

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**

**COMPONENT UNIT FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO

Component Unit Financial Statements  
For the Year Ended June 30, 2007

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**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**

**Component Unit Financial Statements  
For the Year Ended June 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

Members of the Redevelopment Agency  
of the City of San Pablo  
San Pablo, California

We have audited the accompanying component unit financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of San Pablo, a component unit of the City of San Pablo, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the component unit financial statements referred to above present fairly in all material respects the financial position of the governmental activities and each major fund of the Redevelopment Agency of the City of San Pablo as of June 30, 2007 and the respective results of its operations and the budgetary comparison listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 17, 2007 on our consideration of the Agency's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the component unit financial statements of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the component unit financial statements, and in our opinion is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

*Maze and Associates*

August 17, 2007

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis is a discussion and analysis of the Redevelopment Agency's financial activities for the fiscal year. Please read this document in conjunction with the accompanying Basic Financial Statements.

### **FISCAL 2007 FINANCIAL HIGHLIGHTS**

Several major events occurred in Fiscal Year 2007 which affected the Redevelopment Agency's financial statements including: (1) the issuance of subordinate tax allocation bonds, (2) the sale of Redevelopment Agency property, and (3) the purchase of three properties (one being held for resale).

(1) The Redevelopment Agency issued \$36 million of subordinate tax allocation bonds on October 1, 2006. Proceeds from these bonds were used to refund \$12.3 million of 1993 Tax Allocation Bonds, fund capitalized interest on a portion of the 2006 Bonds and certain capital improvements, satisfy the reserve account deposit required for these bonds and pay issuance costs.

(2) In 2001, the Redevelopment Agency purchased the Community Resource Center and became landlord to the Library, East Bay Works, the Child Care facility and two spaces that were rented to private businesses. In addition, a large portion of the facility was rented to private parties for special events. This building was sold in December 2006 to Signature Properties for \$2.3 million.

(3) The Redevelopment Agency purchased two properties: 2600 Moraga Road (\$2.3 million) and a site on Hillcrest Road (\$2.8 million) for a total of \$5.1 million. The property at 2600 Moraga Road, also known as the El Portal School site, is 8.947 acres and consists of a school site and multipurpose field. This property was acquired for open space and for use of the existing school buildings, parking lot and soccer field. The Hillcrest Road property consists of two parcels totaling 13.33 acres and was purchased for open space use only. The Agency also purchased property known as Mission Plaza to be held for resale for \$2.9 million.

The Agency's expenses and transfers totaled \$8.9 million in fiscal 2007, down from \$14.1 million in fiscal 2006. Revenues, increased to \$18.7 million, up \$4.7 million from fiscal 2006. The Agency's Net Assets increased \$9.8 million in fiscal 2007.

The Agency's two main revenue sources are incremental property taxes and use of money and property. Property tax increments increased to \$15 million in fiscal 2007 (\$3.5 million more than 2006 which was net of ERAF) as a result of increased property values and new construction. Use of money and property increased to \$2.7 million in fiscal 2007 (\$.7 million more than 2006) due to rising interest rates on invested funds at LAIF.

The Agency's major expenditures are community development, housing, public works and interest on long-term debt. Beginning in fiscal year 2007, public works & engineering is being shown separate rather than included in community development as in the past. The Agency's expenditures totaled \$7.6 million, down \$2.2 million from 2006. Community development expenditures were \$2.8 million, \$1.2 million less than 2006. Housing expenditures of \$.02 million represented a significant decrease from \$2.5 million in fiscal 2006 due to a decrease in new loans. Interest on long-term debt was \$4.5 million in 2007, an increase of \$1.2 million from 2006.

In fiscal 2007, the Agency transferred \$1.5 million to the City of San Pablo to fund capital projects, and the City transferred unspent capital project funds of \$.2 million back to the Agency, for a net transfer of \$1.3 million. This net transfer is down \$3 million from fiscal 2006. The Agency is a component unit of the City.

The Agency's fund financial statements reflect an excess of revenues over expenditures of \$3.9 million before other financing sources and uses. Other sources and uses consisted of net transfers to the City of \$1.3 million, \$2.4 million proceeds from sale of property, \$36 million from the issuance of debt and a payment of \$12.6 million to the bond escrow agent. The result is a net increase in fund balances of \$28.4 million.

## **OVERVIEW OF THE FINANCIAL REPORT**

This Financial Report is presented in three parts:

- 1) Management's Discussion and Analysis (this part),
- 2) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 3) Supplemental Information.

### **The Basic Financial Statements**

The Basic Financial Statements comprise the Agency-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the Agency's financial activities and financial position—long-term and short-term.

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

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

Major Funds account for the major financial activities of the Agency and are presented individually. All of the Agency's funds are considered Major Funds. Major Funds are explained later in this Management's Discussion and Analysis.

Together, all these statements are called the Basic Financial Statements.

*The Agency-wide Financial Statements*

All of the Agency's basic services are considered to be governmental activities, including community development and community housing. These services are supported by general Agency revenues such as taxes.

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

*Fund Financial Statements*

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Agency-wide financial statements.

The Fund financial statements provide detailed information about each of the Agency's most significant funds, called Major Funds. Each Major Fund is presented individually and show the major activities of the Agency for the year. Major Funds may change from year to year as a result of changes in the pattern of Agency's activities.

All of the Agency's funds are Major Funds in 2007 and each is discussed in detail below:

- The Tenth Township Low and Moderate Income Housing Fund
- Legacy Low and Moderate Income Housing Fund
- 1993 Tax Allocation Subordinate Bonds Fund
- 1999 Tax Allocation Subordinate Bonds Fund
- 2001 Tax Allocation Bonds Tenth Township Project Area Fund
- 2004 Tax Allocation Revenue Bonds Legacy Project Area
- 2006 Subordinate Tax Allocation Bonds Tenth Township Project Area Fund
- Tenth Township Project Fund
- Legacy Project Fund

Comparisons of Budget and Actual financial information are presented only for Major funds that are Special Revenue Funds, which in the Agency's case include only the Tenth Township and the Legacy Low and Moderate Income Housing Funds.

## FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the Agency as a whole (Tables 1, 2 and 3), presented in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

### Governmental Activities

**Table 1**  
**Governmental Net Assets at June 30**  
**(in Millions)**

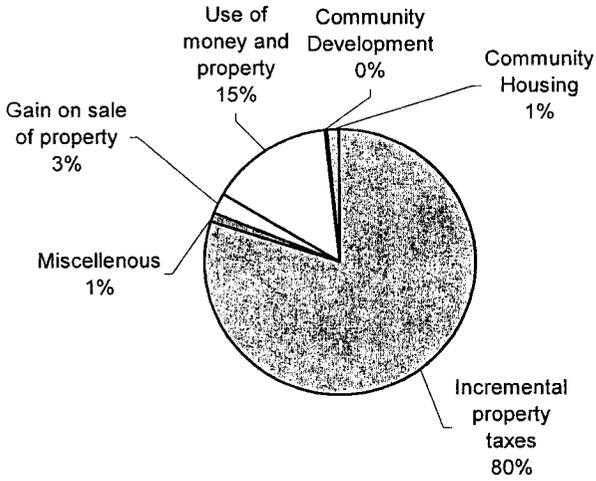
	Governmental Activities	
	2007	2006
Cash and investments	\$46.40	\$24.30
Other assets	35.00	28.40
Capital assets	7.70	4.50
<b>Total assets</b>	<b>89.10</b>	<b>57.20</b>
Long-term debt outstanding	91.90	69.80
Other liabilities	0.30	0.30
<b>Total liabilities</b>	<b>92.20</b>	<b>70.10</b>
Net assets:		
Restricted	37.40	27.70
Unrestricted	(40.50)	(40.60)
<b>Total net assets</b>	<b><u>(\$3.10)</u></b>	<b><u>(\$12.90)</u></b>

The Agency's net assets deficit decreased \$9.8 million to \$3.1 million in 2007 from \$12.9 million in 2006. This Change in Net Assets is reflected in the Statement of Activities shown in Table 2 and is explained below:

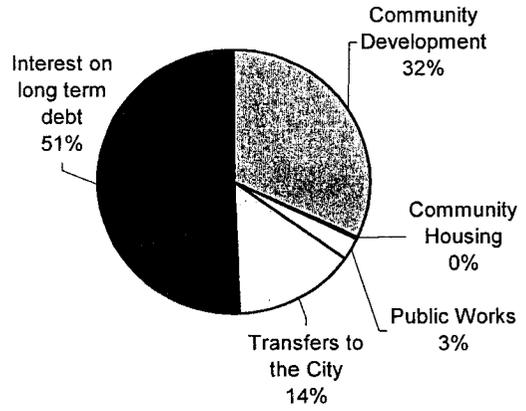
- Cash and investments increased \$22.1 million as a result of the Agency's issuing \$36 million in subordinate bonds, less property acquisitions of \$8 million and \$3.5 million of deposits to the State of California Condemnation Fund.
- Other assets increased \$6.6 million primarily due to the \$3.5 million condemnation deposit mentioned above and the purchase of property held for resale in the amount of \$2.9 million. Notes receivable also increased \$.2 million due additional accrued interest.
- Long-term debt increased \$22.1 million as a result of the issuance of 2006 bonds (\$36 million) less the refunding of the 1993 bonds (\$12.3 million) and debt service.
- Unrestricted net assets showed a deficit of \$40.5 million at June 30, 2007 which represents debt used to finance the acquisition and construction of assets maintained by the City and third parties. These capital assets were constructed or acquired in prior years and transferred to the City and third parties upon completion. This is a \$.1 decrease in the deficit from 2006.
- Restricted net assets increased \$9.7 million in fiscal 2007 as a result of increases in low-moderate income housing of \$6.4 million and in debt service of \$3.2 million.

**Fiscal Year 2007 Government Activities**  
(see Table 2)

**Sources of Revenues**



**Functional Expenses**



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are now added to the Agency's capital assets.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized below.

**Table 2**  
**Changes in Governmental Net Assets**  
**(in Millions)**

	Governmental Activities	
	2007	2006
<b>Expenses</b>		
Community development	\$2.80	\$4.00
Community housing		2.50
Public works	0.30	
Interest and fiscal charges	4.50	3.30
Transfers to the City	1.30	4.30
Total expenses	<u>8.90</u>	<u>14.10</u>
<b>Revenues</b>		
Program revenues:		
Operating contributions and grants	<u>0.30</u>	<u>0.40</u>
General revenues:		
Incremental property taxes	15.00	11.50
Use of money and property	2.70	2.00
Gain on sale of property	0.50	
Miscellaneous	<u>0.20</u>	<u>0.10</u>
Total general revenues	<u>18.40</u>	<u>13.60</u>
Total revenues	<u>18.70</u>	<u>14.00</u>
<b>Change in net assets</b>	<u><b>\$9.80</b></u>	<u><b>(\$0.10)</b></u>

Table 2 shows that total program revenues decreased \$.1 million in fiscal 2007 and general revenue increased \$4.8 million. This increase was due to a \$3.5 million increase of incremental property taxes (which increased due to rising assessed values and new construction), a \$.7 million increase in use of money and property (a result of LAIF interest rates rising), and a gain on the sale of the Community Resource Center (\$.5 million).

## Government Activities

Table 3 presents the net cost of each of the Agency's largest programs—community development, housing and public works. Net cost is defined as total program cost less the revenues generated by those specific activities.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	Net (Expense) Revenue From Services	
	2007	2006
Community development	(\$2.80)	(\$3.90)
Community housing	0.30	(2.20)
Public works	(0.30)	
Interest and fiscal charges	(4.50)	(3.30)
<b>Totals</b>	<b>(\$7.30)</b>	<b>(\$9.40)</b>

Community development net expenses decreased \$1.1 million due to Public works and engineering expenditures being transferred to their own program in 2007. Also, salaries and benefits incurred by the City's General Fund on behalf of the Agency were not allocated to the Redevelopment Agency as they had been in prior years.

Housing net expenses decreased \$2.5 million because 2006 included the sale of \$2.4 million property for \$1 to El Paseo Housing Investors LP, who plan to construct an affordable apartment complex on the property.

Public works was included in community development in past years. Beginning in fiscal 2007, public works is being shown as a separate program.

The net expense from interest and fiscal charges increased \$1.2 million in 2007. This was due to debt service for the 1993 Tax Allocation Bonds increasing \$1.2 million as a result of the refunding of these bonds.

## The Agency's Fund Financial Statements

Table 4 summarizes activity and balances at the fund level:

**Table 4**  
**Changes in Fund Balances**  
**(in Millions)**

	<u>2007</u>	<u>2006</u>
Total assets	\$81.30	\$52.70
Total liabilities	5.80	5.60
Total fund balances	75.50	47.10
Total revenues	18.40	14.20
Total expenditures	14.40	9.80
Total other financing sources (uses)	24.50	(6.80)

At June 30, 2007, the Agency's governmental funds reported combined fund balances of \$75.5 million, which is an increase of \$28.4 million or a 60% increase over last year. This \$28.4 million increase is a combination of:

- Tenth Township Project increased \$20.5 million
- 2001 Tax Allocation Bonds increased \$4.8 million
- 2006 Subordinate Tax Allocation Bonds increased \$3.5 million
- Tenth Township Low & Moderate Income Fund increased \$2.9 million
- 1993 Tax Allocation Subordinate Bonds decreased \$5 million
- Legacy Project Fund increased \$1.2 million
- Small increases and decreases in the other funds.

Revenues at the fund level increased \$4.2 million this year to \$18.4 million. Tenth Township Projects Fund revenues accounted for \$15 million of the Agency's fund revenues.

Expenditures at the fund level increased \$4.6 million this year to \$14.4 million. Capital outlay increased \$5.1 million due to the purchase of property. Community development expenditures and housing expenditures both decreased \$1 million each. Interest and fiscal charges increased \$1.2 million.

Other financing sources increased \$31.3 million due to the issuance of bonds in fiscal 2007. Net transfers to the City of \$1.3 million were \$3.1 million less than fiscal 2006.

**Analyses of Major Governmental Funds**

**Tenth Township Low & Moderate Income Housing Fund**

This Fund accounts for the portion of property tax increment required under California law to be set aside to fund low and moderate income housing expenditures. The Agency's residential and commercial loan program for low and moderate income residents and similar loans to non-profit corporations developing such housing are accounted for in this Fund. In this Fund, new loans are accounted for as expenditures and repayments on loans are accounted for as revenues. The balance of outstanding loans is recorded as a receivable, with an offsetting credit to deferred revenue.

At the end of fiscal 2007, the outstanding balances of such loans were \$5.4 million, up \$.2 million from fiscal 2006. This balance includes \$1.3 million of First Time Homebuyers loans, a \$1.2 million loan to finance a 55 unit senior housing complex, a \$1.3 million loan for construction of 82 low-income rental units for seniors, and \$1.6 million construction loan for the development of 84 affordable rental dwelling units and two onsite non-rent-restricted management units.

Principal payments and in many cases interest payments are deferred on these low and moderate income loans until the property is sold or re-financed, and are not considered revenues until they are received. Principal and interest on loans to non-profit developers of such properties typically are at below-market rates and payments are deferred for considerable periods of years to assist these non-profit organizations in their efforts to develop such housing. All these loans are secured by deeds of trust on the underlying property, and if the facilities constructed with these loans are not used for the purposes intended, the loans become due and payable immediately.

The Fund's fiscal year end Fund Balance of \$5.9 million is entirely reserved to fund future low and moderate income housing expenditures.

**Legacy Low & Moderate Income Housing Fund**

This Fund, like the Tenth Township Low & Moderate Income Housing Fund, accounts for the portion of property tax increment required under California law to be set aside to fund low and moderate income housing expenditures in the Legacy Project Area. The Agency's residential and commercial loan program for low and moderate income residents and similar loans to non-profit corporations developing such housing are accounted for in this Fund. In this Fund, new loans are accounted for as expenditures and repayments on loans are accounted for as revenues. The balance of outstanding loans is recorded as a receivable, with an offsetting credit to deferred revenue.

At the end of fiscal 2007, the Legacy Low and Moderate Income Housing Fund had no outstanding loans.

The Fund's fiscal year end Fund Balance of \$1.3 million is entirely reserved to fund future low and moderate income housing expenditures.

**1993 Tax Allocation Subordinate Bonds Fund**

This Fund accounts for debt service on the 1993 Tax Allocation Subordinate Bonds. In October 2006, these bonds were defeased by the 2006 Subordinate Tax Allocation Bonds.

**2001 Tax Allocation Bonds – Tenth Township Project Area**

This Fund accounts for debt service on the 2001 Tax Allocation Bonds for the Tenth Township Project. Its only income is interest, which was minimal. This fund received transfers of property tax increments from the Tenth Township Project Fund that are sufficient to pay the debt service. In fiscal 2007, debt service was \$.8 million all of which was received in transfers. In addition, \$5.5 million of transfers related to the issuance of the 2006 Tax Allocation Bonds and the refunding of the 1993 Bonds occurred in 2007.

**1999 Tax Allocation Subordinate Bonds**

This Fund accounts for debt service on the 1999 Tax Allocation Subordinate Bonds for the Tenth Township Project Series 1999A. Its only income is interest, which was minimal. This fund received transfers of property tax increments from the Tenth Township Project Fund that are sufficient to pay the debt service. In fiscal 2007, debt service was \$.9 million all of which was received in transfers.

**2004 Tax Allocation Revenue Bonds – Legacy Project Area**

This Fund accounts for debt service on the 2004 Joint Powers Financing Authority Tax Allocation Revenue Bonds. Its only income is interest, which was minimal. In fiscal 2007, debt service for these bonds was \$.3 million, and this was received by transfers in from the Tenth Township Project Fund.

**Tenth Township Projects Fund**

Property tax revenues of this Fund increased to \$13.1 million in fiscal 2007, up \$2.9 million from fiscal 2006, as assessed valuations continued to rise in fiscal 2007. Revenues from use of money and property remained steady at \$1.8 million.

Expenditures for the Tenth Township Projects Fund increased \$5.3 million in 2007 from the prior year. Capital outlay expenditures increased \$5.1 in 2007 due to the purchase of property, accounting for most of the increase in this fund. Community development expenses were \$1.1 million less than 2006 as a result of Public works and engineering expenditures being transferred to a separate program in 2007 and salaries and benefits from the City's General Fund not being allocated to the Redevelopment Agency as had been done in prior years. Fiscal 2007 included a \$1.1 million increase in interest and fiscal charges.

**Legacy Projects Fund**

Property tax revenues of the Fund increased to \$1.9 million in fiscal year 2007, up \$.6 million from fiscal 2006, as assessed valuations continued to rise.

Expenditures for the Legacy Projects Fund remained static in 2007 from the prior year.

Other financing uses decreased \$5.4 million in 2007. Fiscal 2006 included transfers to the Tenth Township Project Fund for acquisition of property and these transfers did not recur in 2007.

## CAPITAL ASSETS

At the end of fiscal 2007 the cost of infrastructure and other capital assets recorded on the Agency's financial statements are shown in Table 5 below (further detail may be found in Note 8):

**Table 5**  
**Capital Assets at Year-end**  
**(in Millions)**

	<u>2007</u>	<u>2006</u>
Land and land improvements	\$5.80	\$0.70
Buildings and improvements	2.70	4.80
Machinery and equipment	0.30	0.30
Vehicles	0.10	0.10
Less accumulated depreciation	<u>(1.10)</u>	<u>(1.40)</u>
<b>Totals</b>	<b><u>\$7.80</u></b>	<b><u>\$4.50</u></b>

In fiscal 2007 property was purchased for \$5.1 million. The Community Resource Building was sold causing the decrease in Buildings and Improvements and in accumulated depreciation.

The Agency depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives may be found in Note 8.

## DEBT ADMINISTRATION

Each of the Agency's debt issues is discussed in detail in Note 9 to the financial statements. The Agency's debt for fiscal 2007 is comprised as follows:

**Table 6**  
**Outstanding Debt**  
**(in Millions)**

	Balance June 30, 2007	Balance June 30, 2006
<b>Governmental Activity Debt:</b>		
<b>Merged Project Area, Subordinate Series 1993,</b> 2.6-6.25%, due 12/01/2023	\$ .00	\$12.30
<b>Tenth Township Redevelopment Project</b>		
<b>Subordinate Tax Allocation Bonds Series 1999A</b> 3.75-5.65%, due 12/01/2023	7.50	8.00
<b>Tax Allocation Revenue Bonds Series 2001</b>		
Current Interest Serial Bonds 3.25-4.85%, due 12/01/2018	5.50	6.00
Current Interest Term Bonds 5.00%, due 12/01/2029	2.30	2.30
Capital Appreciation Bonds 5.66-5.68%, due 12/01/2029	4.00	3.80
<b>Tax Allocation Revenue Bonds Series 2004</b> 2.00-5.00%, due 12/01/2032	36.60	37.40
<b>Subordinate Tax Allocation Bonds Series 2006</b> Variable rate, due 12/01/2032	36.00	
<b>Total Governmental Activity Debt</b>	<b>\$91.90</b>	<b>\$69.80</b>

## CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, at 13831 San Pablo Avenue, San Pablo, CA 94806.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO**

**STATEMENT OF NET ASSETS AND  
STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Agency's transactions is taken into account, regardless of whether or when cash changes hands.

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's infrastructure and other fixed assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets. The Statement of Net Assets summarizes the financial position of the Agency's financial position in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets and current liabilities.

The format of the Statement of Activities presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed in the Governmental Activities column and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

ASSETS

Cash and investments available for operations (Note 4)	\$20,684,209
Restricted cash and investments (Note 4)	25,680,831
Interest receivable	496,898
Due from other governments	20,868
Deposits (Note 7)	17,350,000
Notes receivable (Note 6)	5,958,796
Property held for resale (Note 7)	11,124,171
Capital assets (Note 8):	
Land and land improvements	5,842,449
Depreciable capital assets, net	<u>1,944,012</u>
Total Assets	<u>89,102,234</u>

LIABILITIES

Accounts payable	85,973
Interest payable	193,521
Long-term debt (Note 9):	
Due in one year	1,795,000
Due in more than one year	<u>90,132,978</u>
Total Liabilities	<u>92,207,472</u>

NET ASSETS

Restricted for:	
Debt service	8,938,231
Low and moderate income housing	<u>28,474,171</u>
Total restricted net assets	<u>37,412,402</u>
Unrestricted	<u>(40,517,640)</u>
Total Net Assets (Deficit) (Note 10)	<u><u>(\$3,105,238)</u></u>

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues	Total
		Operating Grants	
Governmental Activities:			
Community development	\$2,836,180	\$30,003	(\$2,806,177)
Community housing	28,296	270,503	242,207
Public works	249,977		(249,977)
Interest on long term debt	4,498,283		(4,498,283)
Total	\$7,612,736	\$300,506	(7,312,230)
General revenues:			
Taxes:			
Incremental property taxes			14,959,091
Use of money and property			2,746,723
Gain on sale of property			478,781
Miscellaneous			198,090
Transfers to the City, Net (Note 5B)			(1,279,943)
Total general revenues and transfers			17,102,742
Change in Net Assets			9,790,512
Net Assets (Deficit) - Beginning			(12,895,750)
Net Assets (Deficit) - Ending (Note 10)			(\$3,105,238)

See accompanying notes to financial statements

## FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

All of the Agency's funds were determined to be Major Funds for fiscal 2007.

### **TENTH TOWNSHIP LOW AND MODERATE INCOME HOUSING**

This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Tenth Township Merged Project Area.

### **LEGACY LOW AND MODERATE INCOME HOUSING**

This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Tenth Township Merged Project Area and the Legacy Project Area.

### **1993 TAX ALLOCATION SUBORDINATE BONDS**

This fund makes principal and interest payments on the Merged Project Area 1993 Subordinate Tax Allocation Refunding Bonds.

### **2001 TAX ALLOCATION BONDS TENTH TOWNSHIP PROJECT AREA**

This fund makes principal and interest payments on the Tenth Township Redevelopment Projects Tax Allocation Revenue Bonds Series 2001.

### **1999 TAX ALLOCATION SUBORDINATE BONDS**

This fund makes principal and interest payments on the Merged Project Area 1999 Subordinate Tax Allocation Refunding Bonds.

### **2004 TAX ALLOCATION REVENUE BONDS LEGACY PROJECT AREA**

This fund makes principal and interest payments on the Legacy Redevelopment Project Area's Share of the Tax Allocation Revenue Bonds Series 2004.

### **2006 SUBORDINATE TAX ALLOCATION BONDS TENTH TOWNSHIP PROJECT AREA**

This fund makes principal and interest payments on the Tenth Township Redevelopment Project Area's Subordinate Tax Allocation Bonds Series 2006.

### **TENTH TOWNSHIP PROJECT**

This fund accounts for monies received from tax increment funds for major capital projects in the Tenth Township Merged Project Redevelopment Area.

### **LEGACY PROJECT**

This fund accounts for monies received from tax increment funds for major capital projects in the Legacy Project Redevelopment Area.

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 JUNE 30, 2007

	Tenth Township Low and Moderate Income Housing	Legacy Low and Moderate Income Housing	1993 Tax Allocation Subordinate Bonds	2001 Tax Allocation Bonds Tenth Township Project Area
<b>ASSETS</b>				
Cash and investments available for operations (Note 4)	\$5,869,564	\$1,326,847		
Restricted cash and investments (Note 4)				\$4,828,067
Interest receivable	51,475	13,453		34,432
Due from other governments				
Deposits (Note 7)				
Notes receivable (Note 6)	5,369,330			
Property held for resale (Note 7)				
	<u>\$11,290,369</u>	<u>\$1,340,300</u>	<u></u>	<u>\$4,862,499</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$37,683			
Deferred revenue	5,369,330			
	<u>5,407,013</u>	<u></u>	<u></u>	<u></u>
<b>FUND BALANCES</b>				
Fund balance (Note 10)				
Reserved for encumbrances				
Reserved for debt service				\$4,862,499
Reserved for notes receivable				
Reserved for property held for resale				
Reserved for deposits				
Reserved for low and moderate income housing	5,883,356	\$1,340,300		
Unreserved				
Reported in:				
Capital projects funds				
	<u>5,883,356</u>	<u>1,340,300</u>	<u></u>	<u>4,862,499</u>
<b>TOTAL FUND BALANCES</b>	<u>5,883,356</u>	<u>1,340,300</u>	<u></u>	<u>4,862,499</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$11,290,369</u>	<u>\$1,340,300</u>	<u></u>	<u>\$4,862,499</u>

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

**CAPITAL ASSETS**

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

**ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES**

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.

**LONG TERM ASSETS AND LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

- Long-term debt
- Interest payable

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**

See accompanying notes to financial statements

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1999 Tax Allocation Subordinate Bonds	2004 Tax Allocation Revenue Bonds Legacy Project Area	2006 Subordinate Tax Allocation Bonds Tenth Township Project Area	Tenth Township Project	Legacy Project	Total Governmental Funds
			\$10,078,690 -	\$3,409,108	\$20,684,209
\$1,006	\$565,833	\$3,476,260	× 16,809,665 -		25,680,831 ×
4	2,315	30,314	320,790	44,115	496,898
			20,868		20,868
			17,350,000		17,350,000
			589,466		5,958,796
			11,124,171		11,124,171
<u>\$1,010</u>	<u>\$568,148</u>	<u>\$3,506,574</u>	<u>\$56,293,650</u>	<u>\$3,453,223</u>	<u>\$81,315,773</u>
			\$48,290		\$85,973
			350,178		5,719,508
			398,468		5,805,481
\$1,010	\$568,148	\$3,506,574	7,255		7,255
			239,288		8,938,231
			11,124,171		239,288
			17,350,000		11,124,171
					17,350,000
					7,223,656
			27,174,468	\$3,453,223	30,627,691
1,010	568,148	3,506,574	55,895,182	3,453,223	75,510,292
<u>\$1,010</u>	<u>\$568,148</u>	<u>\$3,506,574</u>	<u>\$56,293,650</u>	<u>\$3,453,223</u>	
					7,786,461
					5,719,508
					(91,927,978)
					(193,521)
					<u>(\$3,105,238)</u>

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Tenth Township Low and Moderate Income Housing	Legacy Low and Moderate Income Housing	1993 Tax Allocation Subordinate Bonds	2001 Tax Allocation Bonds Tenth Township Project Area
REVENUES				
Incremental property taxes				
Use of money and property	\$592,886	\$47,372	\$148,295	\$124,800
Miscellaneous	19,514			
<b>Total Revenues</b>	<b>612,400</b>	<b>47,372</b>	<b>148,295</b>	<b>124,800</b>
EXPENDITURES				
Current:				
Community development				
Community housing	318,764			
Public works				
Capital outlay				
Debt service:				
Principal retirement				425,000
Interest and fiscal charges			92,619	358,252
<b>Total Expenditures</b>	<b>318,764</b>		<b>92,619</b>	<b>783,252</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>293,636</b>	<b>47,372</b>	<b>55,676</b>	<b>(658,452)</b>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property				
Issuance of debt (Note 9)				
Payment to bond escrow agent (Note 9)			(12,592,131)	
Transfers in (Note 5A)	2,637,382	372,048	12,395,979	5,561,675
Transfers (out) (Note 5A)			(4,891,969)	(73,815)
Transfers in from the City (Note 5B)				
Transfers (out) to the City (Note 5B)				
<b>Total Other Financing Sources (Uses)</b>	<b>2,637,382</b>	<b>372,048</b>	<b>(5,088,121)</b>	<b>5,487,860</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,931,018</b>	<b>419,420</b>	<b>(5,032,445)</b>	<b>4,829,408</b>
Fund balances at beginning of year	2,952,338	920,880	5,032,445	33,091
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$5,883,356</b>	<b>\$1,340,300</b>	<b>\$4,862,499</b>	

See accompanying notes to financial statements

1999 Tax Allocation Subordinate Bonds	2004 Tax Allocation Revenue Bonds Legacy Project Area	2006 Subordinate Tax Allocation Bonds Tenth Township Project Area	Tenth Township Project	Legacy Project	Total Governmental Funds
			\$13,098,895	\$1,860,196	\$14,959,091
\$1,399	\$29,491	\$329,764	1,808,923	139,709	3,222,639
			178,576		198,090
<u>1,399</u>	<u>29,491</u>	<u>329,764</u>	<u>15,086,394</u>	<u>1,999,905</u>	<u>18,379,820</u>
			2,485,546	380,671	2,866,217
					318,764
			249,977		249,977
			5,171,884		5,171,884
480,000	5,000		830,000		1,740,000
415,583	265,975	1,105,007	1,859,649		4,097,085
<u>895,583</u>	<u>270,975</u>	<u>1,105,007</u>	<u>10,597,056</u>	<u>380,671</u>	<u>14,443,927</u>
(894,184)	(241,484)	(775,243)	4,489,338	1,619,234	3,935,893
			2,350,000		2,350,000
			36,000,000		36,000,000
					(12,592,131)
895,147	256,211	16,084,672	566,131		38,769,245
	(35,842)	(11,742,381)	(21,653,190)	(372,048)	(38,769,245)
			246,531		246,531
		(60,474)	(1,466,000)		(1,526,474)
<u>895,147</u>	<u>220,369</u>	<u>4,281,817</u>	<u>16,043,472</u>	<u>(372,048)</u>	<u>24,477,926</u>
963	(21,115)	3,506,574	20,532,810	1,247,186	28,413,819
47	589,263		35,362,372	2,206,037	47,096,473
<u>\$1,010</u>	<u>\$568,148</u>	<u>\$3,506,574</u>	<u>\$55,895,182</u>	<u>\$3,453,223</u>	<u>\$75,510,292</u>

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
 Reconciliation of the  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 with the  
 STATEMENT OF ACTIVITIES  
 FOR THE 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 Balance, 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 \$28,413,819

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

CAPITAL ASSETS TRANSACTIONS

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.

The capital outlay expenditures are therefore added back to fund balance	5,171,884
Retirements of capital assets are deducted from the fund balance	(1,871,219)
Depreciation expense is deducted from the fund balance	(69,963)

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Proceeds from the issuance of debt are deducted from fund balance	(36,000,000)
Payment to bond escrow agent is added back to fund balance, net of refunding costs	12,350,000
Repayment of debt principal is added back to fund balance	1,740,000
Capital appreciation bonds accretion	(219,464)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable	60,397
Deferred revenue	215,058

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$9,790,512

See Accompanying Notes to Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
TENTH TOWNSHIP LOW AND MODERATE INCOME HOUSING FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Use of money and property	\$110,000	\$110,000	\$592,886	\$482,886
Miscellaneous			19,514	19,514
Total Revenues	<u>110,000</u>	<u>110,000</u>	<u>612,400</u>	<u>502,400</u>
EXPENDITURES				
Current:				
Community development and housing	<u>740,000</u>	<u>740,000</u>	<u>318,764</u>	<u>421,236</u>
Total Expenditures	<u>740,000</u>	<u>740,000</u>	<u>318,764</u>	<u>421,236</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(630,000)</u>	<u>(630,000)</u>	<u>293,636</u>	<u>923,636</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>2,090,000</u>	<u>2,090,000</u>	<u>2,637,382</u>	<u>547,382</u>
Total Other Financing Sources (Uses)	<u>2,090,000</u>	<u>2,090,000</u>	<u>2,637,382</u>	<u>547,382</u>
NET CHANGE IN FUND BALANCE	<u>\$1,460,000</u>	<u>\$1,460,000</u>	2,931,018	<u>\$1,471,018</u>
Fund balance at beginning of year			<u>2,952,338</u>	
FUND BALANCE AT END OF YEAR			<u>\$5,883,356</u>	

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
 LEGACY LOW AND MODERATE INCOME HOUSING FUND  
 STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance with Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property			\$47,372	\$47,372
Total Revenues			47,372	47,372
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			47,372	47,372
OTHER FINANCING SOURCES				
Transfers in	\$253,000	\$253,000	372,048	119,048
Total Other Financing Sources	253,000	253,000	372,048	119,048
NET CHANGE IN FUND BALANCE	<u>\$253,000</u>	<u>\$253,000</u>	419,420	<u>\$166,420</u>
Fund balance at beginning of year			920,880	
FUND BALANCE AT END OF YEAR			<u>\$1,340,300</u>	

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 1 - DESCRIPTION**

**A. *Organization and Purpose***

The Redevelopment Agency of the City of San Pablo was established under the provisions of the Redevelopment Law (California Health and Safety Code), to clear and rehabilitate areas determined to be in a declining economic condition in the Project Areas. The Agency's policies are determined by the City Council in their separate capacity as board members of the Agency. All staff work is performed by the officials and staff of the City under a Cooperation and Reimbursement Agreement.

**B. *Project Areas***

**Tenth Township Project Area**

The Agency merged the Alvarado and Sheffield Project Areas into the Tenth Township Project Area in 1997. The Alvarado Project comprises the merged areas of the South Entrance, El Portal, Oak Park and Bayview Project Areas. The primary purpose of the merger was to allow the Agency the ability to pool tax increment revenues from each area into one fund in order to give the Agency greater flexibility to accomplish its redevelopment activities.

The former South Entrance Project Area is located near the southeastern border of the City, bounded on the East by Interstate 80, and bisected by San Pablo Dam Road and San Pablo Avenue. The South Entrance Project Area originally contained 30.5 acres and was amended to 39 acres in 1971. The former El Portal Project Area contains 756 acres and includes the City's central business district, the Civic Center and three main thoroughfares: San Pablo Avenue, 23rd Street and Market Street. The former Oak Park Project Area is located in the eastern sector of the City and contains 132 acres. The former Bayview Project Area includes the section of the City situated to the north of Broadway. The former Sheffield Project Area is located in the northwest portion of the City, adjacent to Giant Road; the approximate six block area was designed with residential, commercial, industrial and public uses.

**Legacy Project Area**

On March 3, 1997, the Agency adopted the Redevelopment Plan for the Legacy Project Area. The Legacy Project Area encompasses the Tenth Township Project Area along with an additional 346 acres.

**C. *Revenue***

The Agency's primary source of revenue is incremental property taxes. Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property within the Project Areas was frozen on the date of adoption of the Redevelopment Plan.
- b. Property taxes related to any incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other taxing authorities receiving taxes from the Project Areas.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 1 – DESCRIPTION (Continued)**

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City.

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Agency debt.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Agency is an integral part of the City of San Pablo and, accordingly, the accompanying financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

**B. Basis of Presentation**

The financial statements and accounting policies of the Agency conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

**C. Major Funds**

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Agency reported the following major governmental funds in the accompanying financial statements:

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Tenth Township Low and Moderate Income Housing (Special Revenue Fund)**- This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Tenth Township Merged Project Area.

**Legacy Low and Moderate Income Housing (Special Revenue Fund)**-This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Legacy Project Area.

**1993 Tax Allocation Subordinate Bonds (Debt Service Fund)**- This fund makes principal and interest payments on the Merged Project Area 1993 Subordinate Tax Allocation Refunding Bonds.

**2001 Tax Allocation Bonds Tenth Township Project Area (Debt Service Fund)** - This fund makes principal and interest payments on the Tenth Township Redevelopment Projects Tax Allocation Revenue Bonds Series 2001.

**1999 Tax Allocation Subordinate Bonds (Debt Service Fund)** - This fund makes principal and interest payments on the Merged Project Area 1999 Subordinate Tax Allocation Refunding Bonds.

**2004 Tax Allocation Revenue Bonds Legacy Project Area (Debt Service Fund)** - This fund makes principal and interest payments on the Legacy Redevelopment Projects Tax Allocation Revenue Bonds Series 2004.

**2006 Subordinate Tax Allocation Bonds Tenth Township Project Area (Debt Service Fund)** – This fund accounts for principal and interest payments on the Tenth Township Redevelopment Project Area’s Subordinate Tax Allocation Bonds Series 2006.

**Tenth Township Projects (Capital Projects Fund)**- This fund accounts for monies received from tax increment funds for major capital projects in the Tenth Township Merged Project Redevelopment Area and in the Legacy Project Redevelopment Area.

**Legacy Projects (Capital Projects Fund)** - This fund accounts for monies received from tax increment funds for major capital projects in the Legacy Project Redevelopment Area.

**D. Basis of Accounting**

**The government-wide financial statements** are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place, on these new government-wide financial statements.

**Governmental funds** are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Governmental fund expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures when they are paid. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds from general long-term debt and capital leases are reported as *other financing sources*.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO  
Notes to Component Unit Financial Statements**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**E. Property Taxes**

Property tax is recognized in the fiscal year for which the tax is levied. The County of Contra Costa levies, bills and collects property taxes for the Agency; under the County's "Teeter Plan" the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, becomes a lien on those dates and becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed, provided they become available as defined above.

**NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING**

**A. Budgetary Procedures**

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

1. The Executive Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen's comments.
3. All budget adjustments and transfers between funds must be approved by the Executive Director and Board of Directors by resolution during the fiscal year. The Finance Director is authorized to transfer any unencumbered appropriations within a division, department or agency.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO  
Notes to Component Unit Financial Statements**

**NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

6. Budgeted amounts appearing in the budgetary comparison statements are as originally adopted or as amended by the Board of Directors.

**B. Adjustments to GAAP Basis from Budgetary Basis**

The Tenth Township Project Capital Projects Fund budgets the purchase of property to be held for resale as capital outlay. As a result, the results of the fund's operations reported on the GAAP basis differ from the results of the fund's operations reported on the budgetary basis.

**C. Excess of Expenditures over Appropriations**

Tenth Township Project	
Pass Through to County	\$3,080
Interest and fiscal charges	278,602
Legacy Project	
Pass Through to County	135,671

Sufficient resources were available within each fund to finance these excesses.

**NOTE 4 - CASH AND INVESTMENTS**

The Agency's dependence on property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Agency pools cash from all sources and all funds with the City of San Pablo except Cash with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Interest income on investments is allocated on the basis of average month-end cash and investment balances in each fund.

**A. Policies**

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Agency's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Agency's name and places the Agency ahead of general creditors of the institution.

The Agency and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the Agency's fiscal agents as required under its debt issues, the Agency normally invests only in the California Local Agency Investment Fund pool administered by the State.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 4 – CASH AND INVESTMENTS (Continued)**

The Agency's investments are carried at fair value, as required by generally accepted accounting principles. 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 income for that fiscal year.

**B. Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or agreements.

Cash and investments available for operations	\$20,684,209
Restricted investments	<u>25,680,831</u>
Total cash and investments	<u><u>\$46,365,040</u></u>

**C. Investments Authorized by the California Government Code and the Agency's Investment Policy**

The Agency's investment policy and the California Government Code allow the Agency to invest in the following, provided the credit ratings of the issuers are acceptable to the Agency; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Agency's investment policy where the Agency's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	No Limit	No Limit
U.S. Agency Securities	5 years	N/A	No Limit	No Limit
California Local Agency Investment Fund	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	Top rating category	20%	No Limit
State and Local Obligations	5 years	N/A	No Limit	No Limit

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 4 – CASH AND INVESTMENTS (Continued)**

**D. Investments Authorized by Debt Agreements**

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. There is no limitation on the maximum percentage of the portfolio that may be invested in any one investment type or in any one issuer. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	5 years	N/A
U.S. Agency Securities	5 years	N/A
State Obligations	5 years	A
Commercial Paper	270 days	A-1
Certificates of Deposit	365 days	A-1
Bankers Acceptances	365 days	A-1
Bank Deposits	5 years	N/A
Money Market Mutual Funds	N/A	AAAm
Repurchase Agreements	180 days	A
Cash Sweep	5 years	N/A
California Asset Management Program	N/A	N/A
California Local Agency Investment Fund	N/A	N/A

**E. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

**REDEVELOPMENT AGENCY  
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Notes to Component Unit Financial Statements

**NOTE 4 – CASH AND INVESTMENTS (Continued)**

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 or earliest call date:

	Cash and Investments Available for Operations	Restricted Cash And Investments	Total	Maturity Date
Federal Agency Issues:				
Federal National Mortgage Association		\$1,592,759	\$1,592,759	March 6, 2009
Federal Home Loan Bank		4,800,000	4,800,000	April 20, 2009
Local Agency Investment Fund	\$20,682,549		20,682,549	176 days average maturity
Money Market Funds	1,660	19,288,072	19,289,732	18 days average maturity
<b>Total Investments</b>	<b>\$20,684,209</b>	<b>\$25,680,831</b>	<b>\$46,365,040</b>	

The Agency is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Agency reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

**F. Credit Risk**

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. The actual ratings as of June 30, 2007 for all Federal Agency Issues are AAA and Money Market Funds are AAAM as provided by Standard and Poor's. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2007.

**G. Concentration of Credit Risk**

Included in the table at E. above are the following significant investments held by individual Agency Funds in the securities of issuers other than U. S. Treasury securities, mutual funds and external investment pools:

Fund/Issuer	Investment Type	Reported Amount
2004 Tax Allocation Bonds Legacy Project Area Debt Service Fund Federal Home Loan Bank	Federal Agency Security	\$4,800,000
2006 Subordinate Tax Allocation Bonds Tenth Township Project Area Debt Service Fund Federal National Mortgage Association	Federal Agency Security	1,592,759

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 5 – INTERFUND TRANSACTIONS**

**A. Transfers Between Agency Funds**

With Board approval, resources may be transferred from one Agency fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund. Interfund transfers comprised:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Transfer Amount</u>
<b>Special Revenue Funds</b>		
Tenth Township Low and Moderate Income Housing	Tenth Township Project Capital Projects Fund	\$2,637,382 (A)
Legacy Low and Moderate Income Housing	Legacy Project Capital Projects Fund	372,048 (A)
<b>Debt Service Funds</b>		
1993 Tax Allocation Subordinate Bonds	Tenth Township Project Capital Projects Fund	619,751 (B)
	2004 Tax Allocation Bonds Legacy Project Area	33,847 (C)
	2006 Subordinate Tax Allocation Bonds Tenth Township Project Area	11,742,381 (C)
2001 Tax Allocation Bonds Tenth Township Project Area	Tenth Township Project Capital Projects Fund	1,319,287 (B)
	1993 Tax Allocation Subordinate Bonds	4,242,388 (C)
1999 Tax Allocation Subordinate Bonds	Tenth Township Project Capital Projects Fund	873,899 (B)
	1993 Tax Allocation Subordinate Bonds	21,248 (C)
2004 Tax Allocation Bonds Legacy Project Area	Tenth Township Project Capital Projects Fund	118,199 (B)
	1993 Tax Allocation Subordinate Bonds	138,012 (C)
2006 Subordinate Tax Allocation Bonds Tenth Township Project Area	Tenth Township Project Capital Projects Fund	16,084,672 (B)
<b>Capital Projects Fund</b>		
Tenth Township Project	1993 Tax Allocation Subordinate Bonds	490,321 (D)
	2001 Tax Allocation Bonds Tenth Township Project Area	73,815 (D)
	2004 Tax Allocation Bonds Legacy Project Area	1,995 (D)
		<u>\$38,769,245</u>

The reasons for these transfers are set forth below:

- (A) State-required set-aside of Low and Moderate Income Housing portion of property tax increment.
- (B) Transfer of amounts required to fund debt service payments.
- (C) Transfer of amounts related to the issuance of the 2006 Tax Allocation Bonds and refunding of the 1993 Tax Allocation Bonds.
- (D) Transfer of amounts for capital related projects.

**B. Transfers Between the City and the Agency**

The Tenth Township Project Capital Projects Fund transferred \$1,466,000 to the City's Public Works Construction Capital Projects Fund to fund capital projects. The City's Public Works Construction Capital Projects Fund transferred \$246,531 to the Tenth Township Project Capital Projects Fund to return unspent capital projects funds. The 2006 Subordinate Tax Allocation Bonds Tenth Township Project Area Debt Service Fund transferred \$60,474 to the City's Public Works Construction Capital Projects Fund to fund capital projects.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 6 – NOTES RECEIVABLE**

The Agency engages in programs designed to encourage construction of or improvement to low-to-moderate income housing. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to expend these funds in accordance with the Agency's terms. The balances of the notes receivable arising from these programs at June 30, 2007 are set forth below:

Casa Adobe-Senior Citizen Units	\$1,223,846
Plaza Sobrante	197,938
Lotus Hotels, Inc.	239,288
Housing Initiative Program	1,255,509
Micro Loan Program	152,240
San Pablo Housing Investors	1,335,139
East Bay Asian Local Development Corporation	<u>1,554,836</u>
Total	<u><u>\$5,958,796</u></u>

**A. Casa Adobe - Senior Citizen Units**

Under the terms of a Disposition and Development Agreement dated June 5, 1989 between the Redevelopment Agency and the Developer, Ecumenical Association for Housing (EAH)-San Pablo, the Agency loaned EAH-San Pablo the amount of \$824,670 to purchase land and construct the Casa Adobe 55 unit housing complex for low income senior citizens. The loan is secured by a second deed of trust on the property, is due in 2020 and bears simple annual interest of 3 percent, with principal and interest due annually to the extent there is "surplus cash" as defined in the agreement. Any unpaid amounts are considered deferred; all deferred principal and interest is due when the note matures. At June 30, 2007, EAH-San Pablo owed deferred principal of \$820,861 and interest of \$402,985 to the Agency.

**B. Plaza Sobrante**

Under the terms of a Rehabilitation and Affordable Housing Subsidy Agreement dated October 28, 1996, the Redevelopment Agency loaned \$250,000 in June 1997 to fund the removal and abatement of certain hazardous materials and the rehabilitation and improvement of the roof and associated structural elements of certain real property on San Pablo Dam Road. The loan is secured by a deed of trust on the property and bears simple annual interest at an average rate equal to the rate of interest earned by the Agency on its funds deposited in the Local Agency Investment Fund for the prior twelve months. In May 1999, the Board of Directors of the Redevelopment Agency agreed to subordinate the lien of its deed of trust to the lien of a deed of trust securing indebtedness to the Mechanics Bank and to Cerda. In January 2003, the Board again agreed to subordinate the lien of its deed of trust to a new loan for the purpose of refinancing the existing first and second mortgages against the Property and approved a Subordination Agreement for that purpose. Principal and accrued interest owed at June 30, 2007 was \$197,938.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 6 – NOTES RECEIVABLE (Continued)**

**C. *Lotus Hotels, Inc.***

In fiscal 2000, the Agency sold land and buildings to Lotus Hotels, Inc. for \$235,000 in return for a first trust deed in that amount. The Agency also agreed to subordinate its trust deed to a construction loan obtained by Lotus Hotels, Inc. The first loan installment is due one year from the date of the issuance of the certificate of occupancy for the phase one hotel improvements on the site. Subsequent installments are due on the next nine anniversaries in ten equal installments with one final balance payment due one year later. The note carries 6% simple interest per annum for the first three years after the issuance of the certificate of occupancy, at which time it increases to the prime rate. At June 30, 2007, Lotus Hotels, Inc. owed principal of \$155,898 and interest of \$83,390 to the Agency.

**D. *Majid Kolahdooz***

In fiscal 2005 the Agency sold a parcel of land to Majid Kolahdooz, in return for a loan in the amount of \$55,171. The parcel will be developed into one new residential structure with associated drive and walkways. Under the Disposition and Development Agreement, the note carries 6.5% simple interest per annum and is repayable in forty-two equal monthly installments of \$1,472 each. The loan balance of \$27,834 was repaid during the year ended June 30, 2007.

**E. *Housing Initiative Program***

The Redevelopment Agency administers a Housing Initiative Program under which individuals may qualify for first-time home buyer, purchase rehabilitation, second and third trust deed home improvement, dilapidated unit purchase, or foreclosed unit purchase loans. At June 30, 2007, the Agency had made loans to 4 new participants and had loans outstanding under this Program of \$1,255,509.

The Agency also administers a State sponsored CalHome Loan Program under which individuals may qualify for first-time home buyer, purchase rehabilitation, second trust deed home improvement, or foreclosed unit purchase loans.

**F. *Micro Loan Program***

In May 2003, the Agency created a Micro Loan Program to provide loans to building and business owners in the range of \$20,000 to \$50,000 to foster economic growth in San Pablo's commercial areas. The micro loan program will encourage private investment while providing an impetus for building and business owners to upgrade, renovate and improve their properties and businesses. At June 30, 2007, 3 loans were outstanding with a balance of \$152,240.

**G. *San Pablo Housing Investors***

Under the terms of an Owner Participation Agreement dated January 6, 2003, the Agency made two loans to San Pablo Housing Investors in fiscal 2004 for the construction of eighty-two low-income rental units for seniors. The first loan of \$99,690 was used for City development fees, and the second loan of \$1,100,000 for construction. The loans carry simple interest rates per annum of 6% and 5.7% respectively with loan payments due within twenty years of the Completion Date. The project was completed on June 30, 2003. Payments begin on January 31<sup>st</sup> following the Completion Date, and then each January 31<sup>st</sup> thereafter; payments are to be made from fifty percent of "residual receipts" as defined in the agreement. As of June 30, 2007, principal of \$1,140,019 and interest of \$195,120 were owed to the Agency.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 6 – NOTES RECEIVABLE (Continued)**

**H. East Bay Asian Local Development Corporation**

Under the terms of an Owner Participation Agreement dated September 28, 2004, the Agency made a construction loan of \$500,000 to East Bay Asian Local Development Corporation for the development of 84 affordable rental dwelling units and 2 onsite non-rent-restricted management units, with associated parking and common area spaces. The loan does not bear interest and must be repaid in full no later than 55 years from the date of the agreement. Commencing on May 1, 2008 and on each May 1<sup>st</sup> thereafter, payments are to be made in an amount equal to seventy-five percent of “residual receipts” as defined in the agreement.

On August 16, 2005, an amendment to the Owner Participation Agreement provided EBALDC with a supplemental project loan of up to \$1,200,000. Proceeds will facilitate the original construction project. Repayment terms of this additional loan are the same as the terms of the original loan. As of June 30, 2007, EBALDC has drawn down \$1,054,836 of the supplemental project loan.

**NOTE 7 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT AND DEPOSITS**

The Redevelopment Agency has purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

The Agency had \$17,350,000 on deposit with the State of California as of June 30, 2007 to provide for the purchase of property located within the City of San Pablo which the Agency is attempting to acquire. The funds will be released to the property owner upon completion of the condemnation process. These deposits are recorded as deposits in both government-wide and fund financial statements.

**NOTE 8 - CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. The Agency’s policy is to capitalize all assets with cost exceeding certain minimum thresholds and with useful lives exceeding two years.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets.

Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives and capitalization thresholds listed below to capital assets.

	Useful lives	Capitalization Threshold
Buildings and Improvements	10-50	\$25,000
Machinery and Equipment	5-10	5,000
Vehicles	5-10	5,000

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets at June 30 comprise:

	Balance at June 30, 2006	Additions	Retirements	Balance at June 30, 2007
<b><i>Governmental activities</i></b>				
Capital assets not being depreciated:				
Land and Land Improvements	\$702,221	\$5,140,228		\$5,842,449
Total capital assets not being depreciated	<u>702,221</u>	<u>5,140,228</u>		<u>5,842,449</u>
Capital assets being depreciated:				
Buildings and Improvements	4,793,771		(\$2,134,946)	2,658,825
Machinery and Equipment	357,527		(96,282)	261,245
Vehicles	115,230	31,656		146,886
Total capital assets being depreciated	<u>5,266,528</u>	<u>31,656</u>	<u>(2,231,228)</u>	<u>3,066,956</u>
Less accumulated depreciation for:				
Buildings and Improvements	992,357	44,802	(267,564)	769,595
Machinery and Equipment	315,050	20,259	(92,445)	242,864
Vehicles	105,583	4,902		110,485
Total accumulated depreciation	<u>1,412,990</u>	<u>69,963</u>	<u>(360,009)</u>	<u>1,122,944</u>
Net capital assets being depreciated	<u>3,853,538</u>	<u>(38,307)</u>	<u>(1,871,219)</u>	<u>1,944,012</u>
Governmental activity capital assets, net	<u>\$4,555,759</u>	<u>\$5,101,921</u>	<u>(\$1,871,219)</u>	<u>\$7,786,461</u>

All depreciation expense is charged to the Community Development program.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 9 - LONG-TERM DEBT**

The Agency generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Debt discounts and issuance costs are recognized in the current period.

**A. Tax Allocation Bonds**

This debt will be repaid out of governmental funds but is not accounted for in these funds because this part of the debt does not require an appropriation or expenditure in this accounting period. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenues. Tax Allocation Bond issues and transactions were as follows:

	Original Issue Amount	Balance June 30, 2006	Additions	Refunding/ Retirements	Balance June 30, 2007	Current Portion
<b>Merged Project Area, Tax Allocation Bonds</b>						
<b>Subordinate Series 1993</b>						
2.6-6.25%, refunded 11/05/2006	\$31,685,000	\$12,350,000		\$12,350,000		
<b>Tenth Township Redevelopment Project</b>						
<b>Subordinate Tax Allocation Bonds Series 1999A</b>						
3.75-5.65%, due 12/01/2023	9,850,000	7,985,000		480,000	\$7,505,000	\$505,000
<b>Tax Allocation Revenue Bonds Series 2001</b>						
Current Interest Serial Bonds						
3.25-4.85%, due 12/01/2018	7,855,000	5,965,000		425,000	5,540,000	440,000
Current Interest Term Bonds						
5.00%, due 12/01/2029	2,280,000	2,280,000			2,280,000	
Capital Appreciation Bonds						
5.66-5.68%, due 12/01/2029	12,055,000	3,818,514	\$219,464		4,037,978	
<b>Tax Allocation Revenue Bonds Series 2004</b>						
2.00-5.00%, due 12/01/2032	37,755,000	37,400,000		835,000	36,565,000	850,000
<b>Subordinate Tax Allocation Bonds Series 2006</b>						
Variable rate, due 12/01/2032	36,000,000		36,000,000		36,000,000	
Total Governmental Activity Debt		<u>\$69,798,514</u>	<u>\$36,219,464</u>	<u>\$14,090,000</u>	<u>\$91,927,978</u>	<u>\$1,795,000</u>

**B. Debt Service Requirements**

Debt service requirements are shown below:

For the Year Ending June 30	Principal (1)	Interest
2008	\$1,795,000	\$3,689,752
2009	1,865,000	3,629,493
2010	3,050,000	3,539,479
2011	3,165,000	3,417,042
2012	3,290,000	3,284,460
2013-2017	18,645,000	14,180,491
2018-2022	22,945,000	9,743,546
2023-2027	24,460,000	4,911,372
2028-2032	18,090,000	2,118,871
2033	2,640,000	56,209
Total principal due	<u>\$99,945,000</u>	<u>\$48,570,715</u>

(1) Includes unaccrued discount totaling \$8,017,022.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 9 - LONG-TERM DEBT (Continued)**

**C. 1993 and 1999 Tax Allocation Bonds**

1999 Bonds maturing on or after December 1, 2010 are subject to call on any interest payment date at par plus a premium of up to two percent. Interest on the 1999 subordinate issue is due semiannually on June 1 and December 1.

On March 18, 2004, \$13,910,000 of the 1993 subordinate issue was defeased by the 2004 Tax Allocation Bonds as discussed in D below. The defeased 1993 Bonds were called on December 1, 2004. On October 5, 2006, the remaining principal balance of \$12,350,000 of the 1993 Bonds was defeased by the 2006 Subordinate Tax Allocation Bonds as discussed in F below. That portion of the 1993 Bonds were called on December 1, 2006.

**D. 2001 Tax Allocation Revenue Bonds**

On March 22, 2001, the Agency issued \$12,997,670 of Tax Allocation Revenue Bonds, Series 2001 to defease \$4,665,000 of outstanding 1990 Tax Allocation Bonds, and to fund capital projects in the Legacy and Tenth Township Project Areas. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenues. The defeased 1990 Bonds were called May 1, 2001.

The 2001 Bonds consist of \$7,855,000 original principal amount of Current Interest Serial Bonds, \$2,280,000 original principal amount of Current Interest Term Bonds, and \$2,862,670 of Capital Appreciation Bonds which pay no interest but which accrete in value to \$12,055,000 at their redemption date. Interest payments on the Term Bonds are payable semiannually on June 1 and December 1.

The 2001 Bonds Capital Appreciation Bonds unaccrued discount totaled \$8,017,022 and the outstanding balance increased \$219,464 due to the annual increase in accreted value. Principal and interest payments of \$2,635,000, \$2,355,000, \$2,355,000, \$1,570,000, \$1,570,000 and \$1,570,000 commence December 1, 2024 and continue through December 1, 2029.

During fiscal year 2004 the Agency undertook an internal transaction to substitute new debt in the principal amount of \$1,265,000 issued by the Tenth Township Project Area for old debt of the Legacy Project Area.

**E. 2004 Tax Allocation Revenue Bonds**

On March 18, 2004, the Agency issued \$37,755,000 of Tax Allocation Revenue Bonds, Series 2004 to defease \$13,910,000 of outstanding 1993 Tax Allocation Bonds, and to fund capital projects in the Legacy and Tenth Township Project Areas. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenues. Annual principal payments on the 2004 bonds are due December 1, and semi-annual interest payments are due June 1, and December 1, through 2015.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 9 - LONG-TERM DEBT (Continued)**

*F. 2006 Subordinate Tax Allocation Bonds*

On October 5, 2006 the Agency issued \$36,000,000 of Tenth Township Redevelopment Project Area Subordinate Tax Allocation Bonds, Series 2006 to refund the remaining \$12,350,000 principal amount of the 1993 Tax Allocation Bonds and to fund certain public improvements in the Tenth Township Project Area. In October 2006 the Agency defeased the outstanding 1993 Bonds by placing a portion of the proceeds from the 2006 Bonds in an irrevocable trust to provide amounts sufficient to pay on December 1, 2006 the prepayment price of 102% of the principal amount and accrued interest. The refunding resulted in an overall debt service savings of \$1,677,966. The net present value of the debt securities savings is called an economic gain and amounted to \$1,117,851. Principal payments on the 2006 Bonds are due annually on December 1 and interest payments are due monthly, through December 1, 2032.

The 2006 Subordinate Tax Allocation Bonds were issued as auction rate bonds with interest calculated daily. The rate fluctuates according to the market conditions, but is capped at 12%. However, the Agency entered into a 26-year interest rate swap agreement for the entire amount of its 2006 Subordinate Tax Allocation Bonds as discussed below. The combination of the variable rate Bonds and a floating rate swap creates synthetic fixed-rate debt for the Agency. The synthetic fixed rate for the Bonds was 3.88% at June 30, 2007.

*Interest Rate Swap Agreement*

The Agency entered into an interest swap agreement in connection with the 2006 Subordinate Tax Allocation Bonds. This transaction allows the Agency to create a synthetic fixed rate on the Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreement is disclosed below.

*Terms.* The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2007, are included below. The swap agreement contains scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the Bonds.

Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate	Termination Date
\$36,000,000	10/5/2006	Piper Jaffray Financial Products, Inc. (Morgan Stanley)	AA / A-1+	3.555%	64% of 30- day LIBOR plus 15 basis points	12/1/2032

Based on the swap agreement, the Agency owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the Agency interest based on the variable rate that approximates the rate required by the Bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 9 - LONG-TERM DEBT (Continued)**

*Fair value.* Fair value of the swap takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap. As of June 30, 2007, the fair value of the swap was in favor of the City in the amount of \$523,468.

*Credit risk.* As of June 30, 2007, the Agency was exposed to credit risk on the outstanding swap because the swap had a positive fair value. This amount may increase if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to become negative, the Agency would no longer be exposed to credit risk. The Agency will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

*Basis risk.* Basis risk is the risk that the interest rate paid by the Agency on the underlying variable rate bonds to the bondholders temporarily differs from the variable swap rate received from the counterparty. The Agency bears basis risk on the swap. The swap has basis risk since the Agency receives a percentage of the LIBOR Index to offset the actual variable bond rate the Agency pays on the underlying Bonds. The Agency is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Agency pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The Agency is exposed to tax risk when the relationship between the taxable LIBOR based swap and tax-exempt variable rate bond changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the Agency is exposed to this basis risk.

*Termination risk.* The Agency may terminate if the other party fails to perform under the terms of the contract. The Agency will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the Agency's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 9 - LONG-TERM DEBT (Continued)**

*Swap payments and associated debt.* Using rates as of June 30, 2007, debt service requirements of the Agency's outstanding variable-rate Bonds and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at B. above:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2008		\$1,396,800	\$72	\$1,396,872
2009		1,396,800	72	1,396,872
2010	\$1,495,000	1,367,797	71	2,862,868
2011	1,545,000	1,308,821	67	2,853,888
2012	1,215,000	1,255,277	65	2,470,342
2013-2017	6,425,000	5,579,925	288	12,005,213
2018-2022	13,195,000	3,770,099	195	16,965,294
2023-2027	6,605,000	1,630,279	84	8,235,363
2028-2032	4,220,000	723,620	37	4,943,657
2033	1,300,000	25,220	1	1,325,221
Totals	\$36,000,000	\$18,454,638	\$952	\$54,455,590

**G. Defeased Conduit Bonds**

In prior years, the Agency defeased two of its mortgage revenue bond issues by selling all outstanding mortgage loans and placing the proceeds in irrevocable trusts to provide for all future debt service payments. At June 30, 2007 the remaining balance of this defeased debt was \$350,000 for the 1978 issue and \$15,975,000 for the 1979 issue.

**NOTE 10 – NET ASSETS AND FUND BALANCES**

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

**A. Net Assets**

Net Assets are divided into three captions. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

As of June 30, 2007, the Agency reported an unrestricted deficit of \$40,517,640 representing debt used to finance the acquisition and construction of assets maintained by the City and third parties. These capital assets were constructed or acquired in prior years and transferred to the City and third parties upon completion.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
Notes to Component Unit Financial Statements

**NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)**

**B. Fund Balances**

Fund balances consist of reserved and unreserved amounts. Reserved fund balances result from prior actions or transactions or are placed by outside entities, such as bondholders, other governments, etc., which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds, or because of illiquidity of the fund. The Agency cannot modify or remove these restrictions or reserves. At June 30, 2007, reserves included:

*Reserved for encumbrances* represents the portion of fund balance set aside for open purchase orders.

*Reserved for debt service* is the portion of fund balance legally restricted to the payment of principal and interest on long term liabilities.

*Reserved for notes receivable* is the portion of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

*Reserved for property held for resale* is the carrying value of property held by the Redevelopment Agency, which is reserved since it is not an available spendable resource.

*Reserved for deposits* represents the portion of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

*Reserved for Low and Moderate Income Housing* is legally restricted to expenditure for low and moderate income housing under the California Health and Safety Code.

**NOTE 11 – RISK MANAGEMENT**

**A. Municipal Pooling Authority (MPA)**

The City is a member of the Municipal Pooling Authority (formerly called Contra Costa County Municipal Risk Management Insurance Authority). The Authority provides coverage against the following types of loss risks under the terms of a joint-powers agreement with the City and several other cities and governmental agencies as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$10,000)	\$20,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Worker's Compensation (no deductible)	200,000,000
All Risk Fire, Property, Earthquake & Flood (\$5,000)	350,000,000
Boiler & Machinery (\$5,000)	100,000,000

The Authority is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the Authority, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's deposits with the Authority are in accordance with formulas established by the Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN PABLO**  
**Notes to Component Unit Financial Statements**

**NOTE 11 – RISK MANAGEMENT (Continued)**

Audited financial statements for the Authority are available from MPA, 1911 San Miguel Drive, Suite 200, Walnut Creek, CA 94596.

**B. *Liability for Uninsured Claims***

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

The Agency is subject to litigation arising in the normal course of business. In the opinion of the Agency Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the Agency.

Under a Voluntary Cleanup Agreement with the California Department of Toxic Substances Control, the City plans to clean up the former Burlington Northern Santa Fe Property on Rumrill Boulevard to provide for future unrestricted land use. The property is currently owned by the Redevelopment Agency. While the City has started a Removal Action Work Plan (RAW), the cost of the cleanup has not yet been determined. In addition, the Agency will be applying for grant funding to cover all or some of the future costs of the RAW and implementation of the RAW.

The Agency has an agreement with Contra Costa County which requires it to pass through a portion of its property tax increment to the County. Increments in the amount of \$558,751 were passed through to the County in fiscal 2007 and increments of \$2,049,610 had been passed through to date. Beginning in 2016, one hundred percent of the net property tax (property tax increment less debt service and low to moderate income set aside) must be passed through to the County.

**MAJOR GOVERNMENTAL FUNDS, OTHER THAN SPECIAL REVENUE FUNDS**

**1993 TAX ALLOCATION SUBORDINATE BONDS**

This fund makes principal and interest payments on the Merged Project Area 1993 Subordinate Tax Allocation Refunding Bonds.

**2001 TAX ALLOCATION BONDS TENTH TOWNSHIP PROJECT AREA**

This fund makes principal and interest payments on the Tenth Township Redevelopment Projects Tax Allocation Revenue Bonds Series 2001.

**1999 TAX ALLOCATION SUBORDINATE BONDS**

This fund makes principal and interest payments on the Merged Project Area 1999 Subordinate Tax Allocation Refunding Bonds.

**TENTH TOWNSHIP PROJECT**

This fund accounts for monies received from tax increment funds for major capital projects in the Tenth Township Merged Project Redevelopment Area.

**LEGACY PROJECT**

This fund accounts for monies received from tax increment funds for major capital projects in the Legacy Project Area.

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
1993 TAX ALLOCATION SUBORDINATE BONDS FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007

	Budget	Actual	Variance with Budget Positive (Negative)
REVENUES			
Use of money and property		\$148,295	\$148,295
Total Revenues		148,295	148,295
EXPENDITURES			
Debt service:			
Principal retirement			
Interest and fiscal charges	\$947,375	92,619	854,756
Total Expenditures	947,375	92,619	854,756
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(947,375)	55,676	1,003,051
OTHER FINANCING SOURCES (USES)			
Transfers in	947,375	12,395,979	11,448,604
Transfers out		(4,891,969)	(4,891,969)
Payment to bond escrow agent		(12,592,131)	(12,592,131)
Total Other Financing Sources (Uses)	947,375	(5,088,121)	(6,035,496)
NET CHANGE IN FUND BALANCE		(5,032,445)	(\$5,032,445)
Fund balance at beginning of year		5,032,445	
FUND BALANCE AT END OF YEAR			

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
 2001 TAX ALLOCATION BONDS TENTH TOWNSHIP FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance with Budget Positive (Negative)
REVENUES			
Use of money and property		\$1,279	\$1,279
Total Revenues		<u>1,279</u>	<u>1,279</u>
EXPENDITURES			
Debt service:			
Principal retirement	\$425,000	425,000	
Interest and fiscal charges	<u>358,252</u>	<u>295,002</u>	63,250
Total Expenditures	<u>783,252</u>	<u>720,002</u>	<u>63,250</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(783,252)</u>	<u>(718,723)</u>	<u>64,529</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>783,252</u>	<u>718,090</u>	<u>(65,162)</u>
Total Other Financing Sources (Uses)	<u>783,252</u>	<u>718,090</u>	<u>(65,162)</u>
NET CHANGE IN FUND BALANCE		<u>(633)</u>	<u>(\$633)</u>
Fund balance at beginning of year		<u>17,966</u>	
FUND BALANCE AT END OF YEAR		<u><u>\$17,333</u></u>	

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
1999 TAX ALLOCATION SUBORDINATE BONDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Budget	Actual	Variance with Budget Positive (Negative)
REVENUES			
Use of money and property		\$1,399	\$1,399
Total Revenues		1,399	1,399
EXPENDITURES			
Debt service:			
Principal	\$480,000	480,000	
Interest and fiscal charges	415,583	415,583	
Total Expenditures	895,583	895,583	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(895,583)	(894,184)	1,399
OTHER FINANCING SOURCES			
Transfers in	895,583	895,147	(436)
Total Other Financing Sources	895,583	895,147	(436)
NET CHANGE IN FUND BALANCE	963	\$963	
Fund balance at beginning of year		47	
FUND BALANCE AT END OF YEAR		\$1,010	

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
TENTH TOWNSHIP PROJECT  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Budget Positive (Negative)</u>
REVENUES			
Incremental property taxes	\$12,245,000	\$13,098,895	\$853,895
Use of money and property	1,251,000	1,808,923	557,923
Miscellaneous	113,000	178,576	65,576
	<u>13,609,000</u>	<u>15,086,394</u>	<u>1,477,394</u>
EXPENDITURES			
Current:			
Community development and housing	9,479,318	2,307,466	7,171,852
Public works	294,288	249,977	44,311
Pass through to County	175,000	178,080	(3,080)
Capital outlay	7,559,500	5,171,884	2,387,616
Debt service:			
Principal	830,000	830,000	
Interest and fiscal charges	1,581,047	1,859,649	(278,602)
	<u>19,919,153</u>	<u>10,597,056</u>	<u>9,322,097</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,310,153)</u>	<u>4,489,338</u>	<u>10,799,491</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of property	2,350,000	2,350,000	
Issuance of debt		36,000,000	36,000,000
Transfers in	2,411,047	566,131	(1,844,916)
Transfers (out)	(7,127,257)	(21,653,190)	(14,525,933)
Transfers in from the City		246,531	246,531
Transfers (out) to the City		(1,466,000)	(1,466,000)
	<u>(2,366,210)</u>	<u>16,043,472</u>	<u>18,409,682</u>
NET CHANGE IN FUND BALANCE	<u>(\$8,676,363)</u>	<u>20,532,810</u>	<u>\$29,209,173</u>
Fund balance at beginning of year		<u>35,362,372</u>	
FUND BALANCE AT END OF YEAR		<u>\$55,895,182</u>	

REDEVELOPMENT AGENCY OF THE CITY OF SAN PABLO  
 LEGACY PROJECT  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2007

	Budget	Actual	Variance with Budget Positive (Negative)
<b>REVENUES</b>			
Incremental property taxes	\$1,603,000	\$1,860,196	\$257,196
Use of money and property	50,000	139,709	89,709
Total Revenues	1,653,000	1,999,905	346,905
<b>EXPENDITURES</b>			
Current:			
Pass through to County	245,000	380,671	(135,671)
Total Expenditures	245,000	380,671	(135,671)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	1,408,000	1,619,234	211,234
<b>OTHER FINANCING SOURCES</b>			
Transfers (out)	(253,000)	(372,048)	(119,048)
Total Other Financing Sources	(253,000)	(372,048)	(119,048)
<b>NET CHANGE IN FUND BALANCE</b>			
	\$1,155,000	1,247,186	\$92,186
Fund balance at beginning of year		2,206,037	
FUND BALANCE AT END OF YEAR		\$3,453,223	

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*

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Members of the Redevelopment Agency  
of the City of San Pablo  
San Pablo, California

We have audited the financial statements of the Redevelopment Agency of the City of San Pablo as of and for the year ended June 30, 2007, and have issued our report thereon dated August 17, 2007. We have conducted our audit in accordance with generally accepted auditing standards 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 our 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 the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the 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 second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. As part of our audits, we prepared and issued our separate Memorandum on Internal Control dated August 17, 2007. Items considered to be significant deficiencies are included in a Schedule of Significant Deficiencies in that Memorandum.

### *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. Our audit included tests of compliance with provisions of the *Guidelines for Compliance Audits of California Redevelopment Agencies*. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

*Maze and Associates*

August 17, 2007

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Finding 06-01:**

The Agency did not submit the following reports to Council as required by Health and Safety Code 33080.1: Annual Report of Financial Transactions of Community Redevelopment Agencies, Housing Activities Report, Blight Progress Report, Loan Report and Property Report.

**Current Status:**

The Agency submitted the 05/06 Reports to the Board of Directors, and will continue this practice in the future.