

# Redevelopment Agency of the City of Redwood City

Redwood City, California

*Basic Financial Statements  
and Independent Auditors' Reports*

*For the year ended June 30, 2007*

**Redevelopment Agency of the City of Redwood City**  
**Basic Financial Statements**  
**For the year ended June 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
of the Redevelopment Agency of the City of Redwood City  
Redwood City, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Redwood City (Agency), a component unit of the City of Redwood City, as of and for the year ended June 30, 2007, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in 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 examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net assets of the Agency as of June 30, 2007, and results of its activities and changes in net assets for the year then ended in conformity with generally accepted accounting principles in the United States.

The accompanying Required Supplementary Information, such as management's discussion and analysis is not a required part of the basic 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the foregoing table of contents as Supplemental Information are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Agency. This additional information is the responsibility of the Agency's management. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Caporicci & Larson*

Oakland, California  
October 19, 2007

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# **Redevelopment Agency of the City of Redwood City**

## **Management's Discussion and Analysis**

### **For the fiscal year ended June 30, 2007**

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This section of the Redevelopment Agency's annual financial report presents a narrow overview and analysis of the Redevelopment Agency's financial activities for the fiscal year ended June 30, 2007. Please read this overview in conjunction with your reading of the accompanying Basic Component Unit Financial statements.

#### **THE PURPOSE OF THE AGENCY**

The Agency is a component unit of the City of Redwood City; it is controlled by the City, which appoints the Agency's Board of Directors. City employees perform all the duties and functions required of the Agency.

The Agency's purpose under California law is to eliminate urban blight in the City of Redwood City; it is given certain powers under the law to assist it in that endeavor. The Agency may condemn property under certain circumstances and only to the extent the City may condemn property as prescribed by the law, and it may incur indebtedness to finance redevelopment of property. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called the Base Year). The increases are called Property Tax Increments. One-fifth of the property tax increments received must be used to increase the supply of low and moderate income housing.

#### **FINANCIAL 2007 FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

- The Agency's net assets increased \$3.1 million in fiscal year 2006-07, after \$2.7 million decrease in the preceding year. At June 30, 2007, the Agency's net assets were \$10.582 million.
- Total Agency revenues, including transfers and contributions, were \$10.688 million, an increase of \$4.562 million, and expenses were \$7.6 million, representing a decrease of \$1.2 million over the prior year.
- Redevelopment Agency Fund revenues and other financing sources increased \$663 thousand and expenditures and other financing uses decreased \$10.6 million. Fund balance decreased \$2.9 million.
- Low and Moderate Income Housing Fund revenues and other financing sources of \$3.2 million were \$1.1 million more than the prior year, while expenditures and other financing uses of \$1.1 million decreased \$1 million from the prior year, and ending fund balance increased \$2.1 million.

#### **The Basic Financial Statements**

The Basic Financial Statements comprise the Agency-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Agency's financial activities and financial position.

# Redevelopment Agency of the City of Redwood City

## Management's Discussion and Analysis, Continued

### For the fiscal year ended June 30, 2007

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#### FINANCIAL 2007 FINANCIAL HIGHLIGHTS, Continued

##### The Basic Financial Statements, Continued

The Agency-wide Financial Statements provide a longer-term view of the Agency's activities as a whole and include the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the Agency's revenues and all its expenses, also on the full accrual basis, with the Emphasis on measuring net revenues or expenses of each of the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the Agency's activities are grouped into Governmental Activities.

The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's four funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major funds account for the major financial activities of the Agency and are presented individually, while the activities of any Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The Agency reports all five of its funds as Major Funds.

##### *The Agency-wide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental activities** – All of the Agency's basic services are considered to be governmental activities, including intergovernmental school and special district pass-throughs and community development and engineering. These services are supported by the general Agency revenues such as property tax increments.

Agency-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency as a whole.

##### *Fund Financial Statements*

The Fund Financial Statements provide detailed information about each of the Agency's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established under GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the Agency for the year, and may change from year to year as a result of changes in the pattern of Agency's activities.

**Redevelopment Agency of the City of Redwood City  
Management's Discussion and Analysis, Continued  
For the fiscal year ended June 30, 2007**

**FINANCIAL 2007 FINANCIAL HIGHLIGHTS, Continued**

**The Basic Financial Statements, Continued**

*Fund Financial Statements, Continued*

All the Agency's Funds are Governmental Funds; financial statements for these Funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the Redevelopment Agency Fund, the Low and Moderate Housing Fund, the 1997 Tax Allocation Refunding Bonds Fund and the 2003 Tax Allocation Bonds Fund.

**FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE**

This analysis focuses on the net assets and changes in net assets of the Agency's Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

**Redevelopment Agency's Net Assets (in Millions)**

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Cash and investments	\$10.071	\$12.417	-18.893%
Other assets	10.746	9.683	10.978%
Capital assets	41.404	36.754	12.652%
Total assets	<u>62.221</u>	<u>58.854</u>	<u>5.721%</u>
Long-term debt outstanding	46.132	46.076	0.122%
Other liabilities	5.507	5.283	4.240%
Total liabilities	<u>51.639</u>	<u>51.359</u>	<u>0.545%</u>
Net assets:			
Invested in capital assets, net of debt	3.144	0.099	3075.758%
Restricted	14.521	16.005	-9.272%
Unrestricted			
Other unrestricted net assets	<u>(7.083)</u>	<u>(8.609)</u>	<u>-17.726%</u>
Total net assets	<u><u>\$10.582</u></u>	<u><u>\$7.495</u></u>	<u><u>41.187%</u></u>

**Redevelopment Agency of the City of Redwood City  
Management's Discussion and Analysis, Continued  
For the fiscal year ended June 30, 2007**

**FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE, Continued**

The Agency's cash and investments declined 18.9% as the Agency expended cash on the Downtown revitalization related projects which also increased capital assets as most of these projects qualified as capital. The Agency's net assets from governmental activities increased 41% to net assets of \$10.582 million in 2007 from net assets of \$7.495 million in 2006. This increase resulted primarily from the excess of operating tax increment revenue over the operating expenses as more tax increment came in than anticipated and operating expenses were less than planned.

**Changes in Redevelopment Agency's Net Assets (in Millions)**

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
<b>Revenues</b>			
General revenues, Transfers and Contributions:			
Tax increments	\$9.529	\$8.374	13.793%
Investment earnings	0.576	0.745	-22.685%
Other	0.056	0.136	-58.824%
Transfer to (from) other City funds	0.527	(3.129)	116.842%
Total revenues	<u>10.688</u>	<u>6.126</u>	<u>74.469%</u>
<b>Expenses</b>			
Community development	5.297	6.507	-18.595%
Interest on long term debt	2.304	2.293	0.480%
Total expenses	<u>7.601</u>	<u>8.800</u>	<u>-13.625%</u>
Change in net assets	3.087	(2.674)	-215.445%
Net assets - July 1	<u>7.495</u>	<u>10.169</u>	<u>-26.296%</u>
Net assets - June 30	<u><u>\$10.582</u></u>	<u><u>\$7.495</u></u>	<u><u>41.187%</u></u>

**Fiscal Year 2007 Governmental Activities**

The Agency's fiscal year 2007 revenue came primarily from property tax increments, which amounted to \$9.5 million, an increase of \$1.2 million over the prior year. The increase in tax increment stemmed from the increase in value of properties in the Agency's project area. The decrease in investment earnings resulted from the continued reduction in cash as bond proceeds are spent on capital outlay projects.

Agency expenses of \$7.6 million in fiscal year 2007 were principally for development-related projects amounting to \$1.2 million, school district and special district Pass-throughs expense of \$1.334 million. The Agency has agreements with the pre-existing school and special districts in its project area under which it passes through a portion of the property tax increments it receives. These agreements are discussed in detail in note 9 to the financial statements. Additionally, the Agency incurred expense for interest on the Tax Allocation Bonds in the amount of \$2.3 million.

**Redevelopment Agency of the City of Redwood City  
Management's Discussion and Analysis, Continued  
For the fiscal year ended June 30, 2007**

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**FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE, Continued**

**The Agency's Fund Financial Statements**

At June 30, 2007, the Agency's governmental funds reported combined fund balances of \$14.5 million, which is a decrease of \$1.5 million from last year. This decrease resulted primarily from the continued expenditure of previously issued \$33.997 million in tax allocation bonds to finance various downtown improvements.

Expenditures decreased due to the one-time expenditure of \$0.6 million in fiscal year 2005-2006 to record the donation of land held for redevelopment to First Community Housing.

The Agency has loaned a total of \$4.3 million to developers to assist them in constructing low and moderate income housing. Interest on these loans is at below market rates. Additionally, the Agency has established First Time Homebuyer programs under which low-interest rate loans in the amount of \$2.1 million have been made to qualified homebuyers. These loans are explained in detail in Notes 3 and 9 to the financial statements.

**CAPITAL ASSETS**

Under GASB 34, the Agency is required to record all its capital assets, including infrastructure, at their historical cost, and to depreciate these assets over their estimated useful lives. At June 30, 2007, the Agency had \$41.4 million of capital assets net of depreciation.

**DEBT ADMINISTRATION**

Each of the Agency's debt issued is discussed in detail in Note 7 to the financial statements. In July 1997 the Agency issued \$15.43 million of Tax Allocation Refunding Bonds that bear interest at 3.8% to 5.15% and are due in 2011. The proceeds from these Bonds were used to advance refund the outstanding balance of the 1991 Redwood City Public Financing Authority Bonds - Series B.

In October 2003 the Agency issued \$33,997,448 of Tax Allocation Bonds that bear interest at 3.5% to 5.8% and are due in 2032. The proceeds of the bonds were used to finance various downtown improvements.

At June 30, the Agency's debt comprised the two Tax Allocation Bond issues and a loan from the Redwood City School District used to finance a real property purchase, all of which are secured by property tax increment revenues.

**Redevelopment Agency of the City of Redwood City  
Management's Discussion and Analysis, Continued  
For the fiscal year ended June 30, 2007**

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**ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

In the City's downtown area which is encompassed by the Redevelopment Agency, the newly constructed 590 space underground public parking garage and the related privately developed 20 screen cinema/retail complex with 80,000 square feet of retail space opened for business during the summer of 2006. This new retail complex currently houses Cost Plus World Market, the Shoe Pavilion, several restaurants and a branch of the San Mateo Credit Union. In conjunction with the revitalization of downtown, the Redevelopment Agency plans to program promotional and marketing activities to support downtown and encourage first-time and reoccurring visits from both residents and the broader Peninsula Community. Additionally, the Redevelopment Agency will be participating in the County-wide Transit Oriented Development Opportunity Study to support the principle of both pedestrian and vehicular linkages between the downtown, Sequoia Station and El Camino Real, as well as the development of high density housing adjacent to transit.

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

These Component Unit Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, at 1017 Middlefield Road, Redwood City, California 94063.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# Redevelopment Agency of the City of Redwood City

## Statement of Net Assets

For the year ended June 30, 2007

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<b>ASSETS</b>	
Current assets:	
Cash and investment	\$ 5,647,814
Accounts receivable	6,360
Accrued interest receivable	128,319
Total current assets	<u>5,782,493</u>
Noncurrent assets:	
Restricted cash and investment	4,422,611
Loans receivable	6,387,659
Investment in land held for redevelopment	2,981,766
Deferred charges	1,242,652
Capital assets:	
Non-depreciable	30,798,605
Depreciable, net	10,605,718
Total capital assets, net	<u>41,404,323</u>
Total noncurrent assets	<u>56,439,011</u>
<b>Total assets</b>	<u><u>62,221,504</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	1,982,355
Accrued interest payable	453,251
Deposits payable	71,270
Advances from the City	3,000,000
Long-term debt - due in one year	1,283,092
Total current liabilities	<u>6,789,968</u>
Noncurrent liabilities:	
Long-term debt - due in more than one year	<u>44,849,143</u>
Total noncurrent liabilities	<u>44,849,143</u>
<b>Total liabilities</b>	<u><u>51,639,111</u></u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	<u>3,143,697</u>
Restricted for:	
Debt service	1,718,690
Community development projects	1,040,310
Low and moderate income housing	11,761,904
Total restricted net assets	<u>14,520,904</u>
Unrestricted	<u>(7,082,208)</u>
<b>Total net assets</b>	<u><u>\$ 10,582,393</u></u>

See accompanying Notes to Basic Financial Statements.

**Redevelopment Agency of the City of Redwood City**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2007**

**Expenses:**

Community development	\$ 5,296,642
Interest on long-term debt	2,303,963
<b>Total program expenses</b>	<u>7,600,605</u>

**General Revenues and Transfers:**

General Revenues:	
Tax increments	9,529,346
Investment earnings	576,111
Miscellaneous	55,941
Transfer from other City funds	526,899
<b>Total general revenues and transfers</b>	<u>10,688,297</u>

**Change in net assets** 3,087,692

<b>Net assets - beginning of year</b>	<u>7,494,701</u>
<b>Net assets - end of year</b>	<u>\$ 10,582,393</u>

See accompanying Notes to Basic Financial Statements.

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## FUND FINANCIAL STATEMENTS

The Redevelopment Agency of the City of Redwood City determined all its funds to be major funds in fiscal year 2007.

### *Redevelopment Agency Fund*

This fund accounts for funds to be provided by loans and/or property tax increment from specific redevelopment areas for redevelopment projects within those areas.

### *Low and Moderate Income Housing Fund*

This fund accounts for redevelopment property tax increment revenues which may be used strictly for low and moderate income housing.

### *1997 Tax Allocation Refunding Bonds Fund*

This fund accounts for bonds issued in 1997 to prepay a loan received by the Redevelopment Agency from the Redwood City Public Financing Authority, which in turn used the proceeds to defease the Public Financing Authority Series B bonds.

### *2003 Tax Allocation Bonds Fund*

This fund accounts for bonds issued in 2003 to finance various downtown improvements by the Redevelopment Agency.

### *Low and Moderate Income Housing Projects Bonds Fund*

This fund accounts for tax increment bonds that were issued by the Public Financing Authority to finance construction of certain Redevelopment Agency projects.

# Redevelopment Agency of the City of Redwood City

## Balance Sheet

June 30, 2007

	Redevelopment Agency	Low and Moderate Income Housing	1997 Tax Allocation Refunding Bonds Fund	2003 Tax Allocation Bonds Fund	Public Financing Authority Series B Construction Fund	Total
<b>ASSETS</b>						
Cash and investments:						
Available for operations	\$ 1,516,291	\$ 4,131,523	\$ -	\$ -	\$ -	\$ 5,647,814
Restricted	2,409,739	346,357	1,659,033	7,482	-	4,422,611
Receivables:						
Accounts Receivable	-	6,360	-	-	-	6,360
Due from other governments	-	-	-	-	-	-
Accrued interest	42,548	33,596	52,149	26	-	128,319
Loans	1,263,440	5,124,219	-	-	-	6,387,659
Investment in land held for redevelopment						
	293,106	2,688,660	-	-	-	2,981,766
Deposits						
	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 5,525,124</b>	<b>\$ 12,330,715</b>	<b>\$ 1,711,182</b>	<b>\$ 7,508</b>	<b>\$ -</b>	<b>\$ 19,574,529</b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 1,481,835	\$ 500,520	\$ -	\$ -	\$ -	\$ 1,982,355
Deposits payable	2,979	68,291	-	-	-	71,270
Advances from the City	3,000,000	-	-	-	-	3,000,000
<b>Total liabilities</b>	<b>4,484,814</b>	<b>568,811</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,053,625</b>
<b>Fund Equity:</b>						
Reserved for:						
Encumbrances	612,722	12,460	-	-	-	625,182
Loans receivable	1,263,440	4,624,219	-	-	-	5,887,659
Land held for redevelopment	293,106	2,688,660	-	-	-	2,981,766
Low and moderate income housing	-	2,318,723	-	-	-	2,318,723
Debt service	-	-	1,711,182	7,508	-	1,718,690
Unreserved, Designated, report in:						
Future years' expenditures	-	2,093,274	-	-	-	2,093,274
Unreserved, Undesignated, report in:						
Special Revenue Funds	(1,128,958)	24,568	-	-	-	(1,104,390)
<b>Total fund equity</b>	<b>1,040,310</b>	<b>11,761,904</b>	<b>1,711,182</b>	<b>7,508</b>	<b>-</b>	<b>14,520,904</b>
<b>Total liabilities and fund equity</b>	<b>\$ 5,525,124</b>	<b>\$ 12,330,715</b>	<b>\$ 1,711,182</b>	<b>\$ 7,508</b>	<b>\$ -</b>	<b>\$ 19,574,529</b>

See accompanying Notes to Basic Financial Statements.



**Redevelopment Agency of the City of Redwood City**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2007**

	Redevelopment Agency	Low and Moderate Income Housing	1997 Tax Allocation Refunding Bonds Fund	2003 Tax Allocation Bonds Fund	Public Financing Authority Series B Construction Fund	Total
<b>REVENUES:</b>						
Tax increments	\$ 7,449,981	\$ 2,079,365	\$ -	\$ -	\$ -	\$ 9,529,346
Use of money and property	202,074	220,817	142,409	7,262	3,549	576,111
Miscellaneous	4,000	51,941	-	-	-	55,941
<b>Total revenues</b>	<b>7,656,055</b>	<b>2,352,123</b>	<b>142,409</b>	<b>7,262</b>	<b>3,549</b>	<b>10,161,398</b>
<b>EXPENDITURES:</b>						
Current operations:						
Community development	4,262,960	814,118	-	-	-	5,077,078
Capital outlay	4,869,724	-	-	-	-	4,869,724
Debt service:						
Principal	42,321	-	1,160,000	-	-	1,202,321
Interest and fiscal charges	-	-	366,632	656,400	-	1,023,032
<b>Total expenditures</b>	<b>9,175,005</b>	<b>814,118</b>	<b>1,526,632</b>	<b>656,400</b>	<b>-</b>	<b>12,172,155</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,518,950)</b>	<b>1,538,005</b>	<b>(1,384,223)</b>	<b>(649,138)</b>	<b>3,549</b>	<b>(2,010,757)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	341,305	1,415,247	82,587	-	1,839,139
Transfers (out)	(1,389,785)	(283,049)	-	-	(166,305)	(1,839,139)
Transfer from other City funds	-	526,899	-	-	-	526,899
<b>Total other financing sources (uses)</b>	<b>(1,389,785)</b>	<b>585,155</b>	<b>1,415,247</b>	<b>82,587</b>	<b>(166,305)</b>	<b>526,899</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(2,908,735)</b>	<b>2,123,160</b>	<b>31,024</b>	<b>(566,551)</b>	<b>(162,756)</b>	<b>(1,483,858)</b>
<b>FUND BALANCES:</b>						
Beginning of year	3,949,045	9,638,744	1,680,158	574,059	162,756	16,004,762
End of year	\$ 1,040,310	\$ 11,761,904	\$ 1,711,182	\$ 7,508	\$ -	\$ 14,520,904

See accompanying Notes to Basic Financial Statements.

**Redevelopment Agency of the City of Redwood City**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**For the year ended June 30, 2007**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (1,483,858)

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

Governmental funds report capital outlay as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	4,869,724
Loss on disposal of Capital assets	(32,808)

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.

(186,756)

Governmental funds report bond issuance costs as expenditures. In the Government-Wide statement of Net Assets, however, the cost of issuance is amortized over the life of the bond. This amount represents the annual amortization of the cost of issuance.

(47,795)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayment	1,202,321
Amortization of premium	30,771
Accreted interest on capital appreciation bonds	(1,289,174)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. This amount represents the change from prior year.

25,267

**Change in Net Assets of Governmental Activities** \$ 3,087,692

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**NOTES TO BASIC FINANCIAL STATEMENTS**

# Redevelopment Agency of the City of Redwood City

## Notes to Basic Financial Statements

### For the year ended June 30, 2007

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency of the City of Redwood City, California, (Agency) 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. Description of Reporting Entity*

The Agency of the City of Redwood City was created under the provisions of the Community Redevelopment Law (California Health and Safety Code) to redevelop certain areas in the City of Redwood City. A Redevelopment Plan was originally adopted in July 1982 (Original Area), it was amended in May 1985 (First Amendment) and again in December 1989 (Second Amendment) to provide an improved physical, social and economic environment in the Agency's project area. The Agency is authorized to finance the Plan from various sources, including assistance from the City, the State and federal governments, property tax increments, interest income and the issuance of Agency bonds.

The Agency is an integral part of the City of Redwood City (City) and the Accompanying Basic Financial Statements are included as a component unit of the basic financial statements prepared by the City.

##### *B. Basis of Accounting/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 with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements - The Agency's 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.

These 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.

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 except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. The following interfund activities have been eliminated:

- ◆ Transfers in/out

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting/Measurement Focus, Continued***

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. 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 funds as major funds.

The followings are the Agency's major funds:

*Redevelopment Agency Fund*

This fund accounts for funds to be provided by loans and/or property tax increment from specific redevelopment areas for redevelopment projects within those areas.

*Low and Moderate Income Housing Fund*

This fund accounts for redevelopment property tax increment revenues which may be used strictly for low and moderate income housing.

*1997 Tax Allocation Refunding Bonds Fund*

This fund accounts for bonds issued in 1997 to prepay a loan received by the Redevelopment Agency from the Redwood City Public Financing Authority, which in turn used the proceeds to defease the Public Financing Authority Series B bonds.

*2003 Tax Allocation Bonds Fund*

This fund accounts for bonds issued in 2003 to finance various downtown improvements by the Redevelopment Agency

*Low and Moderate Income Housing Projects Bonds Fund*

This fund accounts for tax increment bonds that were issued by the Public Financing Authority to finance construction of certain Redevelopment Agency projects.

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 Sheet. 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 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.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax, sales tax, intergovernmental revenues and other taxes and investment income. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting/Measurement Focus, Continued***

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the combined balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

***C. Cash and Investments***

The Agency pools its available cash with the City for investment purposes. The City considers pooled cash and investment amounts with original maturities of three months or less to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF’s investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

***D. Investment in Land Held for Redevelopment***

The Agency has purchased parcels of land for redevelopment in order to develop or redevelop blighted properties within the City limits. Such land parcels are accounted for at the lower of cost, estimated net realizable value, or agreed-upon sales price if a disposition agreement has been made with a developer.

***E. Capital Assets***

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Agency’s policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment, \$100,000 for buildings, improvements, and infrastructure, and with useful lives exceeding two years. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Capital Assets, Continued*

Buildings	20-50 Years
Improvements	33-60 Years
Equipment	2-15 Years
Streets	20 Years
Parks	25 Years
Bridges	30 Years
Traffic Signals	20 Years
Storm Drains	40 Years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the Agency has included all infrastructures into the current Basic Financial Statements.

The Agency defines infrastructure as the basic physical assets that allow the Agency to function. The assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems. Each major infrastructure system can be divided into subsystems. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding subsystems.

For all infrastructure systems, the Agency elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

*F. Long-Term Debt*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts and issuance costs, if material, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**G. Fund Balances**

In the governmental fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

**H. Net Assets**

In the government-wide financial statements, net assets are classified in the following categories:

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

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

**I. Use of Estimates**

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

**J. Property Taxes**

San Mateo County assesses properties and bills, collects, and distributes property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien/levy dates	January 1	January 1
Due date	50% on November 1 and February 1	July 1
Delinquent as of	December 10 & April 10	August 1

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed provided they become available as defined above. Under the County's Teeter plan, the County remits 100% of the taxes levied to the Agency within sixty days of the due date.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**2. CASH AND INVESTMENTS**

The Agency has pooled its cash and investments with the City in order to achieve a higher return on investment. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents.

The investments made by the City are limited to those allowable under State statutes and include the following types of investments:

- ◆ Bankers Acceptance
- ◆ State of California Local Agency Investment Fund (LAIF)
- ◆ Certificate of Deposit
- ◆ Commercial Paper
- ◆ Government Agency Securities
- ◆ Money Market Certificates
- ◆ Passbook Savings Accounts
- ◆ San Mateo County Investment Pool
- ◆ Treasury Bills and Notes

All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds and related entities of the City. Cash and investments available for operations amounted to \$5,647,814 as of June 30, 2007. Restricted cash and investments at June 30, 2007 amounted to \$4,422,611.

See the City's Comprehensive Annual Financial Report for disclosures related to cash and investments and the related custodial risk categorization.

**3. LOANS RECEIVABLE**

As of June 30, 2007, loans receivable consisted of the following:

First Time Homebuyer Loan Program	\$ 278,282
City Centre Plaza Loans	1,700,000
First Time Homebuyer Silent Loan Program	1,235,454
Housing Rehabilitation Loans	96,923
First Community Housing Loans	2,427,000
Loans with for Profit Organizations	650,000
<b>Total</b>	<b>\$ 6,387,659</b>

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**3. LOANS RECEIVABLE, Continued**

*A. First Time Homebuyer Loan Program*

The Agency established a First Time Homebuyer Program during fiscal year 1995. Under the Program the Agency offers first time home buyers, who qualify as having low and moderate incomes, financial assistance in the purchase of a home within the City of Redwood City. These loans bear no interest and are secured by third deeds of trust on the property. No payments are due until five years after the date of purchase. At June 30, 2007 the Agency had loaned \$278,282. Since these loans are not currently available for expenditure, fund balance has been reserved in this amount.

*B. City Centre Plaza Loans*

The Agency sold several parcels of land to the developers of the City Centre Plaza project for \$1,700,000 in 1996 payable as discussed in Note 9C. The outstanding balance at June 30, 2007 was \$1,700,000.

*C. First Time Homebuyer Silent Loan Program*

In 2000, the Agency established a First Time Homebuyer Silent Loan Program. Loans are deferred for the first five years, and then amortized at 4% interest over the remaining 25 years. An Equity Participation requirement shares appreciation based on the amount of the Agency's original loan amount. At June 30, 2007 the Agency had outstanding loans in the amount of \$1,235,454. Since these loans are not currently available for expenditure, fund balances have been reserved in this amount.

*D. Housing Rehabilitation Loans*

The Agency has two outstanding loans for housing rehabilitation in the amount of \$96,923. Other funds allocated under this program provided grants for the removal of lead based paint hazards.

*E. First Community Housing Loan*

The Agency entered into an agreement with First Community Housing whereby \$2,427,000 from the Redevelopment Agency Low and Moderate Housing Fund was loaned to First Community Housing for construction of the Villa Montgomery housing development at El Camino and Vera Avenue. The loan bears interest at 3% for 40 years. The loan will be repaid annually from 70% of the Projects net cash flow.

*F. Loans with for Profit Organizations*

In December 2003, the Agency loaned Hallmark Apartments LLP \$150,000 for the repair and rehabilitation of housing units. The loan is deferred for the first 30 years, and then amortized at 3% interest over the remaining 25 years.

In July 2003, the Agency loaned MP Redwood Court Association \$500,000 for the repair and rehabilitation of housing units. The loan is non interest bearing and deferred for 55 years.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

**4. CAPITAL ASSETS**

The Agency's capital assets at June 30, 2007 comprise:

Asset Type	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
<b>Non-depreciable Assets:</b>					
Land	\$ 3,126,664	\$ -	\$ -	\$ -	\$ 3,126,664
Construction in progress	29,780,764	4,869,724	(31,044)	(6,947,503)	27,671,941
<b>Total non-depreciated assets</b>	<b>32,907,428</b>	<b>4,869,724</b>	<b>(31,044)</b>	<b>(6,947,503)</b>	<b>30,798,605</b>
<b>Depreciable Assets:</b>					
Machinery and equipment	14,965	-	(14,965)	925,777	925,777
Less accumulated depreciation on machinery and equipment	(13,201)	(23,144)	13,201	-	(23,144)
Improvements other than buildings	-	-	-	6,021,726	6,021,726
Less accumulated depreciation on improvements other than buildings	-	(61,079)	-	-	(61,079)
Storm drains	4,101,302	-	-	-	4,101,302
Less accumulated depreciation on storm drains	(256,331)	(102,533)	-	-	(358,864)
<b>Total depreciable assets</b>	<b>3,846,735</b>	<b>(186,756)</b>	<b>(1,764)</b>	<b>6,947,503</b>	<b>10,605,718</b>
<b>Total capital assets, net</b>	<b>\$ 36,754,163</b>	<b>\$ 4,682,968</b>	<b>\$ (32,808)</b>	<b>\$ -</b>	<b>\$ 41,404,323</b>

Depreciation expense of \$186,756 was charged to community development program based on its usage of the related assets.

**5. LOW AND MODERATE INCOME HOUSING SET ASIDE**

The Agency is required to set aside a portion of the property tax increments it receives to increase and improve the City's supply of low and moderate income housing. The amount set aside must equal twenty percent of each year's property tax increments. The Agency was in compliance with the twenty percent set-aside requirement for fiscal year 2006-2007.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

**6. INTERFUND TRANSACTIONS**

*A. Transfer Between Funds*

With the Agency Board approval, resources may be transferred from one Agency fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund.

		Transfers In			Total
		Low and Moderate Income Housing	1997 Tax Allocation Refunding Bonds Fund	2003 Tax Allocation Bonds Fund	
Transfers Out	Redevelopment Agency	\$ 175,000	\$ 1,132,198	\$ 82,587	\$ 1,389,785
	Low and Moderate Income Housing	-	283,049	-	283,049
	Public Financing Authority Series B Construction Fund	166,305	-	-	166,305
	<b>Total</b>	<u>\$ 341,305</u>	<u>\$ 1,415,247</u>	<u>\$ 82,587</u>	<u>\$ 1,839,139</u>

Transfers made from the Redevelopment Agency Fund and the Low and Moderate Income Housing Fund to the 1997 Tax Allocation Refunding Bond Fund and the 2003 Tax Allocation Bond Fund were to fund debt service payments.

Transfers from the Redevelopment Agency Fund and the Public Financing Authority Series B Construction Fund to the Low and Moderate Income Housing Fund were for construction and purchase of general Agency assets.

The Low and Moderate Income Housing Fund also made a transfer of \$526,899 to the City's Grants Fund for acquisition and construction of capital assets for the City.

*B. Advances from the City*

During fiscal year 2004-2005, the City's Capital Outlay Fund advanced \$3,000,000 to the Redevelopment Agency Fund to finance various downtown improvements. Interest is at 4.12 % with final payment due June 2019. Interest only payments are required through June 2009 at which time the principal payments will begin.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

**7. LONG-TERM DEBT**

Summary of changes in long-term debt for the year ended June 30, 2007 was as follows:

	Balance			Balance	Amount	Amount
	July 1, 2006	Additions	Retirements	June 30, 2007	Due Within	Due In More
					One Year	Than One Year
1997 Tax Allocation Refunding Bond	\$ 7,835,000	\$ -	\$ 1,160,000	\$ 6,675,000	\$ 1,210,000	\$ 5,465,000
Tax Allocation Bond, Series 2003A	33,997,448	-	-	33,997,448	-	33,997,448
Accreted interest payable	3,116,631	1,289,174	-	4,405,805	-	4,405,805
Unamortized premium	830,827	-	30,771	800,056	30,771	769,285
Loans Payable	296,247	-	42,321	253,926	42,321	211,605
<b>Total</b>	<b>\$ 46,076,153</b>	<b>\$ 1,289,174</b>	<b>\$ 1,233,092</b>	<b>\$ 46,132,235</b>	<b>\$ 1,283,092</b>	<b>\$ 44,849,143</b>

**A. 1997 Tax Allocation Refunding Bonds**

On June 15, 1997, the Agency issued \$15,430,000 of 1997 Tax Allocation Refunding Bonds with a final maturity date of July 15, 2011. The purpose of the issuance is to provide funds to prepay a loan received by the Agency and defease \$13,955,000 aggregate principal amount of the 1991 Local Agency Revenue Bonds, Series B (Prior Bonds), to fund a reserve account for the Bonds and to pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. The purpose of the prior bonds was to finance improvements within the Agency's Redevelopment Project Area No. 2. The 1997 Tax Allocation Refunding Bonds are due in annual installments of \$417,805 to \$1,525,880 through July 15, 2011, payable from the Redevelopment Agency Tax Increment. The bonds are secured by a first lien on the security interest in all of the tax revenue and all of the moneys deposited and held from time to time by the Trustee in the Special Revenue Fund and the Debt Service Fund, including interest account, the principal account, the reserve account and the redemption account established pursuant to the indenture. Interest rate ranges from 3.8% to 5.15%. Principal is due annually on each July 15. Interest is due semiannually on each January 15, and July 15. At June 30, 2007 the 1997 Tax Allocation Refunding Bonds had a remaining balance outstanding of \$6,675,000.

The annual debt service requirements are shown below:

For the Fiscal Year			
Ended June 30,	Principal	Interest	Total
2008	\$ 1,210,000	\$ 304,922	\$ 1,514,922
2009	1,270,000	244,465	1,514,465
2010	1,330,000	180,100	1,510,100
2011	1,395,000	111,278	1,506,278
2012	1,470,000	37,853	1,507,853
	<b>\$ 6,675,000</b>	<b>\$ 878,618</b>	<b>\$ 7,553,618</b>

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

**7. LONG-TERM DEBT, Continued**

***B. Tax Allocation Bonds, Series 2003A***

On October 2003, the Agency issued \$33,997,448 of Tax Allocation Bonds, Series 2003A with a final maturity date of July 15, 2032 to finance various downtown improvements. The bonds are secured by a first lien on the security interest in all of the tax revenue and all of the moneys deposited and held from time to time by the Trustee in the Special Revenue Fund and the Debt Service Fund, including interest account, the principal account, the reserve account and the redemption account established pursuant to the indenture. Interest rate ranges from 3.5% to 5.8%. Principal is due annually on each July 15 commencing in 2010. Interest is due semiannually on each January 15, and July 15. At June 30, 2007, the Tax Allocation Bonds, Series 2003A had a remaining balance outstanding of \$33,997,448.

The annual debt service requirements are shown below:

For the Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ -	\$ 654,150	\$ 654,150
2009	-	654,150	654,150
2010	-	654,150	654,150
2011	1,225,000	654,150	1,879,150
2012	1,265,000	611,275	1,876,275
2013-2017	13,452,530	3,313,733	16,766,263
2018-2022	7,798,695	9,726,305	17,525,000
2023-2027	5,512,687	12,017,313	17,530,000
2028-2032	4,064,617	13,465,293	17,529,910
2033	678,919	2,826,082	3,505,001
	\$ 33,997,448	\$ 44,576,600	\$ 78,574,049

The Tax Allocation Bonds, Series 2003A had issuance costs of \$1,386,035, which was recorded as deferred charges on the Statement of Net Assets. This amount is being amortized over the life of the bonds at \$47,794 annually. As of June 30, 2007 the amount remaining was \$1,242,653.

***C. Loans***

Redwood City School District Loan entered into by the Redevelopment Agency in 1998 to finance a portion of the land and buildings located at 2107 Broadway that were acquired for the purpose of eventually being resold to a developer, original amount of \$634,815 at 0% interest due in 15 annual installments of \$42,321 through 2013.

The annual debt service requirements are shown below:

For the Fiscal Year Ended June 30,	Principal
2008	\$ 42,321
2009	42,321
2010	42,321
2011	42,321
2012	42,321
2013	42,321
	\$ 253,926

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**8. GENERAL INFORMATION**

The Redevelopment Plan for the Project Area was originally adopted by the City Council on August 19, 1982 pursuant to Ordinance No. 1862 (Original Area). On June 20, 1985, the City Council approved an amendment to the Redevelopment Plan that added territory (First Amendment Area) pursuant to Ordinance No. 1911. A second amendment was adopted by the City Council pursuant to Ordinance No. 2007 on January 18, 1990. As part of the second amendment, a significant amount of territory was added (Second Amendment Area) and a new tax increment and bonded indebtedness limit was established for the Project Area. In December 1994, the Redevelopment Plan was again amended pursuant to Ordinance No. 2085 to bring various financial time limits into conformance with those required by State law pursuant to AB 1290. In July 2001, the Redevelopment Plan was again amended to extend the date to commence eminent domain proceedings. The current financial time limits for the Project Area are shown below:

	Original Area	First Amendment Area	Second Amendment Area
Debt Establishment	1/1/2004	6/20/2005	1/18/2010
Plan Effectiveness	8/19/2022	6/20/2025	1/18/2028
Tax Increment Receipt	8/19/2032	6/20/2035	1/18/2038
Bond Debt Limit	-----\$119 million combined-----		
Tax Increment Limit	-----\$398 million combined-----		

The cumulative tax increment limit shown above is expressed in the Redevelopment Plan as being calculated on the basis of total gross tax increment less any tax sharing payments to the taxing entities and any housing set-aside on the tax sharing payments. The tax increment limit is applicable from the effective date of the Second Amendment. The Agency has received \$77.6 million in tax increment through 2006-07. As shown above, the amount of bonded indebtedness that can be outstanding at any one time cannot exceed \$119 million. At June 30, 2007, the Agency had \$40,672,448 outstanding in tax increment bonds.

The Original Area contains 332 acres of land. The First Amendment Area added 4.24 acres of land and the Second Amendment Area added 596 acres. The project area includes the traditional downtown of Redwood City, along with the Seaport and Marina sub-areas.

**9. REDEVELOPMENT AGREEMENTS**

The Agency has entered into agreements with developers and other government entities for the purpose of ensuring the redevelopment of properties in its area. The Agency's agreements with developers - termed Disposition and Development Agreements or Owner Participation Agreements - generally require the Agency to assist in financing land acquisition or operating costs of a specific project, but are based on the developer's performance on that project as measured by increases in property taxes and sales taxes generated by the project or to provide affordable housing to the community. The increase in these taxes are the only source of Agency assistance for the project.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**9. REDEVELOPMENT AGREEMENTS, Continued**

The Agency has agreements termed pass-through with government entities. These agreements require the Agency to pass through to these entities a portion of the property tax increases it collects, representing the increases these entities would have expected to collect if the Agency had not been formed.

All these agreements are described below:

**A. Sequoia Station**

Under the terms of a 1990 Disposition and Development Agreement, the Agency assisted the developer of the Sequoia Station Retail Center in acquiring the land on which this 160,000 square foot retail center was constructed at a cost to the developer of approximately \$31,000,000. The City and the Agency are assisting in the financing of the project by remitting to the developer a portion of the sales and the net incremental property taxes it receives from the Sequoia Station Retail Center up to a maximum of \$300,000 per year for fifteen years, commencing January 1995. The balance as of June 30, 2007 is \$600,000. This obligation will be fully repaid by June 30, 2009.

**B. Wyndham Place**

Under the terms of a Disposition and Development Agreement dated January 10, 1995 between the Agency and the Developer, Butler Stellar Corporation, the Agency assisted the Developer in the remediation of environmental hazards and the acquisition of land. The Developer agreed to construct Wyndham Place, a 15 unit housing complex for low and moderate income citizens. The Agency contributed \$1,968,111 to the project and land valued at \$301,356, which previously was held as land held for redevelopment.

**C. City Center Plaza**

Under the terms of Disposition and Development Agreements dated February 5, 1996 between the Agency and the developers, Mezes Court Associate (residential development), and J.H.R. Trust (commercial development), the Agency sold to the Developers several parcels of land and cleaned the site of toxic materials, in exchange for promissory notes totaling \$1,700,000, the appraised value of the land. The Developers constructed City Center Plaza which contains 81 affordable housing units, a child care facility, residential and commercial parking and 17,900 square feet of retail space. The promissory note from Mezes Court Associate in the amount of \$1,445,000 is to be repaid through 2028, from surplus revenues generated by the housing project, the note accrues interest at 3%. The promissory note from J.H.R. Trust in the amount of \$255,000 is also due in 2028, with interest accruing at 3% as well, and with payments scheduled to begin January 1, 2011.

**D. County of San Mateo**

Under the terms of the Original and First Amendment Area Agreements, after the Agency receives a cumulative \$2 million of the County's share of tax increment in Original and First Amendment Areas, the Agency agreed to allow the County to receive 100% of the County's share of the tax increment in the Original and First Amendment Areas. Commencing December 14, 1990 through June 30, 2007 the County has received \$13,469,145 including \$867,480 for the year ended June 30, 2007 from the Original and First Amendment Areas.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2007**

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**9. REDEVELOPMENT AGREEMENTS, Continued**

Under the Second Plan Amendment, the Agency is to receive a cumulative \$25 million of the County's share of tax increment on the Second Amendment Area. Under an agreement with the Legal Aid Society the Agency agreed to deposit the first \$11.9 million in the Low and Moderate Income Housing Fund. In fiscal year 2003-04 the amount deposited in the Low and Moderate Income Housing Fund pursuant to the Legal Aid Society agreement was suspended pending legal review of this agreement. Once the Agency has received \$25 million of the County's share of the tax increment, the Agency has agreed to pass through to the County 100% of the County's share of the remaining tax increment. As of June 30, 2007, the Agency has received approximately \$9,879,979 of the County's share of tax increment from the Second Amendment Area.

In addition to the pass through agreement, the Agency also agreed to contribute to the cost of a County parking facility in an amount of \$1,250,000. This amount has been paid in full.

*E. Various Governmental Agencies*

The Agency amended their project area in 1989 in order to expand the project area and to increase the maximum amount of tax increment that can be distributed to the Agency. As a result, the Agency entered into pass through agreements with various governmental agencies whereby the Agency agreed to pass through to these governmental agencies 50% of the increase in tax increment less the amount required to be set aside for Low and Moderate Income Housing from the amendment area that would be otherwise allocated and paid to these governmental agencies. For the year ended June 30, 2007 the Agency passed through \$1,333,807 to these various governmental agencies.

*F. Irvine Apartment Community*

In August 1999 the Agency entered into a Disposition and Development Agreement with Irvine Apartment Communities (IAC) for a residential development of 206 units located on Maple Street in Redwood City. The developer was initially to fund all costs associated with the project, and the Agency agreed to use its power of eminent domain to acquire the two small parcels located on Maple Street (the "Hudson Property"). In early 2000, IAC requested and the Agency Board approved an amendment to the original deal. The Agency agreed to reimburse IAC for up to \$196,000 of costs associated with offsite improvements related to the project. Based on this agreement, the developer funded the acquisition budget and the Agency went ahead with the acquisition. As of September 19, 2000, the Agency received an Order of Immediate Possession from the Court, the commercial and residential tenants were relocated.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Redevelopment Agency of the City of Redwood City**  
**Required Supplementary Information**  
**For the year ended June 30, 2007**

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**1. BUDGETARY INFORMATION**

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Executive Director submits to the Agency Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The Budget is legally enacted through passage of a resolution.
4. The Executive Director is authorized to transfer budgeted amounts within a sub-program within a department; however, any revisions that alter the total expenditures must be approved by the Agency Board.
5. Formal budgetary integration is employed as a management control device during the year for the Special Revenue Funds and Debt Service Funds. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except capital outlay expenditures are budgeted on a project length basis.

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**Redevelopment Agency of the City of Redwood City**  
**Required Supplementary Information**  
**Budget and Actual Redevelopment Agency Fund**  
**For the year ended June 30, 2007**

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Tax increments	\$ 6,997,486	\$ 6,997,486	\$ 7,449,981	\$ 452,495
Use of money and property	178,733	178,733	202,074	23,341
Miscellaneous	-	-	4,000	4,000
<b>Total revenues</b>	<b>7,176,219</b>	<b>7,176,219</b>	<b>7,656,055</b>	<b>479,836</b>
<b>EXPENDITURES:</b>				
Current operations:				
Community development	4,221,137	4,614,981	4,262,960	352,021
Capital outlay	5,152,004	5,152,004	4,869,724	282,280
Debt service:				
Principal	42,321	42,321	42,321	-
<b>Total expenditures</b>	<b>9,415,462</b>	<b>9,809,306</b>	<b>9,175,005</b>	<b>634,301</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,239,243)</b>	<b>(2,633,087)</b>	<b>(1,518,950)</b>	<b>1,114,137</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers (out)	(1,417,193)	(1,417,193)	(1,389,785)	27,408
<b>Total other financing sources (uses)</b>	<b>(1,417,193)</b>	<b>(1,417,193)</b>	<b>(1,389,785)</b>	<b>27,408</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (3,656,436)</b>	<b>\$ (4,050,280)</b>	<b>(2,908,735)</b>	<b>\$ 1,141,545</b>
<b>FUND BALANCES:</b>				
Beginning of year			3,949,045	
End of year			\$ 1,040,310	

**Redevelopment Agency of the City of Redwood City**  
**Required Supplementary Information**  
**Budget and Actual Low and Moderate Income Housing Fund**  
**For the year ended June 30, 2007**

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Tax increments	\$ 2,018,824	\$ 2,018,824	\$ 2,079,365	\$ 60,541
Use of money and property	98,886	98,886	220,817	121,931
Miscellaneous revenue	-	-	51,941	51,941
<b>Total revenues</b>	<b>2,117,710</b>	<b>2,117,710</b>	<b>2,352,123</b>	<b>234,413</b>
<b>EXPENDITURES:</b>				
Community development	1,671,109	1,671,109	814,118	856,991
<b>Total expenditures</b>	<b>1,671,109</b>	<b>1,671,109</b>	<b>814,118</b>	<b>856,991</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>446,601</b>	<b>446,601</b>	<b>1,538,005</b>	<b>1,091,404</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	851,899	325,000	341,305	16,305
Transfers (out)	(286,282)	(286,282)	(283,049)	3,233
Transfer from other City funds	526,899	526,899	526,899	-
<b>Total other financing sources (uses)</b>	<b>1,092,516</b>	<b>565,617</b>	<b>585,155</b>	<b>(19,538)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 1,539,117</b>	<b>\$ 1,012,218</b>	<b>2,123,160</b>	<b>\$ 1,071,866</b>
<b>FUND BALANCES:</b>				
Beginning of year			9,638,744	
End of year			\$ 11,761,904	

## **SUPPLEMENTAL INFORMATION**

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**Redevelopment Agency of the City of Redwood City**  
**Supplemental Information**  
**Budget and 1997 Tax Allocation Refunding Bonds Fund**  
**For the year ended June 30, 2007**

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 95,000	\$ 95,000	\$ 142,409	\$ 47,409
<b>Total revenues</b>	<b>95,000</b>	<b>95,000</b>	<b>142,409</b>	<b>47,409</b>
<b>EXPENDITURES:</b>				
Debt Service:				
Principal retirement	1,160,000	1,160,000	1,160,000	-
Interest and fiscal charges	366,410	366,410	366,632	(222)
<b>Total expenditures</b>	<b>1,526,410</b>	<b>1,526,410</b>	<b>1,526,632</b>	<b>(222)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,431,410)</b>	<b>(1,431,410)</b>	<b>(1,384,223)</b>	<b>47,187</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,431,410	1,431,410	1,415,247	(16,163)
<b>Total other financing sources (uses)</b>	<b>1,431,410</b>	<b>1,431,410</b>	<b>1,415,247</b>	<b>(16,163)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>31,024</b>	<b>\$ 31,024</b>
<b>FUND BALANCES:</b>				
Beginning of year			1,680,158	
End of year			\$ 1,711,182	

**Redevelopment Agency of the City of Redwood City**  
**Supplemental Information**  
**Budget and 2003 Tax Allocation Bonds Fund**  
**For the year ended June 30, 2007**

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 7,262	\$ 7,262
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>7,262</b>	<b>7,262</b>
<b>EXPENDITURES:</b>				
Debt Service:				
Interest and fiscal charges	657,065	657,065	656,400	665
<b>Total expenditures</b>	<b>657,065</b>	<b>657,065</b>	<b>656,400</b>	<b>665</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(657,065)</b>	<b>(657,065)</b>	<b>(649,138)</b>	<b>7,927</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	657,065	657,065	82,587	(574,478)
<b>Total other financing sources (uses)</b>	<b>657,065</b>	<b>657,065</b>	<b>82,587</b>	<b>(574,478)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(566,551)</b>	<b>\$ (566,551)</b>
<b>FUND BALANCES:</b>				
Beginning of year			574,059	
End of year			\$ 7,508	



**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**

The Board of Directors  
of the Redevelopment Agency of the City of Redwood City  
Redwood City, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Redwood City (Agency), a component unit of the City of Redwood City (City), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States 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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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**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. Such provisions included those provisions of laws identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters identified as control deficiencies that we reported to management of the City in a separate letter dated October 19, 2007.

This report is intended solely for the information and use of management, the City Council, others within the entity, and The State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carlson*

Oakland, California  
October 19, 2007