

**REDEVELOPMENT AGENCY
OF THE CITY OF HAYWARD
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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ACCOUNTANCY CORPORATION

3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board of the
Redevelopment Agency of the
City of Hayward, 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 Hayward (Agency), a component unit of the City of Hayward, as of and for the year ended June 30, 2006, 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.

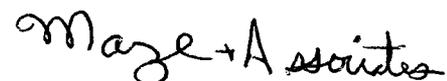
We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued reports dated October 27, 2006 on our consideration of the Agency's internal control structure and on its compliance with laws and regulation.

In our opinion the component unit financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency at June 30, 2006 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The budget versus actual statement listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic statements of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the government-wide, and fund financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 27, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Government Accounting Standards Board Statement 34 requires the Redevelopment Agency of the City of Hayward to provide this overview of the Agency's financial activities for the fiscal year ended June 30, 2006. Please read this overview in conjunction with your reading of the accompanying Basic Financial statements.

THE PURPOSE OF THE AGENCY

The Redevelopment Agency functions as a division within the City of Hayward. The Agency is governed by the City Council, which sits in a separate capacity as the Agency's Board of Directors. City employees perform all the duties and functions required of the Agency. The Agency is a component unit of the City of Hayward.

The Agency's purpose under California law is to eliminate urban blight in the City of Hayward. The Agency is given certain powers under the law to assist it in that endeavor. The Agency may condemn property under certain circumstances as prescribed by the law, and it may incur indebtedness to finance its redevelopment activities. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called the Base Year). The increases are called Property Tax Increments. Twenty percent of the property tax increments received must be used to increase the supply of low and moderate income housing. The Agency must also make "pass through" payments to other pre-existing governmental entities within its redevelopment area, in accordance with statutory formulas.

FISCAL 2006 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

Agency-wide:

- The Agency's net assets increased \$4.6 million to \$19.4 million in fiscal year 2006.
- Total assets increased to \$81.7 million and liabilities amounted to \$62.3 million in fiscal year 2006.
- Total Agency revenues were \$10.6 million and expenses \$6 million in fiscal year 2006.

Fund Basis:

- General Capital Projects Fund revenues of \$9.3 million were \$3 million higher than the prior year, while expenditures of \$2.8 million were \$0.4 million lower than the prior year.
- General Capital Projects Fund other financing uses amounted to \$4.6 million in fiscal 2006, up \$3 million in transfers out over prior year.
- General Capital Projects Fund fund balance increased \$1.9 million.
- Tax Allocation Bonds (TABs) Capital Projects Fund revenues were \$830,000.
- TABs Capital Projects Fund expenditures of \$3.2 million were \$2.5 million lower than the prior year.
- TABs Capital Projects Fund other financing sources amounted to \$10.7 million due to \$11.8 million in new bond proceeds less \$1.1 million in transfers out.
- TABs Capital Projects Fund balance increased \$8.3 million.
- Low and Moderate Income Housing Fund revenues were \$1 million. The 20% set aside revenue totaled \$1.8 million and is a fund transfer in for fiscal year 2006.
- Low and Moderate Income Housing Fund expenditures of \$379,000 were \$1.2 million lower than the prior year.
- Low and Moderate Income Housing Fund ending fund balance increased to \$6.5 million, \$2.5 million higher than the prior year.
- Debt Service Fund transfers in were \$3.9 million in fiscal 2006, up \$2.3 million from the prior year.
- Debt Service Fund expenditures increased to \$3.2 million in fiscal 2006, \$1.5 million higher than the prior year.

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.

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.

All of the Agency's activities are grouped into Government Activities.

The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and provide additional information not found in the government-wide financial statements. The Fund Financial Statements focus primarily on the short-term activities of the Agency's four Funds and measure only current revenues and expenditures 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, while the activities of any Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The Agency reports all four of its Funds as Major Funds; their purpose is explained in Note 1.C, page 19 to the financial statements.

The Agency-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental activities**—All of the Agency's basic services are considered to be redevelopment activities. These services are supported by general Agency revenues such as property tax increments.

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

The Fund Financial Statements provide detailed information about each of the Agency's most significant funds, called Major Funds. The concept of major funds, and the determination of which funds are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually and presents the major activities of the Agency for the year, and may change from year to year as a result of changes in the pattern of Agency's activities.

All the Agency's Funds are Governmental Funds; financial statements for these Funds 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 not presented in the Governmental Fund Financial Statements.

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

Cannery Area Public Facilities Projects: The projects are located between B and C Streets, west of Filbert Street, and consist of three components: 1) a \$31.7 million construction of an approximately 80,000 square foot public elementary school to replace the existing Burbank School, 2) a \$4.7 million expansion of Cannery Park, with construction of new recreational elements, and joining it to the new Burbank School by vacating the existing Burbank Street, and 3) a \$5.7 million construction of new roads and infrastructure west and south of the new park and school, and the extension of Filbert Street from C Street to B Street. Upon completion of the school, the site and improvements are to be conveyed by the Agency to the School District in exchange for a portion of the current school site owned by the School District. The Agency has also agreed to deconstruct the current school site and advance funds to Hayward Area Recreation and Park District (HARD) to finance the cost of certain improvements to adjacent Cannery Park, jointly used by HARD and the School District. These projects were conceived and included in the Hayward Cannery Area Design Plan, which was adopted in 2001. The Cannery Area Design Plan was adopted in response to the closure of the 75+ acre Hunt-Wesson Cannery and the desire on the part of the City to convert the former industrial lands to residential use. The new facilities will serve both residents of the new development in the Cannery area as well as the existing Burbank neighborhood. The Burbank-Cannery area was added to the Hayward Redevelopment Project in 1998.

Theater/Retail Complex (Cinema Place) and Parking Structure Project: During October 2005, the Agency signed an agreement with a Developer to construct a Theater/ Retail Complex (Cinema Place) consisting of a twelve screen, 1,800-seat movie theater and approximately 21,000 square feet of restaurant/retail space. The Agency is obligated to construct, operate, and maintain a proximate 241 stall, three-level, detached Parking Structure. Construction of the projects began this year on an Agency owned site (B & Foothill) consisting of a Theater/ Retail Complex parcel to be leased to the Developer and a Parking Structure parcel to be retained by the Agency.

Renaissance Walk Project: The Agency signed a Disposition and Development Agreement under which the developer has completed construction of a residential project consisting of 46 units. Each of the flats was sold to low or moderate-income families. 30 of the 46 units were sold in Fiscal Year 2004-05 and the remaining 16 were sold in 2005-06. The project was constructed on a site purchased from the Agency in Fiscal Year 2003-04 for a promissory note, plus 50% of the net proceeds from sales of the housing units. The non-interest bearing promissory note consisted of the \$2 million sales price plus \$546,000 in deferred development fees to the City. As of June 30, 2006, the Agency has collected on the entire promissory note.

Land Held for Redevelopment increased \$0.5 million due to a property acquisition located at 199 Filbert Street in connection with the Cannery Area projects.

This analysis focuses on the net assets and changes in net assets of the Agency's Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

The Agency's net assets increased 31% to \$19.4 million in 2006 from \$14.8 million in 2005. This increase is the Change in Net Assets reflected in the Statement of Activities, as explained below:

- Cash and investments increased \$11.2 million due primarily to 2006 TABS bond issue.
- Land Held for Redevelopment increased \$0.4 million due to additional acquisitions.
- Capital assets amounted to \$16.2 million, which increased \$3.2 million due to additions to construction in progress.

- Long-term payable to City decreased \$0.5 million due to \$1 million in scheduled repayments net of \$0.5 million in interest and other additions. Other payables and liabilities decreased \$0.5 million.
- Long-term debt increased \$11.2 million due primarily to 2006 TABs, net of other payments.
- Net assets invested in capital assets reflected only the investment in capital assets discussed above.
- Unrestricted net assets are that part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

The Agency's Fund Financial Statements

At June 30, 2006, the Agency's governmental funds reported combined fund balances of \$57.7 million, which is an increase of \$13.4 million over last fiscal year's combined fund balances. The change between this fiscal year's increase compared to last year's decrease in fund balance of \$3.2 million is represented by the following: a \$1.3 million increase in revenues, a \$2.6 million decrease in expenditures, a \$0.9 million decrease for capital asset changes, and \$11.8 million increase in other financing sources due to 2006 Tax Allocation Bond proceeds. Debt Service Fund expenditures of \$3.2 million were funded by transfers. Low and Moderate Income Housing Fund revenues exceeded expenditures by \$2.5 million.

Expenditures amounting to \$9.6 million in fiscal 2006 decreased \$2.6 million from the prior year in part from a \$4.1 million decrease in capital outlay and First-time Home Buyers expenditures combined with an overall increase of \$1.5 million in debt service.

The \$3.9 million transferred to the Redevelopment Agency Debt Service Fund was for debt service on Tax Allocation Bonds.

CAPITAL ASSETS

Under GASB 34, the Agency is required to record all its capital assets, including infrastructure, at their historical cost, and to depreciate these assets over their estimated useful lives. These requirements do not take effect with respect to historical infrastructure costs until four years after the Agency implements GASB 34, but the Agency's has included these costs in the current year.

Capital assets of \$16.2 million at June 30, 2006 represent redevelopment projects in the Cannery/ Burbank project area, Cinema Place theater/ retail complex at B & Foothill, and 3rd level addition to B & Watkins parking structure that are subject to the depreciation requirements of GASB 34. Further detail on the Agency's capital assets may be found in Note 6 to the financial statements.

DEBT ADMINISTRATION

The Agency's debt is discussed in detail in Note 7, page 31 to the financial statements. The Agency's outstanding debt consists of 2004 and 2006 Tax Allocation Bonds. The 2004 TABs have a remaining principal balance of \$44.2 million that bears interest at 3.0% to 5.23% and is due serially until 2034. The proceeds from these Bonds were used to refund and retire 1996 bonds and to finance various projects within the Redevelopment area. The 2006 TABs were issued this year to finance various projects within the Redevelopment area and have a principal balance of \$11.8 million that bears interest at 3.75% to 4.3% and is due serially until 2036. Both 2004 and 2006 bonds are secured by property tax increment revenues.

The Agency also has two long-term loans payable to the City which amounted to \$4.4 million at June 30, 2006, subject to specific repayment terms described in Note 3, page 26 to the financial statements. Repayment of these loans is subordinated to debt service on the Bonds.

In addition, the Agency has a Repayment Agreement with the City under which \$11.2 million has been advanced to the Agency to pay for projects. The terms of the Repayment Agreement do not specify when repayment will occur for a portion of this amount. As a result, the advance has not been included in long-term debt.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These Component Unit Financial Statements are 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 777 B Street, Hayward, California 94541

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REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

**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, but all material internal transactions between Agency funds have been eliminated.

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 capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that 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 all the Agency's Governmental Activities 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, current liabilities, available revenues, and measurable expenditures.

The format of the Statement of Activities presents the Agency's expenses that are listed by program first. Program revenue, 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 and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Component Unit Financial Statements*.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

STATEMENT OF NET ASSETS JUNE 30, 2006

Governmental Activities

ASSETS

Cash and investments available for operations (Note 2)	\$15,674,518
Restricted cash and investments with trustee (Note 2)	42,186,331
Accounts receivable	193,029
Interest receivable	63,335
Due from other governments	645,895
Other assets	22,000
Long-term receivable due from City (Note 3)	
Due in one year	1,000
Due in more than one year	20,232
Loans receivable (Note 5)	2,266,992
Land held for redevelopment (Note 5)	4,434,795
Capital assets not being depreciated (Note 6)	13,090,156
Capital assets being depreciated (Note 6)	3,083,705
	<hr/>
Total assets	81,681,988

LIABILITIES

Accounts payable	290,452
Accrued liabilities	545,922
Interest payable	782,401
Refundable deposits	30,000
Long-term payable to City (Note 3)	
Due in one year	275,673
Due in more than one year	4,360,696
Long-term debt (Note 7)	
Due within one year	610,000
Due in more than one year	55,385,000
	<hr/>
Total liabilities	62,280,144

NET ASSETS

Restricted for:	
Debt service	4,847,849
Low and moderate income housing	6,513,722
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Total restricted net assets	11,361,571
	<hr/>
Unrestricted	8,040,273
	<hr/>
Total net assets	\$19,401,844

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities
Expenses:	
Redevelopment	\$2,863,244
Interest on long-term debt	3,140,670
	<hr/>
Total Expenses	6,003,914
	<hr/>
General revenues:	
Taxes:	
Incremental property tax	9,154,816
Investment earnings	1,268,472
Other	160,721
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Total general revenues	10,584,009
	<hr/>
Change in Net Assets	4,580,095
Net Assets-Beginning	14,821,749
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Net assets-Ending	\$19,401,844
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See accompanying notes to financial statements

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REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

FUND FINANCIAL STATEMENTS

GASB 34 revised the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

All of the Agency funds were determined to be Major Funds in fiscal 2006. They are described below:

The **GENERAL CAPITAL PROJECTS FUND** accounts for all resources used in the acquisition and construction of major capital facilities and other fixed assets under the Redevelopment Plan.

The **TABS CAPITAL PROJECTS FUND** accounts for project costs financed by proceeds from the 2004 and 2006 Tax Allocation Bonds.

The **LOW-MODERATE INCOME HOUSING CAPITAL PROJECTS FUND** accounts for the receipt of the mandated 20% set-aside of tax increment revenue from the Redevelopment Project Area.

The **DEBT SERVICE FUND** accounts for the accumulation of resources for payment of principal, interest, and related costs of the Agency's long-term debt.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2006

	General Capital Projects	TABs Capital Projects	Low and Moderate Income Housing	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and investments available for operations (Note 2)	\$8,535,771		\$6,331,830	\$806,917	\$15,674,518
Restricted cash and investments with trustee (Note 2)		\$38,145,399		4,040,932	42,186,331
Accounts receivable		193,029			193,029
Interest receivable	31,741		31,594		63,335
Due from City (Note 3)			1,000		1,000
Due from other governments	516,716		129,179		645,895
Long-term receivable from City (Note 3)			20,232		20,232
Loans receivable (Note 5)			2,266,992		2,266,992
Land held for redevelopment (Note 5)	1,913,946	2,520,849			4,434,795
Other assets		22,000			22,000
Total Assets	\$10,998,174	\$40,881,277	\$8,780,827	\$4,847,849	\$65,508,127
LIABILITIES					
Accounts payable	\$33,136	\$257,316			\$290,452
Accrued liabilities	545,258	551	\$113		545,922
Deferred revenue			2,266,992		2,266,992
Refundable deposits	28,000	2,000			30,000
Due to the City (Note 3)		275,673			275,673
Long-term payable to City (Note 3)	4,360,696				4,360,696
Total Liabilities	4,967,090	535,540	2,267,105	\$4,847,849	7,769,735
FUND BALANCES					
Fund balance					
Reserved for:					
Capital outlay		37,802,888			37,802,888
Long-term receivables			20,232		20,232
Prepaid deposits		22,000			22,000
Land held for redevelopment	1,913,946	2,520,849			4,434,795
Low and moderate income housing			6,493,490		6,493,490
Debt service				\$4,847,849	4,847,849
Unreserved, undesignated	4,117,138				4,117,138
TOTAL FUND BALANCES	6,031,084	40,345,737	6,513,722	4,847,849	57,738,392
Total Liabilities and Fund Balances	\$10,998,174	\$40,881,277	\$8,780,827	\$4,847,849	\$65,508,127

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

GOVERNMENTAL FUNDS BALANCE SHEET (Continued) JUNE 30, 2006

Total Fund Balances reported on the governmental funds balance sheet \$57,738,392

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. 16,173,861

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.

Deferred revenue 2,266,992
Interest payable (782,401)

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 (55,995,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$19,401,844

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2006

	General Capital Projects	TABs Capital Projects	Low and Moderate Income Housing	Debt Service Fund	Total Governmental Funds
REVENUES:					
Incremental property taxes	\$9,154,816				\$9,154,816
Interest	190,749	\$829,154	\$158,224	\$90,345	1,268,472
Charges for current services		830			830
Other	25		855,517		855,542
Total Revenues	9,345,590	829,984	1,013,741	90,345	11,279,660
EXPENDITURES:					
Current					
Redevelopment:					
Salaries and benefits	405,255		63,106		468,361
Services and supplies	235,871				235,871
Administrative charges from City of Hayward	474,089		60,000		534,089
First-time Home Buyers Program			166,101		166,101
Pass-through payments (Note 9)	485,091				485,091
ERAF shift (Note 9)	742,147				742,147
Capital outlay	187,508	3,219,802	89,873		3,497,183
Debt service					
Principal				595,000	595,000
Interest and fiscal charges	260,791			2,647,374	2,908,165
Total Expenditures	2,790,752	3,219,802	379,080	3,242,374	9,632,008
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,554,838	(2,389,818)	634,661	(3,152,029)	1,647,652
OTHER FINANCING SOURCES (USES)					
Issuance of long term debt (Note 7)		11,800,000			11,800,000
Transfers in (Note 4)			1,830,963	3,909,771	5,740,734
Transfers (out) (Note 4)	(4,633,992)	(1,106,742)			(5,740,734)
Total Other Financing Sources (Uses)	(4,633,992)	10,693,258	1,830,963	3,909,771	11,800,000
NET CHANGE IN FUND BALANCES	1,920,846	8,303,440	2,465,624	757,742	13,447,652
BEGINNING FUND BALANCES	4,110,238	32,042,297	4,048,098	4,090,107	44,290,740
ENDING FUND BALANCES	\$6,031,084	\$40,345,737	\$6,513,722	\$4,847,849	\$57,738,392

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

Reconciliation of the NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS with the STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

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 - TOTAL GOVERNMENTAL FUNDS	\$13,447,652
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	3,241,801
Depreciation expense is deducted from the fund balance	(80,298)
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 long term debt	(11,800,000)
Repayment of debt principal is added back to fund balance	595,000
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):	
Deferred revenue	(591,555)
Interest payable	(232,505)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$4,580,095</u>

See accompanying notes to financial statements

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REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Redevelopment Agency and Redevelopment Plan

The Redevelopment Agency of the City of Hayward (the Agency) was created in December 1969 under the provisions of the Community Redevelopment Law (California Health and Safety Code), for clearance and rehabilitation of areas determined to be in a declining condition in the City of Hayward. A Redevelopment Plan was adopted in December of 1975 and amended in April of 1994 to provide an improved physical, social, and economic environment in the Project Area. In November 1998 a redevelopment amendment added approximately 370 acres to the existing Project Area for the primary purpose of undertaking neighborhood preservation activities in the residential areas and facilitate reuse or redevelopment of certain industrial and commercial sites over time. In fiscal 2001-2002 the Agency amended its plan to increase the project area by an additional 738 acres near the Mission and Foothill Boulevard corridors extending north and south of the existing project area. As a result, the total acreage of the Redevelopment Project Area is 1,348 acres.

The Agency is authorized to finance the Redevelopment Plan from various sources, including assistance from the City, the State and federal government, property tax increments, interest income, and the issuance of Agency notes and bonds.

The Agency is an integral part of the City of Hayward 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 Agency's Component Unit Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

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 governmental 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, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. 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. 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. All remaining governmental funds are aggregated and reported as nonmajor funds.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

C. Major Funds

GASB Statement 34 defines major funds and requires that the Agency's major governmental-type funds be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency may also select other funds it believes should be presented as major funds. The Agency selected the Low-Mod Income Housing Operating Fund to be treated as a major fund.

The Agency reported all of its governmental funds in the accompanying financial statements as major funds:

The **General Capital Projects Fund** accounts for all resources used in the acquisition and construction of major capital facilities and other fixed assets under the Redevelopment Plan.

The **TABS Capital Projects Fund** accounts for project costs financed by proceeds from the 2004 and 2006 Tax Allocation Bonds.

The **Low-Moderate Income Housing Capital Projects Fund** accounts for the receipt of the mandated 20% set-aside of tax increment revenue from the Redevelopment Project Area.

The **Debt Service Fund** accounts the accumulation of resources for and the payment of principal, interest, and related costs of the Agency's long-term debt.

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.

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 sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, 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.

Other revenues susceptible to accrual include interest and charges for services.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Under the terms of grant agreements, the Agency may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and unrestricted redevelopment revenues. Thus, both restricted and unrestricted net assets are available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by unrestricted redevelopment revenues if necessary.

E. 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 costs exceeding certain minimum thresholds and with useful lives exceeding two years.

With the implementation of GASB Statement 34, the Agency is required to record all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems. Infrastructure assets are transferred to the City upon completion as the City will maintain them. GASB 34 required such assets to be excluded from the Agency's financial statements and included in the City's financial statements.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

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.

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 Agency has assigned the useful lives listed below to capital assets.

Buildings	10-50 years
Improvements	10-50 years
Equipment	7-50 years

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

F. Net Assets

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Assets is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only 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 resources received for debt service requirements; redevelopment funds restricted to low and moderate income purposes.

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

G. Fund Balance Reserves and Designations

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds.

Designations are imposed by the Redevelopment Agency to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended, or removed by the Redevelopment Agency.

H. Budgets and Budgetary Accounting

The Agency adopts an annual operating budget, effective July 1, for the ensuing fiscal year for the Capital Projects Funds and Debt Service Fund.

The Agency Executive Director may transfer appropriations from one program, activity, or object to another within the same fund. However, transfers of appropriations which increase total fund appropriations must be approved by the Agency Board. Expenditures which exceed appropriations at the fund level must be approved by the Agency Board. All unexpended appropriations lapse at the end of the fiscal year.

Budgets versus actual comparisons for capital projects and debt service funds are excluded from these financial statements as generally accepted accounting principals which do not require such presentations.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

I. Property Tax Increment

All property taxes are levied and collected by the County Auditor of the County of Alameda and paid to the various taxing entities including the Agency. Secured taxes are due on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured taxes are due on July 1 and become delinquent on August 31. The lien date for secured and unsecured property taxes is January 1 of the preceding fiscal year. Property tax increment revenues include only property taxes resulting from increased assessed values and are recognized in the fiscal year for which the taxes have been levied, provided they become available and measurable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

- J. Accumulated unpaid vacation and sick pay benefits** are recorded in the capital projects funds and are expected to be liquidated with available expendable resources.

NOTE 2 - CASH AND INVESTMENTS

The Agency's dependence on incremental 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 except cash held by the Trustees so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Investments are carried at fair value.

A. Policies

The Agency invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the Agency employs the Trust Department of a bank as the custodian of all Agency managed investments, regardless of their form.

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 value of 150% of the Agency's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Agency's name and places the Agency ahead of general creditors of the institution pledging the collateral.

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. In the Agency's case fair value equals fair market value, since all of the Agency's investments are readily marketable.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

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 Agency agreements.

	2006
City of Hayward Treasury	\$14,975,788
California Local Agency Investment Fund	698,730
Cash and investments available for operations	15,674,518
Restricted cash and investments	42,186,331
Total Cash and Investments	\$57,860,849

C. 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 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 resolutions, bond indentures, or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	No limit	No limit
U.S. Government Agency Obligations	No limit	No limit
U.S. Government Sponsored Obligations	No limit	No limit
Money Market Mutual Funds	No limit	AAm
Collateralized Certificates of Deposits	No limit	No limit
FDIC Insured Deposits	No limit	No limit
Investment Agreements	No limit	No limit
Commercial Paper	No limit	A-1
State or Municipal bonds	No limit	Two Highest Categories
Bankers Acceptances or Federal Funds	1 year	A-1
Repurchase Agreements	30 days	A
California Local Agency Investment Fund	No limit	No limit

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. 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. The Agency generally manages its interest rate risk by holding investments to maturity.

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 date:

	Market Value	Maturity Date
<i>Investments:</i>		
Guaranteed Investment Contract	\$3,374,432	March 1, 2034
Guaranteed Investment Contract	27,450,141	December 1, 2006
California Local Agency Investment Fund	698,730	
Money Market Mutual Funds (U.S. Securities)	11,361,758	
City of Hayward Treasury	14,975,788	
Total Investments	<u>\$57,860,849</u>	

The Agency participates in the City of Hayward Cash and Investments pool, detail of which is presented in the City's Comprehensive Annual Financial Report.

Money market funds are available for withdrawal on demand and at June 30, 2006, matured in an average of 26 days.

E. 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 20, 2006 for Money Market Funds are AAAM as provided by Standard and Poor's investment rating system. The Local Agency Investment Fund and Guaranteed Investment Contracts were not rated as of June 30, 2006.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Concentration Risk

Significant investments in the securities of any individual issuers, other than U. S. Treasury securities; mutual funds, are set forth below:

Reporting Unit	Issuer	Investment Type	Reported Amount
Entity-wide:			
	AIG Matched Funding Corp	Guaranteed Investment Contract	\$3,374,432
	MBIA, Inc	Guaranteed Investment Contract	27,450,141
Major Funds:			
2004 TABS Capital Projects	MBIA, Inc	Guaranteed Investment Contract	27,450,141
Debt Service Fund	AIG Matched Funding Corp	Guaranteed Investment Contract	3,374,432

NOTE 3 - RECEIVABLES FROM/PAYABLES TO THE CITY OF HAYWARD

A. Interfund Payables and Receivables to (from) the City

As of June 30, 2006, the TABs Capital Projects Fund owed the City's General Fund \$275,673 and the City's HOME Special Revenue Fund owed the Low and Moderate Income Housing Fund \$1,000. Both balances are expected to be repaid in the next fiscal year.

B. Long Term Receivable Due from City

In prior years, the Agency loaned funds to the City's General Fund for use as loans to homebuyers and third-party contractors for the purpose of promoting homeownership in the City and developing low and moderate income housing. Such funds are repaid to the Agency by the City as repayment is received from the loan recipients. At June 30, 2006, \$20,232 of the loan was outstanding.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 3 - RECEIVABLES FROM/PAYABLES TO THE CITY OF HAYWARD

C. Long term Payable to City

The City has made various loans and advances to finance Agency operations and consist of the following:

Type of Obligation	Maturity	Interest Rates	Authorized and Issued	Outstanding at June 30, 2005	Interest & Additions	Retirements	Outstanding at June 30, 2006
Loans Payable to the City							
1990 Water Enterprise Fund Loan ((a)	6/1/2013	Varies	\$5,946,333	\$2,478,196	\$194,000	\$544,000	\$2,128,196
2003 Sewer Fund Loan (b)	3/31/10	2.25% to 3%	2,350,000	2,350,000	66,790	184,290	2,232,500
Deferred Development fees(c)	7/30/05	none	546,715	325,163		325,163	
Total loans payable to City				<u>\$5,153,359</u>	<u>\$260,790</u>	<u>\$1,053,453</u>	<u>\$4,360,696</u>

- a. In 1990, the City's Water Enterprise Fund made a loan to the Agency to finance the purchase of land for development. Scheduled debt service payments for the loan are being made from available incremental property tax revenues.
- b. During fiscal 2002-2003, the Sewer Enterprise Fund loaned \$2.35 million to the Redevelopment Agency pursuant to a City Council resolution to partially finance sidewalk improvements. This loan bears interest from 2.25% to 3.00%, which is repaid quarterly. Principal is repayable over a five-year period commencing the fourth quarter of fiscal year 2006.
- c. See Note 5.

D. City Repayment Agreement

In addition to the above amounts, funds have been advanced under an Amended Repayment Agreement whereby the Agency has agreed to reimburse the City a portion of project costs for the B Street/Watkins/Mission Garage and B Street Retail and Civic Center Plaza.

Amounts due under the Agreement are non-interest bearing are repayable from available revenues of the Agency and are subordinated to the Tax Allocations Bonds. As a result, the final maturity date of the loan has not been determined and the timing of repayment is unknown. Therefore the amount of Repayment Agreement advances which amount to \$11,186,217 at June 30, 2006 have been excluded from the accompanying financial statements as required by generally accepted accounting principals.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Transfers

With Council approval, resources may be transferred from one fund to another. Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

FROM FUND:	TO FUND:	AMOUNT:
General Capital Projects Fund	Low & Moderate Income Housing Fund	\$1,830,963 A
	Debt Service Fund	2,803,029 B
2004 TABs Capital Projects Fund	Debt Service Fund	<u>1,106,742 B</u>
		<u><u>\$5,740,734</u></u>

A To fund the 20% set-aside in the Low & Moderate Income Housing Fund

B To fund debt service

NOTE 5 – REDEVELOPMENT ACTIVITIES

A. Land Held for Redevelopment

Land held for redevelopment of \$4,434,795 at June 30, 2006, is stated at the lowest of historical cost, net realizable value, or agreed-upon sales price if a disposition agreement has been made with a developer performing projects in accordance with the Redevelopment Plan.

B. Downtown Hayward Redevelopment Project – Renaissance Walk

The Agency signed a Disposition and Development Agreement under which the Developer has constructed a residential project consisting of 24 two-story town homes and 22 one-story flats. Each of the flats is to be sold to low or moderate-income families. The project was constructed on a site purchased from the Agency in fiscal 2003-04 for a promissory note, plus 50% of the net proceeds from the sale of housing units. The non-interest bearing promissory note in the amount of \$2,546,715 consists of the \$2 million sales price plus an additional \$546,715 representing deferred development fees. Repayments of \$55,363 are due upon the sale of each of the 46 housing units. During fiscal year 2006, the Agency collected the remaining outstanding balance of \$1,020,814 and promissory note was collected in full.

Concurrently with the signing of the above development agreement, the City and Agency entered into a cooperation agreement under which the City has agreed to defer development fees on the Project. Fee payments to the City will occur upon payment by the Developer to the Agency. During the fiscal year 2006, the Agency has repaid the entire interfund advance of \$325,163 to the City. (See Note 3 above.)

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 5 – REDEVELOPMENT ACTIVITIES (Continued)

C. Downtown Hayward Redevelopment Project – Theater/Retail Complex and Parking Structure Projects (Cinema Place)

As of October 2005, the Agency had signed an agreement with a Developer which will construct a Theater/Retail Complex consisting of a twelve screen, 1,800 seat movie theater, and approximately 21,000 square feet of restaurant/retail space. The Agency is obligated to construct, operate, and maintain a proximate 241 stall, three level detached Parking Structure. The Developer is obligated to pay 50 percent of the net Parking Structure operating costs.

These projects are to be constructed on an Agency owned site consisting of a Theater/Retail Complex parcel to be leased to the Developer and a Parking Structure parcel to be retained by the Agency. Pursuant to a related agreement with an initial Movie Theater Operator, the Agency is contingently liable for \$5 million to be paid if a competing movie theater is open outside the Downtown Core Area.

Under the related ground lease for the Theater/Retail Complex parcel, rent due the Agency has begun on January 1, 2006 consisting of monthly base rent of \$4,167, plus an annually remitted percentage rent equal to five percent of subtenant receipts received in excess of \$660,000. Base rent increases in the eleventh, twenty-fifth year and each tenth year anniversary thereafter as defined in the agreement. The term of the lease is 50 years, plus a two 5-year renewal options.

As of June 30, 2005, the Agency transferred the \$3,443,016 cost for both parcels from Land Held for Resale to Governmental Activities capital assets. As of June 30, 2006, construction costs for the Parking Structure were estimated to be \$6.5 million.

D. Downtown Hayward Redevelopment Project – Cannery/Burbank Project

Pursuant to an agreement between the Agency, City, the Hayward Area Park and Recreation District (HARD), and the Hayward Unified School District, the City has agreed to construct and the Agency has agreed to pay for the design and construction of a new elementary school to be located on a site composed of parcels owned by or to be acquired by the Agency. Upon completion of the school, the site, and improvements are to be conveyed by the Agency to the School District in exchange for a portion of the current school site owned by the School District. The Agency has also agreed to deconstruct the current school site and advance funds to HARD to finance the cost of certain improvements to the adjacent Cannery Park, jointly used by HARD and the School District.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 5 – REDEVELOPMENT ACTIVITIES (Continued)

To partially compensate the Agency for the above design and construction costs and repay the advances, the School District and City have agreed to assign certain school development fees and park in lieu fees, respectively, to the Agency. In addition, the School District has agreed that the Agency may retain pass-through payments due the School District pursuant to the Health and Safety Code as partial compensation for the above costs. The Agency's commitments under the agreement is presented below:

Construction of new Burbank School	\$31,700,000
Expansion of Cannery Park	4,700,000
New streets and infrastructure	<u>5,700,000</u>
Total Estimated Commitment	<u>\$42,100,000</u>

As of June 30, 2006, the Agency had accumulated land held for redevelopment and construction in progress amounting to \$3,885,295 and \$2,937,599, respectively.

E. Loans Receivable

In order to carry out low and moderate housing programs, Redevelopment low and moderate income housing funds were loaned to home buyers and third-party contractors for the purposes of promoting home ownership in the City and developing low and moderate income housing. The loans bear interest at rates equivalent to either the 11th district cost of funds or the rate the City earns on its cash and investments.

NOTE 6 – CAPITAL ASSETS

Changes in the capital assets consisted of the following:

	Balance at June 30, 2005	Additions	Balance at June 30, 2006
Capital assets not being depreciated:			
Land	\$1,497,439		\$1,497,439
Construction in Progress	8,350,916	\$3,241,801	11,592,717
Total Capital Assets not being depreciated	<u>9,848,355</u>	<u>3,241,801</u>	<u>13,090,156</u>
Capital assets being depreciated:			
Buildings	3,558,965		3,558,965
Machinery and Equipment	15,681		15,681
Total capital assets being depreciated	<u>3,574,646</u>		<u>3,574,646</u>
Less accumulated depreciation for:			
Buildings	402,031	79,088	481,119
Machinery and Equipment	8,612	1,210	9,822
Total accumulated depreciation	<u>410,643</u>	<u>80,298</u>	<u>490,941</u>
Net capital assets being depreciated	<u>3,164,003</u>	<u>(80,298)</u>	<u>3,083,705</u>
Capital assets, net	<u>\$13,012,358</u>	<u>\$3,161,503</u>	<u>\$16,173,861</u>

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

Construction in progress for capital assets composed of the following:

	Project Budget	Expended to June 30, 2006	Encumbered	Committed
Land	\$3,443,016	\$3,443,016		
Buildings	13,291,042	4,984,737	\$7,567,121	\$739,184
Improvement other than buildings	1,680,000	1,583,702	90,163	6,135
Streets	4,310,431	1,581,262	2,650,686	78,483
Total	<u>\$22,724,489</u>	<u>\$11,592,717</u>	<u>\$10,307,970</u>	<u>\$823,802</u>

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations consist of the following:

Type of Obligation	Authorized and Issued	Principal Outstanding June 30, 2005	Additions	Retirements	Principal Outstanding June 30, 2006	Current Portion
Tax Allocation Bonds, 2004 Redevelopment Agency due 3/1/2034, interest at 3%-5.23%	\$44,790,000	\$44,790,000		\$595,000	\$44,195,000	\$610,000
2006 Redevelopment Agency due 3/1/2036, interest at 3.75%-4.3%	<u>11,800,000</u>		<u>\$11,800,000</u>		<u>11,800,000</u>	
Total	<u>\$56,590,000</u>	<u>\$44,790,000</u>	<u>\$11,800,000</u>	<u>\$595,000</u>	<u>\$55,995,000</u>	<u>\$610,000</u>

In fiscal 2003-2004, the Agency issued \$44,790,000 principal amount of **Redevelopment Agency Tax Allocation Bonds, Series 2004**, the proceeds of which were used to defease and retire the Redevelopment Agency Tax Allocation Bonds, Series 1996, and to finance various other redevelopment projects within the Redevelopment area.

In fiscal 2005-2006, the City issued \$11,800,000 principal amount of **Redevelopment Agency Tax Allocation Bonds, Series 2006**, the proceeds of which will be used to finance various redevelopment projects within the Redevelopment Area.

Summary of scheduled debt service payments follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2007	\$610,000	\$2,571,716
2008	1,210,000	2,722,772
2009	1,270,000	2,662,272
2010	1,335,000	2,598,772
2011	1,400,000	2,532,022
2012-2016	8,410,000	11,625,516
2017-2021	10,540,000	9,486,089
2022-2026	13,420,000	6,596,998
2027-2031	10,535,000	3,169,548
2032-2034	<u>7,265,000</u>	<u>1,142,259</u>
Totals	<u>\$55,995,000</u>	<u>\$45,107,964</u>

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD
Notes to Financial Statements

NOTE 8 - JOINT POWERS AGENCY

The Hayward Public Financing Authority (the "Authority") was established in May 1989 when the Agency and the City entered into a joint powers agreement under the Joint Exercise of Powers Law of the State of California for the purpose of financing certain capital improvements within the City. The governing body of the Authority consists of the City's seven City Council members who also act as the Agency's governing body. As a separate legal entity, the Authority exercises full power and authority within the scope of the Joint Powers Agreement including the accountability for all funds, the power to make and execute contracts, and the right to sue and be sued. Obligations and liabilities of the Authority are not those of the Agency.

Complete financial statements of the Authority can be obtained from: City of Hayward, Finance Department, 3rd Floor, 777 B Street, Hayward, California 94541.

NOTE 9 - PASS-THROUGH PAYMENTS AND TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

Pursuant to California Redevelopment Law (Health and Safety Code Section 33607.5), the Agency is obligated to pass-through a portion of the gross tax increment received on the Project Area to jurisdictions within the project area. In fiscal 2005-2006, the Agency calculated and remitted \$485,091 pass-through payments to the affected jurisdictions. Since fiscal 2001-2002, the Agency has been questioning the County's pass-through allocation to ERAF.

Starting in fiscal 2002-2003, the State of California directed that a portion of the incremental property taxes that had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During fiscal 2005-2006, the Agency paid \$742,147 to the ERAF as a result of the State's directive.

The State also directed that the above amounts be included in the Agency's total incremental property tax receipts for purposes of calculating the amounts to be set aside for Low and Moderate Income Housing.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Agency is involved in several legal proceedings arising from its normal operations. It is the opinion of management that any obligations, which may result from such legal proceedings, will not have a material effect on the financial position of the Agency.

MAJOR GOVERNMENTAL FUNDS

The **DEBT SERVICE FUND** accounts for the accumulation of resources for payment of principal, interest, and related costs of the Agency's long-term debt.

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

DEBT SERVICE FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Use of money and property		\$90,345	\$90,345
Total Revenues		90,345	90,345
EXPENDITURES			
Debt Service			
Principal repayment	\$595,000	595,000	
Interest and fiscal charges	2,647,374	2,647,374	
Total Expenditures	3,242,374	3,242,374	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(3,242,374)	(3,152,029)	90,345
OTHER FINANCING SOURCES (USES)			
Transfers in	3,910,024	3,909,771	(253)
Total Other Financing Sources (Uses)	3,910,024	3,909,771	(253)
NET CHANGE IN FUND BALANCE			
	\$667,650	757,742	\$90,092
BEGINNING FUND BALANCE			
		4,090,107	
ENDING FUND BALANCE			
		\$4,847,849	

ACCOUNTANCY CORPORATION

3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

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

Members of the Governing Board of the
Redevelopment Agency of the
City of Hayward, California

We have audited the financial statements of the Redevelopment Agency of the City of Hayward as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. 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

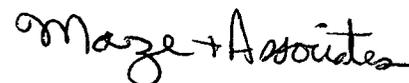
In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we did communicate other matters to Agency Board in our separate Memorandum on Internal Controls dated October 27, 2006.

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 Agency 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.

October 27, 2006



SCHEDULE OF PRIOR YEAR FINDINGS

Finding 05-01:

The Agency did not prepare a written determination showing the planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing for the year ended June 30, 2006, as required by the Health and Safety Code Section 33334.3 (d).

Current year Status:

The Agency adopted a written determination as of June 30, 2006.

Finding 05-02:

The Agency Updated Five Year Implementation Plan was due September, 2004. The Plan has not been adopted as of June 30, 2006.

Current year Status:

The Five Year Implementation Plan was adopted on December 06, 2005.