

Redevelopment Agency of the City of Merced

Merced, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2004

Prepared by the Redevelopment Agency of the
City of Merced Finance Department

C&L
Caporicci & Larson
Certified Public Accountants

Redevelopment Agency of the City of Merced
Basic Financial Statements
For the year ended June 30, 2004

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September 17, 2004

Chairperson, Vice Chairperson
Commissioners, Executive Director of the
Redevelopment Agency of the City of Merced:

The Comprehensive Annual Financial Report (CAFR) of the Redevelopment Agency of the City of Merced (Agency) for the fiscal year ending June 30, 2004 is hereby submitted in accordance with the Health and Safety Code of the State of California. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Agency's management. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section is intended to acquaint the reader with the organizational structure of the Agency, the nature and scope of the services it provides, and the specifics of its legal operating environment. The introductory section includes this transmittal letter, the Agency's organizational chart, a list of the Agency's elected and administrative officials. The financial section is prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34) requirements by including the Independent Auditors Report, the Management Discussion and Analysis and the basic financial statements. The required supplementary information includes the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

REPORTING ENTITY

The Redevelopment Agency was created in 1957 by the City of Merced in order to bring new life to Central Merced.

At that time, community leaders were concerned about the deterioration of the downtown and freeway areas, and saw California's Redevelopment Law as a way to aid in revitalizing the central part of the community.

In 1960, the Agency adopted its first Redevelopment Plan, which dealt with a six-square block area, Project Area #1. Project Area # 1 is now inactive. In 1974, a second much larger area was created with a second Redevelopment Plan, Project Area #2. In July 1996, a third area was created with a third Redevelopment Plan, Gateways Project Area. This project area encompasses 1,700 acres of south and southeast Merced. The Gateways Project Area Plan was amended in July 2000. The amendment added an additional 45 acres to the Area.

Throughout its history, the Agency has continued to use California Redevelopment Law to eliminate blight and improve the downtown and freeway areas.

This law, adopted in 1945, furnishes cities and counties with a powerful tool to revive areas in need of help. Redevelopment Agencies may acquire property, build public improvements, sell or lease property, and assist in private development, among other things. In Merced, the Agency has done all these things and played a vital role in keeping Central Merced active.

ECONOMIC CONDITION AND OUTLOOK

The City of Merced is located in the Central Valley of California. The City is located approximately 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles. The City has a population of approximately 69,805 and serves as the county seat. Merced is located on Highway 99, the dominant north-south freeway in California, and is served also by Highways 140 and 59. Two railroads, Union Pacific and Burlington Northern Santa Fe, have main lines that pass through the City.

Merced serves as the region's trade center. The economy has been based upon traditional industries such as food processing and manufacturing but with increasing, diversification and expansion in commercial services. A new plaza, Merced Marketplace, opened late in 2003 anchored by Lowe's, Best Buy, Pier 1, and Barnes and Noble. During 2004, Linens N Things, Panda Express and Applebee's opened in the Merced Marketplace. The City of Merced's per capita taxable retail sales continues to increase, outpacing retail growth in neighboring communities. Successful public-private partnerships have resulted in the resurgence and revitalization of downtown Merced. In May 2004, the University of California Merced opened its administrative offices in downtown Merced. With the opening of the University of California Merced campus, slated for September 2005, real estate vacancies have declined and property values have increased.

Industrial expansion has been strong in the past two years. The community's available inventory of existing industrial buildings is nearly 100% absorbed. Merced's industrial base includes printing, fiberglass boat building, warehousing and distribution, and plastic and packaging industries. An increase in corporate capital investment occurred, led by Safeway Food Processing, Scholle Corporation and Quebecor. Expansions of local firms have been prominent, with a few new companies entering the area.

Downtown revitalization continues, with nearly \$30 million in private investment completed and new projects under construction in the City Center pedestrian area. National retailers continue investing in the recently completed Mainplace Merced. Construction began on Main Street's first new multi-family unit, the Merced Lofts, consisting of commercial space and 14 residential lofts. Restoration of the Mondo Building, formerly Bank of Italy, was underway at year-end with UC Merced Administration occupying office space and plans for County Bank to lease a portion of the building. Efforts were underway to restore the former Merced Theatre back to its original 1931 condition.

In May 1995, Merced was selected as the location of the next University of California campus, a research university for the 21st Century. Local planning is proceeding to accommodate campus development. Federal and State funds have been committed to the University of California campus for transportation improvements and planning costs. Three buildings, the library, the student housing, and the Engineering and Science building, are under construction. The City of Merced is extending water and sewer services to the University campus. University planners expect 2005 to be the opening date and at full buildout the University will accommodate about 25,000 students.

The University already offers classes and services in Merced from the temporary headquarters at Castle Aviation and Development Center and the Merced Tri-College Center campus; and University employment continues to grow. Partnerships have been opened between the University and Merced College. The University has created its first research arm, the Sierra Nevada Research Institute.

Economic indicators such as the number of building permits issued, record home sales, and the increasing land values clearly point out the City of Merced is headed for further long-term economic development and community prosperity.

CURRENT ACCOMPLISHMENTS

Key accomplishments for the 2003-04 fiscal year are highlighted as follows:

The Redevelopment Agency was required by the State of California to transfer \$260,151 to the State Education Revenue Augmentation Fund (ERAF).

The Mondo Building project was partially completed. In May 2004, UC Merced administrators moved into the newly renovated downtown space to occupy the second and third floors of the building. Completion of the first floor and basement are expected to be in the fall.

Construction on the Merced Lofts project was underway. This downtown project consists of ground floor retail, 14 residential lofts on the upper floor with some private parking. The project is expected to be completed by the end of 2004.

Construction was underway on the Grove Apartments, which is a 204 unit multi-family project. The total Agency's and City's assistance package is approximately \$6.2 million. Project completion is planned for 2005.

The Merced Center site preparation was near completion at year-end. The Merced Center development includes a business class hotel, 75,000 square feet of office buildings, and a parking structure in downtown Merced.

The Martin Luther King Jr. Way Entrance Project was in the conceptual plan phase.

The final piece of the Redevelopment Agency public art commission originating in 2001 was complete with the installation of Anne Whitehurst's mural depicting the legends of the jazz and blues genre.

The Merced Theater received Historic designation. Plans for Phase I construction and selective demolition was in progress.

A development agreement with the Merced County Housing Authority to develop 4.9 acres with a new complex was approved in May. The new complex will include a 40,000 square foot office building with an additional 10,000 square feet of maintenance space.

FINANCIAL INFORMATION

Internal Controls

Management of the Agency is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Agency are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. In developing and evaluating the Agency's accounting system, consideration is given to the adequacy of internal accounting controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the accuracy and reliability of financial records for preparing financial statements and maintaining accountability for assets; and, (3) the adherence to prescribed managerial policy. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The objective of the Agency's budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Agency Board. All funds have a legally adopted budget. The level of budgetary control, at which expenditures cannot legally exceed the budgeted amount, is at the fund level. This means that expenditures cannot legally exceed the amount appropriated by the Agency Board.

The Agency also maintains encumbrance accounting as another method for accomplishing budgetary control over the funds. A commitment for an expenditure is earmarked for its use and funds become unavailable. Unencumbered amounts lapse at fiscal year end. Encumbered amounts at year-end are rolled over and become part of the next year's budget.

The Agency continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

Cash Management

Cash temporarily idle during the year was invested in Certificates of Deposit, Government Obligations, Mutual Funds and the State Treasurer's Investment Pool. The maturities of the investments generally range from 1 month to 24 months, with the average maturity 26 days. The average yield on investments was 2.07 percent.

The investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, all of the investments held by the government at June 30, 2004, are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board.

Risk Management

The Agency participates in the City's risk management program. During fiscal year 1978, the City established two risk management funds, the Workers' Compensation Insurance Fund and the Liability Insurance Fund (both internal service funds) to account for and finance its uninsured risks of loss, with the exception of the Property and Airport insurance which is fully insured and accounted for in the Liability Insurance Fund. Under this program, the Workers' Compensation

Insurance Fund provides coverage for up to a maximum of \$250,000 for each workers' compensation claim. The City purchases commercial insurance for claims in excess of the coverage provided in the fund. The City is a member of the Central San Joaquin Valley Risk Management Authority, with self-insured retention for each claim of \$100,000 for general liability and error and omissions, and \$500,000 for vehicle liability. Settled claims have not exceeded this commercial coverage in any of the past fiscal years. All funds of the City and Agency participate in the program and make payments to the risk management funds based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Independent Audit

The laws and regulations governing redevelopment agencies found in the Health and Safety Code of the State of California Code of Regulations require an independent financial audit be performed annually in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. These requirements have been met and the applicable auditors' report has been issued.

ACKNOWLEDGEMENTS

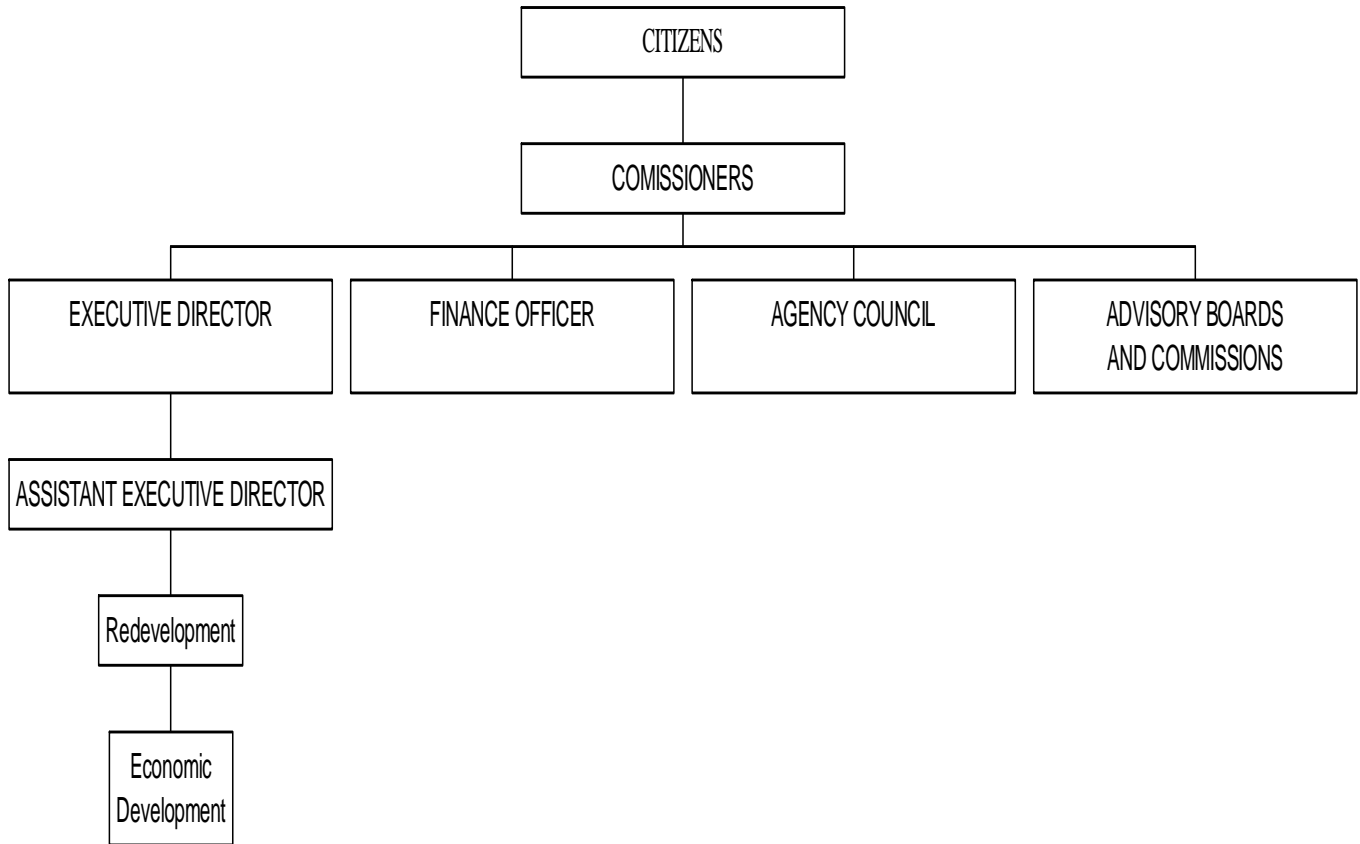
The preparation of this report could not have been accomplished without the cooperation and dedicated services of the staff of the Finance Department and I thank them all for their effort. I would like to express my appreciation to Caporicci & Larson, Certified Public Accountants, the independent auditors, who assisted and contributed to the preparation of this comprehensive annual financial report. I would also like to thank the Chairperson, Vice Chairperson and Commissioners of the Redevelopment Agency for their ongoing interest and support in conducting the financial operations of the Agency in a sound and progressive manner.

Respectfully submitted,

Bradley R. Grant
Finance Officer

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*Redevelopment Agency of the City of Merced
Organizational Chart
June 30, 2004*



INDEPENDENT AUDITORS' REPORT

To the Commissioners
of the Redevelopment Agency of the City of Merced
Merced, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Merced (Agency), a component unit of the City of Merced, California (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 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 opinion.

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, 2004, and the respective changes in financial position for the years then ended in conformity with generally accepted accounting principles in the United States.

The Required Supplementary Information, such as management's discussion and analysis, budgetary information, and other 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. We have applied certain limited procedures, which consisted principally of inquires 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.

Caporicci & Larson

Oakland, California
September 17, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Redevelopment Agency of the City of Merced (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Letter of Transmittal, which can be found in the introductory section of this report and the Agency's Basic Financial Statements, which follows this discussion.

FINANCIAL HIGHLIGHTS

- The Agency's revenue from tax increment was \$5.1 million. This is an increase of 4.1% over the prior year.
- \$2.4 million was spent on capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements and 3) notes to the basic financial statements. This report also contains required supplementary information.

Government-wide Financial Statements -The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances.

While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the government as a whole or major individual funds (within the fund financial statements). Major funds are funds whose revenues, expenditures or expenses, assets, or liabilities are at least ten percent of the corresponding totals for all governmental funds and at least 5 percent of the aggregate amount for all governmental funds for the same item. The general fund is always a major fund and any other government fund may be reported as a major fund if the government believes that fund is particularly important to financial statement users.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and compensated absences).

Both of the government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include general government and capital outlay. The Agency has no business-type activities.

Fund Financial Statements -A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds -Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains ten individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for major funds. The General Fund, Project Area 2 Low & Moderate Income Housing Special Revenue Fund, Project Area 2 Debt Service Fund, Gateways Debt Service Fund and the Project Area 2 Capital Improvement Capital Projects Fund are considered to be major funds. Data from the other five funds are combined into a single, aggregated presentation.

The Agency adopts an annual appropriated budget for all its funds. Budgetary comparison has been provided in the Required Supplementary Information for the General Fund and the Major Special Revenue Funds to demonstrate compliance with the budget.

Fiduciary Funds -Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Agency's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Basic Financial Statements -The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information -In addition to the basic financial statements and accompany notes, this report also presents certain required supplementary information concerning the Agency's budgetary control and accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$9.6 million. Net assets invested in capital assets, net of debt is negative because the majority of the long-term debt financed capital assets

that have been transferred to the City of Merced. Future tax increment revenues will service the debt but are not recorded because they are not currently measurable and available.

Summary of Net Assets		
	2004	2003*
Current and other assets	\$ 35,003,002	\$ 24,404,161
Capital assets	12,364,906	11,365,029
Total assets	<u>47,367,908</u>	<u>35,769,190</u>
Long-term liabilities	35,230,094	30,012,648
Other liabilities	2,504,082	194,277
Total liabilities	<u>37,734,176</u>	<u>30,206,925</u>
Net assets:		
Invested in capital assets, net of debt	(18,106,509)	(20,366,558)
Restricted	16,486,030	19,086,682
Unrestricted	11,254,211	6,842,141
Total net assets	<u>\$ 9,633,732</u>	<u>\$ 5,562,265</u>

*Restated

Analysis of the Agency's Operations - The following table provides a summary of the Agency's operations for the year ended June 30, 2004.

Statement of Activities		
	2004	2003
<i>Revenues</i>		
Program revenues:		
Charges for services	\$ 1,625,623	\$ 597,063
Operating grants and contributions	639,006	77,370
General revenues:		
Property taxes	5,177,309	4,991,156
Transfers	496,150	1,150,092
Other	1,554,173	1,493,027
Total revenues	<u>9,492,261</u>	<u>8,308,708</u>
<i>Expenses</i>		
Governmental activities:		
General government	3,658,716	12,603,641
Administrative		
shared expenditures	403,956	308,594
Interest on long-term debt	1,358,122	1,348,532
Total expenses	<u>5,420,794</u>	<u>14,260,767</u>
Increase in net assets	<u>\$ 4,071,467</u>	<u>\$ (5,952,059)</u>

The Agency's total revenues and transfers were \$9.4 million. Tax increment revenue provided 55% of total revenue received during the year.

The Agency's expenses for the year totaled \$5.4 million. Expenses from general government activities totaled \$3.6 million, which is 67% of total expenses.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds -The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Agency's governmental funds reported a combined ending fund balance of \$23 million and a net change in fund balance of \$527,000. The Project Area 2 Capital Improvement Fund decreased by \$1.1 million. Debt proceeds from the tax allocation bond issued in fiscal year 2003-04 were used this year.

BUDGETARY HIGHLIGHTS

During the fiscal year the Agency's Board approved budgetary revisions for supplemental appropriations, which increased appropriations in individual funds and transfers between funds.

The difference between the original budget and the final budget of the governmental funds was an increased \$1.3 million. 58% of the increase is attributable to capital projects. 42% of the increase was due to additional appropriations needed for the ERAF shift, County Administration Fees and the 20% Housing Set A Side. Tax increment, debt proceeds and transfers-in funded the supplemental appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets -The Agency's investment in capital assets as of June 30, 2004, was \$12.3 million, net of depreciation. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment and improvements other than buildings, structures, land and improvements.

<u>Capital Assets</u>		
	<u>2004</u>	<u>2003</u>
Capital assets nondepreciable:		
Land and improvements	\$ 4,421,612	\$ 4,421,612
Construction in progress	2,864,784	1,408,068
Other capital assets:		
Building and structures	886,546	886,546
Machinery and equipment	8,495	10,560
Improvements other than buildings, structures and land improvements	9,021,930	8,981,997
Less accumulated depreciation	(4,838,461)	(4,343,754)
Total	<u>\$ 12,364,906</u>	<u>\$ 11,365,029</u>

The significant change to capital assets during the fiscal year included the cost of \$616,000 for the planning phase for the Merced Center.

Additional information on the Agency's capital assets can be found in the Notes to the Basic Financial Statements.

Long-term debt -At the end of the current fiscal year, the Agency had \$35.6 million in outstanding debt consisting of tax allocation bonds, loans payable, participation and development agreements and loan guarantees payable. All of the debt was secured by specific revenue sources.

Outstanding Debt		
	2004	2003
Tax allocation bonds payable	\$ 30,352,825	\$ 31,612,825
Participation and development agreements	575,000	725,000
Loans payable	4,106,705	4,118,298
Loan guarantee	607,480	668,228
Total	<u>\$ 35,642,010</u>	<u>\$ 37,124,351</u>

The Agency's total debt decreased by \$1.4 million or by 4%.

Additional information of the Agency's long-term debt can be found in Notes to Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Mid year 2004 estimates for some property tax revenue categories were projected to be stronger than originally anticipated.
- During fiscal year 2003-04, State actions caused an ERAF shift from Redevelopment Agencies throughout California. The proposed 2004-05 budget calls for another shift of \$490,000.
- The Redevelopment Agencies bond proceeds on hand will allow the Agency to proceed with the Merced Center Project.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, Redevelopment Agency of the City of Merced, 678 West 18th Street, Merced, CA, 95340.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Merced
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash, cash equivalents and investments	\$ 14,844,407
Cash held by fiscal agent	2,481,402
Accounts receivable	6,240
Interest receivable	43,853
Due from other governments	957,790
Land held for resale	1,591,267
Total current assets	<u>19,924,959</u>
Noncurrent assets:	
Notes receivable	<u>15,078,043</u>
Capital assets:	
Nondepreciable	7,286,396
Depreciable, net of accumulated depreciation	<u>5,078,510</u>
Total capital assets, net	<u>12,364,906</u>
Total noncurrent assets	<u>27,442,949</u>
Total assets	<u>47,367,908</u>
LIABILITIES	
Current liabilities:	
Accounts payable	629,217
Interest payable	118,590
Payroll liabilities	7,096
Deposits	21,000
Long-term debt, due within one year	1,728,179
Total current liabilities	<u>2,504,082</u>
Noncurrent liabilities:	
Advances from City	1,316,263
Long-term debt, due in more than one year	<u>33,913,831</u>
Total noncurrent liabilities	<u>35,230,094</u>
Total liabilities	<u>37,734,176</u>
NET ASSETS	
Invested in capital assets, net of related debt	(18,106,509)
Restricted for:	
Debt service	1,834,108
Capital projects	13,539,137
Special projects and programs	1,112,785
Total restricted	<u>16,486,030</u>
Unrestricted	<u>11,254,211</u>
Total net assets	<u>\$ 9,633,732</u>

See accompanying Notes to Basic Financial Statements.

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

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Total		
Governmental activities:						
General government	\$ 3,658,716	\$ 1,625,623	\$ 639,006	\$ 2,264,629	\$ (1,394,087)	
Administrative shared expenditures	403,956				(403,956)	
Interest on long-term debt	1,358,122				(1,358,122)	
Total governmental activities	\$ 5,420,794	\$ 1,625,623	\$ 639,006	\$ 2,264,629	(3,156,165)	
General revenues and transfers:						
Taxes:						
Property						
					5,177,309	
Interest and investment earnings						
					543,905	
Miscellaneous						
					1,010,268	
Transfers from city						
					496,150	
Total general revenues and transfers						
					7,227,632	
Changes in net assets						
					4,071,467	
Net Assets:						
Beginning of year, as restated						
					5,562,265	
End of year						
					\$ 9,633,732	

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FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Merced
Balance Sheet
Governmental Funds
June 30, 2004

	Major Funds				
	General	Project Area 2 Low and Moderate Income Housing Fund Special Revenue	Project Area 2 Debt Service	Gateways Debt Service	Project Area 2 Capital Improvement Fund Capital Projects
ASSETS					
Cash and cash equivalents	\$ 145,810	\$ 609,788	\$ 212,995	\$ 256,953	\$ 10,184,255
Cash held by fiscal agent			2,302,382	179,020	
Accounts receivable	6,240				
Interest receivable	500	1,330	1,327	1,079	5,179
Due from other governments			687,106	141,138	129,546
Due from other funds		137,421			
Land held for resale	1,572,217	19,050			
Notes receivable	9,097,716	886,915		4,990,000	
Total assets	\$ 10,822,483	\$ 1,654,504	\$ 3,203,810	\$ 5,568,190	\$ 10,318,980
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$	\$	\$ 443,471	\$ 22,509	\$ 159,622
Payroll liabilities	7,096				
Deposits	21,000				
Deferred revenue	4,178,136	707,944		4,990,000	
Due to other funds			137,421	28,228	
Advances from other funds			1,064,015	252,248	
Total liabilities	4,206,232	707,944	1,644,907	5,292,985	159,622
Fund Balances:					
Reserved	6,493,082	198,021	1,558,903	275,205	1,904,631
Unreserved, undesignated - major funds	123,169	748,539			8,254,727
Unreserved, undesignated reported in non-major funds:					
Special revenue funds					
Capital project funds					
Total unreserved, undesignated	123,169	748,539			8,254,727
Total fund balances	6,616,251	946,560	1,558,903	275,205	10,159,358
Total liabilities and fund balances	\$ 10,822,483	\$ 1,654,504	\$ 3,203,810	\$ 5,568,190	\$ 10,318,980

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental		
Funds	Total	
\$ 3,434,606	\$ 14,844,407	
	2,481,402	
	6,240	
34,438	43,853	
	957,790	
28,228	165,649	
	1,591,267	
103,412	15,078,043	
<u>\$ 3,600,684</u>	<u>\$ 35,168,651</u>	

\$ 3,615	\$ 629,217
	7,096
	21,000
51,065	9,927,145
	165,649
	1,316,263
<u>54,680</u>	<u>12,066,370</u>

1,069,839	11,499,681
	9,126,435
166,225	166,225
<u>2,309,940</u>	<u>2,309,940</u>
<u>2,476,165</u>	<u>11,602,600</u>
<u>3,546,004</u>	<u>23,102,281</u>
<u>\$ 3,600,684</u>	<u>\$ 35,168,651</u>

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

Total Fund Balances - Total Governmental Funds \$ 23,102,281

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in Governmental Funds Balance Sheet.

Non-depreciable	7,286,396
Depreciable, net of accumulated depreciation	5,078,510

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet.

Long-term debt due within one year	(1,728,179)
Long-term debt due in more than one year	(33,913,831)

Deferred revenues recorded in governmental 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.

9,927,145

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year.

(118,590)

Net Assets of Governmental Activities

\$ 9,633,732

Redevelopment Agency of the City of Merced
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2004

	Major Funds				
	General	Project Area 2 Low and Moderate Income Housing Fund Special Revenue	Project Area 2 Debt Service	Gateways Debt Service	Project Area 2 Capital Improvement Fund Capital Projects
REVENUES:					
Taxes	\$	\$	\$ 4,178,345	\$ 998,964	\$
Intergovernmental	44				638,962
Service charges			573,539		
Rental income	62,140				
Investment and interest income	97,491	58,023	82,398	23,348	136,517
Repayment of note	93,161				
Other	293,954	614,227			
Total revenues	546,790	672,250	4,834,282	1,022,312	775,479
EXPENDITURES:					
Current operating:					
General government	712,896	573,539	679,167	236,563	12,163
Administrative shared expenditures	193,956	210,000			
Total current operating	906,852	783,539	679,167	236,563	12,163
Capital outlay					1,424,409
Debt service:					
Principal			1,430,748	40,000	
Interest			1,104,994	254,458	
Total expenditures	906,852	783,539	3,214,909	531,021	1,436,572
REVENUES OVER (UNDER)					
EXPENDITURES	(360,062)	(111,289)	1,619,373	491,291	(661,093)
OTHER FINANCING					
SOURCES (USES):					
Transfers in	1,365,144	1,006,098			800,000
Transfers out		(530,036)	(912,991)	(677,451)	(1,377,822)
Transfer from other City funds				99,068	46,843
Transfer to other City funds	(13,236)				
Total other financing sources (uses)	1,351,908	476,062	(912,991)	(578,383)	(530,979)
Net change in fund balances	991,846	364,773	706,382	(87,092)	(1,192,072)
FUND BALANCES:					
Beginning of year	2,585,728	592,514	852,521	362,297	13,477,430
Prior period adjustment	3,038,677	(10,727)			(2,126,000)
Beginning of year, as restated	5,624,405	581,787	852,521	362,297	11,351,430
End of year	\$ 6,616,251	\$ 946,560	\$ 1,558,903	\$ 275,205	\$ 10,159,358

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental	
Funds	Total
\$	\$ 5,177,309
	639,006
	573,539
	62,140
83,988	481,765
	93,161
8,926	917,107
92,914	7,944,027
19,705	2,234,033
	403,956
19,705	2,637,989
1,000,151	2,424,560
11,593	1,482,341
7,914	1,367,366
1,039,363	7,912,256
(946,449)	31,771
1,745,062	4,916,304
(1,418,004)	(4,916,304)
625,000	770,911
(261,525)	(274,761)
690,533	496,150
(255,916)	527,921
3,801,920	21,672,410
	901,950
3,801,920	22,574,360
\$ 3,546,004	\$ 23,102,281

Redevelopment Agency of the City of Merced
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes
in Fund Balance 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 \$ 527,921

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

Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. 1,536,582

Loss on disposal of assets does not provide current financial resources and therefore was not recorded on the Fund Financial Statements. This amount was recorded as expenses of general government program in the Government-wide financial statements. (39,933)

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds. (496,772)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases 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 payment 1,482,341

Revenues that did not meet the criteria for accrual were recorded as deferred revenues in the Fund Financial Statements. In the Government-Wide Financial Statements, these amounts were recorded as revenues. 1,052,084

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year. 9,244

Change in Net Assets of Governmental Activities \$ 4,071,467

FIDUCIARY FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Merced
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

ASSETS

Cash and cash equivalents	\$	124,574
Deposits		<u>166,559</u>
Total assets	\$	<u><u>291,133</u></u>

LIABILITIES

Deposits	\$	49
Other liabilities		<u>291,084</u>
Total liabilities	\$	<u><u>291,133</u></u>

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Agency, a blended component unit of the City of Merced (City), was created in 1957 by a City ordinance pursuant to the California Community Redevelopment Law. The members of the City Council serve as the governing board for the Agency. All powers of the Agency are vested in the governing board. The Agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The Agency can facilitate the development of on and off-site improvements, acquire and sell property, construct public buildings and provide services to the project area. The Agency has broad general powers to fulfill the objectives contained in the redevelopment plan.

The Comprehensive Annual Financial Report of the City includes the financial transactions of the Agency and can be obtained from the Finance Department, City of Merced, 678 West 18th Street, Merced, California.

A blended component unit, the Agency, is a legally separate organization for which the primary government, the City, is financially accountable; and which the nature and significance of the Agency's relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Project Area 2

The Agency established a Project Area Committee (Committee) by a resolution dated February 1, 1974. The Committee advises the governing board of the Agency on redevelopment issues relating to the project area.

The City Council adopted Ordinance Number 1118, dated August 5, 1974, which established a redevelopment plan for the Merced Redevelopment Project Number 2. The area encompassed by Project Number 2 is bounded on the north by 20th Street, east by C Street, south by Highway 99, and west by Highway 59.

Gateways Project Area

On January 16, 1996, the City Council adopted Resolution Number 96-5 establishing a procedure for the formation of a Project Area Committee for the Gateways Redevelopment Project Area. The City of Merced held an election on February 22, 1996, to establish committee members for the Project Area Committee. On March 18, 1996, the City Council adopted a motion finding that all adopted procedures of the City of Merced were followed in the election, certifying the results of the Project Area Committee election, and authorized the City Clerk to administer the oaths of office to the Project Area Committee members.

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

Gateways Project Area, Continued

The City Council adopted Ordinance Number 1939, dated July 15, 1996, which established a redevelopment plan for the Gateways Redevelopment Project. The area generally encompassed by the Gateways Project is bounded on the north by Union Pacific Railroad tracks, east by the City limits near Joe Herb Park, south by Gerard Avenue, and west by approximately 60 acres in the Airport Industrial Park near West Street.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the Agency.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded in the accounting period in which the related liability is incurred.

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes attach as an enforceable lien on property. Secured and unsecured property taxes are levied on July 1. The unsecured and secured property tax lien date in January 1. Unsecured property taxes become delinquent on August 31. Secured property taxes are payable in two installments, on November 1 and February 1 of each year, and become delinquent on December 10 and April 10, respectively. The County of Merced, California (County) bills and collects the property taxes and remits them to the Agency according to a payment schedule established by the County. Agency property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The County is permitted by State law to levy property taxes at 1% of full market value (at time of purchase) and can increase property assessed value no more than 2% per year.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources applicable to the General Government Operations of the Redevelopment Agency of the City of Merced that are not required to be accounted for in another fund.

The Project Area 2 Low and Moderate Income Housing Special Revenue Fund accounts for Project Area 2 Housing revenue sources. This revenue includes 20% Housing Set-a-Side loan repayments.

The Project Area 2 Debt Service Fund accounts for the collection of tax increment revenue and the disbursement of funds for payment of debt service, project costs, administration, and 20% Housing Set-a-Side.

The Project Area 2 Capital Improvement Capital Projects Fund accounts for the financial resources used in the acquisition and construction of major capital facilities.

The Gateways Debt Service Fund accounts for the collection of tax increment and the disbursement of funds for payment of debt service, project costs, administration, and 20% Housing Set-a-Side.

Additionally, the government reports the following fund types:

The Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

The Debt Service Funds account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

The *Capital Project Funds* account for financial resources to be used for the acquisition of construction of major capital assets, and for the improvement, rehabilitation and redevelopment within redevelopment project areas.

The *Fiduciary Fund* type reported by the Agency is the Agency Fund that accounts for assets held by the Agency as an agent on behalf of others, such as individuals, private organizations and other governmental units.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the Statement of Net Assets have been eliminated.

Amounts reported as program revenues include charges to customers for services and capital grants and contributions. All taxes and internally dedicated resources are reported as General Revenues.

D. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

E. Cash, Cash Equivalents, and Investments

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 Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled 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.

F. Interfund Balances/Internal Balances

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable governmental funds to indicate that they are not expendable available financial resources. Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue. All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Land Held for Resale

Land held for resale consists of land and project costs relating to property acquired or constructed which will be sold under terms of disposition and development agreements between the Agency and developers. The land held for resale is recorded at the lower of cost or estimated net realizable value. Reported amounts are fully reserved, which indicates that they do not constitute available spendable resources.

H. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Agency policy has set the capitalization threshold for reporting capital assets at \$500. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Building and structures	20 years
Improvements other than buildings	15 years
Machinery and Equipment	5 years
Infrastructures	10-40 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local government's 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 highways, bridges, sidewalks, drainage systems, lighting systems, streets, fences, retaining walls, and pavement.

I. Long-Term Liabilities

In the Government-Wide Financial Statements the long-term debt and other financed obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as expenditures.

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 the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as expenditures.

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Net Assets and Fund Equity

Government-Wide Financial Statements

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 was used as 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.”

Fund Financial Statements

Fund Equity – Reservations and designations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosed contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

2. CASH AND INVESTMENTS

The Agency maintains a cash and investment pool with the City of Merced, which includes cash balances and authorized investments of all Agency funds, which the Finance Officer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on month-end cash and investment balances in these funds.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the Agency’s investments are stated at fair value.

The Agency’s share of the City’s pooled cash and investments and cash with fiscal agent at June 30, 2004, was \$14,844,407 and \$2,841,402. The City’s Comprehensive Annual Financial Report contains further details regarding cash and investments and can be obtained from the City’s Finance Department located at the City of Merced Civic Center.

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

3. NOTES RECEIVABLE

A. Fund Financial Statements

As of June 30, 2004, the following loans and notes receivable were outstanding:

Redevelopment Deferred Loans Receivable	\$ 8,815,294
Redevelopment Project Loans Receivable	5,454,769
Redevelopment Housing Loans Receivable	<u>807,980</u>
Total	<u>\$ 15,078,043</u>

- **Deferred Loans Receivable** – Loans to property owners for projects and housing loans. Repayment is subject to a future event.
- **Redevelopment Project Loans Receivable** – Loans to property owners for acquisition and/or improvement of areas located in the redevelopment areas.
- **Redevelopment Housing Loans Receivable** – Loans to property owners for rehabilitation of housing projects.

Deferred Loans Receivable

Redevelopment Deferred Project Loans Receivable	
Merced Lofts, LLC	
2002-03 \$1,240,000 non-interest loan due after twenty-seven months.	\$1,240,000
Merced Lofts, LLC	
2002-03 \$250,000 non-interest loan for three years. After three years, payments to be made monthly over a period of ten years at 5¾% interest. The balance due after ten years shall be made as a balloon payment.	250,000
Merced Lofts, LLC	
2002-03 \$1,298,250 loan to be repaid with 90% of Net Cash Flow. Loan is secured by a promissory note and deed of trust.	1,298,250
Central Valley Coalition For Affordable Housing	
2002-03 \$4,000,000 loan to be repaid over a period of twenty years. Payments to begin 30 days after Certificate of Occupancy.	4,000,000
Central Valley Coalition for Affordable Housing	
2003-04 \$990,000 loan to be repaid over a period of forty years. Payments to begin one year following the occupancy date.	990,000
Other Deferred loans to property owners for housing loans.	<u>1,037,044</u>
Total Redevelopment Deferred Loans Receivable	<u>\$8,815,294</u>

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

3. NOTES RECEIVABLES, Continued

A. Fund Financial Statements, Continued

Redevelopment Project Loans Receivable

County Bank of Merced Revolving Loan Program

The Downtown Commercial Rehabilitation Loan Program was established in 1983 in an effort to further stimulate revitalization, by funding low-interest loans to property owners within Redevelopment areas for the purpose of property rehabilitation and improvement.

On March 24, 1984, a contract with County Bank of Merced was executed to administer the Commercial Rehabilitation Loan Program.

The bank makes eligible loans from its own funds and then transfers from a deposit account an equivalent amount based on the Bank's Prime Rate. The bank is then able to make the rehabilitation loan at a lower interest rate to the eligible business. It should be noted that RDA funds are not loaned and are not at risk through this program.

\$639,547

Steve McNamara

1990-91 \$250,000 note bearing interest at 6% per annum for 15 years. Annual interest payments only to be made for the first five years and principal and interest payments to be made during the next ten years. The note is secured with a Deed of Trust.

183,146

Cyril Lawrence

1994-95 \$175,228 note bearing interest at 6% per annum for 15 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.

86,296

Liberato and Evelyn Baca

1995-96 \$160,000 note bearing interest at 6% per annum for 20 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.

112,211

Merced County Association of Realtors

1995-96 \$268,500 note bearing interest at 5% per annum for 30 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.

240,632

Joseph Corvello

1997 \$45,900 note bearing interest at 9% per annum for 15 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.

30,293

Kamson, Inc.

1997-98 \$360,000 note bearing interest at 6% per annum for 60 months. Monthly principal and interest payments in the amount of \$1,995 to be made. The note is secured with a Deed of Trust.

329,359

Christine McFadden

1998-99 note bearing interest at 8% per annum for 10 years. Monthly principal and interest payments to be made. This note is secured with a Deed of Trust.

44,695

Mainplace Merced, LLC

1999-00 \$2,126,000 Agency Participation Loan. Loan to be repaid by Redeveloper from net cash flow not later than May 1 of each year.

2,126,000

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

3. NOTES RECEIVABLES, Continued

A. Fund Financial Statements, Continued

Merced Laurel Glen 2000-01 \$130,000 non-interest loan. Annual principal payments to be made beginning in the tenth year for twenty years.	130,000
Christine McFadden 2000-01 \$110,560 note bearing interest at 8% per annum for 11 years. The note is secured with a Deed of Trust.	89,831
Brenda Farley 2001-02 \$200,000 note bearing interest at 6% per annum. Monthly interest payments only to be made. Permanent financing to be obtained after 12 months. The note is secured by a Deed of Trust.	227,822
Lupe De La Cruz 1999-00 \$15,544 judgment bearing interest at 7% per annum. Monthly principal and interest payments to be made. The account is secured by a judgment.	14,937
Mondo Building, LLC 2002-03 \$1,200,000 loan to be repaid from net cash flow no later than May 1 of each year.	<u>1,200,000</u>
Total Redevelopment Project Loans Receivable	<u>\$5,454,769</u>
Central Valley Coalition for Affordable Housing 1995 \$30,000 loan bearing interest at 6% per annum for 20 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.	\$ 20,735
Daniel and Ida Hanson 1997-98 \$94,902 note bearing interest at 5% per annum with the first payment due January 1, 1998. Monthly interest payments for the first 60 months. Monthly principal and interest payments for the remaining 360 months. The note is secured with a Deed of Trust.	92,473
Central Valley Coalition for Affordable Housing 1998-99 \$80,000 loan bearing interest at 5% per annum for 20 years. Monthly principal and interest payments to be made. This note is secured with a Deed of Trust.	65,763
Central Valley Coalition for Affordable Housing 2001-02 \$65,000 loan bearing interest at 5% per annum for 20 years. Monthly principal and interest to be made. The note is secured with a deed of Trust.	65,000
David Cuesta Jr. 2003-04 \$54,084 loan bearing interest at 5% per annum for 20 years. Monthly principal and interest to be made. The note is secured with a Deed of Trust.	51,065
Other Redevelopment Loans to Property Owners	<u>512,944</u>
Total Redevelopment Housing Loans Receivable	<u>\$807,980</u>

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

4. DEFERRED REVENUE

Fund Financial Statements

At June 30, 2004, the following deferred revenues were recorded in the Fund Financial Statements because the funds were not available to finance expenditures of the current period. The full amount was recognized as revenues in the Government-Wide Financial Statements.

	General Fund	Project Area 2 Low and Moderate Income Housing Fund Special Revenue	RDA Gateways Debt Service	Non-Major Funds	Total
Long-term loans receivable	\$ 4,178,136	\$ 707,944	\$ 4,990,000	\$ 51,065	\$ 9,927,145
Total	<u>\$ 4,178,136</u>	<u>\$ 707,944</u>	<u>\$ 4,990,000</u>	<u>\$ 51,065</u>	<u>\$ 9,927,145</u>

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2004, the Agency's capital assets consisted of the following:

	Balance July 1, 2003	Addition	Deletion	Reclassification	Balance June 30, 2004
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 4,421,612	\$	\$	\$	\$ 4,421,612
Construction in progress	1,408,068	1,496,649		(39,933)	2,864,784
Total nondepreciable assets	5,829,680	1,496,649		(39,933)	7,286,396
<i>Depreciable Assets:</i>					
Buildings and structures	886,546				886,546
Machinery and equipment	10,560		(2,065)		8,495
Improvements other than buildings structures and land improvements	8,981,997		39,933		9,021,930
Total depreciable assets	9,879,103		37,868		9,916,971
<i>Accumulated depreciation:</i>					
Buildings and structures	(534,765)	(44,327)			(579,092)
Machinery and equipment	(7,948)	(1,349)	2,065		(7,232)
Improvements other than buildings structures and land improvements	(3,801,041)	(451,096)			(4,252,137)
Total accumulated depreciation	(4,343,754)	(496,772)	2,065		(4,838,461)
Total depreciable assets, net	5,535,349	(496,772)	39,933		5,078,510
Total governmental activities	\$ 11,365,029	\$ 999,877	\$ 39,933	\$ (39,933)	\$ 12,364,906

Governmental activities depreciation expense for capital assets for the year ended June 30, 2004 are as follows:

General Government	\$ 496,772
Total depreciation expense	\$ 496,772

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT

A. Government-Wide Financial Statements

Following is a summary of governmental activity long-term debt transactions during the fiscal year ended June 30, 2004:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004	Due in more than one year	Due within one year
Tax Allocation Bonds	\$ 31,612,825	\$	\$ (1,260,000)	\$ 30,352,825	\$ 29,047,825	\$ 1,305,000
Participation and Development Agreements	725,000		(150,000)	575,000	425,000	150,000
Loans Payable	4,118,298		(11,593)	4,106,705	3,894,274	212,431
Loan Guarantee	668,228		(60,748)	607,480	546,732	60,748
Total	\$ 37,124,351	\$	\$ (1,482,341)	\$ 35,642,010	\$ 33,913,831	\$ 1,728,179

1. Tax Allocation Bonds Payable

Tax allocation bonds payable at June 30, 2004, consisted of the following:

1999 \$25,000,000 Tax Allocation Bonds, Series A	\$ 18,985,000
2001 \$2,400,000 Tax Allocation Bonds, Series A	2,360,000
2003 \$9,007,825 Tax Allocation Bonds, Series A	9,007,825
Total	\$ 30,352,825

1999 \$25,000,000 Tax Allocation Bonds, Series A

1999 \$25,000,000 Tax Allocation Bonds, Series A, Redevelopment Agency, \$1,100,000 to \$1,975,000 principal payable annually, interest at 3.50% to 4.75%, payable semi-annually, matures 2015, secured by tax revenues.

The annual debt service requirements for the 1999 \$25,000,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	\$ 1,265,000	\$ 783,754	\$ 2,048,754
2006	1,310,000	735,936	2,045,936
2007	1,360,000	684,526	2,044,526
2008	1,410,000	629,806	2,039,806
2009	1,470,000	572,206	2,042,206
2010-2014	8,305,000	1,857,786	10,162,786
2015-2016	3,865,000	184,425	4,049,425
Total	\$ 18,985,000	\$ 5,448,439	\$ 24,433,439

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

1. Tax Allocation Bonds Payable, Continued

2001 \$2,400,000 Tax Allocation Bonds, Series A

2001 \$2,400,000 Tax Allocation Bonds, Series A, Redevelopment Agency, \$40,000 to \$80,000 of principal payable annually, interest at 5.00% to 5.60%, payable semi-annually, matures 2031, secured by tax revenues.

The annual debt service requirements for the 2001 \$2,400,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	\$ 40,000	\$ 131,098	\$ 171,098
2006	40,000	128,098	168,098
2007	45,000	125,973	170,973
2008	45,000	123,723	168,723
2009	45,000	121,473	166,473
2010-2014	255,000	570,976	825,976
2015-2019	350,000	492,400	842,400
2020-2024	450,000	709,787	1,159,787
2025-2029	620,000	228,448	848,448
2030-2032	470,000	41,689	511,689
Total	\$ 2,360,000	\$ 2,673,665	\$ 5,033,665

2003 \$9,007,825 Tax Allocation Bonds, Series A

2003 \$9,007,825 Tax Allocation Bonds, Series A, Redevelopment Agency, consisting of \$1,485,000 current interest bonds and \$7,522,825 capital appreciation bonds, \$130,000 to \$1,156,807 of principal payable annually, interest payable annually, matures 2023, secured by tax revenues.

The annual debt service requirements for the 2003 \$9,007,825 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Current Interest Bonds		Capital Appreciation Bonds		
	Principal	Interest	Initial Amount	Accreted Interest	Value at Maturity
2005	\$	\$ 42,895	\$	\$	\$
2006		42,895			
2007	130,000	41,595			
2008	135,000	38,945			
2009	135,000	36,077			
2009-2013	755,000	119,782			
2014-2018	330,000	11,963	3,274,382	3,055,618	6,330,000
2019-2023			4,248,443	6,301,557	10,550,000
Total	\$ 1,485,000	\$ 334,152	\$ 7,522,825	\$ 9,357,175	\$ 16,880,000

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

2. Participation and Development Agreements

Participation and Development Agreements at June 30, 2004, consisted of the following:

1997 \$500,000 Disposition and Development Agreement	\$ 100,000
1997 \$800,000 Participation Agreement	<u>475,000</u>
Total	<u><u>\$ 575,000</u></u>

1997 \$300,000 Disposition and Development Agreement

1997 \$300,000 Disposition and Development Agreement between the City of Merced Redevelopment Agency and a developer. The Agency agreed to pay an amount not to exceed \$50,000 annually of the property tax increment for six years.

The annual debt service requirements for the 1997 \$300,000 Disposition and Development Agreement are as follows:

	For the Years	
	<u>Ending June 30,</u>	
2005	\$	50,000
2006		<u>50,000</u>
Total	\$	<u><u>100,000</u></u>

1997 \$800,000 Participation Agreement

1997 \$800,000 Participation Agreement between City of Merced Redevelopment Agency and a participant for financing of facilities and capital equipment. Assistance ranges from \$50,000 to \$100,000 for 8 years, not to exceed \$800,000.

The annual debt service requirements for the 1997 \$800,000 Participation Agreement are as follows:

	For the Years	
	<u>Ending June 30,</u>	
2005	\$	100,000
2006		100,000
2007		100,000
2008		100,000
2009		<u>75,000</u>
Total	\$	<u><u>475,000</u></u>

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

3. Loans Payable

Loans payable at June 30, 2004, consisted of the following:

2003 \$4,000,000 Loans Payable	\$ 4,000,000
2003 \$118,298 Real Estate Loan Payable	<u>106,705</u>
Total	<u><u>\$ 4,106,705</u></u>

2003 \$4,000,000 Loans Payable

2003 \$4,000,000 U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program Variable/Fixed Rate Note. Principal payments are \$200,000 annually. Interest is 2% to 6.5% payable semi-annually. The funds were used to assist the Central Valley Coalition for Affordable Housing with a 204 unit multi family housing development.

The annual debt service requirements for the 2003 \$4,000,000 loans payable are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2005	\$ 200,000	\$ 173,810	\$ 373,810
2006	200,000	170,860	370,860
2007	200,000	166,710	366,710
2008	200,000	161,330	361,330
2009	200,000	154,850	354,850
2010-2014	1,000,000	652,260	1,652,260
2015-2019	1,000,000	410,640	1,410,640
2020-2024	1,000,000	140,690	1,140,690
Total	<u><u>\$ 4,000,000</u></u>	<u><u>\$ 2,031,150</u></u>	<u><u>\$ 6,031,150</u></u>

2003 \$129,109 Real Estate Purchase Agreement

2003 \$129,109 Real Estate Purchase Agreement for the purchase of property in a Redevelopment project area. Monthly payments are \$1,626 for 120 months.

The annual debt service requirements for the 2003 \$129,109 Real Estate Purchase Agreement are as follows:

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

3. Loans Payable, Continued

For the Years Ending June 30,	Principal	Interest	Total
2005	\$ 12,431	\$ 7,075	\$ 19,506
2006	13,329	6,177	19,506
2007	14,293	5,213	19,506
2008	15,326	4,180	19,506
2009	16,434	3,072	19,506
2010-2011	34,892	2,494	37,386
Total	\$ 106,705	\$ 28,211	\$ 134,916

4. Loan Guarantee

2001 \$789,724 Debt Service Funding Agreement with Developer. Developer agrees to make the monthly payments to the City of Merced Redevelopment Agency for the repayment of its loan with a financial lender. The Redevelopment Agency guarantees the monthly payments to the lender. The Redevelopment Agency has a deposit of \$60,748 to be used as a reserve. Payments are \$5,062.33 for 156 months.

The annual debt service requirements for the Loan Payable are as follows:

For the Years Ending June 30,	
2005	\$ 60,748
2006	60,748
2007	60,748
2008	60,748
2009	60,748
2010-2014	303,740
Total	\$ 607,480

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2004, the Agency had the following short-term interfund receivables and payables:

		Due To		
		Governmental Activities		
		Project Area 2	Gateways	
		Debt Service	Debt Service	Total
Due From	<i>Governmental Activities:</i>			
	Project Area 2 Low and Moderate			
	Income Housing Special Revenue Fund	\$ 137,421	\$	\$ 137,421
	Non-major funds		28,228	28,228
	Total	\$ 137,421	\$ 28,228	\$ 165,649

Transfers

At June 30, 2004, the Agency had the following transfers:

		Transfers In				
		Major Funds				
		Project Area 2		Project Area 2		
		Low and Moderate		Capital		
		General	Income Housing	Improvement	Non-Major	Total
			Special Revenue	Capital Projects	Funds	
Transfers Out	<i>Major Funds:</i>					
	Project Area 2: Low & Mod					
	Income Housing SRF	\$	\$	\$	\$ 530,036	\$ 530,036
	Project Area 2: Debt Service	77,322	835,669			912,991
	Project Area 2: Capital					
	Imp. Capital Projects	1,077,822			300,000	1,377,822
	Gateways: Debt Service	125,000			552,451	677,451
	<i>Non-Major Funds</i>	85,000	170,429	800,000	362,575	1,418,004
	Total	\$ 1,365,144	\$ 1,006,098	\$ 800,000	\$ 1,745,062	\$ 4,916,304

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. INTERFUND TRANSACTIONS, Continued

A. Fund Financial Statements, Continued

Advances from other City funds

The Agency was advanced funds from the City as follow:

Project Area 2 Debt Service Fund	\$ 1,064,015
Gateways Debt Service Fund	<u>250,248</u>
Total	\$ 1,314,263

8. RISK MANAGEMENT

The Agency participates in the City's risk management program. All claims are accounted for in the City's general liability insurance and workers' compensation insurance funds. All claims that were probable liabilities that occurred prior to the year-end and that were estimable were recorded in accordance with GASB Statement No. 10.

9. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

As of June 30, 2004, the Agency was a party to various personal injury and other lawsuits which have been denied by the Agency Board. The outcome and eventual liability to the Agency, if any, in these cases is not known at this time. Management estimates that the potential claims against the Agency, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the Agency.

10. PRIOR PERIOD ADJUSTMENTS

Government-Wide Financial Statements

The Agency implemented GASB Statement No. 34 in the prior year. However, deferred revenue recorded in the fund financial statements was not recorded as revenue in the government-wide financial statements. In addition, the Agency identified certain accounting restatements from prior years. Accordingly, the Agency's net assets as of July 1, 2003 has been restated as follows:

	Equity as previously Reported	GASB 34 Implementation Deferred Revenue	Accounting Restatements	Net Assets as Restated
Governmental Activities	\$ (4,214,746)	\$ 8,875,061	\$ 901,950	\$ 5,562,265
Total	\$ (4,214,746)	\$ 8,875,061	\$ 901,950	\$ 5,562,265

Redevelopment Agency of the City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

10. PRIOR PERIOD ADJUSTMENTS, Continued

During the fiscal year the Agency identified certain accounting restatements in the fund financial statements. Accordingly, the Agency's fund balances as of July 1, 2003 have been restated as follows:

	Fund Balance as previously Reported	Accounting Restatements	Fund Balance as Restated
	<u> </u>	<u> </u>	<u> </u>
<i>Governmental Funds:</i>			
General Fund	\$ 2,585,728	\$ 3,038,677	\$ 5,624,405
Project Area 2 Low and Moderate Income Housing Special Revenue Fund	592,514	(10,727)	581,787
Project Area 2 Capital Improvement Capital Projects	13,477,430	(2,126,000)	11,351,430
Total Governmental Funds	<u>\$ 16,655,672</u>	<u>\$ 901,950</u>	<u>\$ 17,557,622</u>

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REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Merced
Required Supplementary Information
For the year ended June 30, 2004

1. BUDGETARY CONTROL AND ACCOUNTING

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

1. The annual budget adopted by the Agency Board provides for the general operation of the Agency. The annual budget is adopted by the Agency Board in June of each year for all funds. The resolution sets a combined appropriation of the funds for the operation of the Agency.
2. The City Manager is authorized to transfer budgeted amounts between departments and line items to assure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations which increase appropriations in individual funds and transfers between funds, must be approved by the Agency Board. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements are the final amended amounts.
3. The budget is formally integrated into the accounting system and employed as a management control device during the year for all funds.
4. Budgets for the governmental fund types are adopted and recorded on the modified basis of accounting on a basis consistent with generally accepted accounting principles (GAAP). Budget appropriations lapse at the end of the fiscal year. Supplemental appropriations were adopted by the Agency Board and have been included in the statements of revenues, expenditures, and changes in fund balance – budget to actual. Total supplemental appropriations for the year were \$1,317,636.

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General Fund and the Project Area #2 Low and Moderate Income Housing Special Revenue Fund present comparisons of the legally-adopted budget with actual data on a basis consistent with generally accepted accounting principles.

Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are reported as reservations of fund balance since they represent commitments, which will be honored during the subsequent year. Encumbrances do not represent expenditures or liabilities.

Redevelopment Agency of the City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2004

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

*Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund*

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Intergovernmental	\$	\$ 44	\$ 44	\$
Rental income	55,000	55,000	62,140	7,140
Investment and interest income:				
Investment income	9,000	9,000	729	(8,271)
Loan interest	70,914	70,914	96,762	25,848
Other:				
Repayment of note	81,873	81,873	93,161	11,288
Miscellaneous	342,852	342,852	293,954	(48,898)
Total revenues	559,639	559,683	546,790	(12,893)
EXPENDITURES:				
Current operating:				
General government:				
Contractual services - City of Merced	787,347	797,687	712,896	84,791
Administrative shared expenditures	193,956	193,956	193,956	
Total current operating	981,303	991,643	906,852	84,791
Capital outlay	500	500		500
Total expenditures	981,803	992,143	906,852	85,291
REVENUES OVER (UNDER) EXPENDITURES	(422,164)	(432,460)	(360,062)	72,398
OTHER FINANCING SOURCES (USES):				
Transfers in	287,322	287,322	1,365,144	1,077,822
Transfer to other City funds	(13,236)	(13,236)	(13,236)	
Total other financing sources (uses)	274,086	274,086	1,351,908	1,077,822
Net change in fund balances	\$ (148,078)	\$ (158,374)	991,846	\$ 1,150,220
FUND BALANCES:				
Beginning of year			2,585,728	
Prior period adjustment			3,038,677	
End of year			\$ 6,616,251	

Redevelopment Agency of the City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2004

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Project Area 2 Low and Moderate Income Housing Special Revenue Fund

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Investment and interest income:				
Investment earnings	\$ 6,000	\$ 6,000	\$ 6,154	\$ 154
Loan interest	34,076	34,076	51,869	17,793
Other:				
Housing set-a-side loans	23,946	23,946	605,606	581,660
Miscellaneous	160,000	160,000	8,621	(151,379)
Total revenues	224,022	224,022	672,250	448,228
EXPENDITURES:				
Current operating:				
General government	573,539	573,539	573,539	
Administrative shared expenditures	210,000	210,000	210,000	
Total expenditures	783,539	783,539	783,539	
REVENUES OVER (UNDER)				
EXPENDITURES	(559,517)	(559,517)	(111,289)	448,228
OTHER FINANCING SOURCES (USES):				
Transfers in	818,600	818,600	1,006,098	187,498
Transfers out	(530,036)	(530,036)	(530,036)	
Total other financing sources (uses)	288,564	288,564	476,062	187,498
Net change in fund balances	\$ (270,953)	\$ (270,953)	364,773	\$ 635,726
FUND BALANCES:				
Beginning of year			592,514	
Prior period adjustment			(10,727)	
End of year			\$ 946,560	

SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Merced
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

	Gateways Low and Moderate Income Housing Fund Special Revenue	Project Area 2 Housing Capital Improvement Fund Capital Projects	Gateways Capital Improvement Fund Capital Projects	Gateways Housing Project Fund Capital Projects	Gateways Childs Avenue Capital Improvement Project Fund Capital Projects	Total
ASSETS						
Cash and cash equivalents	\$ 137,801	\$ 1,506,287	\$ 1,570,718	\$ 219,800	\$	\$ 3,434,606
Interest receivable	196	4,865	28,667	710		34,438
Due from other funds	28,228					28,228
Notes receivable	51,065		52,347			103,412
Total assets	\$ 217,290	\$ 1,511,152	\$ 1,651,732	\$ 220,510	\$	\$ 3,600,684
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$	\$ 3,615	\$	\$	\$	\$ 3,615
Deferred revenue	51,065					51,065
Total liabilities	51,065	3,615				54,680
Fund Balances:						
Reserved		1,017,492	52,347			1,069,839
Unreserved, undesignated reported in non-major funds:						
Special revenue funds	166,225					166,225
Capital project funds		490,045	1,599,385	220,510		2,309,940
Total unreserved, undesignated	166,225	490,045	1,599,385	220,510		2,476,165
Total fund balances	166,225	1,507,537	1,651,732	220,510		3,546,004
Total liabilities and fund balances	\$ 217,290	\$ 1,511,152	\$ 1,651,732	\$ 220,510	\$	\$ 3,600,684

Redevelopment Agency of the City of Merced
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2004

	Gateways Low and Moderate Income Housing Fund Special Revenue	Project Area 2 Housing Capital Improvement Fund Capital Projects	Gateways Capital Improvement Fund Capital Projects	Gateways Housing Project Fund Capital Projects	Gateways Childs Avenue Capital Improvement Project Fund Capital Projects	Total
REVENUES:						
Investment and interest income	\$ 1,739	\$ 18,448	\$ 62,397	\$ 1,404	\$	\$ 83,988
Other	8,926					8,926
Total revenues	10,665	18,448	62,397	1,404		92,914
EXPENDITURES:						
Current operating:						
General government	19,705					19,705
Total current operating	19,705					19,705
Capital outlay		343,752	56,399	600,000		1,000,151
Debt service:						
Principal		11,593				11,593
Interest		7,914				7,914
Total expenditures	19,705	363,259	56,399	600,000		1,039,363
REVENUES OVER (UNDER) EXPENDITURES	(9,040)	(344,811)	5,998	(598,596)		(946,449)
OTHER FINANCING SOURCES (USES):						
Transfers in	274,793	830,036	458,575	181,658		1,745,062
Transfers out	(266,658)	(370,429)	(600,000)	(75,000)	(105,917)	(1,418,004)
Transfer from other City funds		25,000		600,000		625,000
Transfer to other City funds			(105,009)		(156,516)	(261,525)
Total other financing sources (uses)	8,135	484,607	(246,434)	706,658	(262,433)	690,533
Net change in fund balances	(905)	139,796	(240,436)	108,062	(262,433)	(255,916)
FUND BALANCES:						
Beginning of year	167,130	1,367,741	1,892,168	112,448	262,433	3,801,920
End of year	\$ 166,225	\$ 1,507,537	\$ 1,651,732	\$ 220,510	\$	\$ 3,546,004

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Project Area 2 Debt Service Fund - Major Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Taxes:				
Tax increment	\$ 4,093,000	\$ 4,093,000	\$ 4,178,345	\$ 85,345
Service charges:				
Interdepartmental charges	573,539	573,539	573,539	
Investment and interest income:				
Investment earnings	11,000	11,000	21,650	10,650
Miscellaneous	60,748	60,748	60,748	
Total revenues	4,738,287	4,738,287	4,834,282	95,995
EXPENDITURES:				
Current operating:				
General government	340,172	692,674	679,167	13,507
Total current operating	340,172	692,674	679,167	13,507
Debt service:				
Principal	3,559,802	3,559,802	1,430,748	2,129,054
Interest	1,061,864	1,160,735	1,104,994	55,741
Total debt service	4,621,666	4,720,537	2,535,742	2,184,795
Total expenditures	4,961,838	5,413,211	3,214,909	2,198,302
REVENUES OVER (UNDER)				
EXPENDITURES	(223,551)	(674,924)	1,619,373	2,294,297
OTHER FINANCING SOURCES (USES):				
Transfers out	(895,922)	(912,992)	(912,991)	1
Total other financing sources (uses)	(895,922)	(912,992)	(912,991)	1
Net change in fund balances	\$ (1,119,473)	\$ (1,587,916)	706,382	\$ 2,294,298
FUND BALANCES:				
Beginning of year			852,521	
End of year			\$ 1,558,903	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Gateways Debt Service Fund - Major Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Taxes:				
Tax increment	\$ 721,500	\$ 721,500	\$ 998,964	\$ 277,464
Investment and interest income:				
Investment earnings	2,000	2,000	3,643	1,643
Other:				
Miscellaneous	94,230	94,230	19,705	(74,525)
Total revenues	817,730	817,730	1,022,312	204,582
EXPENDITURES:				
Current operating:				
General government	148,300	239,996	236,563	3,433
Total current operating	148,300	239,996	236,563	3,433
Debt service:				
Principal	539,733	438,390	40,000	398,390
Interest	155,391	254,459	254,458	1
Total debt service	695,124	692,849	294,458	398,391
Total expenditures	843,424	932,845	531,021	401,824
REVENUES OVER (UNDER) EXPENDITURES	(25,694)	(115,115)	491,291	606,406
OTHER FINANCING SOURCES (USES):				
Transfers in	370,000	370,000		(370,000)
Transfers out	(704,579)	(704,579)	(677,451)	27,128
Transfers from other City funds			99,068	99,068
Total other financing sources (uses)	(334,579)	(334,579)	(578,383)	(243,804)
Net change in fund balances	\$ (360,273)	\$ (449,694)	(87,092)	\$ 362,602
FUND BALANCES:				
Beginning of year			362,297	
End of year			\$ 275,205	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Project Area 2 Capital Improvement Capital Projects Fund - Major Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Intergovernmental:				
State clean-up funds	\$ 285,032	\$ 285,032	\$ 238,962	\$ (46,070)
Other State funds	400,000	400,000	400,000	
Investment and interest income:				
Investment earnings	25,000	25,000	136,517	111,517
Total revenues	<u>710,032</u>	<u>710,032</u>	<u>775,479</u>	<u>65,447</u>
EXPENDITURES:				
Current operating:				
General government		34,968	12,163	22,805
Capital outlay	8,981,624	10,475,893	1,424,409	9,051,484
Total expenditures	<u>8,981,624</u>	<u>10,510,861</u>	<u>1,436,572</u>	<u>9,074,289</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(8,271,592)</u>	<u>(9,800,829)</u>	<u>(661,093)</u>	<u>9,139,736</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of land	360,000	360,000		(360,000)
Transfers in	800,000	800,000	800,000	
Transfers out		(300,000)	(1,377,822)	(1,077,822)
Transfer from other City funds	46,843	46,843	46,843	
Total other financing sources (uses)	<u>1,206,843</u>	<u>906,843</u>	<u>(530,979)</u>	<u>(1,437,822)</u>
Net change in fund balances	<u>\$ (7,064,749)</u>	<u>\$ (8,893,986)</u>	<u>(1,192,072)</u>	<u>\$ 7,701,914</u>
FUND BALANCES:				
Beginning of year			13,477,430	
Prior period adjustment			(2,126,000)	
Beginning of year, as restated			<u>11,351,430</u>	
End of year			<u>\$ 10,159,358</u>	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Gateways Low and Moderate Income Housing Special Revenue Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Investment and interest income:				
Investment earnings	\$ 1,000	\$ 1,000	\$ 1,739	\$ 739
Other:				
Housing set-a-side loans			3,926	3,926
Miscellaneous	80,000	80,000	5,000	(75,000)
Total revenues	81,000	81,000	10,665	70,335
EXPENDITURES:				
Current operating:				
General government	19,705	19,705	19,705	
Total expenditures	19,705	19,705	19,705	
REVENUES OVER (UNDER) EXPENDITURES	61,295	61,295	(9,040)	70,335
OTHER FINANCING SOURCES (USES):				
Transfers in	144,300	144,300	274,793	130,493
Transfers out	(266,658)	(266,658)	(266,658)	
Total other financing sources (uses)	(122,358)	(122,358)	8,135	130,493
Net change in fund balances	\$ (41,358)	\$ (41,358)	(905)	\$ 200,828
FUND BALANCES:				
Beginning of year			167,130	
End of year			\$ 166,225	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Project Area 2 Housing Capital Improvement Capital Projects Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Investment and interest income:				
Investment earnings	\$ 5,000	\$ 5,000	\$ 18,448	\$ 13,448
Total revenues	5,000	5,000	18,448	13,448
EXPENDITURES:				
Current operating:				
Capital outlay	738,968	1,856,344	343,752	(1,512,592)
Total current operating	738,968	1,856,344	343,752	(1,512,592)
Debt service:				
Principal		11,593	11,593	
Interest		7,914	7,914	
Total debt service		19,507	19,507	
Total expenditures	738,968	1,875,851	363,259	1,512,592
REVENUES OVER (UNDER)				
EXPENDITURES	(733,968)	(1,870,851)	(344,811)	1,526,040
OTHER FINANCING SOURCES (USES):				
Transfers in	530,036	830,036	830,036	
Transfers out	(200,000)	(200,000)	(370,429)	170,429
Transfer from other City funds	25,000	25,000	25,000	
Total other financing sources (uses)	355,036	655,036	484,607	170,429
Net change in fund balances	\$ (378,932)	\$ (1,215,815)	139,796	\$ 1,696,469
FUND BALANCES:				
Beginning of year			1,367,741	
End of year			\$ 1,507,537	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Gateways Capital Improvement Capital Projects Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Investment and interest income:				
Investment earnings	\$ 30,000	\$ 30,000	\$ 62,397	\$ 32,397
Total revenues	30,000	30,000	62,397	32,397
EXPENDITURES:				
Capital outlay	1,676,872	1,681,555	56,399	1,625,156
Total expenditures	1,676,872	1,681,555	56,399	1,625,156
REVENUES OVER (UNDER)				
EXPENDITURES	(1,646,872)	(1,651,555)	5,998	1,657,553
OTHER FINANCING SOURCES (USES):				
Transfers in	541,196	541,196	458,575	82,621
Transfers out	(600,000)	(600,000)	(600,000)	
Transfer to other City funds	(103,000)	(128,000)	(105,009)	(22,991)
Total other financing sources (uses)	(161,804)	(186,804)	(246,434)	59,630
Net change in fund balances	\$ (1,808,676)	\$ (1,838,359)	(240,436)	\$ 1,717,183
FUND BALANCES:				
Beginning of year			1,892,168	
End of year			\$ 1,651,732	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Gateways Housing Project Capital Projects Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Investment and interest income:				
Investment earnings	\$	\$	\$ 1,404	\$ 1,404
Total revenues			1,404	1,404
EXPENDITURES:				
Capital outlay	822,625	819,075	600,000	219,075
Total expenditures	822,625	819,075	600,000	219,075
REVENUES OVER (UNDER)				
EXPENDITURES	(822,625)	(819,075)	(598,596)	220,479
OTHER FINANCING SOURCES (USES):				
Transfers in	181,658	181,658	181,658	
Transfers out			(75,000)	(75,000)
Transfer from other City funds	600,000	600,000	600,000	
Total other financing sources (uses)	781,658	781,658	706,658	(75,000)
Net change in fund balances	\$ (40,967)	\$ (37,417)	108,062	\$ 145,479
FUND BALANCES:				
Beginning of year			112,448	
End of year			\$ 220,510	

Redevelopment Agency of the City of Merced
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Gateways Childs Avenue Capital Projects Fund
For the year ended June 30, 2004

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Other financing sources				
Transfers out	\$ (105,917)	\$ (105,917)	\$ (105,917)	\$
Transfer to other City funds	(156,516)	(156,516)	(156,516)	
Total revenues	<u>\$ (262,433)</u>	<u>\$ (262,433)</u>	(262,433)	<u>\$</u>
FUND BALANCES:				
Beginning of year			<u>262,433</u>	
End of year			<u>\$</u>	

Redevelopment Agency of the City of Merced
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds - Agency Funds
For the year ended June 30, 2004

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>RDA Deposits</u>				
Assets:				
Cash, cash equivalents and investments	\$ 26,049	\$ 239,075	\$ 140,550	\$ 124,574
Deposits	165,708	969	118	166,559
Total assets	\$ 191,757	\$ 240,044	\$ 140,668	\$ 291,133
Liabilities:				
Other payables	\$ 49	\$ 109,403	\$ 109,403	\$ 49
Deposits	191,708	130,641	31,265	291,084
Total liabilities	\$ 191,757	\$ 240,044	\$ 140,668	\$ 291,133

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

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

We have audited the basic financial statements of the Redevelopment Agency of the City of Merced (Agency), a component unit of the City of Merced, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Agency Board, management, and the State Controller's Office, Division of Accounting and Reporting. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Oakland, California
September 17, 2004

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STATISTICAL SECTION

The Redevelopment Agency of the City of Merced
Revenues - By Source
Last ten fiscal years

<u>Fiscal Year</u>	<u>Tax Increment</u>	<u>Investment and Interest Income</u>	<u>Rental Income</u>	<u>Miscellaneous Income</u>	<u>Total</u>
1994-95	\$ 2,952,492	\$ 775,810	\$ 88,335	\$ 530,856	\$ 4,347,493
1995-96	3,245,092	968,235	83,008	1,977,793	6,274,128
1996-97	3,177,781	516,583	83,669	2,018,020	5,796,053
1997-98	3,406,460	692,625	68,501	530,486	4,698,072
1998-99	3,830,361	1,811,767	53,734	592,858	6,288,720
1999-00	3,994,830	805,140	85,828	872,632	5,758,430
2000-01	4,312,071	571,023	84,038	816,485	5,783,617
2001-02	4,432,021	472,026	163,644	1,149,423	6,217,114
2002-03	4,991,156	368,919	116,509	1,681,032	7,157,616
2003-04	5,177,309	481,765	62,140	2,222,813	7,944,027

Source: Redevelopment Agency of the City of Merced Annual Financial Report

The Redevelopment Agency of the City of Merced
Expenditures by Function
Last ten fiscal years

Fiscal Year	Administrative	Project Costs	Debt Service	Miscellaneous	Total
1994-95	\$ 573,670	\$ 5,830,454	\$ 1,335,430	\$	\$ 7,739,554
1995-96	495,111	5,801,142	1,329,965	145,358	7,771,576
1996-97	1,040,855	8,198,749	2,035,805		11,275,409
1997-98	1,085,978	4,303,649	4,920,990		10,310,617
1998-99	2,154,828	1,309,844	19,167,757		22,632,429
1999-00	1,375,201	2,128,659	3,002,003		6,505,863
2000-01	1,525,915	1,914,082	4,271,203		7,711,200
2001-02	1,742,048	2,632,381	2,397,528		6,771,957
2002-03	3,162,809	11,006,210	2,580,036		16,749,055
2003-04	2,637,989	2,424,560	2,849,707		7,912,256

Source: Redevelopment Agency of the City of Merced Annual Financial Report

The Redevelopment Agency of the City of Merced
Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Expenditures
Last ten fiscal years

Fiscal Year	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
1994-95	\$ 1,335,430	\$ 7,739,554	17.25%
1995-96	1,329,965	7,771,576	17.11%
1996-97	2,035,805	11,275,409	18.06%
1997-98	4,920,990	10,310,617	47.73%
1998-99	19,167,757	22,632,429	84.69%
1999-00	3,002,003	6,505,863	46.14%
2000-01	4,271,203	7,711,200	55.39%
2001-02	2,397,528	6,771,957	35.40%
2002-03	2,580,036	16,749,055	15.40%
2003-04	2,849,707	7,912,256	36.02%

Source: Redevelopment Agency of the City of Merced Annual Financial Report

The Redevelopment Agency of the City of Merced
Assessed Valuation
Last ten fiscal years

Project #2

Fiscal Year	Secured Property Tax	Unsecured Property Tax	Total General
1994-95	\$ 282,985,989	\$ 36,697,482	\$ 319,683,471
1995-96	303,531,680	36,656,917	340,188,597
1996-97	302,473,668	36,391,081	338,864,749
1997-98	309,148,769	36,967,053	346,115,822
1998-99	347,098,480	37,861,349	384,959,829
1999-00	367,962,611	42,385,044	410,347,655
2000-01	370,527,596	41,195,377	411,722,973
2001-02*	384,551,963	43,142,870	427,694,833
2002-03	381,203,442	45,572,327	426,775,769
2003-04	396,219,063	45,305,220	441,524,283

Gateways

1997-98	\$ 172,071,980	\$ 49,144,850	\$ 221,216,830
1998-99	192,740,615	10,887,030	203,627,645
1999-00	199,549,141	11,413,671	210,962,812
2000-01	200,588,953	11,903,803	212,492,756
2001-02*	213,069,686	11,672,541	224,742,227
2002-03	220,904,270	54,704,856	275,609,126
2003-04	224,432,471	68,442,921	292,875,392

* Fiscal year 2001-2002 has been restated

Source: Merced County Auditors Office