

Redevelopment Agency of the City of Redwood City

Redwood City, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2004

C&L
Caporicci & Larson
Certified Public Accountants

Redevelopment Agency of the City of Redwood City

Basic Financial Statements

For the year ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the basic financial statements of the Redevelopment Agency of the City of Redwood City (Agency), a component unit of the City of Redwood City, as of and for the year ended June 30, 2004, 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, 2004, 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 Agency. 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.

Caporicci & Larson

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**REDEVELOPMENT AGENCY
OF THE CITY OF REDWOOD CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2004

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, 2004. 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 2004 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Agency's net assets increased \$1.3 million in fiscal year 2003-04, after \$3.7 million increase in the preceding year. At June 30, 2004, the Agency's net assets were \$11.269 million
- Total Agency revenues were \$7.976 million, a decrease of \$664 thousand, and expenses were \$6.7 million, representing an increase of \$1.7 million over the prior year.
- Redevelopment Agency Fund revenues and other financing sources increased \$35 million and expenditures and transfers out increased \$13 million. Fund balance increased \$20 million.
- Low and Moderate Income Housing Fund revenues of \$1.8 million were \$907 thousand lower than the prior year, while expenditures of \$1.1 million decreased \$156 thousand from the prior year, and ending fund balance increased \$477 thousand.

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.

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 13% to net assets of \$11.269 million in 2004 from net assets of \$9.967 million in 2003. This increase is the Change in Net Assets reflected in the Statement of Activities, as explained below:

- Capital assets amount to \$17.576 million representing a net increase of \$13.285 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.
- Restricted net assets increased to \$27.7 million as a result of unspent proceeds of bonds issued to finance the Downtown Cinema project.

Fiscal Year 2004 Government Activities

The Agency's fiscal 2004 revenue came primarily from property tax increments, which amounted to \$8 million, an increase of \$322 thousand from the prior year. This increase stemmed from the increase in value of properties in the Agency's project area.

Agency expenses of \$6.7 million in fiscal 2004 were principally for development-related projects amounting to \$1 million, school district and special district Pass-throughs expense of \$936 thousand, and State Educational Revenue Augmentation Fund takeaway of \$440 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 \$1.7 million.

The Agency's Fund Financial Statements

At June 30, 2004, the Agency's governmental funds reported combined fund balances of \$38.8 million, which is an increase of \$21.6 million over last year. This increase resulted primarily from the issuance of \$33.997 in tax allocation bonds to finance various downtown improvements, offset by capital outlay of \$13.3 million.

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 \$2.1 million have been made to 34 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, 2004, the Agency had \$17.6 million of capital assets net of depreciation.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Redwood City
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2004

Expenses:

Community development	\$ 5,002,428
Interest on long-term debt	1,671,434
Total program expenses	6,673,862

General Revenues:

Tax increments	7,999,394
Investment earnings	(152,529)
Other	128,786
Total general revenues	7,975,651
Change in net assets	1,301,789
Net assets - beginning of year	9,966,741
Net assets - end of year	\$ 11,268,530

FUND FINANCIAL STATEMENTS

The Redevelopment Agency of the City of Redwood City determined all its funds to be major funds in fiscal year 2004.

Redevelopment Agency Fund

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

Low and Moderate Income Housing Fund

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

1997 Tax Allocation Refunding Bonds Fund

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

2003 Tax Allocation Bonds Fund

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

Low and Moderate Income Housing Projects Bonds Fund

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

Redevelopment Agency of the City of Redwood City
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
For the year ended June 30, 2004

Total Fund Balances - Total Governmental Funds	\$ 38,842,707
 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	17,575,616
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	1,386,035
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	(1,400,221)
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	(1,133,092)
Long-term liabilities - due in more than one year	<u>(44,137,614)</u>
Net Assets of Governmental Activities	\$ 11,268,530

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, 2004

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 21,623,519</u>
 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	13,341,423
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	1,433,829
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	(56,308)
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	1,052,321
Bond Proceeds, including premium of \$923,140	(34,920,588)
Amortization of premium	30,771
Amortization of cost of issuance	(47,794)
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>(1,155,384)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,301,789</u></u>

NOTES TO BASIC FINANCIAL STATEMENTS
