. The Developer invested approximately $220 million of private equity and $108 million in bank loans in the Project. Due to the collapse of the commercial real estate market and losses in its equity capital, The Developer was not able to meet the due date of the loan and subsequent ARDDOPA milestones were missed.

The lender filed for foreclosure in October, 2009. In October, 2009, the Santa Clara County Superior Court appointed Gerald Hunt as Receiver to preserve the value of the Town Center. The Receiver has taken measures to improve and protect the Project.

Between December 2009 and May 2010, the Receiver and the Agency kept negotiating certain modifications to the ARDDOPA. These modifications were considered pre-requisites to obtaining a qualified developer to undertake completion of the Project, given the current economic situation. The negotiations resulted in the 2010 Modification Agreement (MA), dated May 14, 2010 and later documented in the 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA) which was dated August 2, 2010.

The MA reduces the Agency's share of total environmental costs starting fiscal year 2010. Refer to Note 6B to the Basic Financial Statements for explanation.

Overall, the MA reflects the principle that construction will commence and thereafter be diligently completed as soon as commercially-reasonable financing and leasing commitments have been obtained. There is a one-time penalty of $5 million for failure to meet the construction schedule. The transfer provisions permit the lender to foreclose on its security interest and to transfer the Project to a developer that meets criteria for experience, financial capability and reputation. The MA represents compromise by the Receiver and the Agency and provides the basis for investment in and restarting the Project as soon as possible.

Next Year's Budget

For fiscal year 2011, administration of the Agency is reflected in the Agency General Fund in the amount of $0.3 million, including activities in the Office of the City Attorney and the Department of Finance. Another $1.7 million is budgeted for debt service for the Central Core Redevelopment Project Tax Allocation Bonds (TABS) and the Parking Facility Certificates of Participation (COPs). The Agency is also expected to repay a net amount of $5.2 million to the City General Fund with the tax increment revenue.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, Continued

Budgeted net tax increment revenue is $8.2 million. The adopted State budget mandated a statewide contribution from redevelopment agencies to a Supplemental Educational Revenue Augmentation Fund (SERAF). The Agency's share of this SERAF transfer was $2 million for fiscal year 2010; another $0.4 million is required for fiscal year 2011.

The City General Fund will pay $1.2 million as base rental payments to fund the annual debt service for the Parking Facility Certificates of Participation.

The fiscal year 2011 Budget for the Agency includes the redevelopment of the Sunnyvale Town Center. The ARDDOPA and the successor 2010 ADDOPA require the Agency to give the developer up to $4.5 million per year of tax increment generated by the Project plus 50% of any receipts above this amount, in return for construction by the developer of public streets and parking structure. This requirement is reflected on the Agency Long Term Financial Plan as *Repayment to City – Town Center Developer*, since the mechanism for making the payments will be repayment of the General Fund loan. On the City General Fund Long-Term Financial Plan, corresponding revenue and expenditure are shown as *Payment to Town Center Developer*. This annual payment shall begin with the fiscal year in which the Minimum Project TIF Date has occurred. The tax increment agreement ends in fiscal year 2026.

Minimum Project TIF Date means the date on which the following have occurred: (i) completion of no less than 150,000 square feet of the retail portion of the Project, as evidenced by final City building permit and inspection, and evidence of execution of leases with retail tenants for said 150,000 square feet providing for tenant's construction of tenant improvements and (ii) completion of the Redwood Plaza area.

H. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Sunnyvale Finance Department, 650 W. Olive Avenue, Sunnyvale, California 94086.

Government-Wide Financial Statements

Statement of Net Assets
June 30, 2010

	Governmental Activities
Assets:	
Cash and Investments Held by City	$ 2,753,760
Receivables	1,077
Deferred Charges	392,073
Restricted Assets:	
Cash and Investments Held by Fiscal Agent	1,928,741
Capital Assets:	
Land and Nondepreciable Assets	13,959,752
Total Assets	19,035,403
Liabilities:	
Accounts Payable and Accrued Liabilities	1,260,837
Interest Payable	245,007
Advance from Other City Funds	64,671,255
Noncurrent Liabilities:	
Due Within One Year	1,705,015
Due in More than One Year	17,624,791
Total Liabilities	85,506,905
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(3,655,972)
Restricted	470,016
Unrestricted (Deficit)	(63,285,546)
Total Net Assets	$ (66,471,502)

See Accompanying Notes to Basic Financial Statements

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2010

	Governmental Activities		
Functions/Programs	**Expenses**	**Program Revenues**	**Net (Expense) Revenue and Changes in Net Assets**
Primary Government:			
Governmental Activities:			
Planning and Management	$ 295,574	$ -	$ (295,574)
Community Development	241,401	-	(241,401)
Environmental Management	(892,479)	-	892,479
Transportation	670,922	-	(670,922)
Interest on Long-term Debt	6,001,620	-	(6,001,620)
Total Governmental Activities	6,317,038	-	(6,317,038)
Total Primary Government	6,317,038	-	(6,317,038)
General Revenues:			
Taxes:			
Property Taxes			7,706,864
Total General Revenues			7,706,864
Change in Net Assets			1,389,826
Net Assets (Deficit) - Beginning of Year			(67,861,328)
Net Assets (Deficit) - End of Year			$ (66,471,502)

See Accompanying Notes to Basic Financial Statements

Governmental Fund Financial Statements

General Fund accounts for all financial resources necessary to carry out basic governmental activities of the Agency that are not accounted for in another fund.

Low and Moderate Income Housing Special Revenue Fund accounts for the funds deposited to improve and increase the supply of low and moderate income housing within the City.

Debt Service Fund accumulates funds for payment of the Central Core Tax Allocation Refunding Bonds, Series 2003 , the 1998 Parking Lease Certificates of Participation, and the Advances from the City General Fund. Debt service is financed with incremental property tax revenues and the City's General Fund loan to the Agency in the form of parking lease payments. Since the Agency has preexisting debt obligations that require tax increment financing, the City General Fund makes advances to the Agency to cover the Agency's cash shortgage in projects and operations.

Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of Agency capital projects.

Balance Sheet
Governmental Funds
June 30, 2010

	Major Funds		
	General Fund	**Low and Moderate Income Housing Special Revenue**	**Debt Service**
Assets:			
Cash and Investments Held by Agency	$ 2,753,760	$ -	$ -
Cash and Investments Held by Fiscal Agent	-	-	1,928,741
Receivables	1,077	-	-
Due From Other Funds	-	12,633,046	-
Total Assets	$ 2,754,837	$ 12,633,046	$ 1,928,741
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable and Accrued Liabilities	$ 1,260,837	$ -	$ -
Due to Other Funds	12,633,046	-	-
Advances from Other City Funds	-	-	64,671,255
Total Liabilities	13,893,883	-	64,671,255
Fund Balances:			
Restricted	2,184,098	12,633,046	1,928,741
Unassigned	(13,323,144)	-	(64,671,255)
Total Fund Balances	(11,139,046)	12,633,046	(62,742,514)
Total Liabilities and Fund Balances	$ 2,754,837	$ 12,633,046	$ 1,928,741

See Accompanying Notes to Basic Financial Statements

Major Funds	
Capital Projects	Total Governmental Funds
$ -	$ 2,753,760
-	1,928,741
	1,077
-	12,633,046
$ -	$ 17,316,624
	$ 1,260,837
-	12,633,046
-	64,671,255
-	78,565,138
-	16,745,885
-	(77,994,399)
-	(61,248,514)
$ -	$ 17,316,624

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
Year Ended June 30, 2010

Total Fund Balances - Total Governmental Funds	$	(61,248,514)
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. This amount represents capital assets net of accumulated depreciation.		13,959,752
Town Center Pollution Remediaton Obligations are not recognized in the fund financial statements on the modified accrual basis of accounting.		(1,714,082)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.		(245,007)
Long-term liabilities applicable to governmental activities are not reported as fund liabilities. All liabilities are reported in the statement of net assets.		
Bonds payable, par		(17,660,000)
Unamortized discount on bonds		44,276
Unamortized deferred charges - bond issuance cost		392,073
Net Assets (Deficit) of Governmental Activities	$	(66,471,502)

See Accompanying Notes to Basic Financial Statements

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	Major Funds		
	General Fund	Low and Moderate Income Housing Special Revenue	Debt Service
Revenues:			
Property Taxes	$ 7,706,864	$ -	$ -
Intergovernmental Revenues	-	-	-
Investment Earnings	-	-	-
Total Revenues	7,706,864	-	-
Expenditures:			
Current:			
Planning and Management	295,574	-	-
Community Development	241,401	-	-
Environmental Management	3,416,492	-	-
Transportation		-	-
Debt Service:			
Principal Retirement	-	-	980,000
Interest	-	-	5,968,763
Fiscal Charges	-	-	7,655
Total Expenditures	3,953,467	-	6,956,418
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,753,397	-	(6,956,418)
Other Financing Sources (Uses):			
Transfers In	-	1,965,833	6,273,884
Transfers Out	(8,239,717)	-	-
Total Other Financing Sources (Uses)	(8,239,717)	1,965,833	6,273,884
Net Change in Fund Balances	(4,486,320)	1,965,833	(682,534)
Fund Balances (Deficits) - Beginning of Year	(6,652,726)	10,667,213	(62,059,980)
Fund Balances (Deficits) - End of Year	$ (11,139,046)	$ 12,633,046	$ (62,742,514)

Continued

See Accompanying Notes to Basic Financial Statements

Major Funds	
Capital Projects	Total Governmental Funds
$ -	$ 7,706,864
	-
-	-
-	7,706,864
-	295,574
-	241,401
-	3,416,492
670,922	670,922
-	980,000
-	5,968,763
-	7,655
670,922	11,580,807
(670,922)	(3,873,943)
	8,239,717
-	(8,239,717)
-	-
(670,922)	(3,873,943)
670,922	(57,374,571)
$ -	$ (61,248,514)

Concluded

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	$	(3,873,943)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Repayment of the principal of long-term debt uses financial resources of governmental funds. The repayment has no effect on the statement of activities.		980,000
This amount represents Town Center Pollution Remediaton Obligations that were expended in the current-year fund financial statements but had been recognized in prior-year government-wide financial statements on the accrual basis.		3,416,492
Estimated Town Center Pollution Remediaton Obligations (on the accrual basis of accounting) were $6,023,053 at last year end. During this year, expenditures of $3,416,492 recorded on the fund financials were applied to reduce the obligations. In addition, the 2010 Modification Agreement has reduced the City's share of environmental costs. In order to present the new estimated obligations at $1,714,082, a change in accounting estimate of $892,479 is needed.		892,479
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued. These amounts are deferred and amortized in the statement of activities.		
This amount represents amortization of discount on bonds.		(3,661)
This amount represents amortization of deferred charge on bonds.		(32,421)
Some expenses reported in the Government-Wide Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in Governmental Funds. This amount represents the change in accrued interest from prior year.		10,880
Change in Net Assets of Governmental Activities	$	1,389,826

See Accompanying Notes to Basic Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The component unit financial statements of the Redevelopment Agency (Agency) of the City of Sunnyvale (City), California, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

Redevelopment Agency of the City of Sunnyvale

The Agency was established under the provisions of the community redevelopment laws of the State of California by a resolution of the City Council adopted on November 19, 1957. In this resolution, the City Council declared itself to be the governing members of the Agency.

Because City Council members serve as the governing members of the Agency, management activities of the Agency are conducted by City staff, and the Agency is dependent upon the City for fiscal operations including preparation of the annual financial report, the Agency is considered a component unit of the City and blended into the City's Comprehensive Annual Financial Report.

B. Basis of Accounting and Measurement Focus

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

Government-Wide Financial Statements

The Agency government-wide financial statements include a statement of net assets and a statement of activities and changes in net assets. These statements present summaries of governmental activities for the Agency. The Agency has no business-type activities.

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

The government-wide financial statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net assets. The statement of activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as revenues for the Agency are general revenues such as property tax increment and interest revenues. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the statement of activities and changes in net assets, interfund transfers have been eliminated.

The Agency applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) to the governmental activities.

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all governmental funds as major funds because the Agency believes the financial position and activities of those funds are significant to the Agency as a whole.

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (60 days after year end for property tax and non-grant revenues, and 90 days for grant revenues) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax increment and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach.

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

D. Cash, Deposits and Investments

The Agency pools unrestricted cash resources of its various funds with the City to facilitate cash management. No interest earnings from the City's cash and investment pool are apportioned to the Agency since the Agency, because of debt obligations, relies on the City to supplement its cash needs. Interest income from cash and investments with fiscal agents is credited directly to the related fund of the Agency.

E. Property Tax Revenue

California State Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1 percent of its assessed value unless an additional amount has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be increased by no more than 2 percent per year unless there is new construction on the property or the property is sold or transferred. The California Legislature has determined the method of distribution of receipts from the 1 percent tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties, bills, and collects property taxes for the Agency. Secured and unsecured taxes are levied on the preceding January 1. Secured tax is due in two installments on November 1 and February 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payments. Unsecured tax is due as of the January 1 lien date and becomes delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured tax. If unsecured tax remains unpaid on October 31, an additional 1.5% attaches to it on the first day of each month until paid. The term "unsecured" refers to taxes on property not secured by liens on real property.

Property tax revenues are recorded when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

The Agency's property taxes consist of tax increment revenue. This revenue is calculated by property taxes generated by the Agency through development activities. At the time a development project is undertaken the base property tax levy on the property is frozen and the full amount of incremental taxes due to increased value of the property becomes the Agency's revenue. The Agency's tax increment revenue is based on development activity in the project area, which is the downtown area of the City.

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Interfund Balances

Outstanding balances between the Agency's funds are reported as due to and due from other funds.

G. Advances from Other City Funds

Outstanding balances owed to the City by the Agency are reported as advances from other City funds.

H. Capital Assets

The Agency's capital assets, which include land only at the end of fiscal year 2010, are reported in the governmental activities in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost was not available.

I. Long-term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the governmental activities.

Fund Financial Statements

The fund financial statements do not present long-term debt which is shown in the reconciliation of the governmental funds balance sheet to the government-wide statement of net assets.

J. Net Assets and Fund Balance

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted**–** This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted **–** This amount includes all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Financial Statements

In the fund financial statements, the components of fund balances reflect policies and procedures established by actions of the City Council and its designated officials.

The following fund balance classifications are applicable to the Agency's year-end financial positions:

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation.

The *unassigned* fund balance represents net resources that have not been restricted to specific purposes.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenditures and expenses. Actual results could be different from these estimates and assumptions.

2. CASH AND INVESTMENTS

The Agency pools its cash with the City. Since City staff invests all City funds, including those of the RDA, the RDA adopts the City's Investment Policy. At June 30, 2009, the Agency had the following cash and investment balances:

Cash and Investments Held by the Agency	$	2,753,760
Cash and Investments Held by Fiscal Agent		1,928,741
Total Cash and Investments	$	4,682,501

Refer to the City's Comprehensive Annual Financial Report for detailed disclosure on cash and investments.

3. INTERFUND RECEIVABLES/PAYABLES

Fund Financial Statements

Due to/from Other Funds

At June 30, 2010, the Agency General Fund owed the Low and Moderate Income Housing Special Revenue Fund $12,633,046. This amount represents the 20% of redevelopment property tax increment revenues that are set aside for low and moderate income housing by State mandate. The Agency cannot provide funding due to pre-existing indebtedness. State law allows the Agency to continue collecting tax increment after the Project time and increment limits are reached to fund its housing liability.

4. ADVANCES FROM CITY GENERAL FUND

The Redevelopment Agency (as lessor) entered into a lease agreement with the City (as lessee) on May 1, 1977, for a two-level parking structure at the Sunnyvale Town Center Mall. (In 2005, the leased asset, a two-level parking structure, was demolished and two surface parking lots with improvements were substituted as the leased assets for the 1998 Parking Facility Certificates of Participation). The lease, as amended, requires the City to pay to the Agency base rental payments ranging from $1,131,103 to $1,281,250 on October 1 and April 1 of each year until October 1, 2022. In addition to base rental payments, the City is also obligated to pay all taxes, assessments, administrative costs, certain insurance premiums, certain maintenance costs, and all other such costs in order to maintain the existence of the parking structure or to comply with the terms of the related bond resolutions. During the fiscal year ended June 30, 2010, the City made $1,210,892 in base rental payments to the Agency. The Agency uses these funds to make the annual debt service payments on the 1998 Parking Facility, Series A, Certificates of Participation.

According to the terms of the First Amended Repayment Contract signed in 1977, the Agency made the commitment to repay the City for costs advanced on its behalf and base rentals plus 8% interest on the unpaid balance. The funds needed to repay the City are generated from tax increment revenues. The Agency’s first obligation is to pay the Central Core bonded debt service. The remaining tax increment revenues determine each year's repayment to the General Fund.

During the fiscal year ended June 30, 2002, the City's General Fund advanced an additional $1,500,000 to the Agency to fund downtown public improvements. This advance bears interest at 6% and repayment is deferred until all other City advances to the Agency are paid off.

Total interest accrued on unpaid City advances for the fiscal year amounted to $5,131,334 which includes $4,987,888 accrued at 8% on unpaid City advances based on the first amended repayment contract and $143,446 accrued at 6% on the $1.5 million advance for the downtown improvement.

4. ADVANCES FROM CITY GENERAL FUND, Continued

At June 30, 2010, outstanding project loan balance under the 1977 Repayment Agreement was $34,826,314; outstanding administrative loan balance was $27,310,723; outstanding loan balance for downtown public improvements was $2,534,218. The total loan balance was $64,671,255.

The following is a summary of transactions during the fiscal year ended June 30, 2010:

Advances from Other City Funds, July 1, 2009	$ 63,989,598
Additional Advances from City for:	
Base Rental Payments	1,210,892
Operations, Projects and Debt Services	1,439,759
Repayments to City from:	
Tax Increment Revenue after Central Core Debt Service	(7,100,328)
Interest Accrued on Unpaid City Advances	5,131,334
Advances from Other City Funds, June 30, 2010	$ 64,671,255

5. CAPITAL ASSETS

Government-Wide Financial Statements

At June 30, 2010, the Agency's capital assets consisted of the following:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Land	$ 13,959,752	$ -	$ -	$ 13,959,752
Total Capital Assets	$ 13,959,752	$ -	$ -	$ 13,959,752

Funds Financial Statements

The fund financial statements do not present general government capital assets that are shown in the reconciliation of the governmental funds balance sheet to the government-wide statement of net assets.

6. LONG-TERM DEBT

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2010:

Description	Beginning Balance July 1, 2009	Additions	Reductions	Bond Amortization	Ending Balance June 30, 2010	Amounts Due Within One Year	Amount Due in More than One Year
Governmental Activities:							
Bonds Payable:							
Certificates of Participation:							
1998 Parking Facility Series A	$ 12,240,000	-	$ (620,000)	-	$ 11,620,000	$ 645,000	$ 10,975,000
Tax Allocation Bonds							
Central Core Series 2003	6,352,063	-	(360,000)	3,661	5,995,724	370,000	5,625,724
Town Center Pollution Remediation Obligations	6,023,053	-	(4,308,971)		1,714,082	690,015	1,024,067
Total Governmental Activities	$ 24,615,116	$ -	$ (5,288,971)	$ 3,661	$ 19,329,806	$ 1,705,015	$ 17,624,791

A. Bonds Payable

Tax Allocation Bonds

$7,960,000 Central Core Redevelopment Project Tax Allocation Refunding Bonds, Series 2003
Due in original annual installments of $230,000-$585,000 through August 1, 2022, interest at 2.00-4.50%, repayments made from incremental property taxes are recorded in the Redevelopment Agency Special Revenue Fund. The bonds are presented net of unamortized discount of $44,276. The bonds also had deferred charges of $606,763, which were recorded as an asset and amortized over the life of the bonds on a straight-line basis. The balance of the deferred charges at June 30, 2010 was $392,073.

The debt service requirements for the bonds at June 30, 2010 were as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 370,000	$ 236,486	$ 606,486
2012	385,000	224,776	609,776
2013	395,000	211,704	606,704
2014	405,000	197,451	602,451
2015	425,000	181,876	606,876
2016-2020	2,380,000	633,896	3,013,896
2021-2023	1,680,000	115,385	1,795,385
	6,040,000	1,801,574	7,841,574
Less Unamortized Discount	(44,276)	-	(44,276)
Total	$ 5,995,724	$ 1,801,574	$ 7,797,298

6. LONG-TERM DEBT, Continued

Certificates of Participation

$17,525,000 1998 Parking Facility, Series A, Certificates of Participation

Due in original annual installments of $315,000-$1,250,000 through October 1, 2022, interest at 3.65%-5.00%, repayments are made from base rental payments from the City General Fund.

The debt service requirements for the Certificates of Participation at June 30, 2010 were as follows:

Year Ending June 30,	Principal	Interest	Total
2011	645,000	561,475	1,206,475
2012	675,000	530,118	1,205,118
2013	710,000	496,523	1,206,523
2014	745,000	460,689	1,205,689
2015	780,000	422,750	1,202,750
2016-2020	4,570,000	1,471,000	6,041,000
2021-2023	3,495,000	269,875	3,764,875
Total	$ 11,620,000	$ 4,212,430	$ 15,832,430

B. Town Center Pollution Remediation Obligations

Pursuant to the Amended and Restated Disposition and Development and Owner Participation Agreement (ARDDOPA) and the successor 2010 Amended Disposition and Development and Owner Participation Agreement (ADDOPA), the Redevelopment Agency (Agency) and Downtown Sunnyvale Mixed Use, LLC (Developer) and successor in interest (the Receiver) agreed to cooperate and share the costs in the investigation of, and response to, environmental conditions associated with the Town Center Project (Project) under the oversight of an appropriate regulatory agency. The Agency and the Developer also agreed to cooperate in any efforts by either party to seek and obtain suitable liability protection, immunities and/or other assurances from the oversight agency regarding those environmental conditions pursuant to the Polanco Redevelopment Act, enacted by the State to encourage redevelopment of sites impacted by the presence of hazardous substances and to provide incentives in the form of state immunities if completed.

6. LONG-TERM DEBT, Continued

During the period of due diligence by the Developer, it became known that soil and groundwater contamination does exist and emanate from the Project area. The contaminants, predominantly PCB, include hazardous materials thought to be released by former Downtown dry cleaning establishments, auto repair enterprises, gas stations, and other uses that use, store, or dispose of hazardous materials and wastes.

On July 17, 2007, the Agency adopted a resolution approving and authorizing an agreement with the San Francisco Bay Regional Water Quality Control Board as the oversight agency to facilitate investigation of, and response to, environmental conditions associated with the Project.

The ARDDOPA provides tiered cost sharing with the Developer; the Agency must pay 50% of the first $2 million, 65% of the next $1 million, 75% of the next $1 million and 85% of cost above $4 million. The Agency's estimate was that, by fiscal year 2010 at the completion of the Project, Agency's share of the pollution remediation outlays may reach $9 million in total. These costs include expenses incurred for legal and environmental consulting, reimbursements to the oversight agency, and costs related to remediation implementation and post-remediation monitoring.

The Developer halted construction in early 2009 after failing to secure further funding to complete the Project. The Project was about forty percent completed at the time. Meanwhile, a dispute existed between the Agency and the Developer with respect to the amount and respective obligations related to certain environmental costs under the ARDDOPA. The amount in dispute was $4,836,844, requested by the Developer for reimbursing costs incurred during the period from April 2008 to March 2009.

Despite the problem with this Project, a newly constructed modern Target store (a separate project, with street infrastructure to be installed by the Town Center Project Developer) was scheduled to open on the date of November 15, 2009. In order to effectuate the planned store opening, the Target site improvement work had to be completed by October 8, 2009.

On July 17, 2009, the Agency's obligations to the Developer with respect to the aforementioned disputed amount were discharged and replaced by a new *Infrastructure Improvement Agreement*. The Agency wired $1,107,118 immediately to reimburse the Developer for prior environmental costs; that amount was accrued to fiscal year 2009 in the fund financial statements. The Agency also committed $3,729,726, to be paid to the contractor only upon completion of certain site improvements that were the obligation of the Developer under the terms of the IIA, representing the Agency's share of environmental costs otherwise owed. At year end, the balance of the committed funds was $470,016.

In September 2009, after the Developer's default on a $108 million loan in June, 2009, the lender Wachovia/Wells Fargo Bank began foreclosure proceedings on the Town Center development project (the Project). In an October 5 court action, the Santa Clara County Superior Court appointed Gerald Hunt and Quattro Realty Group as the Receiver of the Project. The Receiver's responsibilities include devising a plan to protect and preserve the value of the Project site. During this time, Wachovia/Wells Fargo Bank has the power to authorize funds for improvements needed to secure the site.

6. LONG-TERM DEBT, Continued

Since December 2009, the Receiver and the Agency have been negotiating modifications to the ARDDOPA and those modifications have resulted in the 2010 Modification Agreement (MA), dated May 14, 2010. The Agency's share of total environmental costs, beginning 2010, has been changed to 50% from the previous 85% in the top tier. This change is documented in the 2010 ADDOPA, dated August 2, 2010.

The Agency's total estimated pollution remediation obligation has been revised to be $8,128,811, measured at the current value of expected outlays. This amount is the sum of $7,828,811 (Agency's estimated share of total environmental costs with the Developer) and $300,000 (Agency's own personnel and legal costs). The shared environmental costs include commercially reasonable costs incurred by the Developer and the Agency, including mainly oversight fees charged by the environmental oversight agency, hazardous waste generator fees or taxes imposed by statute, hazardous waste transportation and disposal costs, related environmental fees charged by attorneys and consultants, costs to install, operate, and maintain soil, soil vapor and groundwater remedial systems, and costs related to the closure of remedial facilities.

During fiscal year 2010, the Agency's Special Revenue Fund reported environmental expenditures of $3,416,492, incurred according to the aforementioned IIA to discharge the Agency from certain prior pollution remediation obligations. From fiscal years 2008 through 2010, the Agency's cumulative environmental expenditures amounted to $6,414,729. At the end of fiscal year 2010, the Agency estimated remaining future environmental outlays at $1,714,082, out of the revised total of $8,128,811.

Although a great deal of work has already been accomplished to characterize the extent of the pollutants and to treat PCB, the work is subject to the approval by the Regional Water Quality Board, and subsequent proof of effective remediation.

The estimated pollution remediation obligations may change with new information, price increases or reductions, technology, or changes in applicable laws and regulations.

The remediation project is budgeted under the Redevelopment Agency General Fund. The City General Fund may need to advance additional funds to the Agency since the Agency has committed tax increments to preexisting obligations and will need the City General Fund resources to fund the remediation project.

7. SELF-INSURANCE AND CONTINGENT LIABILITIES

The Agency is covered under the City's self-insurance plan and various insurance policies. The City has $40,000,000 in excess general liability coverage, subject to $500,000 self-insured retention (SIR) for each occurrence, through the California Joint Powers Risk Management Authority (CJPRMA), a risk-sharing pool. The City's excess workers' compensation coverage is provided through the California State Association of Counties Excess Insurance Authority (CSAC-EIA), with statutory limits subject to a $500,000 self-insured retention. Employer's liability limit is $5,000,000. The excess workers' compensation coverage is structured in layers as described below:

- $500,000 - $1,000,000. Coverage provided by CSAC-EIA (30% quota share) and American Safety Casualty Insurance Company (70% quota share)
- $1,000,001 - $5,000,000. Coverage provided by CSAC-EIA.
- $5,000,001 - $50,000,000. Coverage provided by ACE American Insurance Company
- $50,000,001 - Statutory. Coverage provided by National Union Fire Insurance Co. of Pittsburgh, PA (AIG)

8. INTERFUND TRANSFERS

A transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds and another fund is responsible for the actual disbursement. Examples include transfer of funds from the general fund or a special revenue fund to a debt service fund to support principal and interest payments and transfer to meet the State mandated set-aside of 20% of property tax increment for low and moderate income housing. Listed below are interfund transfers for the year ended June 30, 2010:

		Transfers In	
		Governmental Funds	
		Major Funds	
Transfers Out	Special Revenue	Debt Service	**Totals**
Governmental Funds			
Major Funds:			
General Fund	$ 1,965,833	$ 6,273,884	$ 8,239,717
Totals	$ 1,965,833	$ 6,273,884	$ 8,239,717

9. CLASSIFICATION OF NET ASSETS

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category represents the net carrying value of all capital assets, reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction or improvement of these assets.

Restricted– This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted– This category represents the "residual" component of net assets. It consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

	Major Funds		
	General Fund	Low and Moderate Income Housing	Debt Service
Fund Balances:			
Restricted for:			
Infrastructure Improvement Agreement	$ 470,016	$ -	$ -
Town Center Pollution Remediation	1,714,082	-	-
Low and Moderate Income Housing Fund	-	12,633,046	-
Debt Service Reserve	-	-	1,928,741
Total Restricted	2,184,098	12,633,046	1,928,741
Unassigned	(13,323,144)	-	(64,671,255)
Total	$ (11,139,046)	$ 12,633,046	$ (62,742,514)

Fund Balance Classifications:

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, or contributors), laws and regulations of other governments, or agreement reached with third parties.

For the Agency's General Fund and Debt Service Fund, the *unassigned* fund balance represents the residual classification, representing fund balance that has not been identified with specific purposes.

10. DEFICIT NET ASSETS AND FUND BALANCE

Government-Wide Financial Statements

The governmental activities in the government-wide financial statements had deficit net assets of $(66,471,502). These deficit net assets are primarily due to liabilities incurred by these activities from advances made by the City. These advances were used to either acquire or improve capital assets located within the redevelopment project area. Additionally, the accrual of the estimated outlay for pollution remediation obligations also contributed to the deficit.

Fund Financial Statements

The following funds had deficit fund balances as of June 30, 2010:

General Fund	$	(11,139,046)
Debt Service Fund		(62,742,514)

The deficit fund balance in the Agency's General Fund has been caused by the State mandated 20% of tax increment revenues set aside for low and moderate income housing. As in prior years, since the Agency General Fund did not have sufficient funds for the required transfer to the Low and Moderate Income Housing Special Revenue Fund, a liability (due to other funds) was recorded in the Agency General Fund, with a corresponding receivable (due from other funds) in the Low and Moderate Income Housing Special Revenue Fund. The deficit is expected to be funded by future property tax increment.

Long-term advances from the City to the Agency has contributed to the deficit fund balance in the Agency's Debt Service Fund. The deficit is expected to be funded by future property tax increment.

11. PLEDGED REVENUES

Tax Increment Revenues Pledged

The amount of $7,706,864, received as net tax increment revenue after paying the County administrative charges of $98,192 and the Supplemental Educational Revenue Augmentation Fund (SERAF) of $2,024,110, was reported in the Redevelopment Agency General Fund this year. All future tax increment revenues are pledged for purposes as stated below.

Under California law, the Redevelopment Agency has the power to utilize tax increment financing to borrow funds for land acquisition and public infrastructure improvements in the redevelopment project area. In 1977 the Redevelopment Agency issued $16,800,000 of tax allocation bonds for the above purposes. Those bonds were twice refinanced. The current outstanding issue, Central Core Redevelopment Project Tax Allocation Refunding Bonds, Series 2003, has remaining principal and interest of $7,841,574. The annual debt service, ranging from $606,486 in fiscal year 2011 to $598,163 in the final fiscal year 2023, is fully covered by current tax increment.

11. PLEDGED REVENUES, Continued

Also in 1977, the Agency sold lease revenue bonds totaling $22,300,000 to construct a parking structure in the project area. Those bonds were twice refinanced. The current outstanding issue, Parking Facility Certificates of Participation, 1998 Series A, has remaining principal and interest of $15,832,430. The annual debt service, ranging from $1,206,475 in fiscal year 2011 to $1,281,250 in the final fiscal year 2023, is fully covered by advances from the City General Fund in the form of base rental payments. Under the 1977 First Amended Repayment Contract, the Agency is to repay the City General Fund for these advances (the "1977 Loan") after paying for debt service of the Tax Allocation Bonds. Since 1986, the City General Fund has also provided additional loans (the "1986 Loan") to the Agency's for certain administrative costs and project expenditures. The Agency has not been able to produce sufficient tax increment revenues to significantly reduce the balance of City General Fund advances.

In 1986, the State Legislature imposed a new statutory obligation on the Agency to set aside an amount equal to 20% of the gross tax increment revenues generated each year in the project area. Due to preexisting debt obligations, the Agency has to adopt, on a yearly basis, a Housing Fund Deficit Reduction Plan, to defer payments into the Agency's Low and Moderate Income Housing Fund until future years after the final maturity of pre-existing obligations giving rise to such deficit. State law allows the Agency to continue collecting tax increment after the redevelopment project time and tax increment limits are reached so that the housing deficit can be eliminated.

Since the inception of the Redevelopment Project, the State has enacted several laws that placed revenue restrictions on redevelopment agencies. These include capping the time period for collection of tax increment for the redevelopment project area. For Sunnyvale's project area, the termination date was extended to November 2028 in fiscal year 2006 per SB1096 for compensation of the Agency's payments made to the County Supplemental Educational Revenue Augmentation Fund (ERAF) in fiscal year 2005 and fiscal year 2006.

More important was the establishment of revenue limits for redevelopment agencies. The revenue limit/increment cap for the Sunnyvale Redevelopment Agency as originally established was $118 million. In fiscal year 2006 the Agency amended its Redevelopment Plan to increase the tax increment cap to $600 million.

It should be noted that when tax increment received by the Agency reaches the original $118 million cap, certain pass through payments to other taxing agencies will be required. At June 30, 2010, cumulative tax increment received, adjusted by approximately $1 million for which valuation is currently under appeal, amounted to $83,589,867.

Required Supplementary Information

Required Supplementary Information
Fiscal Year Ended June 30, 2010

BUDGETARY POLICY AND CONTROL

Budgetary Comparison Schedule - General Fund
Fiscal Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget- Positive
	Original	**Final**	**Actual**	**(Negative)**
Budgetary Fund Balance, July 1, 2009	$ (6,652,726)	$ (6,652,726)	$ (6,652,726)	$ -
Resources (Inflows):				
Property Taxes	6,395,478	6,949,996	7,706,864	756,868
Total Resources	6,395,478	6,949,996	7,706,864	756,868
Charges to Appropriations (Outflows)				
Planning and Management	351,930	630,999	295,574	335,425
Community Development	150,049	150,049	241,401	(91,352)
Environmental Management	1,000,000	6,001,763	3,416,492	2,585,271
Transfers Out to Other Agency Funds	5,178,675	5,535,661	8,239,717	(2,704,056)
Total Charges to Appropriations	6,680,654	12,318,472	12,193,184	125,288
Excess of Revenues Over (Under) Charges to Appropriations	(285,176)	(5,368,476)	(4,486,320)	882,156
Budgetary Fund Balance, June 30, 2010	$ (6,937,902)	$ (12,021,202)	$ (11,139,046)	$ 882,156

Budgetary Comparison Schedule – Low and Moderate Income Housing Special Revenue Fund
Fiscal Year Ended June 30, 2009

	Budgeted Amounts			Variance with Final Budget- Positive
	Original	**Final**	**Actual**	**(Negative)**
Budgetary Fund Balance, July 1, 2009	$ 10,667,213	$ 10,667,213	$ 10,667,213	$ -
Resources (Inflows):				
Transfers In	1,197,865	1,479,411	1,965,833	486,422
Total Resources	1,197,865	1,479,411	1,965,833	486,422
Budgetary Fund Balance, June 30, 2010	$ 11,865,078	$ 12,146,624	$ 12,633,046	$ 486,422

Required Supplementary Information, Continued
Fiscal Year Ended June 30, 2010

BUDGETARY POLICY AND CONTROL, Continued

Budgetary Comparison Schedule
Note to Required Supplementary Information

Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund	Low and Moderate Income Housing Fund
Sources/Inflow of Resources:		
Actual amounts (budgetary basis) of "total resources" from the budgetary comparison schedule	$ 7,706,864	$ 1,965,833
Differences - Budget to GAAP		
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	-	(1,965,833)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 7,706,864	$ -
Uses/Outflows of Resources		
Actual amounts (budgetary basis) of "total charges to appropriations" from the budgetary comparison schedule	$ 12,193,184	$ -
Differences - Budget to GAAP		
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(8,239,717)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 3,953,467	$ -

Budgetary Information

The Agency's budget is adopted at the same time and as part of the City's budget. The City's approach to budget preparation is a central part of the City's Planning and Management System (PAMS). Key elements of the PAMS framework are:

- Long-range strategic planning (the General Plan Elements and Sub-Elements),
- Long-term financial planing (the Ten-Year Resource Allocation Plan, which includes projections over a 20-year time frame),
- Short-term allocation of resources (the two-year action budget),
- The Council Study Issues process,
- Performance "contracts" for Management, and
- Annual performance reporting and evaluation.

Required Supplementary Information, Continued
Fiscal Year Ended June 30, 2010

BUDGETARY POLICY AND CONTROL, Continued

The City in establishing the budgetary data reflected in its financial statements follows the procedures listed below:

- During January of each year, a public hearing (not legally required) is held by the City Council to obtain budgetary comments from the public early in the budget process.

- During May of each year, the City Manager submits to the City Council, a recommended budget for the fiscal year commencing July 1. The City Charter requires that the City Council receive the City Manager's budget no later than May 25.

- The City Manager's budget includes budgets for equipment, operating costs, debt service costs, and capital and special projects for the ensuing year.

- During May of each year the City Council holds a workshop on the budget. The workshop is open to the public.

- During June of each year the City Council holds a public hearing, legally required by the City Charter, where the public may submit written or oral comments regarding the entire budget or portions thereof.

- Prior to June 30 of each year, the budget as modified by the City Council, is legally enacted by adoption of a budget resolution. At June 30, 2010, the legal level of control was placed by the City Council at the departmental and fund level, and at the program level above the specified reappropriation thresholds. Appropriations for operating expenditures lapse at year-end to the extent they have not been expended.

- The City Manager is authorized to transfer budgeted amounts within departments. Any revisions that affect a fund's reserve account must be approved by the City Council.

- Budgets are legally adopted for all governmental funds.

  Formal budgets are employed as a management control device for all funds in which a budget has been adopted. They serve as the primary means of spending control for the general fund, special revenue funds, debt service funds and capital project funds.

- Budgeted amounts reported are those as originally adopted June 29, 2010 plus all amendments approved during the year by the City Council. Individual amendments were not material in relation to the original amounts budgeted. The City's policy is to reappropriate uncompleted capital projects into the next fiscal year.

BUDGETARY POLICY AND CONTROL, Continued

Budgetary Highlights

The Agency General Fund budgeted tax increment revenues were revised from $6,395,478 to $6,949,996 due to redevelopment activity in the project area. Final appropriations were revised to include unanticipated legal costs and project costs related to the Infrastructure Improvement Agreement. There were no other budget modifications.

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