



August 21, 2007

Mr. Nelson Olivia, City Manager
City of Hercules
111 Civic Drive
Hercules, CA 94547

Dear Mr. Olivia:

Final Audit Report—City of Hercules, Library Construction Grant Agreement 1018

Enclosed is the final report on our audit of the City of Hercules (City) Library Construction grant agreement 1018. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit of the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 (Proposition 14) funds in response to the Governor's directive. The audit included a review of revenue, expenditures, internal control, and compliance with certain agreement provisions.

The City complied with the fiscal requirements of the agreement, and its revenue and expenditures were fairly stated. Because there were no audit findings or issues requiring a response, we are issuing the report as final. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the City's assistance and cooperation with our audit. If you have any questions regarding this report, please contact Kim Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

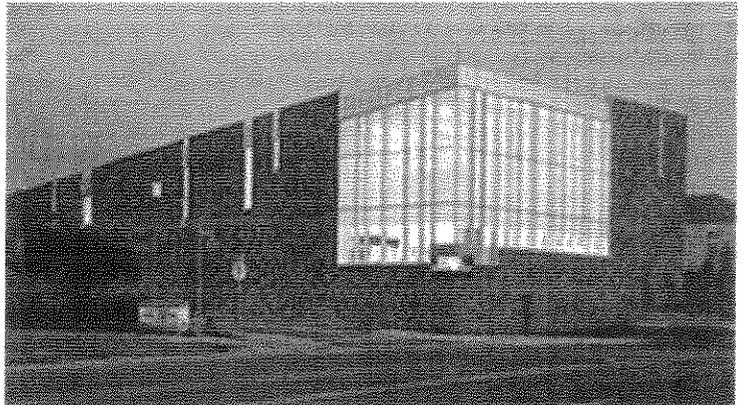
Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Susan Hildreth, State Librarian, California State Library
Mr. Curtis Purnell, Bond Act Fiscal Officer, California State Library, Bond Administration Office
Ms. Elizabeth Warmerdam, Assistant City Manager, City of Hercules
Ms. Gloria Leon, Finance Director, City of Hercules
Ms. Marsha Reynolds, Program Manager, City of Hercules

A FINAL GRANT AUDIT

City of Hercules
Hercules Public Library
Proposition 14 Bond Program
Grant Agreement 1018
For the Period August 26, 2003
to March 13, 2007



Prepared By:
Office of State Audits and Evaluations
Department of Finance

TABLE OF CONTENTS

Preface	iii
Independent Auditor's Report	1
Statement of Revenue and Expenditures.....	3
Notes to the Statement of Revenue and Expenditures	4

The Department of Finance, Office of State Audits and Evaluations, performed this audit of the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 (Proposition 14) funds in response to the Governor's directive and in accordance with an interagency agreement with the California State Library, Bond Administration Office.

We audited grant agreement 1018 awarded to the City of Hercules (City) for construction of the Hercules Public Library. The grant was funded from Proposition 14 and covered the period August 26, 2003 to June 1, 2007. We previously issued an interim audit report for the period August 26, 2003 to May 18, 2005. The final report consolidates the results from the interim audit and includes subsequent transactions through March 13, 2007.

The objective of this audit was to determine the City's fiscal compliance with the aforementioned grant. We did not assess the efficiency or effectiveness of program operations, or the quality of the completed project. The responsibility for financial reporting and compliance rests with the City.

This report is intended for the information and use of state and City management. However, this report is a matter of public record and its distribution is not limited.

STAFF:

Kim Tarvin, CPA
Manager

Rich Hebert, CPA
Supervisor

Veronica Green



INDEPENDENT AUDITOR'S REPORT

Mr. Nelson Olivia, City Manager
City of Hercules
111 Civic Drive
Hercules, CA 94547

We have audited the accompanying City of Hercules' (City) *Statement of Revenue and Expenditures* (Statement) for grant agreement 1018 for the period August 26, 2003 to March 13, 2007, as executed between the City and the California State Library. This Statement was prepared from the City's records and is the responsibility of its management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared, as described in Note 4, for the purpose of determining the City's fiscal compliance with the aforementioned agreement. The Statement is not intended to be a presentation of the City's total revenue and expenditures.

In our opinion, the *Statement of Revenue and Expenditures* presents fairly, in all material respects, the claimed and audited revenue and expenditures for the agreement number and period specified in paragraph one, in conformity with accounting principles generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of Statement amounts. 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 *Generally Accepted Government Auditing Standards*.

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of state and City management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

July 5, 2007

STATEMENT OF REVENUE AND EXPENDITURES

**City of Hercules
Hercules Public Library
Grant Agreement 1018
For the Period August 26, 2003 to March 13, 2007**

	(State Share) <u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
Revenue:			
Proposition 14 Funds ⁽¹⁾	\$6,177,681	\$6,177,681	\$ 0
Expenditures:			
Appraised Value of Land	520,000	520,000	0
New Construction	3,675,068	3,675,068	0
Site Development	705,891	705,891	0
Furnishings and Equipment Costs	353,860	353,860	0
Architectural and Engineering Fees	568,685	568,685	0
Construction Cost Estimator Fees	27,950	27,950	0
Interior Designer Fees	39,813	39,813	0
Geotechnical / Geohazard Reports	2,600	2,600	0
Library Consultant Fees	38,431	38,431	0
Construction / Project Management	201,423	201,423	0
Other Professional Fees	<u>43,960</u>	<u>43,960</u>	<u>0</u>
Total Expenditures	<u>\$ 6,177,681</u>	<u>\$ 6,177,681</u>	<u>\$ 0</u>
Excess of Revenue over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

⁽¹⁾ Amount includes final payment of \$617,768 due from the California State Library.

The accompanying notes are an integral part of this statement.

NOTES TO THE STATEMENT OF REVENUE AND EXPENDITURES

**City of Hercules
Hercules Public Library
Grant Agreement 1018
For the Period August 26, 2003 to March 13, 2007**

NOTE 1 Description of the Reporting Entity

The City of Hercules was incorporated as a general law city on December 15, 1900, and operates under the Council/Manager form of government with an elected five-member council. The City provides a number of municipal services including police protection, electric and sewer utilities, street maintenance, planning, and building safety. The City Manager is the coordinator for this library construction project.

NOTE 2 Program Information

In March 2000, California voters approved the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Proposition 14), which authorized the State of California to sell \$350 million in general obligation bonds to support public library construction and renovation. The California State Library, Office of Library Construction (OLC), administered this program during the application review and approval phases, and awarded 45 projects totaling \$334 million.

In 2006 the OLC was reorganized as the Bond Administration Office (BAO), which now administers the program. The BAO authorizes the disbursement of bond proceeds to local agencies via grants and these agencies expend the funds on approved projects. Program requirements are codified in Title 5 and Title 24 of the California Code of Regulations.

NOTE 3 Description of Grant Agreement

The OLC awarded the City a \$6,177,681 Proposition 14 grant for the period August 26, 2003 to June 1, 2007. This grant provides funding for the City's new Hercules Public Library. The 20,492 square foot library is a joint venture facility, serving both city residents and West Contra Costa Unified School District students. The approved project budget was \$9.5 million, of which 65 percent, or approximately \$6.2 million, was eligible for reimbursement under the program. The project has been completed and the Library was opened to the public in November 2006.

NOTE 4 Summary of Significant Accounting Policies

A. Basis of Presentation

The Statement was prepared from the City's accounts and financial transactions. The Statement summarizes the state-funded portion of the City's recorded project revenue and expenditures for the final audit period August 26, 2003 to March 13, 2007. The Statement summarizes the City's transactions pertaining to grant agreement 1018 only, and is not intended to represent all of its financial activities.

B. Basis of Accounting

The City's governmental funds and accounts are maintained on a modified accrual basis and in accordance with the principles of fund accounting. Under the modified accrual basis, revenue are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred.

NOTE 5 Matching Fund Requirements

Grant Agreement 1018 required the City to provide matching funds equal to 35 percent of eligible project expenditures, or approximately \$3.3 million. The City met the required match.