

HERCULES REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2009

HERCULES REDEVELOPMENT AGENCY
Financial Statements
June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of the Hercules Redevelopment Agency
Hercules Redevelopment Agency
Hercules, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hercules Redevelopment Agency (Agency), a component unit of the City of Hercules, California (City) as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's basic financial statements 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 opinions on these basic financial statements based on our audit.

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

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

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2008, the Hercules Redevelopment Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*; GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*; GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*; GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control on financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis on page 3 to 10 and the Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Redevelopment Operating Special Revenue Fund on page 36 and Affordable Housing Special Revenue Fund on page 37 are not required parts 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 inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Redevelopment Agency Debt Service Fund on page 39 and Capital Projects Fund on page 40 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Redevelopment Agency Debt Service Fund and Capital Projects Fund have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
December 23, 2009

City of Hercules Redevelopment Agency

Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2009

The management of the City of Hercules Redevelopment Agency (the Agency) offers readers of the Agency's Financial Statements this narrative overview and analysis of the basic financial activities of the Agency for the fiscal year ended June 30, 2009.

Governmental Accounting and Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", known as GASB 34, requires, among other things, that the Agency provide this management discussion and analysis of its financial activities for the fiscal year. GASB 34 represents an effort to make governmental reporting clearer and more understandable to readers. It allows a reader to focus on longer term financial issues as well as short-term financial aspects of the Agency. This document should be read in conjunction with the accompanying Basic Financial Statements and the notes to those statements to get a complete picture of the Agency's finances.

I. Financial Highlights

This year the Agency's assessed property value is reflected in the decrease of tax increment revenue, and that revenue is sufficient to cover debt related expenses and to provide funding for both housing and non-housing priorities. The Agency continues to generate benefits from projects initiated in prior fiscal years. Of particular note for the 2008-2009 fiscal year is the Affordable Housing Program which provided housing opportunities via the First Time Homebuyer Program to 21 households. In addition, four educational classes were provided for first-time homebuyers, which included credit counseling as a requirement prior to acquiring a loan. Four homes were relieved from going into foreclosure proceedings.

At the former Gelsar/RFI/Lewis site, on May 12, 2009, construction commenced on "Sycamore North", a set of mixed-use buildings. Upon completion in 2011, Sycamore North will provide 96 units of affordable and market-rate housing of which 75 units will be affordable; 49 rentals and 26 for ownership. The site will include 36,046 square feet of leasable shopfront retail space. In anticipation of availability, the Agency has retained professional asset and property management services.

Major entitlements were attained in February for the 35-acre New Town Center transit-oriented district. The district received new General Plan land use designation and zoning for higher-density mixed use around transit. The conveyance of the Park-N-Ride parcel to a Developer under the 2005 Disposition Development Agreement (DDA) occurred in August, 2009. The Developer is proceeding to prepare construction documents for the first phase, on the Park-N-Ride site at Sycamore and San Pablo Avenues. The Agency is providing financial assistance to Developer in accordance with the 2005 DDA. The Agency is also assisting in the advance planning of the future phases by engaging environmental consultants to prepare applications for mitigating anticipated impacts to wetlands and critical habitat.

As of June 30, 2009 the Agency's exchange of property with BART was substantially complete, with close of escrow occurring on July 13, 2009. The conclusion of construction and grand opening of a \$4.3 million Transit Center occurred on August 3, 2009. In July 2009, BART and the Agency executed an agreement whereby the Agency will provide parking management services at the new Transit Center.

The Agency continues to progress the civil engineering and environmental studies in support of obtaining approvals from Caltrans for the relocation of freeway access ramps around the New Town Center district. This ramp relocation will enable the assembly of parcels for modern development and improved access and circulation citywide. Caltrans approval of the Project Study Report is anticipated by the end of calendar year 2009. The Agency will be pursuing agreements with Caltrans to receive excess land created by the ramp relocation.

On June 23, 2009 the Agency appropriated \$2.013 million to conclude a purchase of a 3.8 acre improved parcel located just outside the City limits, from YRC, Inc., successor to the Yellow motor freight carrier, for the purpose of relocating a Caltrans maintenance facility which is now located within the New Town Center district.

Just south of the Gelsar/RFI/Lewis site, the Agency continues land-use planning and engineering studies on the 11-acre “Sycamore Crossings” district, which will provide retail, commercial, and hospitality opportunities in a distinctively urban format of blocks and streets.

In June of 2009 the Redevelopment Agency extended the life of the Dynamite portion of the Merged Project Area and added both the Hill Town and Sycamore Crossing sites to the Project Area. These combined actions will potentially provide the Agency with up to \$400 million extra in tax increment over the life of the Project Area.

The Agency is researching the requirements for development of its 17-acre parcel, acquired from Wal-Mart, and its 6.37-acre parcel at San Pablo Avenue at Victoria Crescent, with the objective of providing opportunities for biotech, research and development, and manufacturing businesses to expand or relocate from other Bay Area locations. These two parcels have the potential to expand the existing North Shore business park.

The Waterfront Project and Intermodal Transit Center on 42 acres continues to move forward. The design for the track and rail improvements to facilitate the Capitol Corridor train and station facility is 60% complete as of June 30, 2009. Other aspects of the project that are making progress are: utility agreements to relocate the five utility lines in the area; environmental documents for the Intermodal Transit center and Hercules Bayfront project; project team meetings are held on a regular basis with the City, the developer (Anderson Pacific), and a host of consultants; design of short-term and long-term parking facilities; and planning for the straightening of Refugio Creek. The station design has been approved and several public outreach meetings took place before the fiscal year ended. Additional public outreach meetings have been scheduled for fiscal year 2009-2010.

All of this development has, and will continue to help the City of Hercules’ (City) growing electric utility to develop into a viable and beneficial asset to the City.

The following are the amounts received from tax increments in fiscal year 2007-08 with comparative totals for the previous five fiscal years:

Fiscal Year Receipt	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Total for the Fiscal Year	<u>\$5,003,025</u>	<u>\$9,449,358</u>	<u>\$10,366,886</u>	<u>\$13,409,462</u>	<u>\$13,473,319</u>	<u>\$12,750,860</u>

The liabilities of the Agency exceeded its assets at the close of the fiscal year by \$32.5 million (Net Assets). The Agency’s investment in assets is primarily in City owned property, as, other than property held for resale, it does not hold property in its own name. The factors impacting the negative net assets are the contribution of capital assets from construction-in-progress projects that are taking place in the Redevelopment Project Areas as mentioned above, the purchase of the Wal-Mart parcel, and advances from the City to the Redevelopment Agency. The Agency projects that future resources will be sufficient to pay long-term obligations as they become due.

The Agency's total net assets decreased by \$42.2 million during the fiscal year. The decrease is primarily due to increases in tenant improvements which were made on a leased property, advances from the City of Hercules in the amount of \$33 million to provide financing for City Hall construction, Refugio Creek Realignment Project, Williamson Property Purchase, Wells Fargo Bank Building purchase and expansion, Farber settlement, Frog Pad Park, Teen Center, and upgrades to the sanitary sewer plant and Hercules Municipal Utility's infrastructure.

As of the close of the fiscal year, the Agency's funds (all governmental) reported combined ending fund balances of \$67.3 million as opposed to \$107.3 million in 2008, representing a decrease of \$40 million in comparison with the prior fiscal year. This was primarily due to a decrease in the use of money and property because of unfavorable interest rates, drawdowns of bond proceeds, and an increase in loan receivables for affordable housing programs.

The total net debt of the Agency increased by \$19.4 million during the fiscal year. The reason for this increase was the advances from the City of Hercules to provide financing for the projects mentioned above. Annual repayments of \$4.4 million were made for bonded debt, notes payable, and advances from the City of Hercules.

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The City of Hercules Redevelopment Agency 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 other supplementary information in addition to the Basic Financial Statements themselves.

The basic financial statements include only the Agency, which is a component unit of the City and is reported in the City's Comprehensive Annual Financial Report (CAFR) using the blended method.

Government-Wide Financial Statements: The Government-Wide Financial Statements are statements required by GASB 34 that present the financial picture of the Agency and provide readers with a broad view of the Agency's finances. These statements present governmental activities and include all assets of the Agency (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables, and other interfund activity have been eliminated as prescribed by GASB 34.

The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities. These statements include *all* assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

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. The Agency, while a separate legal entity, acts as a financial conduit for the City and as such does not hold title to the assets it helps construct. Therefore, its net assets are not necessarily any indication of its financial health.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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). Additionally, certain interfund receivables, payables, and other interfund activity have been eliminated as prescribed by GASB 34.

The Agency only has governmental activities, including public works related activity and administration, which are reflected in the Statement of Net Assets and the Statement of Activities. Property tax increment and interest income finance these activities.

Fund Financial Statements: The Fund Financial Statements provide detailed information about the Agency's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds combined in a single column on each fund statement. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the Agency for the fiscal year. All funds have been determined to be major funds.

Fund Financial Statements include statements for the governmental activities. The Agency has no business-type activities.

Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. The capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-Wide Financial Statements.

In order to better understand the Agency's long-term and short-term requirements, it is useful to compare the Agency's Governmental Fund Statements with the governmental activities in the Government-Wide Financial Statements. A reconciliation is provided for both the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets, and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities to facilitate this comparison.

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 Agency's funds were determined to be Major Funds. These funds include the Operating Fund, the Capital Projects Fund, the Affordable Housing Fund, and the Debt Service Fund, which are reported in detail in the Fund Financial Statements.

Operating Special Revenue Fund: The Operating Special Revenue Fund is used to account for staff time and other operating costs of the Agency (e.g., non-capital studies or analysis and other consultants)

Capital Projects Fund: The Capital Projects Fund is used to account for the capital expenditures of the Agency, other than housing.

Debt Service Fund: The Debt Service Fund is used to account for the repayment of principal and interest on debt as well as pass through obligations to other taxing agencies or non-taxing entities.

Affordable Housing Fund: The Affordable Housing Fund is used to account for the 20% set aside of the tax increment that is required by State Law to be used for low and moderate income housing purposes.

The Agency adopts an annual appropriated budget for all of its funds. A set of budgetary comparison schedules has been provided to demonstrate compliance with this budget on pages 36 through 40 of this report.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the basic financial statements can be found on pages 19 through 34 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the Agency's budget to actual results in its Special Revenue Funds. Required Supplementary Information can be found on pages 35 through 37 of this report.

III. Government-Wide Financial Analysis

The largest portion of the Agency's net assets reflects amounts invested in capital assets (e.g., land, buildings, machinery, and equipment). Unlike most other types of governmental bodies, which provide day-to-day services, the main purpose of the Agency is to provide capital funds for the development of a certain geographical area of the City.

The following analysis focuses on the net assets and changes in net assets of the Agency's Governmental Activities, presented in the Government-Wide Statement of Net Assets and Statement of Activities.

Redevelopment Agency Net Assets
At June 30,
(Amounts expressed in millions of dollars)

	2009	2008
Current assets	\$ 81.1	\$ 115.3
Noncurrent assets	73.8	56.7
Total assets	154.9	172.0
Current liabilities	19.7	14.9
Noncurrent liabilities	167.7	147.4
Total liabilities	187.4	162.3
Net assets:		
Invested in capital assets, net of related debt		
Restricted	82.2	28.4
Unrestricted	(114.7)	(18.7)
Total net asset (deficit)	\$ (32.5)	\$ 9.7

The Agency's total net assets decreased by \$42.2 million during the fiscal year. The decrease is primarily due to purchases of land and buildings which were later transferred to the City of Hercules, advances from the City of Hercules in the amount of \$33 million to provide financing for City Hall construction, Refugio Creek Realignment Project, Williamson Property Purchase, Wells Fargo Bank Building purchase and expansion, Farber settlement, Frog Pad Park, Teen Center, upgrades to the sanitary sewer plan and Hercules Municipal Utility's infrastructure. The Venture Commerce Center Project was completed during the fiscal year ended June 30, 2009 and was transferred to the City of Hercules in the amount of \$15,075,022.

Governmental Activities: All the activities of the Agency are governmental-type and it has no business-type activities.

Redevelopment Agency
Changes in Net assets
Fiscal year ended June 30,
(Amounts expressed in millions of dollars)

	2008-09	2007-08
General Revenues:		
Property tax (tax increment)	\$ 12.8	\$ 13.5
Investment Income	2.0	3.1
Miscellaneous	(0.1)	1.0
Total general revenue	14.7	17.6
Net expenses	33.0	15.3
Change in net assets (decrease)	(18.3)	2.3
Net assets, July 1,	9.7	7.4
Prior Period Adjustment	(23.9)	-
Net assets - July 1, restated	(14.2)	7.4
Net assets - June 30,	\$ (32.5)	\$ 9.7

Tax increment revenues decreased by \$.7 million because of the downturn in property values and a decreased development growth in the merged project area. In addition interest rates decreased creating less use of money and property because of the economic downturn. Expenses increased by \$17.7 million from prior fiscal year due to payment of interest on the 2005 Tax Allocation Bonds, 2007 Housing Tax Allocation Bonds, Series A, 2007 Housing Tax Allocation Bonds, Series B, and the 2007 Tax Allocation Bond. The increase was also due to the transfer of the Ventura Commerce Center Project from the Agency to the City of Hercules in the amount of \$15,075,022. A prior period adjustment of negative \$23,721,046 was made on the government-wide Statement of Activities due to an understatement of advances from the City of Hercules. A prior period adjustment of negative \$196,104 was made on the Redevelopment Agency Capital Projects due to an understatement of due to the City of Hercules.

IV. Financial Analysis of the Agency'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, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. It should, however, be noted that most of the unreserved amounts have been designated by the Agency for specific uses.

The Agency is required by State law to set aside 20% of the tax increment revenue in a separate fund for low and moderate-income housing purposes. This fund had total revenue of \$2.7 million and expenditures/transfers out of \$5.5 million. The ending fund balance was negative \$.9 million, a decrease of \$2.8 million from the prior fiscal year. The decrease in the fund balance was due in part to the acquisition of four foreclosed properties and the increase activity in the first time homebuyers program, homeownership retention program, and the revitalization beautification program. The deficit fund balance is expected to be eliminated in future years through tax increment revenue.

The debt service fund had total revenues and transfers-in the amount of \$27.5 million. The expenditures including debt service principal and interest and pass-through payments to other taxing agencies amounted to \$14.4 million. The fund balance decreased by \$32.6 million due primarily to the transferring out of bond proceeds from the 2005 Tax Allocation Bonds, 2007 A and B Tax Allocation Bonds and 2007 Series A Tax Allocation Bonds for completion and construction in progress of redevelopment capital projects.

V. Budgetary Highlights

The original budget was from a one year budget and was structured differently than how the Agency ultimately accounted for its programs. The funds were restructured as indicated above and the budget was redistributed to those new funds. There were adjustments to the budgets during the fiscal year that included over \$30.2 million in projects and programs from the Capital Projects, Operating Special Revenue Fund, and Affordable Housing Funds.

The variances between budget-to-actual in the various funds had mostly to do with the Capital Projects Fund. There were less Capital Projects completed or in progress than were anticipated in the Capital Improvement Program. As is the case every year, there were projects and programs that were not completed by fiscal year-end. On the revenue side, the actual cumulative tax increment revenue received was \$.6 million greater than originally anticipated due to the unknown assessed valuation of properties.

VI. Capital Asset and Debt Administration

Capital assets: As noted earlier the Agency acts as financial conduit for the City of Hercules and as a result, its investments in capital assets are usually recorded as City assets rather than Agency assets.

The capital expenditures during the fiscal year were minimal with money being spent on the Sycamore Downtown project and the train station project. Most of the year was spent in planning the development of the coming projects.

Long-term debt: At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$171.2 million. The tax increment revenue of the Agency secures all debt of the Agency.

The Agency's bonded debt decreased by \$4.4 million during the fiscal year. The decrease was due to the scheduled annual repayment of existing debt.

Additional information on the Agency long-term debt can be found in note number 6 on pages 29 through 32 of this report.

VII. Economic Factors and Next Year's Budgets

Since the Agency's primary source of revenue is tax increments, property values and new construction in the redevelopment area are the key economic factors that define the future resources of the agency. The Agency does have some undeveloped land; however there are discussions with developers underway to develop most of the land that is left in the Agency. Those discussions indicate that there will be a combination of retail, commercial, market rate and affordable housing, and open space. Therefore, most of the revenue growth is expected to come from that development over the next few years with some of the increase attributable to normal assessed value growth.

These factors were considered in preparing the Agency's one year budget for the fiscal year 2009-10.

Requests for Information

This financial report is designed to provide a general overview of the City of Hercules Redevelopment Agency's finances for residents, taxpayers, investors, creditors, and anyone else with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 111 Civic Drive, Hercules, California 94547.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HERCULES REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2009

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 5,994,071
Cash and investments with fiscal agents	69,994,761
Accounts receivable	1,697
Interest receivable	392,239
Land held for resale	4,714,568
Total current assets	<u>81,097,336</u>
Noncurrent assets:	
Loans receivable	10,445,878
Deferred charges - net of accumulated amortization	3,875,788
Total other noncurrent assets	<u>14,321,666</u>
Capital assets:	
Non-depreciable:	
Land	29,638,038
Construction in progress	22,954,912
Depreciable:	
Land improvements, buildings and improvements, machinery and equipment, and infrastructure	9,326,325
Accumulated depreciation	<u>(2,470,938)</u>
Total capital assets	<u>59,448,337</u>
Total noncurrent assets	<u>73,770,003</u>
Total assets	<u>154,867,339</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,913,796
Accrued wages	26,534
Accrued interest payable	2,744,665
Due to City of Hercules	11,532,141
Long-term debt - due within one year	3,446,449
Total current liabilities	<u>19,663,585</u>
Noncurrent liabilities:	
Advance from the City of Hercules	32,783,013
Long-term debt - due in more than one year	134,930,514
Total noncurrent liabilities	<u>167,713,527</u>
Total liabilities	<u>187,377,112</u>
NET ASSETS	
Restricted for:	
Capital projects	73,179,556
Affordable housing	8,984,092
Unrestricted	<u>(114,673,421)</u>
Total net assets	<u>\$ (32,509,773)</u>

See Accompanying Notes to Basic Financial Statements

HERCULES REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Capital Contributions and Grants	
Governmental activities:				
Community development	\$ 24,970,552	\$ 47,434		\$ (24,923,118)
Interest on long-term debt	8,091,359			(8,091,359)
Total governmental activities	<u>\$ 33,061,911</u>	<u>\$ 47,434</u>	<u>\$ -</u>	<u>(33,014,477)</u>
General Revenues:				
				12,750,860
				2,040,981
				91,734
				(201,803)
Total general revenues and transfers				<u>14,681,772</u>
Change in net assets				<u>(18,332,705)</u>
Net assets, July 1, 2008				9,740,082
Prior period adjustments				<u>(23,917,150)</u>
Net assets, July 1, 2008, restated				<u>(14,177,068)</u>
Net assets, June 30, 2009				<u>\$ (32,509,773)</u>

See Accompanying Notes to Basic Financial Statements

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Redevelopment Agency Operating Special Revenue Fund

This fund accounts for the operating costs of the Redevelopment Agency.

Affordable Housing Special Revenue Fund

This fund accounts for Redevelopment Area tax increment monies to be expended for low and moderate income housing purposes.

Redevelopment Agency Debt Service Fund

This fund accounts for the accumulation of resources used for the payment of principal and interest on the Redevelopment Agency tax allocation bonds and notes payable. It is funded primarily through tax increment revenue and transfers from other City funds.

Redevelopment Agency Capital Projects Fund

This fund accounts for major capital projects undertaken by the Redevelopment Agency.

HERCULES REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2009

	Redevelopment Agency Operating Special Revenue Fund	Affordable Housing Special Revenue Fund	Redevelopment Agency Debt Service Fund
ASSETS			
Cash and investments	\$ 525,122	\$ -	\$ 5,468,949
Cash and investments with fiscal agents			69,994,761
Accounts receivable		1,697	
Interest receivable		362,966	29,273
Due from the City of Hercules			
Due from other funds			
Loans receivable	1,638,159	9,507,719	
Advances to other funds			
Land held for resale		852,528	
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 2,163,281</u>	<u>\$ 10,724,910</u>	<u>\$ 75,492,983</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 38,469	\$ 4,969	\$ 171,119
Accrued wages	23,331	3,203	
Deferred revenue	1,638,159	9,870,685	
Due to the City of Hercules		1,732,646	5,399,758
Due to other funds			2,146,788
Advances from other funds			5,399,758
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,699,959</u>	<u>11,611,503</u>	<u>13,117,423</u>
Fund Balances:			
Reserved:			
Capital projects			67,869,946
Advances			
Future commitments	207,580		
Land held for resale		852,528	
Unreserved, undesignated			
Reported in:			
Special Revenue Funds	255,742	(1,739,121)	
Capital Projects Fund			
Debt Service Fund			(5,494,386)
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>463,322</u>	<u>(886,593)</u>	<u>62,375,560</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 2,163,281</u>	<u>\$ 10,724,910</u>	<u>\$ 75,492,983</u>

See Accompanying Notes to Basic Financial Statements

Redevelopment Agency Capital Projects Fund	Total
\$ -	\$ 5,994,071
	69,994,761
	1,697
	392,239
4,414,275	4,414,275
2,146,788	2,146,788
	11,145,878
5,399,758	5,399,758
3,862,040	4,714,568
<u>\$ 15,822,861</u>	<u>\$ 104,204,035</u>
\$ 1,699,239	\$ 1,913,796
	26,534
	11,508,844
8,814,012	15,946,416
	2,146,788
	5,399,758
<u>10,513,251</u>	<u>36,942,136</u>
	67,869,946
5,399,758	5,399,758
	207,580
3,862,040	4,714,568
	(1,483,379)
(3,952,188)	(3,952,188)
	(5,494,386)
<u>5,309,610</u>	<u>67,261,899</u>
<u>\$ 15,822,861</u>	<u>\$ 104,204,035</u>

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HERCULES REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 67,261,899

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Capital assets net of accumulated depreciation used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

Non-depreciable	\$ 52,592,950	
Depreciable	9,326,325	
Accumulated depreciation	<u>(2,470,938)</u>	
Total capital assets, net		59,448,337

Revenues which are deferred on the Governmental Funds Balance Sheet because they are not available currently are reported as revenues in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Statement of Net Assets.

Deferred revenue	\$ 11,145,878	
Interest receivable	362,966	
Allowance for forgiveness loan	<u>(700,000)</u>	10,808,844

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (2,744,665)

Issuance costs related to long-term liabilities are expenditures in the Governmental Funds financial statements. However, these costs are capitalized and amortized over the life of the bonds in the Government-wide financial statements, and reported net of accumulated amortization as deferred charges. 3,875,788

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

2005 Tax Allocation Bonds	\$ (52,180,000)	
Premium on 2005 Tax Allocation Bonds	(1,885,840)	
Deferred loss on refunding for the 2005 Tax Allocation Bonds	252,340	
2007 Housing Tax Allocation Bonds, Series A	(12,910,000)	
2007 Housing Tax Allocation Bonds, Series B	(12,525,000)	
Premium on 2007 Housing Tax Allocation Bonds, Series B	(75,514)	
2007 Tax Allocation Bonds, Series A	(58,410,000)	
Long-term Notes Payable	(452,949)	
Advances from the City of Hercules	<u>(32,973,013)</u>	
Total long-term liabilities		<u>(171,159,976)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (32,509,773)

See Accompanying Notes to Basic Financial Statements

HERCULES REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2009

	Redevelopment Agency Operating Special Revenue Fund	Affordable Housing Special Revenue Fund	Redevelopment Agency Debt Service Fund
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes and assessments	\$ 10,200,688	\$ 2,550,172	\$ -
Use of money and property	(85,278)	2,804	2,123,455
Program income	213,699	104,493	
Charges for services		47,434	
Miscellaneous	28,812	13,234	
	<u> </u>	<u> </u>	<u> </u>
Total revenues	10,357,921	2,718,137	2,123,455
	<u> </u>	<u> </u>	<u> </u>
Expenditures:			
Current:			
Community development	4,791,222	3,939,493	2,764,615
Capital outlay			
Debt service:			
Principal			4,297,244
Interest and fiscal agent fees			7,341,043
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	4,791,222	3,939,493	14,402,902
	<u> </u>	<u> </u>	<u> </u>
Excess of revenues over (under) expenditures	5,566,699	(1,221,356)	(12,279,447)
	<u> </u>	<u> </u>	<u> </u>
Other Financing Sources (Uses):			
Transfer in from the City of Hercules			
Transfer out to the City of Hercules	(341,000)	(32,682)	(5,656,011)
Transfers in	823,593	394,394	25,345,445
Transfers out	(10,967,787)	(1,952,379)	(39,961,182)
	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	(10,485,194)	(1,590,667)	(20,271,748)
	<u> </u>	<u> </u>	<u> </u>
Net changes in fund balances	(4,918,495)	(2,812,023)	(32,551,195)
	<u> </u>	<u> </u>	<u> </u>
Fund balances - July 1, 2008	5,381,817	1,925,430	94,926,755
Prior period adjustments	<u> </u>	<u> </u>	<u> </u>
Fund balances - July 1, 2008, restated	5,381,817	1,925,430	94,926,755
	<u> </u>	<u> </u>	<u> </u>
Fund balances - June 30, 2009	\$ 463,322	\$ (886,593)	\$ 62,375,560
	<u> </u>	<u> </u>	<u> </u>

See Accompanying Notes to Basic Financial Statements

Redevelopment Agency Capital Projects Fund	Total
\$ -	\$ 12,750,860
	2,040,981
	318,192
	47,434
49,688	91,734
<u>49,688</u>	<u>15,249,201</u>
	11,495,330
31,029,330	31,029,330
	4,297,244
746,990	8,088,033
<u>31,776,320</u>	<u>54,909,937</u>
<u>(31,726,632)</u>	<u>(39,660,736)</u>
5,827,890	5,827,890
	(6,029,693)
26,317,916	52,881,348
	(52,881,348)
<u>32,145,806</u>	<u>(201,803)</u>
<u>419,174</u>	<u>(39,862,539)</u>
5,086,540	107,320,542
<u>(196,104)</u>	<u>(196,104)</u>
<u>4,890,436</u>	<u>107,124,438</u>
<u>\$ 5,309,610</u>	<u>\$ 67,261,899</u>

HERCULES REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (39,862,539)

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances	30,235,206
Depreciation expense not reported in governmental funds	(302,183)

The construction in progress project was completed and transferred to the City of Hercules during the current year. This included land, buildings, and improvements.	(15,075,022)
--	--------------

Certain revenues are offset by deferred revenue in the governmental funds because they are not available to pay for current period expenditures. This amount represents the amount by which current year deferred revenue exceeded prior year and includes the \$700,000 allowance for forgiveness loan.	2,377,915
--	-----------

Addition and amortization of premium, deferred bond discounts and loss on refunding does not require the use of current available resources, and therefore, is not included in the funds. This activity is included in the Statement of Activities.	(68,071)
---	----------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the Statement of Net Assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities:

Repayment of debt principal is added back to fund balance	4,297,244
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The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable	64,745
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (18,332,705)</u></u>
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See Accompanying Notes to Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency (Agency) of the City of Hercules, California, (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (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 was formed in 1983 for the purpose of renovating designated Redevelopment Project Areas within the limits of the City. The Agency is a component unit of the City, and is accounted for as separate funds in the City's basic financial statements.

B. Basis of Accounting/Measurement Focus

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

Government-Wide Financial Statements

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

These statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The type of transactions reported as program revenues for the Agency is charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

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

Governmental Fund Financial Statements

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

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting/Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Revenues are recorded when received in cash, except for those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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

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

C. Cash and Investments

The Agency pools cash resources from all funds within the City of Hercules in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB Statement No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at fiscal year-end and other disclosures.

The Agency has implemented 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 not readily available. Interest earned on investments is allocated using the LAIF factor to selected funds by the City.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Investments (Continued)

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 pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit and market 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.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Agency and are presented as "Cash and investments" in the basic financial statements.

D. Capital Assets

The Agency's assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$2,500. Gifts or contributions of capital assets are recorded at fair value when received. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	25 years
Machinery and equipment	5 – 20 years
Improvements other than buildings	15 years
Infrastructure	15 – 50 years

E. Long-Term Obligations

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

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

F. Fund Balances

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

The following is a listing of the Agency's reserves and designations:

Reserved for Land Held for Resale – Represents amounts provided to indicate that land held for resale is not "available" as a resource to meet expenditures of the current year.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balances (Continued)

Reserved for Advances to Other Funds represents funds that are to be received from other funds on a long-term basis.

Reserved for Capital Projects represents the portion of fund balance that are reserved for capital projects per debt agreements.

Reserved for Future Commitments represents funds that are reserved for future miscellaneous commitments.

G. Net Assets

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

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.”

H. Use of Restricted/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.

I. Property Taxes

Under California law, property taxes are assessed and collected by the County of Contra Costa (County). Under the Teeter plan, the County remits the full assessment regardless of the amounts received. The County assesses, bills, and collects property taxes as follows:

Lien Date	January 1
Levy Date	July 1
Due Date	November 1 and February 1
Collection Date	December 10 and April 10

The Agency is required to set aside a portion of tax increments received to increase and improve the community’s supply of low and moderate-income housing. The amount set aside each year is required to equal 20% of the tax increment receipts from the redevelopment area which amounted to \$2,550,172 for the fiscal year ended June 30, 2009.

Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. New Accounting Pronouncements

The Agency implemented the requirements of GASB Statements No. 45, No. 49, No. 52, No. 55, and No. 56 during the fiscal year ended June 30, 2009.

Governmental Accounting Standards Board Statement No. 45

For the fiscal year ended June 30, 2009, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”. This Statement is effective for periods beginning after December 15, 2007 for a Phase 2 government (1999 total revenues less the \$100 million and more than \$10 million). This Statement establishes standards for accounting and financial reporting for state and local government employees that offer “Other Postemployment Benefits” (OPEB) and requires accrual basis measurement and recognition of OPEB expenses and liabilities that will result in recognition of expenses over periods that approximate employees’ years of service. See the City of Hercules’ Comprehensive Annual Financial Report for more details of the City’s Plan and the effect on the financial statements.

Governmental Accounting Standards Board Statement No. 49

For the fiscal year ended June 30, 2009 the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations.” The Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of net assets, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Governmental Accounting Standards Board Statement No. 52

For the fiscal year ended June 30, 2009, the Agency implemented GASB Statement No. 52, “Land and Other Real Estate Held as Investments by Endowments”. The Statement is effective for periods beginning after June 15, 2008. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Governmental Accounting Standards Board Statement No. 55

For the fiscal year ended June 30, 2009, the Agency implemented GASB Statement No. 55, “The hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s authoritative literature. The “GAAP hierarchy” consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 56

For the fiscal year ended June 30, 2009, the Agency implemented GASB Statement No. 56, “Codification of Accounting and Financing Reporting Guidance Contained in the AICPA Statements of Auditing Standards”. The Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2009 consisted of the following:

Cash and investments pooled with the City of Hercules	\$	5,994,071
Cash and investments held with fiscal agents		69,994,761
Total cash and investments	<u>\$</u>	<u>75,988,832</u>

The Agency pools its cash and investments with the City in order to achieve a higher return on investment. Certain funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These funds include cash with fiscal agents.

The investments made by the Agency are limited to those allowable under State statutes and the Agency’s investment policy and may include the following types of investments:

Certificates of Deposit	Government Agency Securities
Bankers Acceptances	Treasury Bills and Notes
Commercial Paper	Passbook Savings Accounts
Repurchase Agreements	Mutual Funds
Medium-Term Corporate Notes	State of California Local Agency Investment Fund

Investments Authorized by Debt Agreements

Investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency’s investment policy. The table below identifies the investment types that are authorized for investments held by trustee. The table also identifies certain provisions of the debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	None
U.S. Treasury Obligations	30 years	20%	None
U.S. Government Agency Issues	30 years	20%	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Bankers Acceptance (must be dollar denominated)	6 months	40%	30%
Commercial Paper	6 months	15%	10%
Negotiable Time Certificates of Deposit	5 years	30%	\$100,000
Non-negotiable Time Certificates of Deposit	5 years	30%	\$100,000
Federally insured Time Deposits	1 year	20%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	15%
Money Market Funds	N/A	None	None
Mutual Funds	N/A	20%	None
Insured or Passbook Savings Accounts	N/A	None	\$100,000
Guaranteed Investment Contracts	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
Held by debt trustees:							
Money Market Funds	\$ 69,994,761	\$ 69,994,761	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ 69,994,761</u>	<u>\$ 69,994,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the Agency's portfolio not to exceed three years. The Agency has no investments that are highly sensitive to interest rate fluctuations.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations (Continued)

As a means of maintaining liquidity and minimizing interest rate risk, the Agency’s investment policy limits are as follows:

<u>Maturity</u>	<u>% of Portfolio</u>
Up to one year	10% (Minimum)
one year to five years	60% (Maximum)
more than five years	30% (Maximum)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency’s investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Held by debt trustees:							
Money Market Funds	\$ 69,994,761	N/A	\$ -	\$ 69,994,761	\$ -	\$ -	\$ -
Total	\$ 69,994,761		\$ -	\$ 69,994,761	\$ -	\$ -	\$ -

Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. The Agency has no investments (other than the money market funds) that are more than 5% of total Agency investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

See the City of Hercules’ Comprehensive Annual Financial Report for more information relating to custodial credit risk for amounts reported as cash and investments pooled with the City.

The Agency’s investments are carried at fair value as required by accounting principles generally accepted in the United States of America. The Agency adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end, and it includes the effects of these adjustments in investment income for that fiscal year.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 – LOANS RECEIVABLE

Loans receivable at June 30, 2009 consisted of the following:

Bridge Housing Corporation	\$	1,762,566
Eden Housing		700,000
Radston's Office Plus		250,000
First Time Homebuyers		3,496,740
Affordable Housing		3,898,284
Business Development Loans		1,388,159
Home Emergency Loans		<u>13,095</u>
Subtotal		11,508,844
Less: Reported as interest receivable		362,966
Allowance for uncollectible loan		<u>700,000</u>
Total	\$	<u><u>10,445,878</u></u>

The Agency loaned the Bridge Housing Corporation (Corporation) \$1,400,000 to finance construction of a sixty unit senior citizen housing development next to City Hall. On September 8, 1998, the Agency approved an addition to the loan of \$114,600 for a total of \$1,514,600. On January 1, 1999, the loan began to accrue interest at the rate of 3.5% per year and is repayable in 2041, subject to certain conditions. The construction was completed in September 1999. On March 2, 2000, the Corporation repaid \$115,000 to the Agency. As of June 30, 2009, the Corporation's loan balance was \$1,762,566, which includes \$362,966 of interest presented as interest receivable.

On July 1, 2002, the Agency loaned Eden Housing, Inc. \$700,000 to assist in the development of low and moderate income housing for senior citizens. The loan does not bear interest. The repayment of the loan is only due and payable if a default has been declared by the Agency and the borrower fails to cure the default. Upon expiration of the 55-year Regulatory Agreement, the loan will be forgiven and the promissory note will be cancelled by the Agency. The balance outstanding as of June 30, 2009 was \$700,000. An allowance of \$700,000 has been established for this loan, due to its terms.

On December 5, 2000, the Agency entered into a promissory note agreement with the Radston's Office Plus (Payors) in the amount of \$250,000 with interest at 5% per annum. All principal and interest are deferred until December 5, 2010. Commencing on December 5, 2010, the Payors shall pay a lump-sum cash amount of \$125,000 which represents all deferred and unpaid interest only. The principal balance of \$250,000 will be fully amortized and paid over the next ten years at \$2,652 per month, principal and interest, commencing on December 5, 2010. The loan is secured by a Deed of Trust on real property. As of June 30, 2009, the outstanding balance of the loan was \$250,000.

The Agency has provided various loan programs for First Time Homebuyers. In general, they provide secondary financing for low and moderate buyers in the City of Hercules that have deferred payments in order to allow the buyer to maximize their purchasing capacity. The loan has a repayment period of 20 years and payment is deferred in the first 10 years of the loan. The loan has a simple interest rate is at 3%, which will not be accrued during the deferred period. The balance outstanding as of June 30, 2009 was \$3,496,740.

The Agency has provided various loan programs for Affordable Housing assistance. The first is the Below Market Rate Program, which provides secondary financing for low to moderate income persons who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area. This is available to City employees as well. The repayment period varies from 10 to 30 years with a deferred period of 10 to 20 years and no interest will be accrued. The second is the Rehabilitation and Beautification Program, which provides financial assistance to rehabilitate properties. Borrowers are individuals and families who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area. The loan has a repayment period of 20 years and payment is deferred in the first 10 years of the loan. The loan has a simple interest rate is at 3%, which will not be accrued during the deferred period. The balance outstanding of the Affordable Housing Assistance loans as of June 30, 2009 was \$3,898,284.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – LOANS RECEIVABLE (CONTINUED)

The City and Agency established the Business Development Loan Program (BDLP) to provide low cost financial assistance to businesses within the City of Hercules. The BDLP offers a secured loan of up to \$75,000, a term not greater than 20 years, and a simple interest rate of 3% per annum. All applicants are evaluated and prioritized according to established program criteria and if funded are subject to various terms, conditions, and fees. These fees will be deducted from the final loan award by the escrow administrator at the time of funding. The balance outstanding as of June 30, 2009 was \$1,388,159.

On September 19, 2002, the Agency entered into several home emergency loans in various amounts with interest at 5% per annum. The principal amount of the loans including interest is to be due and payable in one lump sum if the owners cease to occupy the property or upon any transfer, refinance, sale, or conveyance of all or a part of the property. The balance outstanding as of June 30, 2009 was \$13,095.

NOTE 4 – LAND HELD FOR RESALE

Land held for resale of \$3,862,040 is comprised of one parcel of land in the Dynamite Project area and \$852,528 is comprised of three parcels of land that were purchased by the Agency. The parcel are purchases within the project area and is being held for future development. The properties are being carried at a net realizable value, which approximates to cost.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, consisted of the following:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Governmental Activities					
Nondepreciable capital assets:					
Land	\$ 16,937,825	\$ 17,563,963	\$ -	\$ (4,863,750)	\$ 29,638,038
Construction in progress	20,748,343	10,800,511		(8,593,942)	22,954,912
Total nondepreciable capital assets	37,686,168	28,364,474		(13,457,692)	52,592,950
Depreciable capital assets:					
Land improvements	11,379				11,379
Buildings and improvements	4,965,778	1,617,330		(1,617,330)	4,965,778
Machinery and equipment		116,445			116,445
Infrastructure	4,095,766	136,957			4,232,723
Total depreciable capital assets	9,072,923	1,870,732		(1,617,330)	9,326,325
Accumulated depreciation:					
Land improvements	(9,401)	(572)			(9,973)
Buildings and improvements	(1,950,093)	(99,437)			(2,049,530)
Infrastructure	(209,261)	(202,174)			(411,435)
Total accumulated depreciation	(2,168,755)	(302,183)			(2,470,938)
Net depreciable capital assets	6,904,168	1,568,549		(1,617,330)	6,855,387
Net capital assets	\$ 44,590,336	\$ 29,933,023	\$ -	\$ (15,075,022)	\$ 59,448,337

The Venture Commerce Center Project was completed during the fiscal year ended June 30, 2009 and was transferred to the City of Hercules in the amount of \$15,075,022.

Depreciation expense for the fiscal year ended June 30, 2009 was \$302,183, which was allocated to community development expense on the Statement of Activities.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS

The Agency's long-term obligation transactions for the fiscal year ended June 30, 2009, were as follows:

	Balance July 1, 2008	Prior Period Adjustments	Additions	Reductions	Balance June 30, 2009	Due within one year
Governmental activities:						
2005 Tax Allocation Bonds	\$ 53,640,000	\$ -	\$ -	\$ (1,460,000)	\$ 52,180,000	\$ 1,520,000
Premium on 2005 Tax Allocation Bonds	1,958,372			(72,532)	1,885,840	72,532
Deferred loss on refunding for the 2005 Tax Allocation Bonds	(262,045)			9,705	(252,340)	(9,705)
2007 Housing Tax Allocation Bonds, Series A	13,130,000			(220,000)	12,910,000	240,000
2007 Housing Tax Allocation Bonds, Series B	12,760,000			(235,000)	12,525,000	250,000
Premium on 2007 Housing Tax Allocation Bonds, Series B	78,660			(3,146)	75,514	3,146
2007 Tax Allocation Bonds, Series A	60,555,000			(2,145,000)	58,410,000	1,130,000
Long-term Notes Payable	500,193			(47,244)	452,949	50,476
Advances from the City of Hercules	9,441,967	23,721,046		(190,000)	32,973,013	190,000
Total long-term obligations	\$ 151,802,147	\$ 23,721,046	\$ -	\$ (4,363,217)	\$ 171,159,976	\$ 3,446,449

A. 2005 Tax Allocation Bonds

On August 5, 2005, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, Series 2005, in the amount of \$56,260,000. The proceeds of the bonds were used to finance certain public capital improvements within the Agency's Merged Project Area and refund the Agency Subordinate Tax Allocation Bonds, Series 2001. The Bonds mature annually each August 1 from 2006 to 2035, in amounts ranging from \$740,000 to \$2,960,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2016, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2015, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account.

The annual debt service requirements to maturity at June 30, 2009, were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 1,520,000	\$ 2,450,645	\$ 3,970,645
2011	1,575,000	2,390,335	3,965,335
2012	1,640,000	2,327,265	3,967,265
2013	1,705,000	2,264,855	3,969,855
2014	1,765,000	2,199,535	3,964,535
2015-2019	10,110,000	9,637,244	19,747,244
2020-2024	8,310,000	7,391,618	15,701,618
2025-2029	10,575,000	5,073,644	15,648,644
2030-2034	13,465,000	3,182,813	16,647,813
2035-2036	1,515,000	113,288	1,628,288
Subtotal	52,180,000	37,031,242	89,211,242
Plus Premium	1,885,840		1,885,840
Total	\$ 54,065,840	\$ 37,031,242	\$ 91,097,082

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

A. 2005 Tax Allocation Bonds (Continued)

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferred loss on refunding of debt which is reported as part of long-term debt. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest. The total amount of the deferred loss was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year 2008-2009 was \$9,705, and the accumulated amortization at June 30, 2009 was \$38,820.

B. 2007 Housing Tax Allocation Bonds Series A and B

On July 26, 2007, the Redevelopment Agency issued Hercules Merged Project Area Housing Tax Allocation Bonds, 2007 Series A, in the amount of \$13,130,000 and 2007 Series B, in the amount of 12,760,000. The proceeds of the bonds were used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2033, in amounts ranging from \$220,000 to \$950,000 and bear interest at rates ranging from 3.50% to 6.125%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2017, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account.

The annual debt service requirements to maturity at June 30, 2009 of the 2007 Series A and B bonds were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 240,000	\$ 767,669	\$ 1,007,669
2011	255,000	754,056	1,009,056
2012	270,000	739,619	1,009,619
2013	285,000	724,356	1,009,356
2014	300,000	707,969	1,007,969
2015-2019	1,770,000	3,255,676	5,025,676
2020-2024	2,365,000	2,648,138	5,013,138
2025-2029	3,165,000	1,812,234	4,977,234
2030-2034	4,260,000	682,938	4,942,938
Total	<u>\$ 12,910,000</u>	<u>\$ 12,092,655</u>	<u>\$ 25,002,655</u>

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 250,000	\$ 574,986	\$ 824,986
2011	260,000	564,786	824,786
2012	315,000	553,241	868,241
2013	325,000	540,351	865,351
2014	340,000	526,775	866,775
2015-2019	1,910,000	2,406,883	4,316,883
2020-2024	2,360,000	1,944,423	4,304,423
2025-2029	2,985,000	1,305,569	4,290,569
2030-2034	3,780,000	484,644	4,264,644
Subtotal	12,525,000	8,901,658	21,426,658
Plus Premium	75,514		75,514
Total	<u>\$ 12,600,514</u>	<u>\$ 8,901,658</u>	<u>\$ 21,502,172</u>

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

C. 2007 Tax Allocation Bonds Series A

On December 20, 2007, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, 2007 Series A, in the amount of \$60,555,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency’s Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2043, in amounts ranging from \$260,000 to \$3,315,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after February 1, 2018, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account.

The annual debt service requirements to maturity at June 30, 2009, were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 1,130,000	\$ 2,723,209	\$ 3,853,209
2011	1,185,000	2,670,984	3,855,984
2012	1,240,000	2,610,359	3,850,359
2013	1,300,000	2,546,859	3,846,859
2014	1,360,000	2,480,359	3,840,359
2015-2019	2,515,000	11,831,813	14,346,813
2020-2024	5,585,000	11,088,600	16,673,600
2025-2029	6,315,000	9,672,099	15,987,099
2030-2034	7,090,000	8,107,049	15,197,049
2035-2039	18,315,000	4,965,803	23,280,803
2040-2044	12,375,000	1,231,275	13,606,275
Total	<u>\$ 58,410,000</u>	<u>\$ 59,928,409</u>	<u>\$ 118,338,409</u>

D. Long-Term Notes Payable

In 1987, the Agency entered into Owner Participation Agreements with certain property owners (East Group and Bio Rad Laboratories) in the Redevelopment Area. Under the terms of these agreements, the Agency signed notes under which it promised to reimburse the owners by the year 2016 for the amount of incremental assessments levied on their properties, up to the cost of constructing public improvements. Payment on these notes is contingent on the property taxes and special assessments levied on these owners. As of June 30, 2009, the Agency’s long-term notes payables were as follows:

East Group	\$ 170,604
Bio Rad Laboratories	282,345
Total	<u>\$ 452,949</u>

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

D. Long-Term Notes Payable (Continued)

The annual debt service requirements to maturity for the East Group Notes Payable as of June 30, 2009 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 19,092	\$ 13,094	\$ 32,186
2011	20,601	11,614	32,215
2012	22,112	10,018	32,130
2013	23,887	8,304	32,191
2014	25,661	6,453	32,114
2015-2016	59,251	6,781	66,032
Total	<u>\$ 170,604</u>	<u>\$ 56,264</u>	<u>\$ 226,868</u>

The annual debt service requirements to maturity for the Bio Rad Laboratories Note Payable as of June 30, 2009 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 31,384	\$ 21,833	\$ 53,217
2011	34,351	19,366	53,717
2012	36,871	16,704	53,575
2013	39,830	13,847	53,677
2014	42,788	10,760	53,548
2015-2016	97,121	11,306	108,427
Total	<u>\$ 282,345</u>	<u>\$ 93,816</u>	<u>\$ 376,161</u>

E. Defeased Debt

2001 Tax Allocation Bonds

The Agency issued 2005 Tax Allocation Bonds to refund the 2001 Tax Allocation Bonds. The Agency issued subordinate tax allocation bonds, series 2001, dated September 4, 2001, totaling \$6,500,000. The purpose of the bonds was to provide funds to finance certain redevelopment activities within, and of benefit to, the Hercules Merged Project Area. The interest rate on the bonds ranges from 4.50% to 6.40%. The interest is payable on each March 1 and September 1 commencing March 1, 2002. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by a pledge of tax revenues in the Merged Project Area. Principal is due annually beginning on September 1, 2005, in amounts ranging from \$215,000 to \$575,000. The economic effect of refunding the bonds was a gain of \$293,279. The outstanding balance as of June 30, 2009 was \$5,080,000. The liability for these bonds has been removed from the Agency's books and records, as they are considered defeased.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – ADVANCES FROM CITY OF HERCULES

Advances from City of Hercules amounted to \$32,973,013. These funds were to provide financing for City Hall Construction, Refugio Creek Realignment Project, Williamson Property Purchase, Wells Fargo Bank building purchase and expansion, Farber settlement, Frog Pad Park, Teen Center, upgrades to the sewer plant, and Hercules Municipal Utility's infrastructure. The interest rate charged by the City to the Agency is based on the Board's resolution approved in the fiscal year ended June 30, 2009, which was 8% as of June 30, 2009.

NOTE 8 – PUBLIC EMPLOYEE RETIREMENT SYSTEM

Plan Description . The Agency participates in the City's pension plan. California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Refer to the City's basic financial statements as of June 30, 2009, for detailed information regarding the pension plan.

NOTE 9 – COMMITMENTS

Hercules LLC – An agreement with Hercules LLC was established with the Agency to assist with development of a 206 acre mixed-use project consisting of 880 residential units, 6 acres of commercial, residential or mixed-use projects, and open space and park uses. Project Tax Increment is defined to include all increases in value over the base year amount of \$7,654,000, less statutory payments to affected taxing entities. The agreement states that the Agency shall pay the developer the first 75% of the unrestricted portion (net of affordable housing set aside and required payments to affected taxing entities), and the first 90% of the housing portion (affordable housing set aside) of the project tax increment funds for properties located within the project site. The financing term for these payments is for 45 years from the adoption date of Ordinance No. 351 or April 13, 1999.

Pro Media – To assist with development of a 57,600 square foot and a 27,000 square foot building at the Project Site, the Agency entered into an agreement with Pro Media Corporation. The Agreement provides for the owner to expend at least \$4 million in hard construction costs. The Agreement provides for the Agency to pay the owner 60% of the Project Tax Increment, as defined above, over the financing term. The financing term commences on the date any increased property tax assessment first becomes effective on the project site from any improvements, and ends on the earliest of the following: (i) fifteen years from the commencement of the financing term, (ii) termination of the agreement, (iii) expiration of the Redevelopment Plan, or (iv) the remaining life of the Agency.

NOTE 10 – CONTINGENCIES

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency's Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Additionally, Agency management believes that the Agency's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 11 – INTERFUND ACTIVITY

The following represents the interfund activity of the Agency for the fiscal year ended June 30, 2009.

A. Advances To/From Other Funds

Funds	Interfund Receivable	Interfund Payable
Major Funds:		
Debt Service Fund	\$ -	\$ 5,399,758
Capital Projects Fund	5,399,758	
	<u>\$ 5,399,758</u>	<u>\$ 5,399,758</u>

B. Due To/From Other Funds

Funds	Interfund Receivable	Interfund Payable
Major Funds:		
Debt Service Fund	\$ -	\$ 2,146,788
Capital Projects Fund	2,146,788	
	<u>\$ 2,146,788</u>	<u>\$ 2,146,788</u>

B. Transfers To/From Other Funds

Funds	Transfers In	Transfers Out
Major Funds:		
Operating Special Revenue Fund	\$ 823,593	\$ 10,967,787
Affordable Housing Special Revenue Fund	394,394	1,952,379
Debt Service Fund	25,345,445	39,961,182
Capital Projects Fund	26,317,916	
	<u>\$ 52,881,348</u>	<u>\$ 52,881,348</u>

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of (\$196,104) was made on the Redevelopment Agency Capital Projects due to an understatement of due to the City of Hercules.

A prior period adjustment of (\$23,721,046) was made on the government-wide Statement of Activities due to an understatement of advances from the City of Hercules.

NOTE 13 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances/Net Assets

As of June 30, 2009 the Affordable Housing Special Revenue fund had deficit fund balances of (\$886,593). The deficit fund balances are expected to be eliminated in future years through tax increment revenue.

NOTE 14 – DEFICIT NET ASSETS

As of June 30, 2009, the Statement of Net Assets of the Hercules Redevelopment Agency has a deficit net assets balance of \$32,509,773. The Agency projects that future resources will be sufficient to pay long-term obligations as they become due.

REQUIRED SUPPLEMENTAL INFORMATION

**HERCULES REDEVELOPMENT AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2009**

1. BUDGETARY PRINCIPLES

In establishing the budgetary data reflected in the financial statements, the Agency follows the below listed procedures:

1. Public hearings are conducted to obtain public comments.
2. The Executive Director is authorized to transfer budgetary amounts within a single fund; however, any revisions that alter the total expenditures of any fund must be approved by the Agency Board.
3. Legally adopted budgets and formal budgetary integration is employed as a management control device during the year.
4. Budgets are adopted on a basis consistent with USGAAP.
5. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year which were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. The Executive Director must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications.
6. Certain appropriations carry over at the end of the fiscal year and then are rebudgeted for the coming fiscal year.

HERCULES REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
REDEVELOPMENT AGENCY OPERATING SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget
				Positive
				(Negative)
Revenues:				
Taxes and assessments	\$ 9,681,979	\$ 9,681,979	\$ 10,200,688	\$ 518,709
Use of money and property	40,000	40,000	(85,278)	(125,278)
Program income	231,000	231,000	213,699	(17,301)
Miscellaneous			28,812	28,812
Total revenues	<u>9,952,979</u>	<u>9,952,979</u>	<u>10,357,921</u>	<u>404,942</u>
Expenditures:				
Current:				
Community development	<u>5,194,281</u>	<u>7,408,084</u>	<u>4,791,222</u>	<u>2,616,862</u>
Total expenditures	<u>5,194,281</u>	<u>7,408,084</u>	<u>4,791,222</u>	<u>2,616,862</u>
Excess of revenues over (under) expenditures	<u>4,758,698</u>	<u>2,544,895</u>	<u>5,566,699</u>	<u>3,021,804</u>
Other Financing Sources (Uses):				
Transfer out to the City of Hercules			(341,000)	(341,000)
Transfers in			823,593	823,593
Transfers out	<u>(12,987,778)</u>	<u>(17,450,802)</u>	<u>(10,967,787)</u>	<u>6,483,015</u>
Total other financing sources (uses)	<u>(12,987,778)</u>	<u>(17,450,802)</u>	<u>(10,485,194)</u>	<u>6,965,608</u>
Net changes in fund balance	(8,229,080)	(14,905,907)	(4,918,495)	9,987,412
Fund balance - July 1, 2008	<u>5,381,817</u>	<u>5,381,817</u>	<u>5,381,817</u>	
Fund balance (deficit) - June 30, 2009	<u>\$ (2,847,263)</u>	<u>\$ (9,524,090)</u>	<u>\$ 463,322</u>	<u>\$ 9,987,412</u>

HERCULES REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
AFFORDABLE HOUSING SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget
				Positive
				(Negative)
Revenues:				
Taxes and assessments	\$ 2,420,495	\$ 2,420,495	\$ 2,550,172	\$ 129,677
Use of money and property	65,000	65,000	2,804	(62,196)
Program income	36,510	36,510	104,493	67,983
Charges for services	82,400	82,400	47,434	(34,966)
Miscellaneous			13,234	13,234
Total revenues	<u>2,604,405</u>	<u>2,604,405</u>	<u>2,718,137</u>	<u>113,732</u>
Expenditures:				
Current:				
Community development	<u>2,647,440</u>	<u>4,591,480</u>	<u>3,939,493</u>	<u>651,987</u>
Total expenditures	<u>2,647,440</u>	<u>4,591,480</u>	<u>3,939,493</u>	<u>651,987</u>
Excess of revenues over (under) expenditures	<u>(43,035)</u>	<u>(1,987,075)</u>	<u>(1,221,356)</u>	<u>765,719</u>
Other Financing Sources (Uses):				
Transfer out to the City of Hercules	(29,700)	(32,200)	(32,682)	(482)
Transfers in			394,394	394,394
Transfers out	<u>(1,071,017)</u>	<u>(2,757,778)</u>	<u>(1,952,379)</u>	<u>805,399</u>
Total other financing sources (uses)	<u>(1,100,717)</u>	<u>(2,789,978)</u>	<u>(1,590,667)</u>	<u>1,199,311</u>
Net changes in fund balance	(1,143,752)	(4,777,053)	(2,812,023)	1,965,030
Fund balance - July 1, 2008	<u>1,925,430</u>	<u>1,925,430</u>	<u>1,925,430</u>	
Fund balance (deficit) - June 30, 2009	<u>\$ 781,678</u>	<u>\$ (2,851,623)</u>	<u>\$ (886,593)</u>	<u>\$ 1,965,030</u>

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OTHER SUPPLEMENTAL INFORMATION

HERCULES REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
REDEVELOPMENT AGENCY DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 2,285,000	\$ 2,123,455	\$ (161,545)
Total revenues	<u>2,285,000</u>	<u>2,123,455</u>	<u>(161,545)</u>
Expenditures:			
Current:			
Community development	9,891,103	2,764,615	7,126,488
Debt service:			
Principal	4,250,000	4,297,244	(47,244)
Interest and fiscal agent fees	<u>6,276,356</u>	<u>7,341,043</u>	<u>(1,064,687)</u>
Total expenditures	<u>20,417,459</u>	<u>14,402,902</u>	<u>6,014,557</u>
Excess of revenues over (under) expenditures	<u>(18,132,459)</u>	<u>(12,279,447)</u>	<u>5,853,012</u>
Other Financing Sources (Uses):			
Transfer out to the City of Hercules		(5,656,011)	(5,656,011)
Transfers in	20,178,580	25,345,445	5,166,865
Transfers out	<u>(55,703,942)</u>	<u>(39,961,182)</u>	<u>15,742,760</u>
Total other financing sources (uses)	<u>(35,525,362)</u>	<u>(20,271,748)</u>	<u>15,253,614</u>
Net changes in fund balance	(53,657,821)	(32,551,195)	21,106,626
Fund balance - July 1, 2008	<u>94,926,755</u>	<u>94,926,755</u>	
Fund balance - June 30, 2009	<u><u>\$ 41,268,934</u></u>	<u><u>\$ 62,375,560</u></u>	<u><u>\$ 21,106,626</u></u>

HERCULES REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Miscellaneous	\$ -	\$ 49,688	\$ 49,688
Total revenues		49,688	49,688
Expenditures:			
Capital outlay	89,084,720	31,029,330	58,055,390
Debt service:			
Interest and fiscal agent fees		746,990	(746,990)
Total expenditures	89,084,720	31,776,320	57,308,400
Excess of revenues over (under) expenditures	(89,084,720)	(31,726,632)	57,358,088
Other Financing Sources (Uses):			
Transfer in from the City of Hercules	7,303,294	5,827,890	(1,475,404)
Transfers in	55,733,942	26,317,916	(29,416,026)
Total other financing sources (uses)	63,037,236	32,145,806	(30,891,430)
Net changes in fund balance	(26,047,484)	419,174	26,466,658
Fund balance - July 1, 2008	5,086,540	5,086,540	
Prior period adjustments		(196,104)	(196,104)
Fund balance - July 1, 2008, restated	5,086,540	4,890,436	(196,104)
Fund balance - June 30, 2009	<u>\$ (20,960,944)</u>	<u>\$ 5,309,610</u>	<u>\$ 26,270,554</u>



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of the Hercules Redevelopment Agency
Hercules Redevelopment Agency
Hercules, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hercules Redevelopment Agency (Agency), a component unit of the City of Hercules, California (City) as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated December 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of Agency's financial statements that is more than inconsequential will not be prevented or detected by Agency's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
December 23, 2009