

# Redevelopment Agency of the City of Redwood City

Redwood City, California

*Basic Financial Statements  
and Independent Auditors' Reports*

*For the year ended June 30, 2011*

**C&L**  
Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

# Redevelopment Agency of the City of Redwood City

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, and each major fund of the City of Redwood City Redevelopment Agency (Agency), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These 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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

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

As explained further in note 11 to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors  
of the City of Redwood City Redevelopment Agency  
Redwood City, California  
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The budgetary comparison information for the 2003 Tax Allocation Bonds fund and excess surplus calculation are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison information for the 2003 Tax Allocation Bonds fund and excess surplus calculation are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
December 7, 2011

REDEVELOPMENT AGENCY  
OF THE CITY OF REDWOOD CITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

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, 2011. 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 2011 FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

- The Agency's net assets decreased \$4.3 million in fiscal year 2010-11, after a \$.6 million increase in the preceding year. At June 30, 2011, the Agency's net assets were \$(7.678) million.
- Total Agency revenues, including transfers and contributions, were \$12.145 million, a decrease of \$.5 million. Expenses were \$16.4 million, representing an increase of \$4.4 million over the prior year.
- Redevelopment Agency Fund revenues and other financing sources decreased \$.4 million and expenditures and other financing uses decreased \$3.5 million. Fund balance decreased \$.5 million.
- Low and Moderate Income Housing Fund revenues and other financing sources of \$4.5 million were slightly down from the prior year, while expenditures and other financing uses of \$4.5 million were \$2.8 million greater than the prior year.

## 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.

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 three 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 three 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.

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 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>2011</u>          | <u>2010</u>          | <u>Variance</u> |
|--|----------------------|----------------------|-----------------|
|  | \$                   | \$                   |                 |
| Cash and investments                       | 16.385               | 13.316               | 23.047%         |
| Other assets                               | 7.547                | 11.493               | -34.334%        |
| Capital assets                             | <u>16.370</u>        | <u>19.984</u>        | -18.084%        |
| Total assets                               | <u>40.302</u>        | <u>44.793</u>        | -10.026%        |
| Long-term debt outstanding                 | 43.851               | 43.550               | 0.691%          |
| Other liabilities                          | <u>4.129</u>         | <u>4.582</u>         | -9.887%         |
| Total liabilities                          | <u>47.980</u>        | <u>48.132</u>        | -0.316%         |
| Net assets:                                |                      |                      |                 |
| Invested in capital assets,<br>net of debt | -17.164              | -14.849              | -15.590%        |
| Restricted                                 | 19.065               | 19.078               | -0.068%         |
| Unrestricted                               | <u>-9.579</u>        | <u>-7.568</u>        | -26.572%        |
| Total net assets                           | <u><u>-7.678</u></u> | <u><u>-3.339</u></u> | 129.949%        |

The Agency's cash and investments increased 23% as the Agency set aside funds to cover future Housing projects. The Agency's net assets from governmental activities decreased 130% to net assets of \$(7.678) million in 2011 from net assets of \$(3.339) million in 2010.

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

|  | 2011                 | 2010                 | Variance |
|--|----------------------|----------------------|----------|
| <b>Revenues</b>                                | \$                   | \$                   |          |
| General revenues, Transfers and Contributions: |                      |                      |          |
| Tax increments                                 | 12.101               | 12.731               | -4.949%  |
| Investment earnings                            | 0.192                | 0.268                | -28.358% |
| Other  | 0.001                | 0.001                |          |
| Community development revenue                  | 0.223                | 0.156                | 42.949%  |
| Transfer from (to) other City funds            | <u>-0.372</u>        | <u>-0.527</u>        | -29.412% |
| Total revenues                                 | <u>12.145</u>        | <u>12.629</u>        | -3.832%  |
| <b>Expenses</b>                                |                      |                      |          |
| Community development                          | 14.251               | 9.685                | 47.145%  |
| Interest on long term debt                     | <u>2.233</u>         | <u>2.321</u>         | -3.791%  |
| Total expenses                                 | <u>16.484</u>        | <u>12.006</u>        | 37.298%  |
| Change in net assets                           | -4.339               | 0.623                | 796.469% |
| Net assets - July 1                            | <u>-3.339</u>        | <u>-3.962</u>        | -15.724% |
| Net assets - June 30                           | <u><u>-7.678</u></u> | <u><u>-3.339</u></u> | 129.949% |

**Fiscal Year 2011 Governmental Activities**

The Agency's fiscal year 2011 revenue came primarily from property tax increments, which amounted to \$12.1 million, a slight decrease of \$.6 million from the prior year. The decrease in investment earnings resulted from declining interest rates.

Agency expenses of \$16 million in fiscal year 2011 were principally for downtown programs and projects totaling \$1.3 million, housing projects totaling \$.5 million, development-related projects amounting to \$.3 million, the amount of \$.7 million taken by the State of California as the State struggled to balance its budget, and school district and special district Pass-throughs expense of \$1.5 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 \$2.2 million, and a loss on sale to the City of capital assets and land held for redevelopment totaling \$6.5 million.

## **The Agency's Fund Financial Statements**

At June 30, 2011, the Agency's governmental funds reported combined fund balances of \$18.3 million, which is a decrease of \$.5 million from last year. This decrease resulted primarily from the aforementioned negative impact on redevelopment agency funds by the State of California.

The Agency has loaned a total of \$4.7 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 and Housing Rehabilitation loan programs under which low-interest rate loans in the amount of \$1 million have been made to qualified homebuyers and homeowners. 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, 2011, the Agency had \$16.4 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 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 2003 Tax Allocation Bond issue 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.

### **ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

The State of California continues to negatively impact the financial position of the Agency. At this point it remains to be seen what affect, if any, the State's attempt to extract significant funds from redevelopment agencies will have. Under legislation signed into law by Governor Brown, the Agency will be required to pay the State \$4.9 million in FY 2011/12 and \$1.2 million annually thereafter should the Agency desire to continue operations. Failure to pay these amounts will result in the dissolution of the Agency. The California Redevelopment Association has challenged the State's action with a lawsuit filed in the California Supreme Court, and a decision is expected in January 2012. Should the laws survive legal challenge the Agency Board will need to decide how to reduce Agency activities.

While awaiting the outcome of the aforementioned lawsuit, the Agency continues to explore site acquisition opportunities for affordable housing and is moving forward with site preparation for a future senior housing development in the downtown area. The completion of the Downtown Precise Plan in 2011 will help make the planning and environmental review process simpler for developers and private investors to build new commercial and residential development.

The Agency plans to work towards achieving the Agency's goals of eliminating blight by upgrading public improvements, rehabilitating commercial and residential structures, assembling properties into developable sites, providing financial assistance to encourage private investment, promoting redevelopment in accordance with the General Plan and Downtown Precise Plan, and enhancing viability of transit and the Caltrain Station.

### **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, 2011**

| <b>ASSETS</b>                                     |                       |
|---|-----------------------|
| Current assets:                                   |                       |
| Cash and investment                               | \$ 14,705,046         |
| Accounts receivable                               | 22,484                |
| Accrued interest receivable                       | 764,410               |
| Prepays   | 3,900                 |
| Total current assets                              | 15,495,840            |
| Noncurrent assets:                                |                       |
| Restricted cash and investment                    | 1,680,000             |
| Loans receivable                                  | 5,705,047             |
| Deferred charges                                  | 1,051,476             |
| Capital assets:                                   |                       |
| Non-depreciable                                   | 124,839               |
| Depreciable, net                                  | 16,244,758            |
| Total capital assets, net                         | 16,369,597            |
| Total noncurrent assets                           | 24,806,120            |
| <b>Total assets</b>                               | <b>40,301,960</b>     |
| <b>LIABILITIES</b>                                |                       |
| Current liabilities:                              |                       |
| Accounts payable                                  | 1,402,566             |
| Accrued interest payable                          | 280,308               |
| Deposits payable                                  | 48,510                |
| Advances from the City                            | 2,397,575             |
| Long-term debt - due in one year                  | 1,338,092             |
| Total current liabilities                         | 5,467,051             |
| Noncurrent liabilities:                           |                       |
| Long-term debt - due in more than one year        | 42,513,423            |
| Total noncurrent liabilities                      | 42,513,423            |
| <b>Total liabilities</b>                          | <b>47,980,474</b>     |
| <b>NET ASSETS/ DEFICIT</b>                        |                       |
| Investment in capital assets, net of related debt | (17,164,465)          |
| Restricted for:                                   |                       |
| Low and moderate income housing                   | 19,065,394            |
| Total restricted net assets                       | 19,065,394            |
| Unrestricted deficit                              | (9,579,443)           |
| <b>Net assets/ deficit</b>                        | <b>\$ (7,678,514)</b> |

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, 2011**

**Expenses:**

|                               |                   |
|-------------------------------|-------------------|
| Community development         | \$ 14,250,622     |
| Interest on long-term debt    | 2,233,969         |
| <b>Total program expenses</b> | <u>16,484,591</u> |

**Program Revenues:**

|                               |                |
|-------------------------------|----------------|
| Community development         | \$ 223,046     |
| <b>Total program revenues</b> | <u>223,046</u> |

**General Revenues and Transfers:**

General Revenues:

|   |                   |
|---|-------------------|
| Tax increments                              | 12,100,793        |
| Investment earnings                         | 192,403           |
| Miscellaneous                               | 830               |
| Transfers out to the City of Redwood City   | <u>(372,339)</u>  |
| <b>Total general revenues and transfers</b> | <u>11,921,687</u> |

**Change in net assets** (4,339,858)

**Net assets - beginning of year** (3,338,656)

**Net assets - end of year** \$ (7,678,514)

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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 2011.

### *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.

### *2003 Tax Allocation Bonds Fund*

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

**Redevelopment Agency of the City of Redwood City**  
**Balance Sheet**  
**June 30, 2011**

|  | Redevelopment<br>Agency | Low and<br>Moderate<br>Income<br>Housing | 2003 Tax<br>Allocation<br>Bonds<br>Fund | Total                |
|--|-------------------------|--|---|----------------------|
| <b>ASSETS</b>                            |                         |  |   |                      |
| Cash and investments:                    |                         |  |   |                      |
| Available for operations                 | \$ 1,740,626            | \$ 12,964,420                            | \$ -                                    | \$ 14,705,046        |
| Restricted                               | 1,680,000               | -  | -                                       | 1,680,000            |
| Receivables:                             |                         |  |   |                      |
| Accounts Receivable                      | 17,618                  | 4,866                                    | -                                       | 22,484               |
| Accrued interest                         | 264,095                 | 500,315                                  | -                                       | 764,410              |
| Loans                                    | 1,237,910               | 4,467,137                                | -                                       | 5,705,047            |
| Advances to other funds                  | -                       | 2,250,270                                | -                                       | 2,250,270            |
| Prepays                                  | 3,900                   | -  | -                                       | 3,900                |
| <b>Total assets</b>                      | <b>\$ 4,944,149</b>     | <b>\$ 20,187,008</b>                     | <b>\$ -</b>                             | <b>\$ 25,131,157</b> |
| <b>LIABILITIES AND<br/>FUND EQUITY</b>   |                         |  |   |                      |
| <b>Liabilities:</b>                      |                         |  |   |                      |
| Accounts payable                         | \$ 829,777              | \$ 572,789                               | \$ -                                    | \$ 1,402,566         |
| Deposits payable                         | -                       | 48,510                                   | -                                       | 48,510               |
| Deferred revenues                        | 264,095                 | 500,315                                  | -                                       | 764,410              |
| Unearned revenue                         | -                       | -  | -                                       | -                    |
| Advances from other funds                | 2,250,270               | -  | -                                       | 2,250,270            |
| Advances from the City                   | 2,397,575               | -  | -                                       | 2,397,575            |
| <b>Total liabilities</b>                 | <b>5,741,717</b>        | <b>1,121,614</b>                         | <b>-</b>                                | <b>6,863,331</b>     |
| <b>Fund Equity:</b>                      |                         |  |   |                      |
| Nonspendable:                            |                         |  |   |                      |
| Loans                                    | 1,237,910               | 3,967,137                                | -                                       | 5,205,047            |
| Prepaid items                            | 3,900                   | -  | -                                       | 3,900                |
| Advances to other funds                  | -                       | 2,250,270                                | -                                       | 2,250,270            |
| Restricted for:                          |                         |  |   |                      |
| Community development                    | -                       | 832,613                                  | -                                       | 832,613              |
| Capital projects                         | 1,142,140               | 12,015,374                               | -                                       | 13,157,514           |
| Debt service                             | -                       | -  | -                                       | -                    |
| Unassigned:                              | (3,181,518)             | -  | -                                       | (3,181,518)          |
| <b>Total fund equity</b>                 | <b>(797,568)</b>        | <b>19,065,394</b>                        | <b>-</b>                                | <b>18,267,826</b>    |
| <b>Total liabilities and fund equity</b> | <b>\$ 4,944,149</b>     | <b>\$ 20,187,008</b>                     | <b>\$ -</b>                             | <b>\$ 25,131,157</b> |

See accompanying Notes to Basic Financial Statements.

**Redevelopment Agency of the City of Redwood City**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**For the year ended June 30, 2011**

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|   |                       |
|---|-----------------------|
| <b>Total Fund Balances - Total Governmental Funds</b>   | \$ 18,267,826         |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:  |                       |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.  | 16,369,597            |
| Governmental funds report bond issuance costs as expenditures. In the statement of activities, however, the cost of issuance is amortized over the life of the bond.  | 1,051,476             |
| Deferred revenue recorded in the Fund Financial statements resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements. | 764,410               |
| 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.                                      | (280,308)             |
| Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.  |                       |
| Long-term liabilities - due within one year   | (1,338,092)           |
| Long-term liabilities - due in more than one year   | (42,513,423)          |
|   | <hr/>                 |
| <b>Net Assets of Governmental Activities</b>  | <b>\$ (7,678,514)</b> |
|   | <hr/> <hr/>           |

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, 2011**

|  | Redevelopment<br>Agency | Low and<br>Moderate<br>Income<br>Housing | 2003 Tax<br>Allocation<br>Bonds<br>Fund | Total              |
|--|-------------------------|--|---|--------------------|
| <b>REVENUES:</b>   |                         |  |   |                    |
| Tax increments   | \$ 7,684,060            | \$ 4,416,733                             | \$ -                                    | \$ 12,100,793      |
| Use of money and property  | 69,618                  | 122,785                                  | -                                       | 192,403            |
| Contributions  | 157,636                 | -  | -                                       | 157,636            |
| Miscellaneous  | -                       | 830                                      | -                                       | 830                |
| <b>Total revenues</b>  | <b>7,911,314</b>        | <b>4,540,348</b>                         | <b>-</b>                                | <b>12,451,662</b>  |
| <b>EXPENDITURES:</b>   |                         |  |   |                    |
| Current operations:  |                         |  |   |                    |
| Community development  | 6,139,550               | 1,142,636                                | -                                       | 7,282,186          |
| Capital outlay   | 23,339                  | -  | -                                       | 23,339             |
| Debt service:  |                         |  |   |                    |
| Principal  | 42,321                  | -  | 1,225,000                               | 1,267,321          |
| Interest and fiscal charges  | -                       | -  | 637,063                                 | 637,063            |
| <b>Total expenditures</b>  | <b>6,205,210</b>        | <b>1,142,636</b>                         | <b>1,862,063</b>                        | <b>9,209,909</b>   |
| <b>REVENUES OVER<br/>(UNDER) EXPENDITURES</b>  | <b>1,706,104</b>        | <b>3,397,712</b>                         | <b>(1,862,063)</b>                      | <b>3,241,753</b>   |
| <b>OTHER FINANCING SOURCES (USES):</b>   |                         |  |   |                    |
| Transfers in   | -                       | -  | 1,862,063                               | 1,862,063          |
| Transfer out to the City of Redwood City   | -                       | (372,339)                                | -                                       | (372,339)          |
| Transfers (out)  | (1,862,063)             | -  | -                                       | (1,862,063)        |
| Sale of capital assets   | 30                      | -  | -                                       | 30                 |
| Loss on sale of land held redevelopment  | (293,096)               | (3,038,072)                              | -                                       | (3,331,168)        |
| <b>Total other financing sources (uses)</b>  | <b>(2,155,129)</b>      | <b>(3,410,411)</b>                       | <b>1,862,063</b>                        | <b>(3,703,477)</b> |
| <b>REVENUES AND OTHER<br/>FINANCING SOURCES OVER<br/>(UNDER) EXPENDITURES AND<br/>OTHER FINANCING USES</b> | <b>(449,025)</b>        | <b>(12,699)</b>                          | <b>-</b>                                | <b>(461,724)</b>   |
| <b>FUND BALANCES:</b>  |                         |  |   |                    |
| Beginning of year  | (348,543)               | 19,078,093                               | -                                       | 18,729,550         |
| End of year  | \$ (797,568)            | \$ 19,065,394                            | \$ -                                    | \$ 18,267,826      |

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 to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2011**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (461,724)

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 23,339

Proceeds from disposal of capital assets are reported as revenues in the governmental funds, while the loss on disposal of capital assets are reported as an expense in the Government-Wide Financial Statements

Proceeds from sale of capital assets (30)

Loss on sale of capital assets (3,126,634)

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.

(510,634)

Revenues that have not met the revenue recognition criteria in the Fund Financial statements are recognized as revenue in the Government-Wide Financial Statements.

65,410

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.

(47,794)

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 1,267,321

Amortization of premium 30,771

Accreted interest on capital appreciation bonds (1,599,544)

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.

19,661

**Change in Net Assets of Governmental Activities** \$ (4,339,858)

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See accompanying Notes to Basic Financial Statements.

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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, 2011

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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/M 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, 2011**

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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.

*2003 Tax Allocation Bonds Fund*

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

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 except for claims, judgments, compensated absence, interest on long-term debt which is recognized when due.

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.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

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

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.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County. The City reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

***D. Receivables***

During the course of normal operations, the Agency carries various receivable balances for taxes, interest, and loan assistance services. Receivables are shown net of an allowance for doubtful accounts. As of June 30, 2011, no allowance was required to be recorded.

***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.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

*E. Capital Assets, Continued*

Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

|                 |             |
|-----------------|-------------|
| 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 infrastructure 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, 2011**

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

**F. Fund Balances**

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term loans receivable.

Restricted Fund Balance - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance - includes amounts that can only be used for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority, the Board of Directors. Commitments may be changed or lifted only by the Agency taking the same formal action that imposed the constraint originally.

Assigned Fund Balance - comprises amounts intended to be used by the Agency for specific purposes that are neither restricted nor committed. Intent is expressed by the Board of Directors or RDA Director, to which the Board of Directors has delegated the authority, to assign amounts to be used for specific purposes.

Unassigned Fund Balance - is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**G. Deficit Fund Balance**

The Redevelopment Agency fund had a deficit fund balance of \$797,568 due to the required but unplanned payment to the State of California as the State experienced budget difficulties, and relied on local agencies to provide financial assistance. The Redevelopment Agency has scheduled payments out of future tax increment revenue for the advances payable to other funds to eliminate the deficit fund balance created by the unplanned payment to the State of California.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

**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 (Deficit) - 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:

|                  | Secured                          | Unsecured |
|------------------|----------------------------------|-----------|
| 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, 2011**

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

**K. New Pronouncements**

In 2011, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* - the Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds. There was no effect on the Agency's net assets by adopting the accounting standard, however the Agency reclassified its governmental funds' fund balances as of June 30<sup>th</sup>, 2011.
- GASB Statement No. 59, *Financial Instruments Omnibus* - the Statement updates and improves existing standards regarding the financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. There was no effect on the Agency's net assets by adopting the accounting standard.

**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 \$14,705,046 as of June 30, 2011. Restricted cash and investments at June 30, 2011 amounted to \$1,680,000.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**2. CASH AND INVESTMENTS, Continued**

**A - Risk Disclosures**

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

*Credit Risk* - Defined as the risk of loss of value of an investment due to a downgrade of its ratings or the failure or impairment of its issuer. Credit Risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City's capital base and cash flow. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of commercial paper investments to those rated A-1 by Standard and Poor's or P-1 by Moody's Investor's Service, and corporate bonds to those rated A or better by Standard and Poor's or Moody's Investor's Service.

**3. LOANS RECEIVABLE**

As of June 30, 2011, loans receivable consisted of the following:

|  |                     |
|--|---------------------|
| First Time Homebuyer Loan Program        | \$ 235,586          |
| City Centre Plaza Loans                  | 1,665,649           |
| First Time Homebuyer Silent Loan Program | 557,005             |
| Housing Rehabilitation Loans             | 186,654             |
| First Community Housing Loans            | 2,427,000           |
| Loans with For Profit Organizations      | 633,153             |
| <b>Total</b>                             | <b>\$ 5,705,047</b> |

**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, 2011 the Agency had loaned \$235,586. Since these loans are not currently available for expenditure, fund balance has been reserved in this amount.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. LOANS RECEIVABLE, Continued**

***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, 2011 was \$1,665,649.

***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, 2011 the Agency had outstanding loans in the amount of \$557,005.

***D. Housing Rehabilitation Loans***

The Agency has outstanding loans for housing rehabilitation in the amount of \$186,654. 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. As of June 30, 2011, the remaining loan balance was \$483,153.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**4. CAPITAL ASSETS**

The Agency's capital assets at June 30, 2011 comprise:

| Asset Type  | Balance<br>July 1, 2010 | Additions           | Disposal              | Transfers        | Balance<br>June 30, 2011 |
|---|-------------------------|---------------------|-----------------------|------------------|--------------------------|
| <b>Non-depreciable Assets:</b>  |                         |                     |                       |                  |                          |
| Land  | \$ 3,126,664            | \$ -                | \$ (3,126,664)        | \$ -             | \$ -                     |
| Construction in progress  | 404,724                 | 12,793              | -                     | (292,678)        | 124,839                  |
| <b>Total non-depreciated assets</b>                                   | <b>3,531,388</b>        | <b>12,793</b>       | <b>(3,126,664)</b>    | <b>(292,678)</b> | <b>124,839</b>           |
| <b>Depreciable Assets:</b>  |                         |                     |                       |                  |                          |
| Machinery and equipment   | 942,698                 | 10,546              | -                     | -                | 953,244                  |
| Less accumulated depreciation<br>on machinery and equipment           | (165,456)               | (48,919)            | -                     | -                | (214,375)                |
| Improvements other than buildings                                     | 12,938,825              | -                   | -                     | 292,678          | 13,231,503               |
| Less accumulated depreciation<br>on improvements other than buildings | (891,777)               | (348,747)           | -                     | -                | (1,240,524)              |
| Traffic signals   | 208,691                 | -                   | -                     | -                | 208,691                  |
| Less accumulated depreciation<br>on traffic signals                   | (15,652)                | (10,435)            | -                     | -                | (26,087)                 |
| Storm drains  | 4,101,302               | -                   | -                     | -                | 4,101,302                |
| Less accumulated depreciation<br>on storm drains                      | (666,463)               | (102,533)           | -                     | -                | (768,996)                |
| <b>Total depreciable assets</b>                                       | <b>16,452,168</b>       | <b>(500,088)</b>    | <b>-</b>              | <b>292,678</b>   | <b>16,244,758</b>        |
| <b>Total capital assets, net</b>                                      | <b>\$ 19,983,556</b>    | <b>\$ (487,295)</b> | <b>\$ (3,126,664)</b> | <b>\$ -</b>      | <b>\$ 16,369,597</b>     |

Depreciation expense of \$510,634 was charged to Community Development Program based on its usage of the related assets.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**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 2010-2011.

**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                                 |                     |
|---------------|----------------------|--|---------------------|
|               |                      | 2003 Tax<br>Allocation<br>Bonds Fund<br>Fund | Total               |
| Transfers Out | Redevelopment Agency | \$ 1,862,063                                 | \$ 1,862,063        |
|               | <b>Total</b>         | <b>\$ 1,862,063</b>                          | <b>\$ 1,862,063</b> |

Transfers made from the Redevelopment Agency Fund to the 2003 Tax Allocation Bond Fund were to fund debt service payments.

*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. During fiscal year 2010-2011, the Redevelopment Agency Fund repaid \$248,364 of the advance.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**7. LONG-TERM DEBT**

Summary of changes in long-term debt for the year ended June 30, 2011 was as follows:

|                                   | Balance              |                     |                     | Amount                   |                        |                              |
|-----------------------------------|----------------------|---------------------|---------------------|--------------------------|------------------------|------------------------------|
|                                   | July 1, 2010         | Additions           | Retirements         | Balance<br>June 30, 2011 | Due Within<br>One Year | Due In More<br>Than One Year |
| Tax Allocation Bond, Series 2003A | 33,997,448           | -                   | 1,225,000           | 32,772,448               | 1,265,000              | 31,507,448                   |
| Accreted interest payable         | 8,717,909            | 1,599,544           | -                   | 10,317,453               | -                      | 10,317,453                   |
| Unamortized premium               | 707,743              | -                   | 30,771              | 676,972                  | 30,771                 | 646,201                      |
| Loans Payable                     | 126,963              | -                   | 42,321              | 84,642                   | 42,321                 | 42,321                       |
| <b>Total</b>                      | <b>\$ 43,550,063</b> | <b>\$ 1,599,544</b> | <b>\$ 1,298,092</b> | <b>\$ 43,851,515</b>     | <b>\$ 1,338,092</b>    | <b>\$ 42,513,423</b>         |

**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 on the current coupon bonds is paid in annual installments of \$1,225,000 to \$2,850,000 from July 15, 2010 to July 15, 2015. Payments reflecting interest and principal of the capital appreciation bonds are due in annual installments of \$510,000 to \$3,505,000 from July 15, 2015 through July 15, 2032. Total principal and interest remaining on the bonds is \$74,426,900. At June 30, 2011, the Tax Allocation Bonds, Series 2003A had a remaining balance outstanding of \$32,772,448. Payments are made from property tax increment generated by the Redevelopment Agency Fund which is expected to produce 135% of the debt service requirements.

The annual debt service requirements are shown below:

| For the Fiscal Year<br>Ended June 30, | Principal            | Interest             | Total                |
|---------------------------------------|----------------------|----------------------|----------------------|
| 2012                                  | 1,265,000            | 585,975              | 1,850,975            |
| 2013                                  | 2,480,000            | 511,075              | 2,991,075            |
| 2014                                  | 2,895,000            | 385,481              | 3,280,481            |
| 2015                                  | 3,045,000            | 229,556              | 3,274,556            |
| 2016                                  | 3,142,669            | 292,144              | 3,434,813            |
| 2017-2021                             | 8,336,012            | 9,188,988            | 17,525,000           |
| 2022-2026                             | 5,897,817            | 11,632,183           | 17,530,000           |
| 2027-2031                             | 4,312,130            | 13,212,869           | 17,524,999           |
| 2032-2033                             | 1,398,820            | 5,616,181            | 7,015,001            |
|                                       | <b>\$ 32,772,448</b> | <b>\$ 41,654,452</b> | <b>\$ 74,426,900</b> |

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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

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

The Tax Allocation Bonds, Series 2003A had issuance costs of \$1,386,035, which were 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, 2011 the amount remaining was \$1,051,476.

*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<br>Ended June 30, | Principal        |
|---------------------------------------|------------------|
| 2012                                  | 42,321           |
| 2013                                  | 42,321           |
|                                       | <u>\$ 84,642</u> |

**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:

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**8. GENERAL INFORMATION, Continued**

|   | Original<br>Area                 | First<br>Amendment<br>Area | Second<br>Amendment<br>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                   |
| Commencement of Eminent<br>Domain Proceedings | 1/18/2008                        | 1/18/2008                  | 1/18/2008                   |
| 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 \$115 million in tax increment through 2010-11. As shown above, the amount of bonded indebtedness that can be outstanding at any one time cannot exceed \$119 million. At June 30, 2011, the Agency had \$32,772,448 outstanding in tax increment bonds.

The foregoing dates limiting debt establishment are inapplicable as they relate to debt that is payable out of the Low and Moderate Income Housing fund.

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 increases in these taxes are the only source of Agency assistance for the project.

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:

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**9. REDEVELOPMENT AGREEMENTS, Continued**

**A. *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.

**B. *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 from surplus revenues generated by the housing project through 2028. 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, 2008. The outstanding balance at June 30, 2011 was \$1,665,649.

**C. *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, 2011 the County has received \$18,835,290 including \$1,412,196 for the year ended June 30, 2011 from the Original and First Amendment Areas.

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. As of June 30, 2011, \$10.3 million of the required \$11.9 million has been deposited into 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. These deposits were resumed in FY 2008-09. As of June 30, 2011, \$10.3 million of the tax increment waived by the County in the Second Plan Amendment Areas had been deposited into the Low and Moderate Income Housing Fund. 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, 2011, the Agency has received approximately \$17,057,260 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.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**9. REDEVELOPMENT AGREEMENTS, Continued**

*D. 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, 2011, the Agency passed through \$1,528,870 to these various governmental agencies.

*E. 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.

**10. FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS**

Expenditures exceeded appropriations in the 2003 Tax Allocation Bonds Fund due to unbudgeted administrative fees associated with bond administration. Sufficient revenues were available to fund these expenditures.

**11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES**

During fiscal year 2010/11, the Agency and the City of Redwood City entered into an agreement in which the City acquired certain Agency-owned real property assets for \$10 per parcel. The Agency sold to the City three parcels held by the Agency as land held for redevelopment valued at \$3,331,208, and four parcels owned by the Agency valued at \$3,126,664.

**Redevelopment Agency of the City of Redwood City**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued**

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 increases in these taxes are the only source of Agency assistance for the project.

The Agency has agreements termed pass-throughs 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.

As part of the 2011-12 State budget package, the California Legislature enacted and the Governor signed two companion bills addressing redevelopment, AB1x 26 ("Dissolution Act") and AB1x 27 ("Voluntary Program Act"), which took effect on June 29, 2011.

The Dissolution Act, which is discussed more fully below, immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminates redevelopment agencies as of October 1, 2011.

The Voluntary Program Act, which is discussed more fully below, allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance ("Remittance") beginning FY 2011/12 and each year thereafter. If all communities with redevelopment agencies opt in to the Voluntary Program Act, the total statewide remittance would be \$1.7 billion in FY 2011/12. Remittance each succeeding year would be approximately \$400 million statewide. If Redwood City opts in to the Voluntary Program Act, the FY 2011/12 payment is \$4.9 million and each subsequent year is approximately \$1.16 million based on preliminary estimates by the California Redevelopment Association. Biannual payments would be due by January 15 and May 15 of each year.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act and the Voluntary Program Act, on behalf of cities, counties and redevelopment agencies, and requesting a stay of their enforcement.

As of the date of this report, a partial stay of enforcement of the companion bills has been granted by the California Supreme Court. The partial stay continues to prohibit RDAs from taking on any new obligations or engaging in any RDA activities (other than meeting prior enforceable obligations) on or after the effective date of the companion bills, but it is unclear whether cities may still adopt opt-in ordinances during the stay.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Redevelopment Agency of the City of Redwood City**  
**Required Supplementary Information**  
**For the year ended June 30, 2011**

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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.

**Redevelopment Agency of the City of Redwood City**  
**Required Supplementary Information, Continued**  
**Budget and Actual Redevelopment Agency Fund**  
**For the year ended June 30, 2011**

|  | Budget Amounts        |                       | Actual             | Variance<br>Over (Under) |
|--|-----------------------|-----------------------|--------------------|--------------------------|
|  | Original              | Final                 |                    |                          |
| <b>REVENUES:</b>   |                       |                       |                    |                          |
| Tax increments   | \$ 7,830,992          | \$ 7,830,992          | \$ 7,684,060       | \$ (146,932)             |
| Use of money and property  | 3,800                 | 3,800                 | 69,618             | 65,818                   |
| Contributions  | 32,780                | 32,780                | 157,636            | 124,856                  |
| <b>Total revenues</b>  | <b>7,867,572</b>      | <b>7,867,572</b>      | <b>7,911,314</b>   | <b>43,742</b>            |
| <b>EXPENDITURES:</b>   |                       |                       |                    |                          |
| Current operations:  |                       |                       |                    |                          |
| Community development  | 7,506,659             | 7,681,659             | 6,139,550          | 1,542,109                |
| Capital outlay   | 23,339                | 23,339                | 23,339             | -                        |
| Debt service:  |                       |                       |                    |                          |
| Principal  | 42,321                | 42,321                | 42,321             | -                        |
| <b>Total expenditures</b>  | <b>7,572,319</b>      | <b>7,747,319</b>      | <b>6,205,210</b>   | <b>1,542,109</b>         |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>  | <b>295,253</b>        | <b>120,253</b>        | <b>1,706,104</b>   | <b>1,585,851</b>         |
| <b>OTHER FINANCING SOURCES (USES):</b>   |                       |                       |                    |                          |
| Transfers (out)  | (1,860,713)           | (3,095,113)           | (1,862,063)        | 1,233,050                |
| Sale of capital assets   | -                     | -                     | 30                 | 30                       |
| Loss on sale of land held for redevelopment  | -                     | -                     | (293,096)          | (293,096)                |
| <b>Total other financing sources (uses)</b>  | <b>(1,860,713)</b>    | <b>(3,095,113)</b>    | <b>(2,155,129)</b> | <b>939,984</b>           |
| <b>REVENUES AND OTHER FINANCING<br/>SOURCES OVER (UNDER) EXPENDITURES<br/>AND OTHER FINANCING USES</b> | <b>\$ (1,565,460)</b> | <b>\$ (2,974,860)</b> | <b>(449,025)</b>   | <b>\$ 2,525,835</b>      |
| <b>FUND BALANCES:</b>  |                       |                       |                    |                          |
| Beginning of year  |                       |                       | (348,543)          |                          |
| End of year  |                       |                       | \$ (797,568)       |                          |

**Redevelopment Agency of the City of Redwood City**  
**Required Supplementary Information, Continued**  
**Budget and Actual Low and Moderate Income Housing Fund**  
**For the year ended June 30, 2011**

|  | Budget Amounts      |                     | Actual             | Variance<br>Over (Under) |
|--|---------------------|---------------------|--------------------|--------------------------|
|  | Original            | Final               |                    |                          |
| <b>REVENUES:</b>   |                     |                     |                    |                          |
| Tax increments   | \$ 4,587,193        | \$ 4,587,193        | \$ 4,416,733       | \$ (170,460)             |
| Use of money and property  | 103,000             | 103,000             | 122,785            | 19,785                   |
| Miscellaneous revenue  | -                   | -                   | 830                | 830                      |
| <b>Total revenues</b>  | <b>4,690,193</b>    | <b>4,690,193</b>    | <b>4,540,348</b>   | <b>(149,845)</b>         |
| <b>EXPENDITURES:</b>   |                     |                     |                    |                          |
| Community development  | 1,630,504           | 1,630,504           | 1,142,636          | 487,868                  |
| <b>Total expenditures</b>  | <b>1,630,504</b>    | <b>1,630,504</b>    | <b>1,142,636</b>   | <b>487,868</b>           |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>  | <b>3,059,689</b>    | <b>3,059,689</b>    | <b>3,397,712</b>   | <b>338,023</b>           |
| <b>OTHER FINANCING SOURCES (USES):</b>   |                     |                     |                    |                          |
| Transfer out to the City of Redwood City   | -                   | (308,600)           | (372,339)          | (63,739)                 |
| Loss on sale of land held for redevelopment  | -                   | -                   | (3,038,072)        | (3,038,072)              |
| <b>Total other financing sources (uses)</b>  | <b>-</b>            | <b>(308,600)</b>    | <b>(3,410,411)</b> | <b>(3,101,811)</b>       |
| <b>REVENUES AND OTHER FINANCING<br/>SOURCES OVER (UNDER) EXPENDITURES<br/>AND OTHER FINANCING USES</b> | <b>\$ 3,059,689</b> | <b>\$ 2,751,089</b> | <b>(12,699)</b>    | <b>\$ (2,763,788)</b>    |
| <b>FUND BALANCES:</b>  |                     |                     |                    |                          |
| Beginning of year  |                     |                     | 19,078,093         |                          |
| End of year  |                     |                     | \$ 19,065,394      |                          |

## **SUPPLEMENTAL INFORMATION**

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**Redevelopment Agency of the City of Redwood City**  
**Supplemental Information, Continued**  
**Budget and Actual - 2003 Tax Allocation Bonds Fund**  
**For the year ended June 30, 2011**

|  | Budget Amounts     |                    | Actual             | Variance<br>Over (Under) |
|--|--------------------|--------------------|--------------------|--------------------------|
|  | Original           | Final              |                    |                          |
| <b>REVENUES:</b>   |                    |                    |                    |                          |
| Use of money and property  | \$ -               | \$ -               | \$ -               | \$ -                     |
| <b>Total revenues</b>  | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>                 |
| <b>EXPENDITURES:</b>   |                    |                    |                    |                          |
| Debt Service:  |                    |                    |                    |                          |
| Principal  | 1,225,000          | 1,225,000          | 1,225,000          | -                        |
| Interest and fiscal charges  | 635,713            | 635,713            | 637,063            | (1,350)                  |
| <b>Total expenditures</b>  | <b>1,860,713</b>   | <b>1,860,713</b>   | <b>1,862,063</b>   | <b>(1,350)</b>           |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>  | <b>(1,860,713)</b> | <b>(1,860,713)</b> | <b>(1,862,063)</b> | <b>(1,350)</b>           |
| <b>OTHER FINANCING SOURCES (USES):</b>   |                    |                    |                    |                          |
| Transfers in   | 1,860,713          | 1,860,713          | 1,862,063          | 1,350                    |
| <b>Total other financing sources (uses)</b>  | <b>1,860,713</b>   | <b>1,860,713</b>   | <b>1,862,063</b>   | <b>1,350</b>             |
| <b>REVENUES AND OTHER FINANCING<br/>SOURCES OVER (UNDER) EXPENDITURES<br/>AND OTHER FINANCING USES</b> | <b>\$ -</b>        | <b>\$ -</b>        | <b>-</b>           | <b>\$ -</b>              |
| <b>FUND BALANCES:</b>  |                    |                    |                    |                          |
| Beginning of year  |                    |                    | -                  |                          |
| End of year  |                    |                    | \$ -               |                          |

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**Redevelopment Agency**  
 Low and Moderate Income Housing  
 Excess/Surplus Computations  
 For the year ended June 30, 2011

|  |                      | Low and Moderate<br>Housing Fund |
|--|----------------------|----------------------------------|
| Opening Fund Balance - July 1, 2010                                |                      | \$ 19,078,093                    |
| <b>Less Unavailable Amounts:</b>                                   |                      |                                  |
| Land held for resale   | \$ 3,410,442         |                                  |
| Unspent debt proceeds (Section 33334.12 (g)(3)(B))                 | 7,036,453            |                                  |
|  |                      | <u>(10,446,895)</u>              |
| Available Low and Moderate Income Housing Funds                    |                      | 8,631,198                        |
| <br>   |                      |                                  |
| <b>Limitation (greater of \$1,000,000 or four years set-aside)</b> |                      |                                  |
| Set-Aside for last four years:                                     |                      |                                  |
| Prior Year 1 - 2010  | 4,674,050            |                                  |
| Prior Year 2 - 2009  | 4,619,186            |                                  |
| Prior Year 3 - 2008  | 2,386,828            |                                  |
| Prior Year 4 - 2007  | 2,079,365            |                                  |
|  | <u>\$ 13,759,429</u> |                                  |
| Base limitation  | <u>\$ 1,000,000</u>  |                                  |
| Greater amount   |                      | <u>\$ 13,759,429</u>             |
| <br>   |                      |                                  |
| <b>Computed Excess/Surplus</b>                                     |                      | <u>None</u>                      |

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Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

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

We have audited the basic financial statements of the City of Redwood City Redevelopment Agency (the "Agency"), a component unit of the City of Redwood City, California (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing 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 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.

Our consideration of the 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 the Agency's internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying summary of findings & responses as item 2011-01.

To the Board of Directors  
of the City of Redwood City Redevelopment Agency  
Redwood City, California  
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The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's responses and, accordingly, we express no opinion on the response.

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

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
December 7, 2011



Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

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

### **Compliance**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011* and which is described in the accompanying schedule of findings and responses as item 2011-01.

### **Internal Control Over Compliance**

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

To the Board of Directors  
of the City of Redwood City Redevelopment Agency  
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*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

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

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's responses and, accordingly, we express no opinion on the response.

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

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San Francisco, California  
December 7, 2011

**Redevelopment Agency of the City of Redwood City**  
**Summary of Findings**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF FINDINGS**

**Finding 2011-01: Filing of required annual reports**

**Criteria:**

Health and Safety Code Section 33080.1 requires that the Redevelopment Agency file various reports to the State Controller's Office of California within six months of the fiscal year end.

**Condition:**

During the performance of the audit, we noted that the Redevelopment Agency had filed all of the required reports. However the listing of fiscal years that the Agency expects various time limits to expire that is included as part of the Agency's financial statements, did not include the time limit for the commencement for eminent domain proceedings to acquire property within the project area.

**Cause:**

The Redevelopment Agency was not aware of the requirement to include the above mentioned time limit in their annual reports.

**Context and Effect:**

The Redevelopment Agency will not be in compliance with Section 33080.1 of the Health and Safety Code.

**Questioned Costs:**

Not applicable.

**Recommendation:**

We recommend that the Agency include the above mentioned time limit in the Agency's annual reports.

**Management Response:**

Management will disclose these timelines in future financial reports including the Redevelopment Agency's Basic Financial Statements.