

Redevelopment Agency of the City of Redwood City

Redwood City, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2003

C&L
Caporicci & Larson
Certified Public Accountants

Redevelopment Agency of the City of Redwood City
Basic Financial Statements
For the year ended June 30, 2003

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C&LCaporicci & Larson
Certified Public Accountants**INDEPENDENT AUDITORS' REPORT**

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

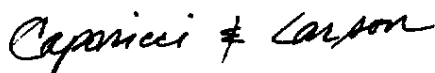
We have audited the basic financial statements of the Redevelopment Agency of the City of Redwood City (Agency), a component unit of the City of Redwood City, as of and for the year ended June 30, 2003, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net assets of the Agency as of June 30, 2003, and results of its activities and changes in net assets for the year then ended in conformity with generally accepted accounting principles in the United States.

The Required Supplementary Information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This Required Supplementary Information is the responsibility of the management of the City. This Required Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

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



Oakland, California
October 17, 2003

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**REDEVELOPMENT AGENCY
OF THE CITY OF REDWOOD CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

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, 2003. 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 2003 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Agency's net assets increased \$3.7 million in fiscal year 2002-03, after \$5.0 million increase in the preceding year. At June 30, 2003, the Agency's net assets were \$9.967 million.
- Total Agency revenues were \$8.6 million, an increase of \$100 thousand, and expenses were \$4.9 million, representing an increase of \$1.4 million over the prior year.
- Redevelopment Agency Fund revenues increased \$200 thousand and expenditures and transfers out increased \$4 million. Fund balance decreased \$1.9 million.
- Low and Moderate Income Housing Fund revenues of \$2.7 million were \$100 thousand lower than the prior year, while expenditures of \$1.2 million increased \$500 thousand over the prior year, and ending fund balance increased \$1.2 million.

The Basic Financial Statements

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

The Agency-wide Financial Statements provide a longer-term view of the Agency's activities as a whole and comprise 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 provide information about all of the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

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

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

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

The Agency's net assets from governmental activities increased 59% to net assets of \$9.967 million in 2003 from net assets of \$6.3 million in 2002. This increase is the Change in Net Assets reflected in the Statement of Activities, as explained below:

- Capital assets amount to \$4.3 million representing a net increase of \$3.4 million resulting from construction in progress related to the Downtown Cinema project.
- Net assets invested in capital assets reflected the investment in capital assets discussed above, net of related debt (as of June 30, 2003, there was no related debt).
- Restricted net assets decreased to \$5.7 million as a result of expenses related to the Downtown Cinema project.

Fiscal Year 2003 Government Activities

The Agency's fiscal 2003 revenue came primarily from property tax increments, which amounted to \$7.7 million, a decrease of \$241 thousand from the prior year. This decrease stemmed from the downward revaluation of commercial properties in the Agency's project area.

Agency expenses of \$4.9 million in fiscal 2003 were principally for development-related projects amounting to \$3.4 million, school district and special district Pass-throughs expense of \$872 thousand, and State Educational Revenue Augmentation Fund takeaway of \$196 thousand. 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 \$623 thousand.

The Agency's Fund Financial Statements

At June 30, 2003, the Agency's governmental funds reported combined fund balances of \$17.2 million, which is a decrease of \$701 thousand compared with last year. This decrease represented the excess of expenditures over revenues for the year. The Redevelopment Agency fund accounted for \$1.9 million of this amount as capital outlay expenditures increased \$2.9 million in fiscal year 2003, which was offset by an increase of \$1.2 million in the Low and Moderate Income Housing Fund.

The Agency has loaned a total of \$1.7 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 programs under which low-interest rate loans in the amount of \$1.8 million have been made to 19 qualified homebuyers. These loans are explained in detail in Notes 3 and 9 to the financial statements.

CAPITAL ASSETS

Under GASB 34, the Agency is required to record all its capital assets, including infrastructure, at their historical cost, and to depreciate these assets over their estimated useful lives. At June 30, 2003, the Agency had \$4.3 million of capital assets net of depreciation.

DEBT ADMINISTRATION

Each of the Agency's debt issued is discussed in detail in Note 7 to the financial statements. In July 1997 the Agency issued \$15.43 million of Tax Allocation Refunding Bonds that bear interest at 3.8% to 5.15% and are due in 2011. The proceeds from these Bonds were used to advance refund the outstanding balance of the 1991 Redwood City Public Financing Authority Bonds - Series B. At June 30, the Agency's debt comprised the 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.

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

June 30, 2003

ASSETS	
Current assets:	
Cash and investment	\$ 29,468,239
Accrued interest receivable	145,979
Deposits	15,000
Total current assets	<u>29,629,218</u>
Noncurrent assets:	
Restricted cash and investment	1,694,803
Loans receivable	3,861,737
Investment in land held for redevelopment	4,031,700
Capital assets, net	4,290,501
Total noncurrent assets	<u>13,878,741</u>
Total assets	<u>43,507,959</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,789,282
Accrued interest payable	244,837
Deposits payable	73,889
Due to City of Redwood City	20,000,000
Current portion of long-term debt	1,052,321
Total current liabilities	<u>23,160,329</u>
Noncurrent liabilities:	
Long-term debt	10,380,889
Total noncurrent liabilities	<u>10,380,889</u>
Total liabilities	<u>33,541,218</u>
NET ASSETS	
Investment in capital assets, net of related debt	4,290,501
Restricted for:	
Low and moderate income housing	5,676,240
Total restricted net assets	<u>5,676,240</u>
Total net assets	<u>\$ 9,966,741</u>

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Redwood City
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2003

Functions/Programs	Expenses	Program Revenue			Total	Revenues and
		Charges for	Operating	Capital		Net (Expense)
			Services	Grants and		Grants and
						Net Assets
						Governmental
						Activities
Governmental Activities:						
Community development	\$ 4,319,611	\$ -	\$ -	\$ -	\$ -	\$ (4,319,611)
Interest on long-term debt	623,334	-	-	-	-	(623,334)
Total governmental activities	\$ 4,942,945	\$ -	\$ -	\$ -	\$ -	(4,942,945)

General Revenues:

Tax increments	7,677,858
Investment earnings	933,827
Other	27,975
Total general revenues	8,639,660
Change in net assets	3,696,715
Net assets - beginning of year	6,270,026
Net assets - end of year	\$ 9,966,741

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

The Redevelopment Agency of the City of Redwood City determined all its funds to be major funds in fiscal 2003.

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.

Debt Service Fund

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

Capital Projects Fund

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

Redevelopment Agency of the City of Redwood City

Balance Sheet

All Governmental Fund Types

June 30, 2003

	Redevelopment Agency	Low and Moderate Income Housing	Debt Service	Low and Moderate Income Housing Projects	Total
ASSETS					
Cash and investments (Note 2):					
Available for operations	\$ 24,914,040	\$ 4,554,199	\$ -	\$ -	\$ 29,468,239
Restricted	-	-	1,543,009	151,794	1,694,803
Receivables:					
Accrued interest	66,061	33,489	46,429	-	145,979
Loans (Note 3)	1,257,778	2,603,959	-	-	3,861,737
Investment in land held for redevelopment (Note 1)	2,600,000	1,431,700	-	-	4,031,700
Deposits	-	15,000	-	-	15,000
Total assets	\$ 28,837,879	\$ 8,638,347	\$ 1,589,438	\$ 151,794	\$ 39,217,458
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 1,786,057	\$ 3,225	\$ -	\$ -	\$ 1,789,282
Deposits payable	20,246	53,643	-	-	73,889
Deferred revenue	11,643	123,456	-	-	135,099
Advance from City of Redwood City	20,000,000	-	-	-	20,000,000
Total liabilities	21,817,946	180,324	-	-	21,998,270
Fund Equity:					
Reserved for:					
Encumbrances	780,621	216,661	-	-	997,282
Loans receivable	1,246,135	2,480,503	-	-	3,726,638
Land held for redevelopment	2,600,000	1,431,700	-	-	4,031,700
Low and moderate income housing (Note 5)	-	2,587,746	-	-	2,587,746
Debt service	-	-	1,589,438	-	1,589,438
Unreserved, report in:					
Special revenue funds	2,393,177	1,741,413	-	-	4,134,590
Capital projects fund	-	-	-	151,794	151,794
Total fund equity	7,019,933	8,458,023	1,589,438	151,794	17,219,188
Total liabilities and fund equity	\$ 28,837,879	\$ 8,638,347	\$ 1,589,438	\$ 151,794	\$ 39,217,458

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Redwood City
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
For the year ended June 30, 2003

Total Fund Balances - Total Governmental Funds	\$ 17,219,188
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.	4,290,501
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.	(244,837)
Revenues which are deferred on the fund balance sheets because they are not available currently are taken into revenue in the Statement of Activities.	135,099
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	(1,052,321)
Long-term liabilities - due in more than one year	<u>(10,380,889)</u>
Net Assets of Governmental Activities	\$ 9,966,741

Redevelopment Agency of the City of Redwood City
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the year ended June 30, 2003

	Redevelopment Agency	Low and Moderate Income Housing	Debt Service	Low and Moderate Income Housing Projects	Total
REVENUES:					
Tax increments	\$ 5,148,365	\$ 2,529,493	\$ -	\$ -	\$ 7,677,858
Use of money and property	526,120	118,816	95,666	2,133	742,735
Net increase (decrease) in fair value of investments	131,842	59,250	-	-	191,092
Miscellaneous	-	27,975	-	-	27,975
Total revenues	5,806,327	2,735,534	95,666	2,133	8,639,660
EXPENDITURES:					
Current operations:					
Community development	3,171,601	1,145,979	-	-	4,317,580
Capital outlay	3,291,180	75,407	-	-	3,366,587
Debt service:					
Principal	42,321	-	970,000	-	1,012,321
Interest and fiscal charges	-	-	644,274	-	644,274
Total expenditures	6,505,102	1,221,386	1,614,274	-	9,340,762
REVENUES OVER (UNDER) EXPENDITURES	(698,775)	1,514,148	(1,518,608)	2,133	(701,102)
OTHER FINANCING SOURCES (USES):					
Transfers in (Note 6)	-	-	1,518,579	-	1,518,579
Transfers (out) (Note 6)	(1,214,863)	(303,716)	-	-	(1,518,579)
Total other financing sources (uses)	(1,214,863)	(303,716)	1,518,579	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1,913,638)	1,210,432	(29)	2,133	(701,102)
FUND BALANCES:					
Beginning of year	8,933,571	7,247,591	1,589,467	149,661	17,920,290
End of year	\$ 7,019,933	\$ 8,458,023	\$ 1,589,438	\$ 151,794	\$ 17,219,188

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, 2003

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (701,102)</u>
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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.	3,366,587
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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.	(2,031)
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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	1,012,321

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.	<u>20,940</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 3,696,715</u></u>
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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, 2003

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 Redevelopment 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 and the Accompanying Basic Financial Statements are included as a component unit of the basic financial statements prepared by the City.

B. Basis of Accounting/Measurement Focus

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

Government - Wide Financial Statements - The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

These basic 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 types of transactions are reported as program revenues for the Agency in three categories:

- ◆ Charges for services
- ◆ Operating grants and contributions
- ◆ Capital grants and contributions

The Agency does not have any program revenues at June 30, 2003.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting/Measurement Focus, Continued

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:

- ◆ Due to/from other funds
- ◆ Advances to/from other funds
- ◆ Transfers in/out

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 major funds that met those qualifications.

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. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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

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

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments

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

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

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

D. Investment in Land Held for Redevelopment

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

E. Capital Assets

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the Agency has included all infrastructures into the 2002-2003 Basic Financial Statements.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets, Continued

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 effective interest 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.

G. Fund Balances

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

Redevelopment Agency of the City of Redwood City
 Notes to Basic Financial Statements, Continued
 For the year ended June 30, 2003

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

I. Use of Estimates

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

J. Property Taxes

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

	<u>Secured</u>	<u>Unsecured</u>
Lien/levy dates	January 1	January 1
Due date	50% on November 1 and March 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, 2003

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 market 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 amounts to \$29,468,239 as of June 30, 2003. Restricted cash and investments at June 30, 2003 amounted to \$1,694,803

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

3. LOANS RECEIVABLE

As of June 30, 2003, loans receivable consist of the following:

First Time Homebuyer Loan Program	\$ 296,159
City Centre Plaza Loans	1,692,383
First Time Homebuyer Silent Loan Program	1,871,600
Housing Rehabilitation Loans	1,595
Total	\$ 3,861,737

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, 2003 the Agency had loaned \$296,159 to 11 buyers. 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, 2003

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 8C. The outstanding balance at June 30, 2003 was \$1,692,383.

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 5 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, 2003 the Agency loaned \$1,871,600 to 19 homebuyers. Since these loans are not currently available for expenditure, fund balances has been reserved in this amount.

D. Housing Rehabilitation Loans

The Agency has one outstanding loan for housing rehabilitation in the amount of \$1,595. Other funds allocated under this program provided grants for the removal of lead based paint hazards.

4. CAPITAL ASSETS

The Agency's capital assets at June 30 comprise:

Asset Type	Balance			Balance June 30, 2003
	June 30, 2002	Additions	Retirements	
Land	\$ 916,057	\$ -	\$ -	\$ 916,057
Machinery and equipment	14,965	-	-	14,965
Construction in progress	-	3,366,587	-	3,366,587
Less accumulated depreciation	(5,077)	(2,031)	-	(7,108)
Total capital assets, net	\$ 925,945	\$ 3,364,556	\$ -	\$ 4,290,501

Depreciation expense is charged to community development based on its usage of the related assets.

5. LOW AND MODERATE INCOME HOUSING SET ASIDE

The Agency is required to set aside a portion of the property tax increments it receives to increase and improve the City's supply of low and moderate income housing. The amount set aside must equal twenty percent of each year's property tax increments for the Original and First Amendment Area and approximately forty-two percent of the net tax increment for the Second Amendment Area. The total set aside for all areas is approximately twenty-five percent of the property tax increment.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

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.

During the year ended June 30, 2003 the Redevelopment Special Revenues Fund transferred \$1,214,863 and the Low and Moderate Income Housing Special Revenue Fund transferred \$303,716 to the Redevelopment Debt Service Fund for debt service requirements on the 1997 Tax Allocation Refunding Bonds.

7. LONG-TERM DEBT

Summary of changes in long-term debt for the year ended June 30, 2003 was as follow:

	Balance			Balance	Amount	Amount
	July 1, 2002	Issuances	Retirements	June 30, 2003	Due Within	Due In More
					One Year	Than One Year
1997 Tax Allocation Refunding Bond	\$ 11,980,000	\$ -	\$ (970,000)	\$ 11,010,000	\$ 1,010,000	\$ 10,000,000
Loans Payable	465,531	-	(42,321)	423,210	42,321	380,889
Total	12,445,531	-	(1,012,321)	11,433,210	1,052,321	10,380,889

A. 1997 Tax Allocation Refunding Bonds

On June 15, 1997, the Agency issued \$15,430,000 of 1997 Tax Allocation Refunding Bonds with a final maturity date of July 15, 2011. The purpose of the issuance is to provide funds to prepay a loan received by the Agency and defeased \$13,955,000 aggregate principal amount of the 1991 Local Agency Revenue Bonds, Series B (Prior Bonds), to fund a reserve account for the Bonds and to pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. The purpose of the prior bonds was to finance improvements within the Agency's Redevelopment Project Area No. 2. The 1997 Tax Allocation Refunding Bonds are due in annual installments of \$417,805 to \$1,525,880 through July 15, 2011, payable from the Redevelopment Agency Tax Increment. The bonds are secured by a first lien on the security interest in all of the tax revenue and all of the moneys deposited and held from time to time by the Trustee in the Special Revenue Fund and the Debt Service Fund, including interest account, the principal account, the reserve account and the redemption account established pursuant to the indenture. Interest rate ranges from 3.8% to 5.15%. Principal is due annually on each July 15 commencing in 1998. Interest is due semiannually on each January 15, and July 15, commencing January 15, 1998. At June 30, 2003 the Refunding Public Financing Authority Bonds had a remaining balance outstanding of \$11,010,000. The refunded bonds (1991 Series B Bonds) were completely paid off on July 15, 2001. The refunding produced a net reduction in debt service of \$759,000 over the next 14 years. The economic gain (the difference between the present value of the debt service payments of the refunded and refunding debt) is \$590,000 or 4.23% of the refunded principal.

Redevelopment Agency of the City of Redwood City
 Notes to Basic Financial Statements, Continued
 For the year ended June 30, 2003

7. LONG-TERM DEBT, Continued

A. 1997 Tax Allocation Refunding Bonds, Continued

The annual debt service requirements are shown below:

For the Fiscal Year Ended June 30,	Principal	Interest	Total
2004	\$ 1,010,000	\$ 511,450	\$ 1,521,450
2005	1,060,000	464,862	1,524,862
2006	1,105,000	415,055	1,520,055
2007	1,160,000	361,815	1,521,815
2008	1,210,000	304,923	1,514,923
2009-2013	5,465,000	573,695	6,038,695
	<u>\$ 11,010,000</u>	<u>\$ 2,631,800</u>	<u>\$ 13,641,800</u>

B. Loans

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

The annual debt service requirements are shown below:

For the Fiscal Year Ended June 30,	Principal
2004	\$ 42,321
2005	42,321
2006	42,321
2007	42,321
2008	42,321
2009-2013	211,605
	<u>\$ 423,210</u>

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

8. GENERAL INFORMATION

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

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

The cumulative tax increment limit shown above is expressed in the Redevelopment Plan as being calculated on the basis of total gross tax increment less any tax sharing payments to the taxing entities and any housing set-aside on the tax sharing payments. The tax increment limit is applicable from the effective date of the Second Amendment. The Agency has received \$49.4 million in tax increment through 2002-03. As shown above, the amount of bonded indebtedness that can be outstanding at any one time cannot exceed \$119 million. After making the July 2003 principal payment, the Agency will have \$10 million in principal outstanding on the 1997 Bonds.

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

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

9. REDEVELOPMENT AGREEMENTS

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

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

All these agreements are described below:

A. Sequoia Station

Under the terms of a 1990 Disposition and Development Agreement, the Agency assisted the developer of the Sequoia Station Retail Center in acquiring the land on which this 160,000 square foot retail center was constructed at a cost to the developer of approximately \$31,000,000. The City and the Agency are assisting in the financing of the project by remitting to the developer a portion of the sales and the net incremental property taxes it receives from the Sequoia Station Retail Center up to a maximum of \$300,000 per year for fifteen years, commencing January 1995. The balance as of June 30, 2003 is \$1,800,000. This obligation will be fully repaid by June 30, 2009.

B. Wyndham Place

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

During FY 02/03, there was no resale or change in property owners at Wyndham Place. In September 2000, deferred payments became fully amortized and buyers started to make principal payments on their loans. \$43,840 was received as of June 30, 2003 in loan repayments to the Agency.

C. City Center Plaza

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

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

9. REDEVELOPMENT AGREEMENTS, Continued

D. County of San Mateo

Under the terms of the Original and First Amendment Area Agreements, after the Agency receives a cumulative \$2 million of the County's share of tax increment in Original and First Amendment Areas, the Agency agreed to allow the County to receive 100% of the County's share of the tax increment in the Original and First Amendment Areas. Commencing December 14, 1990 through June 30, 2003 the County has received \$10,090,224 including \$1,029,174 for the year ended June 30, 2003 net of administrative costs, from the Original and First Amendment Areas.

Under the Second Plan Amendment, after the Agency receives a cumulative \$25 million of the County's share of tax increment on the Second Amendment Area, which the Agency is required to deposit the first \$11.9 million in the Low and Moderate Income Housing Fund, 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, 2003, the Agency has received approximately \$4,873,980 of the County's share of tax increment from the Second Amendment Area.

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

E. Various Governmental Agencies

The Agency amended their project area in 1989 in order to expand the project area and to increase the maximum amount of tax increment that can be distributed to the Agency. As a result, the Agency entered into pass through agreements with various governmental agencies whereby the Agency agreed to pass through to these governmental agencies 50% of the increase in tax increment less the amount required to be set aside for Low and Moderate Income Housing from the amendment area that would be otherwise allocated and paid to these governmental agencies. For the year ended June 30, 2003 the Agency passed through \$863,666 to these various governmental agencies.

F. Irvine Apartment Community

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

10. SUBSEQUENT EVENT

On October 15, 2003, the Redevelopment Agency sold \$33,997,447 of bonds to finance downtown revitalization projects. The bonds, which consist of current interest bonds and capital appreciation bonds, have a final maturity in 2032 and are the sole obligation of the Redevelopment Agency.

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REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Redwood City
Required Supplementary Information
For the year ended June 30, 2003

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 all 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
For the year ended June 30, 2003

1. BUDGETARY INFORMATION, Continued

	Redevelopment Agency Fund			
	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Tax increments	\$ 4,756,259	\$ 4,756,259	\$ 5,148,365	\$ 392,106
Use of money and property	154,182	154,182	526,120	371,938
Net increase in fair value of investments	-	-	131,842	131,842
Total revenues	4,910,441	4,910,441	5,806,327	895,886
EXPENDITURES:				
Community development	3,018,848	3,258,848	3,171,601	87,247
Debt service:				
Principal	42,321	42,321	42,321	-
Total expenditures	3,061,169	3,301,169	3,213,922	87,247
REVENUES OVER (UNDER) EXPENDITURES	1,849,272	1,609,272	2,592,405	983,133
OTHER FINANCING SOURCES (USES):				
Transfers (out)	(1,220,016)	(1,220,016)	(1,214,863)	5,153
Total other financing sources (uses)	(1,220,016)	(1,220,016)	(1,214,863)	5,153
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 629,256	\$ 389,256	1,377,542	\$ 988,286
ADJUSTMENTS TO BUDGETARY BASIS:				
Capital outlay			(3,291,180)	
FUND BALANCES:				
Beginning of year			8,933,571	
End of year			\$ 7,019,933	

Redevelopment Agency of the City of Redwood City
Required Supplementary Information, Continued
For the year ended June 30, 2003

1. BUDGETARY INFORMATION, Continued

	Low and Moderate Income Housing Fund			
	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Tax increments	\$ 2,172,709	\$ 2,172,709	\$ 2,529,493	\$ 356,784
Use of money and property	117,763	117,763	118,816	1,053
Net increase in fair value of investments	-	-	59,250	59,250
Miscellaneous revenue	-	-	27,975	27,975
Total revenues	2,290,472	2,290,472	2,735,534	445,062
EXPENDITURES:				
Community development	3,410,322	3,882,328	1,145,979	2,736,349
Total expenditures	3,410,322	3,882,328	1,145,979	2,736,349
REVENUES OVER (UNDER) EXPENDITURES	(1,119,850)	(1,591,856)	1,589,555	3,181,411
OTHER FINANCING SOURCES (USES):				
Transfers (out)	(305,004)	(305,004)	(303,716)	1,288
Total other financing sources (uses)	(305,004)	(305,004)	(303,716)	1,288
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (1,424,854)	\$ (1,896,860)	1,285,839	\$ 3,182,699
ADJUSTMENTS TO BUDGETARY BASIS:				
Capital outlay			(75,407)	
FUND BALANCES:				
Beginning of year			7,247,591	
End of year			<u>\$ 8,458,023</u>	

SUPPLEMENTAL INFORMATION

Redevelopment Agency of the City of Redwood City
Supplemental Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget (Non-GAAP Legal Basis) and Actual
For the year ended June 30, 2003

	Debt Service Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Use of money and property	\$ 100,000	\$ 95,666	\$ (4,334)
Total revenues	<u>100,000</u>	<u>95,666</u>	<u>(4,334)</u>
EXPENDITURES:			
Debt service:			
Principal retirement	970,000	970,000	-
Interest and fiscal charges	561,870	644,274	(82,404)
Total expenditures	<u>1,531,870</u>	<u>1,614,274</u>	<u>(82,404)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,431,870)</u>	<u>(1,518,608)</u>	<u>(86,738)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,525,020	1,518,579	(6,441)
Total other financing sources (uses)	<u>1,525,020</u>	<u>1,518,579</u>	<u>(6,441)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 93,150</u>	(29)	<u>\$ (93,179)</u>
FUND BALANCES:			
Beginning of year		1,589,467	
End of year		<u>\$ 1,589,438</u>	

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the Redevelopment Agency of the City of Redwood City (Agency), a component unit of the City of Redwood City (City), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 component unit financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

This report is intended for the information of management and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Capricci & Larson

Oakland, California
October 17, 2003