

Redevelopment Agency of the City of Redwood City

Redwood City, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2009

C&L
Caporicci & Larson
Certified Public Accountants

Redevelopment Agency of the City of Redwood City

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INDEPENDENT AUDITORS' REPORT

To the Members of 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, 2009, 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Subsequent to the basic financial statements date of June 30, 2009 and the year then ended, the State of California (State) has proposed taking some redevelopment agency funds from all redevelopment agencies in the State. These redevelopment agency funds are very significant to the redevelopment agencies and may affect their ongoing operations. Certain lawsuits are in process to stop such State actions. For more detailed information, see Note 10 attached in the Notes to Basic Financial Statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Agency adopted Statements of Governmental Accounting Standards Board No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*.

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To the Members of the Board of Directors
of the Redevelopment Agency of the City of Redwood City
Redwood City, California
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, 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 grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and budgetary comparison 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 of the United States. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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

Capricci & Carson

Oakland, California
November 30, 2009

REDEVELOPMENT AGENCY
OF THE CITY OF REDWOOD CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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, 2009. 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 2009 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Agency's net assets increased \$3.6 million in fiscal year 2008-09, after \$18.2 million decrease in the preceding year. At June 30, 2009, the Agency's net assets were \$(3.962) million.
- Total Agency revenues, including transfers and contributions, were \$13.318 million, an increase of \$23.033 million resulting from the \$21.5 million transfer out of the underground parking garage in the prior year. Expenses were \$9.7 million, representing an increase of \$1.2 million over the prior year.
- Redevelopment Agency Fund revenues and other financing sources decreased \$.5 million and expenditures and other financing uses increased \$.2 million. Fund balance increased \$.8 million.
- Low and Moderate Income Housing Fund revenues and other financing sources of \$4.8 million were \$2 million more than the prior year, while expenditures and other financing uses of \$1.8 million increased \$.1 million from the prior year, and ending fund balance increased \$3.1 million.

The Basic Financial Statements

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

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

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

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

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

The Agency-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

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

Redevelopment Agency's Net Assets (in Millions)				
	2009	2008	Variance	
Cash and investments	\$ 15.522	\$ 12.005	29.296%	
Other assets	11.089	11.119	-0.270%	
Capital assets	20.389	20.493	-0.507%	
Total assets	<u>47.000</u>	<u>43.617</u>	<u>7.756%</u>	
Long-term debt outstanding	46.303	46.210	0.201%	
Other liabilities	4.659	5.002	-6.857%	
Total liabilities	<u>50.962</u>	<u>51.212</u>	<u>-0.488%</u>	
Net assets:				
Invested in capital assets, net of debt	(14.516)	(14.485)	-0.214%	
Restricted	20.883	17.077	22.287%	
Unrestricted				
Other unrestricted net assets	(10.329)	(10.187)	-1.394%	
Total net assets	<u>(\$ 3.962)</u>	<u>(\$ 7.595)</u>	<u>47.834%</u>	

The Agency's cash and investments increased 29.3% as the Agency's tax increment revenue increased. The Agency's net assets from governmental activities increased 47.8% to net assets of \$(3.962) million in 2009 from net assets of \$(7.595) million in 2008. This increase resulted primarily from the aforementioned increase in tax increment revenue.

Changes in Redevelopment Agency's Net Assets (in Millions)				
	2009	2008	Variance	
Revenues				
General revenues, Transfers and Contributions:				
Tax increments	\$ 12.672	\$ 10.904	16.214%	
Investment earnings	0.439	0.737	-40.434%	
Other	0.190	0.106	79.245%	
Contribution to other City funds				
Transfer from (to) other City funds	0.017	(21.462)	-100.079%	
Total revenues	<u>13.318</u>	<u>(9.715)</u>	<u>-237.087%</u>	
Expenses				
Community development	7.353	6.078	20.977%	
Interest on long term debt	2.332	2.384	-2.181%	
Total expenses	<u>9.685</u>	<u>8.462</u>	<u>14.453%</u>	
Change in net assets	3.633	(18.177)	119.987%	
Net assets - July 1	(7.595)	10.582	-171.773%	
Net assets - June 30	<u>(\$ 3.962)</u>	<u>(\$ 7.595)</u>	<u>47.834%</u>	

Fiscal Year 2009 Governmental Activities

The Agency's fiscal year 2009 revenue came primarily from property tax increments, which amounted to \$12.7 million, an increase of \$1.8 million over the prior year. The increase in tax increment stemmed from the increase in value of properties in the Agency's project area. The decrease in investment earnings resulted from declining interest rates, and the loss in investment with the San Mateo County investment pool due to the Lehman Brothers bankruptcy.

Agency expenses of \$9.7 million in fiscal year 2009 were principally for development-related projects amounting to \$1.2 million, and school district and special district Pass-throughs expense of \$1.582 million. The Agency has agreements with the pre-existing school and special districts in its project area under which it passes through a portion of the property tax increments it receives. These agreements are discussed in detail in note 9 to the financial statements. Additionally, the Agency incurred expense for interest on the Tax Allocation Bonds in the amount of \$2.3 million.

The Agency's Fund Financial Statements

At June 30, 2009, the Agency's governmental funds reported combined fund balances of \$20.9 million, which is an increase of \$3.8 million from last year. This increase resulted primarily from the growth in tax increment revenue.

The Agency has loaned a total of \$4.8 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 \$1.4 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, 2009, the Agency had \$20.4 million of capital assets net of depreciation.

DEBT ADMINISTRATION

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

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

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

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

In the City's downtown area which is encompassed by the Redevelopment Agency, the newly completed Courthouse Square created a public gathering place and an opportunity to provide activities and events that brought people to the downtown area for entertainment and dining. It is estimated that over 82,000 attended these events over the six months that they were held. Surveys indicate that about 79% of the attendees purchased food or beverages while visiting, creating an economic boost for downtown businesses.

The Agency also solicited proposals for vendors to operate in the four Agency-owned kiosks located in the Square pavilions and was successful in filling two spaces which helped to activate the Square on a daily basis. The Agency will continue to work on filling all spaces in the next year. A retail vacancy study for the downtown was conducted and has been updated on a quarterly basis. This data will be used to develop an economic development plan that will help to minimize vacancies in the future.

The Agency continues to working on site preparation for the Agency-owned Bradford site, which is intended to be developed for senior housing and daycare services.

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.

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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, 2009

ASSETS	
Current assets:	
Cash and investment	\$ 12,040,922
Accounts receivable	15,988
Accrued interest receivable	365,562
Prepays	4,150
Total current assets	12,426,622
Noncurrent assets:	
Restricted cash and investment	3,480,995
Loans receivable	6,224,592
Investment in land held for redevelopment	3,331,208
Deferred charges	1,147,064
Capital assets:	
Non-depreciable	5,544,714
Depreciable, net	14,844,648
Total capital assets, net	20,389,362
Total noncurrent assets	34,573,221
Total assets	46,999,843
LIABILITIES	
Current liabilities:	
Accounts payable	1,312,116
Accrued interest payable	397,804
Deposits payable	64,937
Advances from the City	2,884,378
Long-term debt - due in one year	1,403,092
Total current liabilities	6,062,327
Noncurrent liabilities:	
Long-term debt - due in more than one year	44,899,518
Total noncurrent liabilities	44,899,518
Total liabilities	50,961,845
NET ASSETS	
Investment in capital assets, net of related debt	(14,515,884)
Restricted for:	
Debt service	1,638,929
Community development projects	3,222,373
Low and moderate income housing	16,021,286
Total restricted net assets	20,882,588
Unrestricted	(10,328,706)
Total net assets	\$ (3,962,002)

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, 2009

Expenses:

Community development	\$ 7,352,805
Interest on long-term debt	2,332,390
Total program expenses	<u>9,685,195</u>

General Revenues and Transfers:

General Revenues:

Tax increments	12,671,925
Intergovernmental	96,237
Investment earnings	438,761
Miscellaneous	93,753
Transfers in from the City	17,156
Total general revenues and transfers	<u>13,317,832</u>

Change in net assets	3,632,637
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Net assets - beginning of year	<u>(7,594,639)</u>
Net assets - end of year	<u>\$ (3,962,002)</u>

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

The Redevelopment Agency of the City of Redwood City determined all its funds to be major funds in fiscal year 2009.

Redevelopment Agency Fund

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

Low and Moderate Income Housing Fund

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

1997 Tax Allocation Refunding Bonds Fund

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

2003 Tax Allocation Bonds Fund

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

Redevelopment Agency of the City of Redwood City
Balance Sheet
June 30, 2009

	Redevelopment Agency	Low and Moderate Income Housing	1997 Tax Allocation Refunding Bonds Fund	2003 Tax Allocation Bonds Fund	Total
ASSETS					
Cash and investments:					
Available for operations	\$ 3,743,138	\$ 8,297,784	\$ -	\$ -	\$ 12,040,922
Restricted	1,619,997	268,233	1,588,692	4,073	3,480,995
Receivables:					
Accounts Receivable	8,650	7,338	-	-	15,988
Accrued interest	237,376	82,022	46,164	-	365,562
Loans	1,252,826	4,971,766	-	-	6,224,592
Investment in land held for redevelopment	293,106	3,038,102	-	-	3,331,208
Prepays	4,150	-	-	-	4,150
Total assets	\$ 7,159,243	\$ 16,665,245	\$ 1,634,856	\$ 4,073	\$ 25,463,417
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 812,116	\$ 500,000	\$ -	\$ -	\$ 1,312,116
Deposits payable	3,000	61,937	-	-	64,937
Deferred revenues	237,376	82,022	-	-	319,398
Advances from the City	2,884,378	-	-	-	2,884,378
Total liabilities	3,936,870	643,959	-	-	4,580,829
Fund Equity:					
Reserved for:					
Encumbrances	208,941	-	-	-	208,941
Prepays	4,150	-	-	-	4,150
Loans receivable	1,252,826	4,471,766	-	-	5,724,592
Land held for redevelopment	293,106	3,038,102	-	-	3,331,208
Low and moderate income housing	-	2,107,763	-	-	2,107,763
Debt service	-	-	1,634,856	4,073	1,638,929
Unreserved, Designated, report in:					
Future years' expenditures	1,463,350	6,403,655	-	-	7,867,005
Unreserved, Undesignated, report in:					
Special Revenue Funds	-	-	-	-	-
Total fund equity	3,222,373	16,021,286	1,634,856	4,073	20,882,588
Total liabilities and fund equity	\$ 7,159,243	\$ 16,665,245	\$ 1,634,856	\$ 4,073	\$ 25,463,417

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, 2009

Total Fund Balances - Total Governmental Funds	\$ 20,882,588
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.	20,389,362
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.	1,147,064
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.	319,398
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.	(397,804)
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	(1,403,092)
Long-term liabilities - due in more than one year	(44,899,518)
Net Assets of Governmental Activities	<u>\$ (3,962,002)</u>

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, 2009

	Redevelopment Agency	Low and Moderate Income Housing	1997 Tax Allocation Refunding Bonds Fund	2003 Tax Allocation Bonds Fund	Total
REVENUES:					
Tax increments	\$ 8,052,739	\$ 4,619,186	\$ -	\$ -	\$ 12,671,925
Use of money and property	111,574	224,950	101,830	407	438,761
Intergovernmental	96,237	-	-	-	96,237
Miscellaneous	92,979	774	-	-	93,753
Total revenues	8,353,529	4,844,910	101,830	407	13,300,676
EXPENDITURES:					
Current operations:					
Community development	5,461,074	1,480,153	-	-	6,941,227
Capital outlay	351,079	-	-	-	351,079
Debt service:					
Principal	42,321	-	1,270,000	-	1,312,321
Interest and fiscal charges	-	-	249,532	658,400	907,932
Total expenditures	5,854,474	1,480,153	1,519,532	658,400	9,512,559
REVENUES OVER (UNDER) EXPENDITURES	2,499,055	3,364,757	(1,417,702)	(657,993)	3,788,117
OTHER FINANCING SOURCES (USES):					
Transfers in from the City	17,156	-	-	-	17,156
Transfers in	-	-	1,366,337	651,391	2,017,728
Transfers (out)	(1,743,671)	(274,057)	-	-	(2,017,728)
Total other financing sources (uses)	(1,726,515)	(274,057)	1,366,337	651,391	17,156
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	772,540	3,090,700	(51,365)	(6,602)	3,805,273
FUND BALANCES:					
Beginning of year	2,449,833	12,930,586	1,686,221	10,675	17,077,315
End of year	\$ 3,222,373	\$ 16,021,286	\$ 1,634,856	\$ 4,073	\$ 20,882,588

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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ 3,805,273

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 351,079

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.

(454,928)

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

43,350

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 1,312,321

Amortization of premium 30,771

Accreted interest on capital appreciation bonds (1,435,971)

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.

28,536

Change in Net Assets of Governmental Activities \$ 3,632,637

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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, 2009

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, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting/Measurement Focus, Continued

Governmental Fund Financial Statements - Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all funds as major funds.

The followings are the Agency's major funds:

Redevelopment Agency Fund

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

Low and Moderate Income Housing Fund

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

1997 Tax Allocation Refunding Bonds Fund

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

2003 Tax Allocation Bonds Fund

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

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.

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, 2009

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. 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.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

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 infrastructures into the current Basic Financial Statements.

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

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

F. Long-Term Debt

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

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

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Fund Balances

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

H. Net Assets

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

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

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

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

I. Use of Estimates

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

J. Property Taxes

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

	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, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. New Pronouncements

In 2009, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* – the Statement establishes accounting and financial reporting standards for pollution/contamination remediation obligations and remediation activities to address the detrimental effects of existing pollution.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*. These Statements incorporate certain accounting and financial reporting guidance for state and local governments into GASB’s authoritative literature.

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 \$10,060,922 as of June 30, 2009. Restricted cash and investments at June 30, 2009 amounted to \$5,460,955.

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

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. LOANS RECEIVABLE

As of June 30, 2009, loans receivable consisted of the following:

First Time Homebuyer Loan Program	\$ 257,962
City Centre Plaza Loans	1,685,718
First Time Homebuyer Silent Loan Program	1,022,495
Housing Rehabilitation Loans	198,264
First Community Housing Loans	2,427,000
Loans with for Profit Organizations	<u>633,153</u>
Total	<u><u>\$ 6,224,592</u></u>

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, 2009 the Agency had loaned \$257,962. Since these loans are not currently available for expenditure, fund balance has been reserved in this amount.

B. City Centre Plaza Loans

The Agency sold several parcels of land to the developers of the City Centre Plaza project for \$1,700,000 in 1996 payable as discussed in Note 9C. The outstanding balance at June 30, 2009 was \$1,685,718.

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, 2009 the Agency had outstanding loans in the amount of \$1,022,495. Since these loans are not currently available for expenditure, fund balances have been reserved in this amount.

D. Housing Rehabilitation Loans

The Agency has outstanding loans for housing rehabilitation in the amount of \$198,264. 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.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. LOANS RECEIVABLE, Continued

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.

4. CAPITAL ASSETS

The Agency's capital assets at June 30, 2009 comprise:

Asset Type	Balance				Balance June 30, 2009
	July 1, 2008	Additions	Deletions	Transfers	
Non-depreciable Assets:					
Land	\$ 3,126,664	\$ -	\$ -	\$ -	\$ 3,126,664
Construction in progress	2,301,595	325,146		(208,691)	2,418,050
Total non-depreciated assets	5,428,259	325,146	-	(208,691)	5,544,714
Depreciable Assets:					
Machinery and equipment	925,777	25,933	-	-	951,710
Less accumulated depreciation on machinery and equipment	(69,433)	(47,723)	-	-	(117,156)
Improvements other than buildings	10,840,588	-	-	-	10,840,588
Less accumulated depreciation on improvements other than buildings	(271,885)	(299,455)	-	-	(571,340)
Traffic signals	-	-	-	208,691	208,691
Less accumulated depreciation on traffic signals	-	(5,217)	-	-	(5,217)
Storm drains	4,101,302	-	-	-	4,101,302
Less accumulated depreciation on storm drains	(461,397)	(102,533)	-	-	(563,930)
Total depreciable assets	15,064,952	(428,995)	-	208,691	14,844,648
Total capital assets, net	\$ 20,493,211	\$ (103,849)	\$ -	\$ -	\$ 20,389,362

Depreciation expense of \$454,928 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, 2009

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 2008-2009.

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		
		1997 Tax Allocation Refunding Bonds Fund	2003 Tax Allocation Bonds Fund Fund	Total
Transfers Out	Redevelopment Agency	\$ 1,092,280	\$ 651,391	\$ 1,743,671
	Low and Moderate Income Housing	274,057	-	274,057
	Total	\$ 1,366,337	\$ 651,391	\$ 2,017,728

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

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 2008-2009, the Redevelopment Agency Fund repaid \$115,622 of the advance.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM DEBT

Summary of changes in long-term debt for the year ended June 30, 2009 was as follows:

	Balance			Amount		
	July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due Within One Year	Due In More Than One Year
1997 Tax Allocation Refunding Bond	\$ 5,465,000	\$ -	\$ 1,270,000	\$ 4,195,000	\$ 1,330,000	\$ 2,865,000
Tax Allocation Bond, Series 2003A	33,997,448	-	-	33,997,448	-	33,997,448
Accreted interest payable	5,766,393	1,435,971	-	7,202,364	-	7,202,364
Unamortized premium	769,285	-	30,771	738,514	30,771	707,743
Loans Payable	211,605	-	42,321	169,284	42,321	126,963
Total	\$ 46,209,731	\$ 1,435,971	\$ 1,343,092	\$ 46,302,610	\$ 1,403,092	\$ 44,899,518

A. 1997 Tax Allocation Refunding Bonds

On June 15, 1997, the Agency issued \$15,430,000 of 1997 Tax Allocation Refunding Bonds with a final maturity date of July 15, 2011. The purpose of the issuance is to provide funds to prepay a loan received by the Agency and defease \$13,955,000 aggregate principal amount of the 1991 Local Agency Revenue Bonds, Series B (Prior Bonds), to fund a reserve account for the Bonds and to pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. The purpose of the prior bonds was to finance improvements within the Agency's Redevelopment Project Area No. 2. The 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 amount is due in annual installments of \$417,805 to \$1,525,880, with total principal and interest remaining on the bonds in the amount of \$6,038,695 through July 15, 2011. At June 30, 2009 the 1997 Tax Allocation Refunding Bonds had a remaining balance outstanding of \$4,195,000. The bonds are payable solely from property tax increment generated by the redevelopment agency fund and the low and moderate income housing fund which is expected to produce 135% of the debt service requirements.

The annual debt service requirements are shown below:

For the Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 1,330,000	\$ 180,100	\$ 1,510,100
2011	1,395,000	111,278	1,506,278
2012	1,470,000	37,852	1,507,852
	<u>\$ 4,195,000</u>	<u>\$ 329,230</u>	<u>\$ 4,524,230</u>

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM DEBT, Continued

B. Tax Allocation Bonds, Series 2003A

On October 2003, the Agency issued \$33,997,448 of Tax Allocation Bonds, Series 2003A with a final maturity date of July 15, 2032 to finance various downtown improvements. The bonds are secured by a first lien on the security interest in all of the tax revenue and all of the moneys deposited and held from time to time by the Trustee in the Special Revenue Fund and the Debt Service Fund, including interest account, the principal account, the reserve account and the redemption account established pursuant to the indenture. Interest rate ranges from 3.5% to 5.8%. Principal 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 \$79,584,198. At June 30, 2009, the Tax Allocation Bonds, Series 2003A had a remaining balance outstanding of \$33,997,448. 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 Ended June 30,	Principal	Interest	Total
2010	\$ -	\$ 654,150	\$ 654,150
2011	1,225,000	632,712	1,857,712
2012	1,265,000	585,975	1,850,975
2013	2,480,000	511,075	2,991,075
2014	2,895,000	385,482	3,280,482
2015-2019	11,515,337	5,709,030	17,224,367
2020-2024	6,790,049	10,739,952	17,530,001
2025-2029	4,855,056	12,669,944	17,525,000
2030-2033	2,972,006	13,698,430	16,670,436
	<u>\$ 33,997,448</u>	<u>\$ 45,586,750</u>	<u>\$ 79,584,198</u>

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, 2009 the amount remaining was \$1,147,064.

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.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM DEBT, Continued

C. Loans, Continued

The annual debt service requirements are shown below:

For the Fiscal Year Ended June 30,	Principal
2010	\$ 42,321
2011	42,321
2012	42,321
2013	42,321
	\$ 169,284

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 \$94.6 million in tax increment through 2008-09. As shown above, the amount of bonded indebtedness that can be outstanding at any one time cannot exceed \$119 million. At June 30, 2009, the Agency had \$38,192,448 outstanding in tax increment bonds.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

8. GENERAL INFORMATION, Continued

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:

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. This obligation was fully paid in the fiscal year ended 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.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. REDEVELOPMENT AGREEMENTS, Continued

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 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, 2009 was \$1,685,718.

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, 2009 the County has received \$14,993,834 including \$1,494,168 for the year ended June 30, 2009 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, 2009, \$6.6 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, 2009, \$6.66 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, 2009, the Agency has received approximately \$13,467,930 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, 2009 the Agency passed through \$1,581,611 to these various governmental agencies.

Redevelopment Agency of the City of Redwood City
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. REDEVELOPMENT AGREEMENTS, Continued

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

A. State Takeaway

Subsequent to June 30, 2009, the State of California (State) has decided to take certain funds from local governments including the Agency. These amounts are very significant to the Agency and are approximately \$4.3 million.

The Redevelopment Agency funds are projected to be taken over a two year period - \$3.6 million in FY 2009/2010 and \$0.7 million in FY 2010/2011. This decision is being litigated by California Redevelopment Association and other parties with hope that this will be considered unconstitutional as was last year's State proposed takeaway.

B. Redemption of Debt

On October 26, 2009, the Agency Board adopted a resolution to pay off all remaining debt associated with the 1997 Tax Allocation Refunding Bonds, which were scheduled to mature on July 15, 2011. The planned payoff date for the bonds is December 1, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Redwood City
Required Supplementary Information
For the year ended June 30, 2009

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, 2009

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Tax increments	\$ 6,993,333	\$ 6,993,333	\$ 8,052,739	\$ 1,059,406
Use of money and property	89,825	89,825	111,574	21,749
Intergovernmental	647,727	647,727	96,237	(551,490)
Miscellaneous	35,800	66,300	92,979	26,679
Total revenues	7,766,685	7,797,185	8,353,529	556,344
EXPENDITURES:				
Current operations:				
Community development	5,935,350	6,702,141	5,461,074	1,241,067
Capital outlay	351,079	351,079	351,079	-
Debt service:				
Principal	42,321	42,321	42,321	-
Total expenditures	6,328,750	7,095,541	5,854,474	1,241,067
REVENUES OVER (UNDER) EXPENDITURES	1,437,935	701,644	2,499,055	1,797,411
OTHER FINANCING SOURCES (USES):				
Transfers in from the City	-	-	17,156	17,156
Transfers (out)	(1,798,184)	(1,798,184)	(1,743,671)	54,513
Total other financing sources (uses)	(1,798,184)	(1,798,184)	(1,726,515)	71,669
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (360,249)	\$ (1,096,540)	772,540	\$ 1,869,080
FUND BALANCES:				
Beginning of year			2,449,833	
End of year			\$ 3,222,373	

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, 2009

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Tax increments	\$ 4,241,981	\$ 4,241,981	\$ 4,619,186	\$ 377,205
Use of money and property	154,944	154,944	224,950	70,006
Miscellaneous revenue	-	-	774	774
Total revenues	4,396,925	4,396,925	4,844,910	447,985
EXPENDITURES:				
Community development	1,960,202	1,960,202	1,480,153	480,049
Total expenditures	1,960,202	1,960,202	1,480,153	480,049
REVENUES OVER (UNDER) EXPENDITURES	2,436,723	2,436,723	3,364,757	928,034
OTHER FINANCING SOURCES (USES):				
Transfers (out)	(284,840)	(284,840)	(274,057)	10,783
Total other financing sources (uses)	(284,840)	(284,840)	(274,057)	10,783
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 2,151,883	\$ 2,151,883	3,090,700	\$ 938,817
FUND BALANCES:				
Beginning of year			12,930,586	
End of year			\$ 16,021,286	

SUPPLEMENTAL INFORMATION

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Redevelopment Agency of the City of Redwood City
Supplemental Information
Budget and Actual - 1997 Tax Allocation Refunding Bonds Fund
For the year ended June 30, 2009

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Use of money and property	\$ 120,000	\$ 120,000	\$ 101,830	\$ (18,170)
Total revenues	120,000	120,000	101,830	(18,170)
EXPENDITURES:				
Debt Service:				
Principal retirement	1,270,000	1,270,000	1,270,000	-
Interest and fiscal charges	249,200	249,200	249,532	(332)
Total expenditures	1,519,200	1,519,200	1,519,532	(332)
REVENUES OVER (UNDER) EXPENDITURES	(1,399,200)	(1,399,200)	(1,417,702)	(18,502)
OTHER FINANCING SOURCES (USES):				
Transfers in	1,424,200	1,424,200	1,366,337	(57,863)
Total other financing sources (uses)	1,424,200	1,424,200	1,366,337	(57,863)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 25,000	\$ 25,000	(51,365)	\$ (76,365)
FUND BALANCES:				
Beginning of year			1,686,221	
End of year			\$ 1,634,856	

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, 2009

	Budget Amounts		Actual	Variance Over (Under)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 407	\$ 407
Total revenues	-	-	407	407
EXPENDITURES:				
Debt Service:				
Interest and fiscal charges	658,824	658,824	658,400	424
Total expenditures	658,824	658,824	658,400	424
REVENUES OVER (UNDER) EXPENDITURES	(658,824)	(658,824)	(657,993)	831
OTHER FINANCING SOURCES (USES):				
Transfers in	658,824	658,824	651,391	(7,433)
Total other financing sources (uses)	658,824	658,824	651,391	(7,433)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	(6,602)	\$ (6,602)
FUND BALANCES:				
Beginning of year			10,675	
End of year			\$ 4,073	

**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 Members of 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, 2009, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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Oakland, California 94612

Orange County

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Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

To the Members of the Board of Directors
of the Redevelopment Agency of the City of Redwood City
Redwood City, California
Page 2

Compliance and Other Matters

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 statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Capricci & Carson

Oakland, California
November 30, 2009

Redevelopment Agency of the City of Redwood City
Findings and Recommendations
For the year ended June 30, 2009

1. CURRENT YEAR FINDINGS

No current year findings.

2. PRIOR YEAR FINDINGS

2008-01

Pursuant to Health and Safety Code Section 33081.4, an agency shall submit a property report to the State Controller Office within six months following the end of the agency's fiscal year-end date. However, we noted the agency did file such report for the fiscal year 2006-2007.

Recommendation: We recommend that the Agency file the property report to the State Controllers Office to be in compliance with the Health and Safety Code.

Management Response: The Agency submitted a property report to the State Controller's Office for fiscal year 2006-07 on November 26, 2008. The Agency will begin to submit the property report to the State Controller's Office annually with the Agency's Annual Report of Financial Transactions beginning with the 2007-08 Report.

Status: Implemented.