

HERCULES REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2007

HERCULES REDEVELOPMENT AGENCY
Financial Statements
June 30, 2007

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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, 2007, 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, 2007, 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.

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The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and the schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Redevelopment Operating Special Revenue Fund and Affordable Housing Special Revenue Fund are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of 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 and Capital Projects Fund 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 26, 2007

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City of Hercules Redevelopment Agency

Management's Discussion and Analysis

For The Fiscal Year Ended June 30, 2007

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, 2007.

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 must 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

Once again the Agency's rapidly increasing assessed property value is reflected in the growth 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 show increasing benefit from projects initiated in prior fiscal years. Of particular note for the 2006-2007 fiscal year is the Affordable Housing Program which provided housing opportunities via the First Time Homebuyer Program to 19 households. In addition, educational classes were provided in the areas of first-time homebuyers and credit counseling. Work is nearing completion on the Lewis property and further material progress has been made in facilitating the development of significant and much needed commercial space on the Bart property project (New Town Center Project). Significant progress also has been made toward development of the Waterfront Project parcel which will include a Capital Corridor train station and eventually a ferry terminal. All of this development has, and will continue to help the City of Hercules' (City) growing electric utility develop into a viable and beneficial asset to the City.

The following are the amounts received from tax increments in fiscal year 2006-07 with comparative totals for the previous five fiscal years:

<u>Fiscal Year Receipt</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Total for the Fiscal Year	<u>\$1,653,706</u>	<u>\$2,962,200</u>	<u>\$5,003,025</u>	<u>\$9,449,358</u>	<u>\$10,366,886</u>	<u>\$13,409,462</u>

The assets of the Agency exceeded its liabilities at the close of the fiscal year by \$7.4 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 positive 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 and the completion of Sycamore/Palm Avenue Extension and the Sycamore/Palm Realignment Project.

The Agency's total net assets increased by \$5.9 million during the fiscal year. The increase is primarily due to taxes and assessments revenue being more than sufficient to cover Agency expenses, including debt service and capital outlay.

As of the close of the fiscal year, the Agency's funds (all governmental) reported combined ending fund balances of \$54.2 million as opposed to a \$47.8 million in 2006, representing an increase of \$6.4 million in comparison with the prior year. This was primarily due to a prior period adjustment of \$9.8 million in the Redevelopment Agency Debt Service Fund for a reclassification of long-term advances from the City of Hercules. Long-term advances are not presented on the fund financial statements in a component unit financial statement, per GASB Statement No. 34.

The total net debt of the Agency decreased by \$1.5 million during the fiscal year. The reason for this decrease was the annual repayments of 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.

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 thru 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 38 through 43 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 21 through 37 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 38 through 41 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, 2007
(Amounts expressed in millions of dollars)

	<u>2007</u>	<u>2006</u>
Current assets	\$ 62.8	\$ 55.5
Noncurrent assets	20.9	16.6
Total assets	<u>83.7</u>	<u>72.1</u>
Current liabilities	10.8	3.5
Noncurrent liabilities	65.5	67.1
Total liabilities	<u>76.3</u>	<u>70.6</u>
Net assets:		
Invested in capital assets, net of related debt	10.9	(51.1)
Restricted	60.9	40.6
Unrestricted	(64.4)	12.0
Total net asset (deficit)	<u>\$ 7.4</u>	<u>\$ 1.5</u>

The Agency's Net Assets increased by \$5.9 million during the fiscal year. All of the significant changes were primarily due to the taxes and assessments revenue being more than sufficient to cover Agency expenses, including debt service and capital outlay.

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

Redevelopment Agency
Changes in Net assets
Fiscal year ended June 30, 2007
(Amounts expressed in millions of dollars)

	<u>2006-07</u>	<u>2005-06</u>
General Revenues:		
Property tax (tax increment)	\$ 13.4	\$ 10.3
Investment Income	2.5	1.7
Miscellaneous	(0.3)	(1.1)
Total general revenue	<u>15.6</u>	<u>10.9</u>
Net expenses	9.0	9.2
Change in net assets (decrease)	<u>6.7</u>	<u>1.7</u>
Net assets, beginning of fiscal year	1.5	(0.2)
Prior Period Adjustment	(0.8)	
Net assets - beginning of fiscal year, restated	<u>0.7</u>	<u>(0.2)</u>
Net assets - end of year	<u>\$ 7.4</u>	<u>\$ 1.5</u>

Tax increment revenues increased substantially by 30% because of the development growth in the merged project area. Expenditures were approximately the same as the previous year. A prior period adjustment of \$.8M was made on the Statement of Activities for an understatement of interest payable in the prior fiscal year.

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 \$2.4 million and expenditures/transfers out of \$2.5 million. The ending fund balance was \$2.73 million, a decrease of \$.01 million from the prior year.

The debt service fund had total revenues and transfers-in/out in the amount of \$2.7 million. The expenditures including debt service and pass-through payments to other taxing agencies amounted to \$8.1 million. The fund balance increased by \$4.5 million based on two factors; 1) a prior period adjustment of \$9.8 million in the Redevelopment Agency Debt Service Fund for a reclassification of long-term advances from the City of Hercules, because long-term advances should not be presented on the fund financial statements in a component unit financial statements, per GASB Statement No. 34; and 2) funds in the amount of \$4.2 million were temporarily borrowed from City of Hercules since the Agency did not draw down on the 2005 Tax Allocation Bonds to cover the expenditures from completed and construction in progress capital projects before June 30, 2007.

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 year that included over \$8.6 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 Operating Special Revenue Fund and the Capital Projects Fund. However the Operating Special Revenue Fund had an excess of expenditures over appropriations of \$.2 million and this was due to an RDA pass through to the school district, County, Special Districts and City. 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 much greater than originally anticipated as a result of the significant growth in the merged project area.

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 Avenue Extension 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 \$67.0. None of this amount related to the Affordable Housing Fund. The tax increment revenue of the Agency secures all debt of the Agency.

The Agency's bonded debt decreased by \$1.5 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 32 through 34 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. So, 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 values growth.

These factors were considered in preparing the Agency's one year budget for the fiscal year 2007-08.

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, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 5,514,582
Cash and investments with fiscal agents	53,024,936
Interest receivable	297,095
Accounts receivable	37,041
Land held for resale	<u>3,862,040</u>
Total current assets	<u>62,735,694</u>
Noncurrent assets:	
Loans receivable	6,206,413
Deferred charges - net of accumulated amortization	<u>1,007,265</u>
Total other noncurrent assets	<u>7,213,678</u>
Capital assets:	
Non-depreciable:	
Land	1,023,869
Construction in progress	5,589,396
Depreciable:	
Buildings, improvements, equipment, and vehicles	8,969,841
Accumulated depreciation	<u>(1,867,823)</u>
Total capital assets	<u>13,715,283</u>
Total noncurrent assets	<u>20,928,961</u>
Total assets	<u>83,664,655</u>
LIABILITIES	
Current liabilities:	
Accounts payable	3,702,006
Interest payable	1,079,346
Accrued wages	2,699
Due to City of Hercules	4,485,663
Long-term debt - due within one year	<u>1,516,760</u>
Total current liabilities	<u>10,786,474</u>
Noncurrent liabilities:	
Advance from the City of Hercules	9,631,967
Long-term debt - due in more than one year	<u>55,836,520</u>
Total noncurrent liabilities	<u>65,468,487</u>
Total liabilities	<u>76,254,961</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,938,330
Restricted for:	
Capital projects	52,522,100
Affordable housing	8,347,369
Unrestricted	<u>(64,398,105)</u>
Total net assets	<u>\$ 7,409,694</u>

See Accompanying Notes to Basic Financial Statements

HERCULES REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2007

Functions/Programs	Program Revenues			Totals	Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services	Capital Contributions and Grants		
Governmental activities:					
Community development	\$ 6,900,860	\$ 6,413	\$ 1,265,382	\$ 1,271,795	\$ (5,629,065)
General government	17,900				(17,900)
Interest on long term debt	3,325,347				(3,325,347)
Total governmental activities	<u>\$ 10,244,107</u>	<u>\$ 6,413</u>	<u>\$ 1,265,382</u>	<u>\$ 1,271,795</u>	<u>(8,972,312)</u>
General Revenues:					
Taxes and assessments					13,409,462
Use of money and property					2,490,384
Miscellaneous revenue					9,769
Transfer to City of Hercules					<u>(270,978)</u>
Total general revenues and transfers					<u>15,638,637</u>
Change in net assets					<u>6,666,325</u>
Net Assets, July 1, 2006					1,501,385
Prior period adjustment					<u>(758,016)</u>
Net Assets, July 1, 2006, restated					<u>743,369</u>
Net assets, June 30, 2007					<u>\$ 7,409,694</u>

See Accompanying Notes to Basic Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Redevelopment Agency Operating Special Revenue Fund

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

Redevelopment/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, certificates of participation, 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, 2007

	Redevelopment Agency Operating Special Revenue Fund	Affordable Housing Special Revenue Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund	Total
ASSETS					
Cash and investments	\$ 2,771,860	\$ 2,742,722	\$ -	\$ -	\$ 5,514,582
Cash and investments with fiscal agent			53,024,936		53,024,936
Accounts receivable	7,692	50		29,299	37,041
Interest receivable		297,095			297,095
Due from other funds				4,209,035	4,209,035
Loans receivable	885,508	5,320,905			6,206,413
Land held for resale				3,862,040	3,862,040
	<u>\$ 3,665,060</u>	<u>\$ 8,360,772</u>	<u>\$ 53,024,936</u>	<u>\$ 8,100,374</u>	<u>\$ 73,151,142</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 98,138	\$ 13,403	\$ 3,204,412	\$ 386,053	\$ 3,702,006
Accrued wages	2,699				2,699
Deferred revenue	885,508	5,618,000			6,503,508
Due to the City of Hercules			276,628	4,209,035	4,485,663
Due to other funds			4,209,035		4,209,035
	<u>986,345</u>	<u>5,631,403</u>	<u>7,690,075</u>	<u>4,595,088</u>	<u>18,902,911</u>
Fund Balances:					
Reserved:					
Debt service			45,334,861		45,334,861
Land held for resale				3,862,040	3,862,040
Low and moderate income housing		2,713,744			2,713,744
Unreserved, designated for future commitments		15,625			15,625
Unreserved, undesignated					
Reported in:					
Special Revenue Funds	2,678,715				2,678,715
Capital Projects Fund				(356,754)	(356,754)
	<u>2,678,715</u>	<u>2,729,369</u>	<u>45,334,861</u>	<u>3,505,286</u>	<u>54,248,231</u>
Total fund balances	<u>\$ 3,665,060</u>	<u>\$ 8,360,772</u>	<u>\$ 53,024,936</u>	<u>\$ 8,100,374</u>	<u>\$ 73,151,142</u>
Total liabilities and fund balances	<u>\$ 3,665,060</u>	<u>\$ 8,360,772</u>	<u>\$ 53,024,936</u>	<u>\$ 8,100,374</u>	<u>\$ 73,151,142</u>

See Accompanying Notes to Basic Financial Statements

**HERCULES REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2007**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 54,248,231**

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	\$	6,613,265
Depreciable		8,969,841
Accumulated depreciation		<u>(1,867,823)</u>

Total capital assets, net		13,715,283
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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. 6,503,508

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (1,079,346)

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 depreciation as deferred charges. 1,007,265

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

Long-term liabilities - due within one year	\$	(1,706,760)
Long-term liabilities - due in more than one year		<u>(65,278,487)</u>

Total long-term liabilities		<u>(66,985,247)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 7,409,694**

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, 2007

	Redevelopment Agency Operating Special Revenue Fund	Affordable Housing Special Revenue Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund	Total
Revenues:					
Taxes and assessments	\$ 11,120,803	\$ 2,288,659	\$ -	\$ -	\$ 13,409,462
Use of money and property	35,181	139,406	2,315,797		2,490,384
Program income	4,492				4,492
Charges for services		6,413			6,413
Miscellaneous	7,851	1,909		9	9,769
Total revenues	11,168,327	2,436,387	2,315,797	9	15,920,520
Expenditures:					
Current:					
General government				17,900	17,900
Community development	3,733,400	1,095,956	3,292,458		8,121,814
Capital outlay				6,061,725	6,061,725
Debt service:					
Principal			1,440,590		1,440,590
Interest and fiscal agent fees			3,372,366		3,372,366
Total expenditures	3,733,400	1,095,956	8,105,414	6,079,625	19,014,395
Excess of revenues over (under) expenditures	7,434,927	1,340,431	(5,789,617)	(6,079,616)	(3,093,875)
Other Financing Sources (Uses):					
Transfer in from the City of Hercules			5,650		5,650
Transfer out to the City of Hercules			(276,628)		(276,628)
Transfers in	1,793,950		8,300,298	5,809,035	15,903,283
Transfers out	(6,943,649)	(1,356,649)	(7,602,985)		(15,903,283)
Total other financing sources (uses)	(5,149,699)	(1,356,649)	426,335	5,809,035	(270,978)
Net changes in fund balances	2,285,228	(16,218)	(5,363,282)	(270,581)	(3,364,853)
Fund balances - July 1, 2006	393,488	2,745,586	40,876,176	3,775,867	47,791,117
Prior period adjustment			9,821,967		9,821,967
Fund balances - July 1, 2006, restated	393,488	2,745,586	50,698,143	3,775,867	57,613,084
Fund balances - June 30, 2007	<u>\$ 2,678,716</u>	<u>\$ 2,729,368</u>	<u>\$ 45,334,861</u>	<u>\$ 3,505,286</u>	<u>\$ 54,248,231</u>

See Accompanying Notes to Basic Financial Statements

HERCULES REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

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 **\$ (3,364,853)**

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	6,061,725
Depreciation expense not reported in governmental funds	(108,347)
Capital contribution of assets	1,265,382

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 prior year deferred revenue exceeded current year.	1,324,809
--	-----------

Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.

Long-term debt repayments:	
Tax Allocation Bonds	\$ 1,210,000
Notes Payable	40,590
Advance from City of Hercules	190,000
Total long-term debt repayments	1,440,590

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	47,019
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 6,666,325**

See Accompanying Notes to Basic Financial Statements

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NOTES TO BASIC FINANCIAL STATEMENTS

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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 and Changes in Net Assets. 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

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting/Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. 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.

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 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

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Investments (Continued)

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

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 a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	25 years
Improvements other than buildings	15 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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Low and Moderate Income Housing – Represents funds reserved for low and moderate income housing.

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.

Reserved for Debt Service – Represents amounts accumulated in accordance with a bond indenture or similar covenant.

Designated for Future Commitments – Represents funds that are designated for future miscellaneous commitments.

G. Net Assets

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

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

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

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

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

**HERCULES REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

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 \$2,288,659 for the fiscal year ended June 30, 2007.

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.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2007 consisted of the following:

Cash and investments pooled with the City of Hercules	\$ 5,514,582
Cash and investments held with fiscal agent	53,024,936
Total cash and investments	\$ 58,539,518

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 Papers	Passbook Savings Accounts
Repurchase Agreements	Mutual Funds
Medium-Term Corporate Notes	State of California Local Agency Investment Fund

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
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%
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:

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

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	\$ 9,994,445	\$ 9,994,445	\$ -	\$ -	\$ -	\$ -	\$ -
Guaranteed Investment Contracts	43,030,491	43,030,491					
	<u>\$ 53,024,936</u>	<u>\$ 53,024,936</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.

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.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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	\$ 9,994,445	N/A	\$ -	\$ 9,994,445	\$ -	\$ -	\$ -
Guaranteed Investment Contracts	43,030,491	N/A					43,030,491
Total	\$ 53,024,936		\$ -	\$ 9,994,445	\$ -	\$ -	\$ 43,030,491

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are 2 investments that represent more than 5% of total Agency investments (Federated Treasury Obligation money market funds and IXIS Guaranteed Investment Contracts.)

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 generally accepted accounting principles of the United States. 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, 2007**

NOTE 3 – LOANS RECEIVABLE

Loans receivable at June 30, 2007 consisted of the following:

Bridge Housing Corporation	\$ 1,696,695
Eden Housing	700,000
Radston's Office Plus	250,000
First Time Homebuyers	1,560,950
Affordable Housing	1,625,000
Business Development Loans	635,508
Home Emergency Loans	35,355
Subtotal	6,503,508
Reported as interest receivable	(297,095)
Total	\$ 6,206,413

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 \$115,000 for a total of \$1,515,000. 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. At June 30, 2007 the Corporation's loan balance was \$1,696,695, which includes \$297,095 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, 2007 was \$700,000.

On December 5, 2000, the Agency entered into a promissory note agreement with the Radston's Office Plus (Payers) 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 Payers 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. At June 30, 2007, 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 balance outstanding as of June 30, 2007 was \$1,560,950.

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 second is the Rehabilitation and Beautification Program, which provides financial assistance to rehabilitate properties without such assistance. 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 balance outstanding of the Affordable Housing Assistance loans as of June 30, 2007 was \$1,625,000.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007 was \$635,508.

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, 2007 was \$35,355.

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. The parcel remains from prior year's purchases within the project area and is being held for future development. The property is being carried at a net realizable value, which is equal to cost.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, consisted of the following:

	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Governmental Activities					
Nondepreciable capital assets:					
Land	\$ 48,869	\$ 975,000	\$ -	\$ -	\$ 1,023,869
Construction in progress	3,229,973	4,644,808		(2,285,385)	5,589,396
Total nondepreciable capital assets	<u>3,278,842</u>	<u>5,619,808</u>		<u>(2,285,385)</u>	<u>6,613,265</u>
Depreciable capital assets:					
Land improvements	11,379				11,379
Buildings and improvements	4,965,778				4,965,778
Infrastructure		1,707,299		2,285,385	3,992,684
Total depreciable capital assets	<u>4,977,157</u>	<u>1,707,299</u>		<u>2,285,385</u>	<u>8,969,841</u>
Accumulated depreciation:					
Land improvements	(8,256)	(572)			(8,828)
Buildings and improvements	(1,751,219)	(99,437)			(1,850,656)
Infrastructure		(8,338)			(8,338)
Total accumulated depreciation	<u>(1,759,476)</u>	<u>(108,347)</u>			<u>(1,867,823)</u>
Net depreciable capital assets	<u>3,217,681</u>	<u>1,598,952</u>		<u>2,285,385</u>	<u>7,102,018</u>
Net capital assets	<u>\$ 6,496,523</u>	<u>\$ 7,218,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,715,283</u>

Depreciation expense for the fiscal year ended June 30, 2007 was \$108,347 which was allocated to community development expense on the Statement of Activities.

HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 – LONG-TERM OBLIGATIONS

The Agency's long-term obligation transactions for the fiscal year ended June 30, 2007, were as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
2005 Tax Allocation Bonds	\$ 56,260,000	\$ -	\$ (1,210,000)	\$ 55,050,000	\$ 1,410,000
Premium on 2005 Tax Allocation Bonds	2,103,436		(72,532)	2,030,904	72,532
Deferred loss on refunding for the 2005 Tax Allocation Bonds	(281,455)		9,705	(271,750)	(9,705)
Long-term Notes Payable	584,716		(40,590)	544,126	43,933
Advances from the City of Hercules	9,821,967		(190,000)	9,631,967	190,000
Total long-term obligations	<u>\$ 68,488,664</u>	<u>\$ -</u>	<u>\$ (1,503,417)</u>	<u>\$ 66,985,247</u>	<u>\$ 1,706,760</u>

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 will be 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 fund.

The annual debt service requirements to maturity at June 30, 2007, were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 1,410,000	\$ 2,563,413	\$ 3,973,413
2009	1,460,000	2,508,270	3,968,270
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
2013-2017	9,245,000	10,545,050	19,790,050
2018-2022	9,085,000	8,235,776	17,320,776
2023-2027	9,595,000	6,073,550	15,668,550
2028-2032	12,225,000	3,874,069	16,099,069
2033-2036	7,295,000	847,825	8,142,825
Subtotal	55,050,000	41,816,198	96,866,198
Plus Premium	2,030,904		2,030,904
Total	<u>\$ 57,080,904</u>	<u>\$ 41,816,198</u>	<u>\$ 98,897,102</u>

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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 2006-2007 was \$9,705, and the accumulated amortization at June 30, 2007 was \$19,410.

B. 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, 2007, the Agency's long-term notes payables were as follows.

East Group	\$ 204,786
Bio Rad Laboratories	<u>339,340</u>
Total	<u>\$ 544,126</u>

The annual debt service requirements to maturity for the East Group Notes Payable at June 30, 2007 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 16,470	\$ 15,743	\$ 32,213
2009	17,712	14,467	32,179
2010	19,092	13,094	32,186
2011	20,601	11,614	32,215
2012	22,112	10,018	32,130
2013-2016	<u>108,799</u>	<u>21,543</u>	<u>130,342</u>
Total	<u>\$ 204,786</u>	<u>\$ 86,479</u>	<u>\$ 291,265</u>

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

B. Long-Term Notes Payable (Continued)

The annual debt service requirements to maturity for the Bio Rad Laboratories Notes Payable at June 30, 2007 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 27,463	\$ 26,251	\$ 53,714
2009	29,533	24,122	53,655
2010	31,384	21,833	53,217
2011	34,351	19,366	53,717
2012	36,871	16,704	53,575
2013-2016	179,738	35,913	215,651
Total	<u>\$ 339,340</u>	<u>\$ 144,189</u>	<u>\$ 483,529</u>

C. 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, 2007 was \$5,590,000. The liability for these bonds has been removed from the Agency's books and records, as they are considered defeased.

NOTE 7 – ADVANCES FROM CITY OF HERCULES

Advances from City of Hercules amounted to \$9,631,967. 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, and the Historic Club House renovation. The interest rate charged by the City to the Agency is based on the annual Local Agency Investment Fund rate, which was 5.12% at June 30, 2007.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Redevelopment Operating Special Revenue Fund	\$ 3,516,484	\$ 3,733,400	\$ (216,916)

Redevelopment Operating Special Revenue Fund . The excess was due to RDA monies passed through to the school district, County, and Special Districts.

NOTE 9 – 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, 2007, for detailed information regarding the pension plan.

NOTE 10 – 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.

KB Home Sycamore Avenue Project - An Agreement provides that the Agency will reimburse the Developer for the widening of Sycamore Avenue and the Palm Avenue alignment from either Agency funds, or from bond proceeds. The total amount is estimated to be \$1.3 million and has been included in the Five Year Capital Improvement Plan to be paid from RDA Tax Allocation Bond proceeds.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 10 – COMMITMENTS (CONTINUED)

Hercules New Town Center DDA - A Disposition and Development Agreement was approved with Hercules New Town Center, LLC to assist with the development of the 6.62-acre Park and Ride parcel (after completion of an exchange with BART for the Agency's 8.69-acre Willow Avenue parcel) into a relatively high density, mixed-use town center featuring retail, residential, and office uses and a town square, all supported by structured parking. Accordingly, the project requires Agency financial assistance to be developed in accordance with the Agency's vision for the area. The proposed project requires rezoning, which is required to be processed using the Agency's Planned Development Plan process. The disposition of the Park and Ride parcel will occur after the BART exchange is completed and other conditions have been satisfied. The price that the developer will pay will vary between zero and \$5 million depending upon the intensity of the development proposed by the developer and approved by the Agency. Upon the disposition, the Agency shall be required to provide up to \$12 million in funds to assist with planning, design, and construction of the project. Such funding is expected to occur in Fiscal Year 2007-2008. The Agency shall use proceeds from the 2005 Tax Increment Bond to fund this obligation if and when it arises. The DDA has the potential to cover other parcels in the vicinity of the Park and Ride parcel under certain future circumstances, but any financial assistance to such other parcels is highly contingent and is not expected to occur for years into the future, if at all.

NOTE 11 – 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.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

A. Government-Wide Financial Statements

A prior period adjustment of (\$758,016) was made on the Statement of Activities for an understatement of interest payable in the prior fiscal year.

B. Fund Financial Statements

A prior period adjustment of \$9,821,967 was made in the Redevelopment Agency Debt Service Fund for a reclassification of long-term advances from the City of Hercules. Long-term advances are not presented on the fund financial statements in a component unit financial statement, per GASB Statement No. 34.

**HERCULES REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 13– INTERFUND ACTIVITY

The following represents the interfund activity of the Agency for the fiscal year ended June 30, 2007.

A. Due To/From Other Funds

<u>Due to/Due from</u>	<u>Interfund Receivables</u>	<u>Interfund Payable</u>
Major Funds:		
To: Debt Service Fund	\$ 4,209,035	\$ -
From: Capital Projects Fund		4,209,035
	<u>\$ 4,209,035</u>	<u>\$ 4,209,035</u>

B. Transfers

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
Operating Special Revenue Fund	\$ 1,793,950	\$ 6,943,649
Affordable Housing Special Revenue Fund		1,356,649
Debt Service Fund	8,300,298	7,602,985
Capital Project Fund	5,809,035	
	<u>\$ 15,903,283</u>	<u>\$ 15,903,283</u>

NOTE 14– SUBSEQUENT EVENTS

On July 11, 2007, the Agency issued \$25,890,000 in Tax Allocation Bonds to finance housing related redevelopment activities in the Hercules Merged Project area, make a deposit to the reserve account, and to pay certain costs of issuing the bonds. Payments of interest and principal are due on February 1 and August 1 of each year, and commence on February 1, 2008 and mature on August 1, 2033. The interest rates of the bonds issued vary from 3.50% to 6.125%.

During the July 10, 2007 Agency Board of Directors meeting, the Board adopted a resolution to advance housing set-aside and other Redevelopment Agency funds of approximately \$11,000,000 in order to complete the purchase of the Penterra property, and to authorize the City manager/Executive Director to sign all documents to close escrow on this purchase.

REQUIRED SUPPLEMENTARY INFORMATION

**HERCULES REDEVELOPMENT AGENCY
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2007**

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
REDEVELOPMENT AGENCY OPERATING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes and assessments	\$ 7,862,291	\$ 7,862,291	\$ 11,120,803	\$ 3,258,512
Use of money and property	61,000	61,000	35,181	(25,819)
Program income			4,492	4,492
Other revenues			7,851	7,851
Total revenues	<u>7,923,291</u>	<u>7,923,291</u>	<u>11,168,327</u>	<u>3,245,036</u>
Expenditures:				
Current:				
Community development	1,412,684	3,516,484	3,733,400	(216,916)
Total expenditures	<u>1,412,684</u>	<u>3,516,484</u>	<u>3,733,400</u>	<u>(216,916)</u>
Excess of revenues over (under) expenditures	<u>6,510,607</u>	<u>4,406,807</u>	<u>7,434,927</u>	<u>3,028,120</u>
Other Financing Sources (Uses):				
Transfers in			1,793,950	1,793,950
Transfers out	(5,300,000)	(6,145,851)	(6,943,649)	(797,798)
Total other financing sources (uses)	<u>(5,300,000)</u>	<u>(6,145,851)</u>	<u>(5,149,699)</u>	<u>996,152</u>
Net changes in fund balance	1,210,607	(1,739,044)	2,285,228	4,024,272
Fund balance - July 1, 2006	<u>393,488</u>	<u>393,488</u>	<u>393,488</u>	
Fund balance - June 30, 2007	<u>\$ 1,604,095</u>	<u>\$ (1,345,556)</u>	<u>\$ 2,678,716</u>	<u>\$ 4,024,272</u>

HERCULES REDEVELOPMENT AGENCY
AFFORDABLE HOUSING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes and assessments	\$ 1,965,573	\$ 1,965,573	\$ 2,288,659	\$ 323,086
Use of money and property	25,000	25,000	139,406	114,406
Charges for services	10,280	10,280	6,413	(3,867)
Other revenues	3,000	3,000	1,909	(1,091)
Total revenues	<u>2,003,853</u>	<u>2,003,853</u>	<u>2,436,387</u>	<u>432,534</u>
Expenditures:				
Current:				
Community development	3,120,147	3,132,147	1,095,956	2,036,191
Capital outlay	6,000	6,000		6,000
Total expenditures	<u>3,126,147</u>	<u>3,138,147</u>	<u>1,095,956</u>	<u>2,042,191</u>
Excess of revenues over (under) expenditures	<u>(1,122,294)</u>	<u>(1,134,294)</u>	<u>1,340,431</u>	<u>2,474,725</u>
Other Financing Sources (Uses):				
Transfers out	<u>(575,000)</u>	<u>(575,000)</u>	<u>(1,356,649)</u>	<u>(781,649)</u>
Total other financing sources (uses)	<u>(575,000)</u>	<u>(575,000)</u>	<u>(1,356,649)</u>	<u>(781,649)</u>
Net changes in fund balance	<u>(1,697,294)</u>	<u>(1,709,294)</u>	<u>(16,218)</u>	<u>1,693,076</u>
Fund balance - July 1, 2006	<u>2,745,586</u>	<u>2,745,586</u>	<u>2,745,586</u>	
Fund balance - June 30, 2007	<u><u>\$ 1,048,292</u></u>	<u><u>\$ 1,036,292</u></u>	<u><u>\$ 2,729,368</u></u>	<u><u>\$ 1,693,076</u></u>

OTHER SUPPLEMENTAL INFORMATION

HERCULES REDEVELOPMENT AGENCY
REDEVELOPMENT AGENCY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Negative)
Revenues:				
Use of money and property	\$ 900,000	\$ 900,000	\$ 2,315,797	\$ 1,415,797
Total revenues	<u>900,000</u>	<u>900,000</u>	<u>2,315,797</u>	<u>1,415,797</u>
Expenditures:				
Current:				
Community development	4,630,000	4,630,000	3,292,458	1,337,542
Debt service:				
Principal	1,320,000	1,320,000	1,440,590	(120,590)
Interest and fiscal charges	<u>3,271,459</u>	<u>3,271,459</u>	<u>3,372,366</u>	<u>(100,907)</u>
Total expenditures	<u>9,221,459</u>	<u>9,221,459</u>	<u>8,105,414</u>	<u>1,116,045</u>
Excess of revenues over (under) expenditures	<u>(8,321,459)</u>	<u>(8,321,459)</u>	<u>(5,789,617)</u>	<u>2,531,842</u>
Other Financing Sources (Uses):				
Transfer in from the City of Hercules			5,650	5,650
Transfer out to the City of Hercules			(276,628)	(276,628)
Transfers in	5,875,000	5,875,000	8,300,298	2,425,298
Transfers out	<u>(18,070,000)</u>	<u>(18,070,000)</u>	<u>(7,602,985)</u>	<u>10,467,015</u>
Total other financing sources (uses)	<u>(12,195,000)</u>	<u>(12,195,000)</u>	<u>426,335</u>	<u>12,621,335</u>
Net changes in fund balance	<u>(20,516,459)</u>	<u>(20,516,459)</u>	<u>(5,363,282)</u>	<u>15,153,177</u>
Fund balance - July 1, 2006	40,876,176	40,876,176	40,876,176	
Prior period adjustment			<u>9,821,967</u>	<u>9,821,967</u>
Fund balance - July 1, 2006, restated	<u>40,876,176</u>	<u>40,876,176</u>	<u>50,698,143</u>	<u>9,821,967</u>
Fund balance - June 30, 2007	<u>\$ 20,359,717</u>	<u>\$ 20,359,717</u>	<u>\$ 45,334,861</u>	<u>\$ 24,975,144</u>

HERCULES REDEVELOPMENT AGENCY
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Other revenues	\$ -	\$ -	\$ 9	\$ 9
Total revenues			9	9
Expenditures:				
Current:				
General government			17,900	(17,900)
Capital outlay	10,683,500	16,350,249	6,061,725	10,288,524
Total expenditures	10,683,500	16,350,249	6,079,625	10,270,624
Excess of revenues over (under) expenditures	(10,683,500)	(16,350,249)	(6,079,616)	10,270,633
Other Financing Sources (Uses):				
Transfers in	10,683,500	10,683,500	5,809,035	(4,874,465)
Total other financing sources (uses)	10,683,500	10,683,500	5,809,035	(4,874,465)
Net changes in fund balance		(5,666,749)	(270,581)	5,396,168
Fund balance - July 1, 2006	3,775,867	3,775,867	3,775,867	
Fund balance - June 30, 2007	<u>\$ 3,775,867</u>	<u>\$ (1,890,882)</u>	<u>\$ 3,505,286</u>	<u>\$ 5,396,168</u>



MOSS, LEVY & HARTZHEIM LLP

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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, 2007, and have issued our report thereon dated December 26, 2007. 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.

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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 instance 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 the Agency's Board of Directors, management, 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 26, 2007