

**CITY OF HERCULES,  
CALIFORNIA**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2018**



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## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members  
of the City Council  
City of Hercules  
Hercules, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules (City), California, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Honorable Mayor and Members of the City Council  
City of Hercules  
Hercules, California

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### *An Uncertainty Relating to the Outcome of the Repayment of Outstanding Loans*

As described in Note 17 to the financial statements, the City's General and Wastewater Funds have outstanding loans of \$27.8 million and \$10.6 million, respectively, owed by the former redevelopment agency (Agency), now a private purpose trust fund of the City. This outstanding loan represents approximately 60 percent of the City's General Fund's assets and 15 percent of the Wastewater Fund's assets. The City is also reporting significant advances to the Agency in other funds. The written agreement between the Agency and the City to fund costs on behalf of the Agency was signed within two years of the creation of the Agency. Under Assembly Bill X1 26 (Redevelopment Dissolution Act), a written agreement between a redevelopment agency and the city that created it that provided loans or other startup funds for the redevelopment agency that were entered into within two years of the formation of the redevelopment agency are valid. The City is currently working with the State Department of Finance to determine the outcome of these loans. The possible outcome of this matter cannot presently be determined. Accordingly, no provision for any allowance for doubtful accounts has been made in the financial statements for possible forgiveness of these loans. Our opinion is not modified with respect to this matter.

#### *Implementation of New Accounting Standards*

As disclosed in the notes to the financial statements, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the City's proportionate share of the net pension liability and schedule of contributions, other postemployment benefits (OPEB) plan schedule of changes in the City's net OPEB liability and related ratios, and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Honorable Mayor and Members of the City Council  
City of Hercules  
Hercules, California

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Roseville, California  
December 28, 2018



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

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

Within this section of the City of Hercules' annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with the accompanying financial statements and disclosures following this section. The discussion focuses on the City's primary government and, unless otherwise noted, does not include separately reported component units.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the City exceeded liabilities and deferred inflows at the close of the most recent fiscal year by \$161,542,861 (*net position*). Net position of \$21,086,055 are restricted for specific purposes (*restricted net position*), and \$86,876,980 represents net investment in capital assets. Unrestricted net position was \$53,579,825. The government's total net position, as adjusted, increased by \$7,285,409 in comparison with the prior year.
- The City's net investment in capital assets, increased by \$4,086,668.
- The City's governmental funds reported combined fund balances of \$63,409,490, an increase of \$5,164,161 in comparison with the prior year, as adjusted. The unassigned portion of those fund balances was \$12,721,027.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to the basic financial statements. This report also contains other **Supplementary Information** in addition to the basic financial statements.

**Government-wide Financial Statements** are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

- The *statement of net position* presents information on all City assets and deferred outflows and liabilities and deferred inflows, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and public works, parks and recreation, and community development. The business-type activities of the City consist of the Wastewater Fund. Fiduciary activities are not included in the government-wide statements since these assets are not available to fund City programs.

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

The City's financial reporting includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Most of these legally separated organizations operate like City departments, serve as financing vehicles for City services (revenue bond issuers), or are governed by a board that is substantively identical to the City's board. An example of this is the Hercules Public Finance Authority, which while legally separate is in substance an extension of the City operations.

Financial data for the Hercules Public Finance Authority are combined with the presentation of the primary government's financial data and thus it is referred to as a "blended" component unit. A "discretely presented" component unit is one that is presented separately in the financial statements to emphasize its independence from the primary government. Hercules City has no discretely presented component units.

**Fund Financial Statements** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. *Governmental funds* use a current financial resources measurement focus and modified accrual basis of accounting.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Hercules Debt Service Fund, State Gas Tax Fund, Measure "C" Street Fund, City Capital Projects Fund, and the other governmental funds combined into a single, aggregated column. Governmental Accounting Standards Board (GASB) Statement No. 34 defines major governmental funds as those with revenues, expenditures, assets and deferred outflows or liabilities and deferred inflows that make up at least 10% of the total fund category or type (governmental or business type) and at least 5% of the aggregate amount of all governmental and enterprise funds.

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

*Proprietary funds* are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Wastewater Fund. *Internal services funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses three internal service funds to account for its vehicle replacement, IT equipment replacement, and facilities maintenance functions. Because internal service funds predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. As of February 1, 2012 the activities of the Successor Agency to the former Hercules Redevelopment Agency are reported with the City's Fiduciary Fund as a Private Purpose Trust Fund because they are under the control of an Oversight Board.

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information** provides the schedule of funding progress for the City Employees Retirement Plan and Other Postemployment Benefits other than pensions. Also presented are the budgetary comparison schedules for the City's General Fund and Major Special Revenue Funds, and notes to required supplementary information.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, combined assets and deferred outflows exceeded liabilities and deferred inflows by \$161,542,861 at the close of the most recent fiscal year. Of these combined net position 54% reflects the City's investment in capital assets, net of related debt. Another 13% of the City's net position is subject to external restrictions on how they may be used.

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**Condensed Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 78,111,421	\$ 76,388,162	\$ 37,325,341	\$ 33,640,876	\$ 115,436,762	\$ 110,029,038
Capital Assets	81,477,062	78,918,108	31,804,242	23,112,231	113,281,304	102,030,339
Total Assets	159,588,483	155,306,270	69,129,583	56,753,107	228,718,066	212,059,377
Deferred Outflows of Resources						
Deferred Outflows - OPEB	355,786	-	19,573	-	375,359	-
Pensions	5,412,566	4,777,404	207,735	155,961	5,620,301	4,933,365
Total Deferred Outflows of Resources	5,768,352	4,777,404	227,308	155,961	5,995,660	4,933,365
Current Liabilities	5,623,009	4,990,251	4,608,376	2,825,072	10,231,385	7,815,323
Long-Term Liabilities	37,073,290	35,706,251	25,119,309	16,993,613	62,192,599	52,699,864
Total Liabilities	42,696,299	40,696,502	29,727,685	19,818,685	72,423,984	60,515,187
Deferred Inflows of Resources						
Deferred Inflows - OPEB	1,317	-	73	-	1,390	-
Pensions	689,563	714,636	55,928	57,129	745,491	771,765
Total Deferred Inflows of Resources	690,880	714,636	56,001	57,129	746,881	771,765
Net Investment in Capital Assets	76,304,118	73,286,966	10,572,862	9,503,346	86,876,980	82,790,312
Restricted	21,086,055	18,239,035	-	-	21,086,055	18,239,035
Unrestricted	24,579,483	27,146,535	29,000,343	27,529,908	53,579,826	54,676,443
Total Net Position	<u>\$ 121,969,656</u>	<u>\$ 118,672,536</u>	<u>\$ 39,573,205</u>	<u>\$ 37,033,254</u>	<u>\$ 161,542,861</u>	<u>\$ 155,705,790</u>

A significant portion of the City's net position, \$86,876,980, reflects the amount invested in capital assets (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position, \$21,086,055, represents resources that are subject to external restrictions by grantors and other governments on how they may be used.

The unrestricted portion of the City's net position is \$53,579,826. It is to be noted that GASB 34 classifies long-term payroll liabilities to the unrestricted category. These reclassifications include liabilities for pensions, other postemployment benefits (OPEB) and compensated absences. These liabilities accumulate over decades as part of the City's employment agreements and the timing for their translation into current year expense is not precisely subject to projection.

The City's net position, as adjusted, increased by \$6,897,263 during the current fiscal year. The increase in net position is primarily attributed to the increase in program revenues such as Fees, Fines,

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

and Charges for Services, as well as Operating Grants and Contribution. Miscellaneous Revenue also increased by \$740,872.

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 9,994,571	\$ 5,701,875	\$ 6,145,215	\$ 5,797,766	\$ 16,139,786	\$ 11,499,641
Operating Grants/Contributions	1,594,492	1,727,375	-	-	1,594,492	1,727,375
Capital Grants/Contributions	1,251,174	8,410,511	-	-	1,251,174	8,410,511
General Revenues:						
Property Taxes	1,376,354	1,286,788	-	-	1,376,354	1,286,788
Sales Taxes	3,206,095	3,324,807	-	-	3,206,095	3,324,807
Franchise Taxes	862,946	878,574	-	-	862,946	878,574
Other Taxes	3,906,865	3,712,519	-	-	3,906,865	3,712,519
Motor Vehicle Taxes						
In-Lieu	1,911,327	1,799,014	-	-	1,911,327	1,799,014
Interest and Investment Income	1,334,955	1,114,795	200,280	47,424	1,535,235	1,162,219
Miscellaneous	1,189,560	448,688	-	-	1,189,560	448,688
Special Item	-	-	-	-	-	-
<b>Total Revenues</b>	<b>26,628,339</b>	<b>28,404,946</b>	<b>6,345,495</b>	<b>5,845,190</b>	<b>32,973,834</b>	<b>34,250,136</b>
<b>Expenses</b>						
General Government	4,105,705	4,025,706	-	-	4,105,705	4,025,706
Public Safety	7,034,658	5,365,068	-	-	7,034,658	5,365,068
Streets and Public Works	6,894,640	5,035,767	-	-	6,894,640	5,035,767
Parks and Recreation	2,657,763	3,050,786	-	-	2,657,763	3,050,786
Community Development	491,562	640,428	-	-	491,562	640,428
Interest and Long-Term Debt	1,141,982	1,220,791	-	-	1,141,982	1,220,791
Wastewater			3,750,261	3,092,380	3,750,261	3,092,380
Utility						
<b>Total Expenses</b>	<b>22,326,310</b>	<b>19,338,546</b>	<b>3,750,261</b>	<b>3,092,380</b>	<b>26,076,571</b>	<b>22,430,926</b>
<b>Increase (Decrease) in Net Position</b>	<b>4,302,029</b>	<b>9,066,400</b>	<b>2,595,234</b>	<b>2,752,810</b>	<b>6,897,263</b>	<b>11,819,210</b>
<b>Net Position - Beginning, as Restated</b>	<b>117,667,627</b>	<b>109,606,136</b>	<b>36,977,971</b>	<b>34,280,444</b>	<b>154,645,598</b>	<b>143,886,580</b>
<b>Net Position - Ending</b>	<b>\$ 121,969,656</b>	<b>\$ 118,672,536</b>	<b>\$ 39,573,205</b>	<b>\$ 37,033,254</b>	<b>\$ 161,542,861</b>	<b>\$ 155,705,790</b>



**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As described earlier, the City uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The general government functions are contained in the General, Special Revenue, and Debt Service Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements.

At June, 30, 2018, the City's governmental funds reported combined fund balances of \$63,409,490. Of these combined fund balances, \$12,721,027 constitutes unassigned fund balance, which is available to meet the City's current and future needs.

The General Fund is the chief operating fund of the City. At June 30, 2018, unassigned fund balance was \$14,194,525, while total fund balance was \$44,315,832. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 110% of total General Fund expenditures, while the total fund balance represents 343% of total General Fund expenditures.

Total governmental funds Fund Balance increased by \$5,164,161 in comparison with the prior year. The major governmental funds had changes in fund balance as follows:

Hercules Debt Service Fund increased by \$37,485, Measure "C" Fund increased by \$204,057, State Gas Tax Fund decreased \$532,149, and City Capital Projects Fund increased by \$2,546,720. The nonmajor (other) governmental funds increased by \$287,148.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

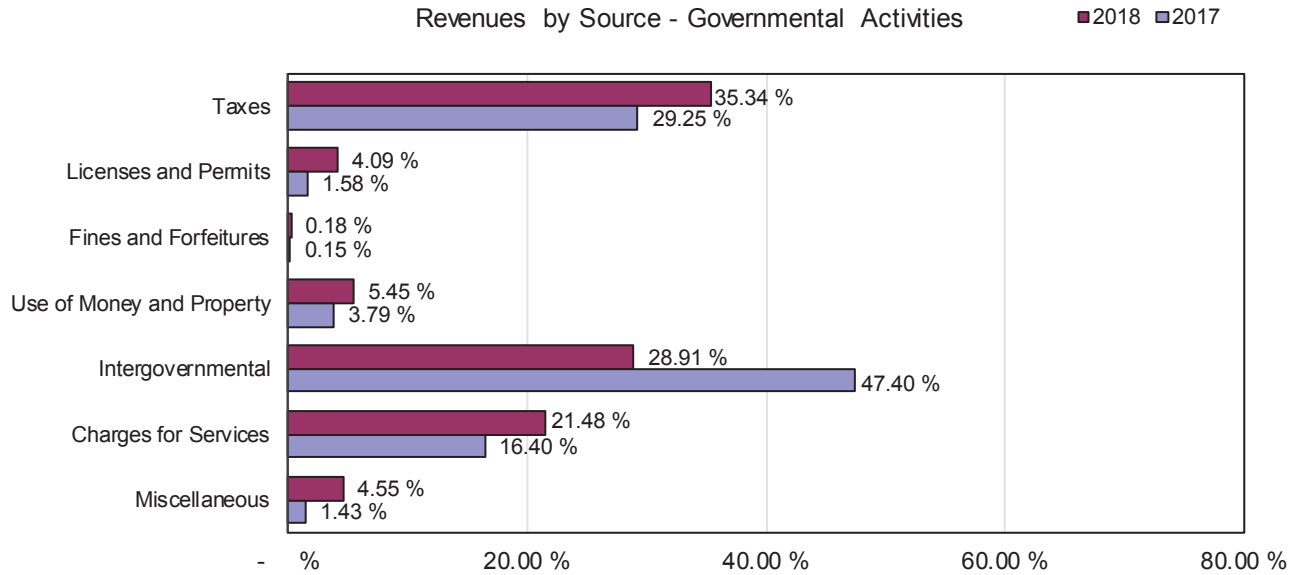
Revenues Classified by Source  
Governmental Funds

	2018		2017		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Taxes	\$ 9,352,260	35.34 %	\$ 9,202,688	29.25 %	\$ 149,572	1.63 %
Licenses and Permits	1,081,912	4.09	496,355	1.58	585,557	117.97
Fines and Forfeitures	48,579	0.18	47,824	0.15	755	1.58
Use of Money and Property	1,443,270	5.45	1,192,976	3.79	250,294	20.98
Intergovernmental	7,650,796	28.91	14,911,152	47.40	(7,260,356)	(48.69)
Charges for Services	5,684,127	21.48	5,157,696	16.40	526,431	10.21
Miscellaneous	1,204,989	4.55	448,688	1.43	756,301	168.56
Total Revenue by Source	<u>\$ 26,465,933</u>	100.00	<u>\$ 31,457,379</u>	100.00	<u>\$ (4,991,446)</u>	

Intergovernmental revenues decreased by \$7,260,356 as a result of a \$5.5 million grant recognized in the fiscal year 2016-2017.

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

The following graph shows an illustrative picture of where the City funds come from.



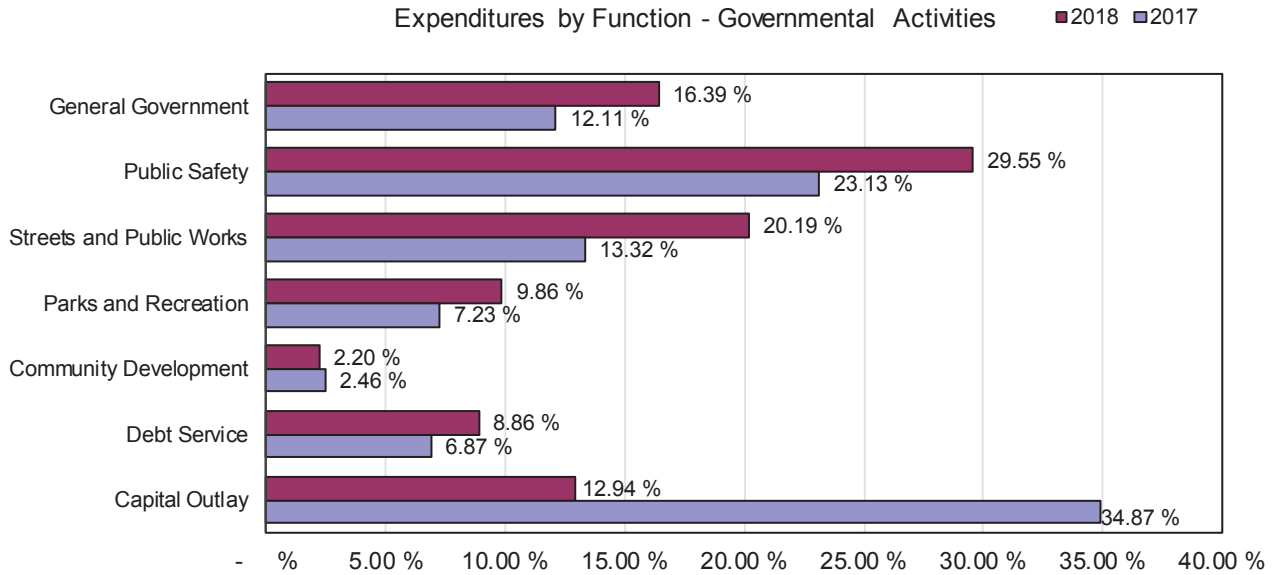
The following table presents expenditures by function compared to prior year amounts.

Expenditures Classified by Function  
Governmental Funds

	2018		2017		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Government	\$ 3,492,082	16.39 %	\$ 3,153,498	12.11 %	\$ 338,584	10.74 %
Public Safety	6,295,019	29.55	6,022,005	23.13	273,014	4.53
Streets and Public Works	4,300,078	20.19	3,469,283	13.32	830,795	23.95
Parks and Recreation	2,101,369	9.86	1,883,159	7.23	218,210	11.59
Community Development	468,011	2.20	640,625	2.46	(172,614)	(26.94)
Debt Service	1,887,968	8.86	1,789,732	6.87	98,236	5.49
Capital Outlay	2,757,245	12.94	9,079,227	34.87	(6,321,982)	(69.63)
<b>Total by Function</b>	<b>\$ 21,301,772</b>	<b>100.00</b>	<b>\$ 26,037,529</b>	<b>100.00</b>	<b>\$ (4,735,757)</b>	

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

The following graph shows an illustrative picture of how City funds were spent.



**Proprietary funds** reporting focuses on determining operating income, changes in net position (or cost recovery), financial position, and cash flows using the full accrual basis of accounting.

*Enterprise funds* report the business-type activities of the City. Enterprise funds are used to account for the operations of the Wastewater Fund.

Enterprise fund net position net investment in capital assets at fiscal year-end was \$10,572,862. Unrestricted net position of the enterprise funds at fiscal year-end was \$29,000,343.

*Internal service funds* are an accounting device to accumulate and allocate costs internally among the City's various functions. Internal service funds are used to account for its vehicle replacement, IT replacement, and facilities maintenance functions.

Total net position of the internal service funds at fiscal year-end were \$1,724,990 and include \$823,804 invested in capital assets. The net position of the internal service funds decreased by \$218,251 over the prior fiscal year.

**CAPITAL ASSETS**

The City's investment in capital assets for its governmental and business type activities as of June 30, 2018, amounted to \$113,281,304 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, leasehold improvements, equipment, and infrastructure (roads and bridges).

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

The following table shows the City's total investment in capital assets for governmental and proprietary funds.

	Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,781,589	\$ 1,601,636	\$ 191,700	\$ 191,700	\$ 4,973,289	\$ 1,793,336
Construction in Progress	10,971,120	9,579,165	18,710,813	9,510,857	29,681,933	19,090,022
Land Improvements	11,720,361	11,720,361	-	-	11,720,361	11,720,361
Buildings & Improvements	26,344,899	26,138,433	11,335,199	11,335,199	37,680,098	37,473,632
Equipment	4,605,234	4,581,971	250,345	250,345	4,855,579	4,832,316
Infrastructure	98,223,334	97,111,132	13,729,500	13,729,500	111,952,834	110,840,632
Total	156,646,537	150,732,698	44,217,557	35,017,601	200,864,094	185,750,299
Accumulated Depreciation	(75,169,475)	(71,814,590)	(12,413,315)	(11,905,370)	(87,582,790)	(83,719,960)
Net Capital Assets	<u>\$ 81,477,062</u>	<u>\$ 78,918,108</u>	<u>\$ 31,804,242</u>	<u>\$ 23,112,231</u>	<u>\$ 113,281,304</u>	<u>\$ 102,030,339</u>

Additional information regarding capital assets is presented in note 5.

## DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total outstanding long-term obligations of \$46,806,929. Of this amount, \$19,025,000 comprise bonds that are secured by the City's lease rental payments and other dedicated sources of revenue.

The following table shows the composition of the City's bonds and notes outstanding for governmental and proprietary funds.

	Long-Term Obligations					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Bonds Payable	\$ 15,205,000	\$ 15,625,000	\$ 10,075,000	\$ 10,335,000	\$ 25,280,000	\$ 25,960,000
Unamortized Discount/ Refunding	(345,926)	(363,223)	(159,978)	(167,250)	(505,904)	(530,473)
Lease Payable	822,638	983,111	-	-	822,638	983,111
Loans Payable	5,350,000	4,950,000	15,165,494	6,786,667	20,515,494	11,736,667
Compensated absences	486,734	532,816	38,793	39,196	525,527	572,012
Self-insurance liability	232,391	169,171	-	-	232,391	169,171
Total	21,750,837	21,896,875	25,119,309	16,993,613	46,870,146	38,890,488
Less Current Portion	(1,077,013)	(1,187,664)	(303,793)	(288,746)	(1,380,806)	(1,476,410)
Net Long-Term Obligations	<u>\$ 20,673,824</u>	<u>\$ 20,709,211</u>	<u>\$ 24,815,516</u>	<u>\$ 16,704,867</u>	<u>\$ 45,489,340</u>	<u>\$ 37,414,078</u>

Other obligations include compensated absences (accrued vacation and sick leave), workers' compensation and general liability insurance claims liability. More detailed information about the City's long-term liabilities is presented in note 6.

## HIGHLIGHTS

Hercules continues to operate in a fiscally prudent manner consistent with the City Council's adopted Statement of Financial Principles and Policies. Close attention is paid to ensuring that the on-going expenditures are supported by on-going revenues. Funds of a one-time nature are investing in topping

**CITY OF HERCULES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

up reserved, addressing pension and other post-employment benefits obligations, and investing in our facilities and system improvements which enhance our productivity and service delivery.

During the 2017-18 fiscal year the City focused on setting the stage for future increases in tax revenues. A new Safeway and fueling center was approved with construction to start in 2019. The first phase of the long-awaited Bayfront project consisting of 172 apartments and 14,000 square feet of ground floor retail space was approved and is now under construction. The Development Agreement for up to 640 unit residential community on the Hilltown site was extended. Construction of the Muir Pointe single family home community continued with its first occupancies.

An update of the Circulation Element of the General Plan was completed and adopted and this will set the stage for an update of the City's Traffic Impact Fees. A Pilot Streetlight Replacement Project was completed in a number of neighborhoods. An effort was also initiated to, once again, address operating deficits and capital needs, including streetlight replacement, in a number of neighborhoods; unfortunately, that effort was unsuccessful except in one of the zones and the City is exploring service reductions in the other areas. Other efforts to enhance our neighborhoods included the City Council's approval of restrictions on paving. The City also launched a new three tier code compliance initiative which starts with efforts by volunteers. Additional library hours were funded through an agreement with the County Library System.

A number of key capital projects were also initiated or completed. A grant-funded extension of the Bay Trail towards Pinole was completed. A contract was awarded for a top-down inspection and cleaning of the City's sewer collection system with that work underway. The upgraded Pinole Hercules Wastewater Treatment Plant is in the final year of the three-year construction schedule. Construction started on improvements to Duck Pond Park including a new restroom and half-basketball courts.

System improvements were also undertaken. Business licensing outsourced to a third party contractor with revenues expected to increase. A comprehensive update of the City's Overhead & Cost Allocation Plan was completed. A Class & Compensation Study was initiated with the final results pending. The City also collaborated with two nearby cities and implemented a more cost effective approach to public safety dispatch and records management systems with this Tri-City effort now in place. In addition, the Parks & Recreation Department restructured programs like childcare to increase revenues and stabilize expenses.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance at 111 Civic Drive, Hercules, California, 94547.



## **BASIC FINANCIAL STATEMENTS**





**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



**CITY OF HERCULES  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Investments	\$ 20,806,424	\$ 19,152,186	\$ 39,958,610
Cash with Fiscal Agent	2,401,515	7,448,285	9,849,800
Accounts Receivable	3,352,322	-	3,352,322
Due from other governments	668,313	137,243	805,556
Prepaid Expenses	4,172	-	4,172
Inventories	19,028	-	19,028
Loans Receivable	1,659,373	-	1,659,373
Lease Receivable	9,291,872	-	9,291,872
Due from Private Purpose Trust Fund	39,908,402	10,587,627	50,496,029
Capital Assets:			
Nondepreciable	15,752,709	18,902,513	34,655,222
Depreciable, Net of Accumulated Depreciation	65,724,353	12,901,729	78,626,082
Total Assets	<u>159,588,483</u>	<u>69,129,583</u>	<u>228,718,066</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows - OPEB	355,786	19,573	375,359
Deferred Outflows - Pension	5,412,566	207,735	5,620,301
Total Deferred Outflows of Resources	<u>5,768,352</u>	<u>227,308</u>	<u>5,995,660</u>
<b>LIABILITIES</b>			
Accounts Payable	1,718,137	3,004,451	4,722,588
Due to Private Purpose Trust Fund	322,055	-	322,055
Retentions Payable	-	408,281	408,281
Accrued Wages	202,079	19,632	221,711
Accrued Interest Payable	941,752	440,868	1,382,620
Deposits with Others	826,028	-	826,028
Claims and Judgments Payable	232,391	-	232,391
Noncurrent Liabilities:			
Due Within One Year	1,077,013	303,793	1,380,806
Due in More Than One Year	20,441,433	24,815,516	45,256,949
OPEB Liability	1,380,567	75,521	1,456,088
Net Pension Liability	15,554,844	659,623	16,214,467
Total Liabilities	<u>42,696,299</u>	<u>29,727,685</u>	<u>72,423,984</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows - OPEB	1,317	73	1,390
Deferred Inflows - Pension	689,563	55,928	745,491
Total Deferred Inflows of Resources	<u>690,880</u>	<u>56,001</u>	<u>746,881</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	76,304,118	10,572,862	86,876,980
Restricted for:			
Public Safety	976,911	-	976,911
Streets and Roads	4,898,675	-	4,898,675
Development	6,980,133	-	6,980,133
Debt Service	8,230,336	-	8,230,336
Unrestricted	24,579,483	29,000,343	53,579,826
Total Net Position	<u>\$ 121,969,656</u>	<u>\$ 39,573,205</u>	<u>\$ 161,542,861</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental Activities:				
General Government	\$ 4,105,705	\$ 3,463,128	\$ 402,895	\$ -
Public Safety	7,034,658	424,703	100,000	-
Streets and Public Works	6,894,640	2,875,305	1,091,597	1,251,174
Parks and Recreation	2,657,763	1,696,769	-	-
Community Development	491,562	1,534,666	-	-
Interest on Long-Term Debt	1,141,982	-	-	-
Total Governmental Activities	<u>22,326,310</u>	<u>9,994,571</u>	<u>1,594,492</u>	<u>1,251,174</u>
Business-Type Activities:				
Wastewater	3,750,261	6,145,215	-	-
Total Business-Type Activities	<u>3,750,261</u>	<u>6,145,215</u>	<u>-</u>	<u>-</u>
Total City	<u>\$ 26,076,571</u>	<u>\$ 16,139,786</u>	<u>\$ 1,594,492</u>	<u>\$ 1,251,174</u>

**GENERAL REVENUES AND TRANSFERS**

Taxes:

Secured and Unsecured Property Taxes

Sales and Use Taxes

Franchise Taxes

Other Taxes

Unrestricted Motor Vehicle Taxes In-Lieu

Use of Money and Property

Miscellaneous Revenue

Total General Revenues

**CHANGE IN NET POSITION**

Net Position - Beginning of Year, Restated

**NET POSITION - END OF YEAR**

Net (Expense) Revenue and  
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (239,682)	\$ -	\$ (239,682)
(6,509,955)	-	(6,509,955)
(1,676,564)	-	(1,676,564)
(960,994)	-	(960,994)
1,043,104	-	1,043,104
(1,141,982)	-	(1,141,982)
(9,486,073)	-	(9,486,073)
-	2,394,954	2,394,954
-	2,394,954	2,394,954
(9,486,073)	2,394,954	(7,091,119)
1,376,354	-	1,376,354
3,206,095	-	3,206,095
862,946	-	862,946
3,906,865	-	3,906,865
1,911,327	-	1,911,327
1,334,955	200,280	1,535,235
1,189,560	-	1,189,560
13,788,102	200,280	13,988,382
4,302,029	2,595,234	6,897,263
117,667,627	36,977,971	154,645,598
<u>\$ 121,969,656</u>	<u>\$ 39,573,205</u>	<u>\$ 161,542,861</u>



## **FUND FINANCIAL STATEMENTS**





## GOVERNMENTAL FUND FINANCIAL STATEMENTS

**General Fund** – This fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as police, planning, engineering, public works, operations and maintenance, and legal and administrative services.

**Hercules Debt Service Fund** – This fund is used to account for the accumulation of resources for, and the payment of, principal and interest on various Lease Revenue Bonds issued to cover the refinancing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building and other general government projects.

**State Gas Tax Fund** – This fund accounts for revenue apportioned by the City from State-collected gasoline taxes primarily on the basis of population, to be expended for construction and maintenance of City streets.

**Measure “C” Street Fund** – This fund accounts for revenue allocated by the Contra Costa County Transportation Authority to the City from the State collected sales tax to be expended for growth management planning and local street maintenance and improvement.

**City Capital Projects Fund** – This fund accounts for the financial resources utilized in acquiring or constructing capital assets for the City.

**Other Governmental Funds** – These funds are special revenue funds, and a debt service fund that have not been determined to be major funds, as defined by GASB Statement No. 34.

**CITY OF HERCULES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
<b>ASSETS</b>			
Cash and Investments	\$ 12,458,350	\$ -	\$ 1,157,975
Cash and Investments with Fiscal Agent	496,822	1,904,693	-
Accounts Receivable	1,201,617	-	22,326
Due from other governments	668,313	-	-
Prepays	4,172	-	-
Due from Other Funds	2,057,634	-	69,796
Inventories	8,015	-	-
Loans Receivable	1,659,373	-	-
Lease Receivable	-	9,291,872	-
Due from Private Purpose Trust Fund	27,787,637	6,703,250	-
	<u>\$ 46,341,933</u>	<u>\$ 17,899,815</u>	<u>\$ 1,250,097</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 821,004	-	\$ 63,895
Accrued Wages	146,678	-	6,296
Deposits Payable	826,028	-	-
Claims and Judgments Payable	232,391	-	-
Due to Other Funds	-	123,653	-
Amounts due to Private Purpose Trust Fund	-	-	-
Total Liabilities	<u>2,026,101</u>	<u>123,653</u>	<u>70,191</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue	-	9,291,872	-
<b>FUND BALANCES</b>			
Nonspendable	27,799,824	-	-
Restricted	-	8,484,290	1,179,906
Assigned	2,321,483	-	-
Unassigned	14,194,525	-	-
Total Fund Balances	<u>44,315,832</u>	<u>8,484,290</u>	<u>1,179,906</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 46,341,933</u>	<u>\$ 17,899,815</u>	<u>\$ 1,250,097</u>

See accompanying Notes to Basic Financial Statements.

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ 754,591	\$ -	\$ 4,830,885	\$ 19,201,801
-	-	-	2,401,515
-	1,496,883	570,496	3,291,322
-	-	-	668,313
-	-	-	4,172
-	-	-	2,127,430
11,013	-	-	19,028
-	-	-	1,659,373
-	-	-	9,291,872
-	-	5,417,515	39,908,402
<u>\$ 765,604</u>	<u>\$ 1,496,883</u>	<u>\$ 10,818,896</u>	<u>\$ 78,573,228</u>
\$ 20,291	\$ 86,445	\$ 519,723	\$ 1,511,358
6,063	-	29,538	188,575
-	-	-	826,028
-	-	-	232,391
-	1,714,038	180,918	2,018,609
-	322,055	-	322,055
<u>26,354</u>	<u>2,122,538</u>	<u>730,179</u>	<u>5,099,016</u>
-	772,850	-	10,064,722
11,013	-	-	27,810,837
728,237	-	10,163,710	20,556,143
-	-	-	2,321,483
-	(1,398,505)	(74,993)	12,721,027
<u>739,250</u>	<u>(1,398,505)</u>	<u>10,088,717</u>	<u>63,409,490</u>
<u>\$ 765,604</u>	<u>\$ 1,496,883</u>	<u>\$ 10,818,896</u>	<u>\$ 78,573,228</u>



**CITY OF HERCULES  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION — GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018**

Fund Balance - Total Governmental Funds (Pages 17 and 18) \$ 63,409,490

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 80,653,258

Deferred outflows of resources related to pension reported in statement of net position 5,258,065  
Deferred outflows of resources related to OPEB reported in statement of net position 339,947

Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds. 10,064,722

Internal service funds are used by the City to charge the cost of its vehicle replacement, IT replacement and facilities maintenance activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 1,724,990

Deferred inflows of resources related to pension reported in statement of net position (652,891)  
Deferred inflows of resources related to OPEB reported in statement of net position (1,259)

Long-term liabilities, including capital leases, are not due and payable in the current period, and therefore are not reported in the governmental funds.

Accrued Interest	(941,752)
Revenue Bonds Payable	(14,859,074)
Notes Payable	(5,350,000)
Capital Leases Payable	(822,638)
Compensated Absences	(452,973)
OPEB Liability	(1,319,451)
Net Pension Liability	<u>(15,080,778)</u>

Net Position of Governmental Activities (Page 14) \$ 121,969,656

**CITY OF HERCULES**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
<b>REVENUES</b>			
Taxes And Assessments	\$ 9,310,110	\$ -	\$ -
Licenses And Permits	910,120	-	-
Fines And Forfeitures	48,579	-	-
Use Of Money And Property	426,142	955,954	13,422
Intergovernmental	2,314,222	-	670,083
Charges For Services	2,350,699	-	-
Other Revenues	1,131,084	-	5,579
Total Revenues	<u>16,490,956</u>	<u>955,954</u>	<u>689,084</u>
<b>EXPENDITURES</b>			
Current:			
General Government	3,492,082	-	-
Public Safety	6,295,019	-	-
Streets And Public Works	601,392	-	485,193
Parks And Recreation	2,101,369	-	-
Community Development	439,308	-	-
Capital Outlay	-	-	694,454
Debt Service:			
Principal	-	420,000	-
Interest And Fiscal Agent Fees	-	1,062,869	-
Total Expenditures	<u>12,929,170</u>	<u>1,482,869</u>	<u>1,179,647</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	3,561,786	(526,915)	(490,563)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	100,000	564,400	-
Transfers Out	(1,040,886)	-	(41,586)
Total Other Financing Sources (Uses)	<u>(940,886)</u>	<u>564,400</u>	<u>(41,586)</u>
<b>NET CHANGES IN FUND BALANCES</b>	2,620,900	37,485	(532,149)
Fund Balances - Beginning of Year	<u>41,694,932</u>	<u>8,446,805</u>	<u>1,712,055</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 44,315,832</u>	<u>\$ 8,484,290</u>	<u>\$ 1,179,906</u>

See accompanying Notes to Basic Financial Statements.

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ -	\$ 42,150	\$ -	\$ 9,352,260
-	-	171,792	1,081,912
-	-	-	48,579
5,916	-	41,836	1,443,270
799,628	3,766,863	100,000	7,650,796
-	-	3,333,428	5,684,127
68,326	-	-	1,204,989
<u>873,870</u>	<u>3,809,013</u>	<u>3,647,056</u>	<u>26,465,933</u>
-	-	-	3,492,082
-	-	-	6,295,019
296,714	-	2,916,779	4,300,078
-	-	-	2,101,369
-	-	28,703	468,011
331,513	1,262,293	468,985	2,757,245
-	-	160,473	580,473
-	-	244,626	1,307,495
<u>628,227</u>	<u>1,262,293</u>	<u>3,819,566</u>	<u>21,301,772</u>
245,643	2,546,720	(172,510)	5,164,161
-	-	744,403	1,408,803
(41,586)	-	(284,745)	(1,408,803)
<u>(41,586)</u>	<u>-</u>	<u>459,658</u>	<u>-</u>
204,057	2,546,720	287,148	5,164,161
<u>535,193</u>	<u>(3,945,225)</u>	<u>9,801,569</u>	<u>58,245,329</u>
<u>\$ 739,250</u>	<u>\$ (1,398,505)</u>	<u>\$ 10,088,717</u>	<u>\$ 63,409,490</u>

**CITY OF HERCULES**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE**  
**STATEMENT OF ACTIVITIES — GOVERNMENTAL ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Net Change to Fund Balance - Total Governmental Funds  
(Pages 20 and 21) \$ 5,164,161

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 5,890,576	
Less: Current Year Depreciation	(3,432,357)	2,458,219

Governmental fund revenues deferred at year end due to unavailability, under the modified accrual method of accounting, are recognized as revenue on the full accrual method of accounting (3,002,118)

Long-term debt proceeds provide current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net position.

Principal Repayments	580,473	
Amortization of Bond Premiums and Discounts	(17,297)	563,176

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Compensated Absences		49,887
Change in Net Pension Liability and Related Deferred Inflows/Outflows		(883,014)
Change in Postemployment Benefits		(12,841)
Change in Accrued Interest Payable		182,810

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities. (218,251)

Change in Net Position of Governmental Activities (Pages 15 and 16) \$ 4,302,029



## PROPRIETARY FUNDS FINANCIAL STATEMENTS

***Wastewater Fund*** – This fund accounts for wastewater treatment to the cities of Hercules and Pinole and for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity which provides services on a user charge basis to residences and businesses.

***Internal Service Funds*** – These funds account for activities related to vehicle replacement, IT equipment replacement, and facilities maintenance.



**CITY OF HERCULES  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>ASSETS</b>		
Current Assets:		
Cash and Investments	\$ 19,152,186	\$ 1,604,623
Cash with Fiscal Agent	7,448,285	-
Due From Other Governments	137,243	
Accounts receivable	-	61,000
Total Current Assets	26,737,714	1,665,623
Noncurrent Assets:		
Amounts due from Private Purpose Trust Fund	10,587,627	-
Capital Assets:		
Nondepreciable :		
Land	191,700	-
Construction in Progress	18,710,813	-
Total Nondepreciable Capital Assets	18,902,513	-
Depreciable:		
Buildings and Improvements	11,335,199	-
Infrastructure	13,729,500	-
Machinery and Equipment	250,345	3,498,277
Total Depreciable Capital Assets	25,315,044	3,498,277
Less Accumulated Depreciation	(12,413,315)	(2,674,473)
Net Depreciable Capital Assets	12,901,729	823,804
Net Capital Assets	31,804,242	823,804
Total Noncurrent Assets	42,391,869	823,804
Total Assets	69,129,583	2,489,427
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows - OPEB	19,573	15,839
Deferred Outflows - Pension	207,735	154,501
Total Deferred Outflows of Resources	227,308	170,340

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES  
STATEMENT OF NET POSITION (CONTINUED)  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 3,004,451	\$ 206,779
Retentions Payable	408,281	-
Salaries and Benefits Payable	19,632	13,504
Accrued Interest Payable	440,868	-
Compensated Absences	38,793	33,761
Due to other funds	-	108,821
Long Term Debt, Due Within One Year	265,000	-
Total Current Liabilities	4,177,025	362,865
Noncurrent Liabilities:		
Net Pension Liability	659,623	474,066
Net Other Postemployment Benefits Liability	75,521	61,116
Long Term Debt, Due in More than One Year	24,815,516	-
Total Noncurrent Liabilities	25,550,660	535,182
Total Liabilities	29,727,685	898,047
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - OPEB	73	58
Deferred Inflows - Pension	55,928	36,672
Total Deferred Inflows of Resources	56,001	36,730
<b>NET POSITION</b>		
Net Investment in Capital Assets	10,572,862	823,804
Unrestricted	29,000,343	901,186
Total Net Position	\$ 39,573,205	\$ 1,724,990

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>OPERATING REVENUES</b>		
Sales and Charges for Services	\$ 6,145,215	\$ 994,673
Other Operating Revenue	-	93,564
Total Operating Revenues	6,145,215	1,088,237
<b>OPERATING EXPENSES</b>		
Salaries and Benefits	566,118	453,502
Services and Supplies	1,948,128	517,917
Depreciation	507,945	319,640
Total Operating Expenses	3,022,191	1,291,059
<b>OPERATING INCOME (LOSS)</b>	3,123,024	(202,822)
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Interest Income	200,280	-
Interest Expense	(728,070)	-
Gain (Loss) on Disposition of Capital Assets	-	(15,429)
Total Nonoperating Revenue (Expenses)	(527,790)	(15,429)
<b>CHANGE IN NET POSITION</b>	2,595,234	(218,251)
Net Position - Beginning of Year, Restated	36,977,971	1,943,241
<b>NET POSITION - END OF YEAR</b>	\$ 39,573,205	\$ 1,724,990

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Receipts from Customers	\$ 6,007,972	\$ -
Cash Receipts from Internal Fund Services Provided	-	1,027,237
Cash Paid to Suppliers for Goods and Services	(2,330,424)	(468,958)
Cash Paid to Employees for Services	(519,573)	(414,136)
Net Cash Provided (Used) by Operating Activities	3,157,975	144,143
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Advances from other funds	-	44,862
Net Cash Provided (Used) by Noncapital Financing Activities	-	44,862
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Debt	8,378,827	-
Payments Related to the Acquisition of Capital Assets	(7,453,660)	(435,804)
Principal Repayments Related to Capital Purposes	(260,000)	-
Interest Repayments Related to Capital Purposes	(476,200)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	188,967	(435,804)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	200,280	-
Net Cash Provided (Used) by Investing Activities	200,280	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,547,222	(246,799)
Cash and Cash Equivalents - Beginning of Year	23,053,249	1,851,422
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 26,600,471	\$ 1,604,623
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FUND NET POSITION</b>		
Cash and Investments	\$ 19,152,186	\$ 1,604,623
Cash with Fiscal Agent	7,448,285	-
Total Cash and Cash Equivalents	\$ 26,600,471	\$ 1,604,623

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 3,123,024	\$ (202,822)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	507,945	319,640
(Increase) Decrease in Assets and Deferred Outflows:		
Receivables	-	(61,000)
Due from other Governments	(137,243)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(382,296)	48,959
Accrued Salaries and Benefits	2,463	1,915
Net Pension Liability	96,722	72,917
Net Pension Liability and Related Deferred Inflows	(1,201)	(38,968)
Net Pension Liability and Related Deferred Outflows	(51,774)	(901)
Net OPEB Liability	20,238	16,379
Net OPEB Liability and Related Deferred Inflows	73	58
Net OPEB Liability and Related Deferred Outflows	(19,573)	(15,839)
Compensated Absences	(403)	3,805
	<u>\$ 3,157,975</u>	<u>\$ 144,143</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Capital Asset Additions in Accounts Payable	<u>\$ 1,746,296</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.





## FIDUCIARY FUND FINANCIAL STATEMENTS

The *Private Purpose Trust Fund* is a fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities, and activities of the Hercules Redevelopment Successor Agency. The sole purpose of this fund is to retire debt of the former redevelopment agency.

*Agency Funds* are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments, and/or other funds.



**CITY OF HERCULES  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Investments	\$ 7,614,989	\$ 273,435
Cash and Investments with Fiscal Agent	10,847,230	1,267,597
Accounts Receivable	759,541	-
Amounts due from City of Hercules	322,055	-
Loans Receivable	9,523,616	-
Land Held for Resale	4,898,570	-
Capital Assets:		
Depreciable	4,062,565	-
Nondepreciable	28,192,474	-
Total Assets	66,221,040	1,541,032
<b>DEFERRED OUTFLOWS</b>		
Deferred loss on refunding	164,995	
<b>LIABILITIES</b>		
Accounts Payable	15,465,127	-
Amounts due to City of Hercules	50,496,029	679,193
Deposits Payable	-	861,839
Long-Term Debt:		
Due Within One Year	3,587,070	-
Due in More than One Year	102,450,252	-
Total Liabilities	171,998,478	\$ 1,541,032
<b>NET POSITION</b>		
Held in Trust for Others	(105,612,443)	
Total Net Position	\$(105,612,443)	

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2018**

	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Taxes and Assessments	\$ 9,749,345
Investment Income	327,961
Other Revenue	<u>1,048,760</u>
Total Additions	11,126,066
 <b>DEDUCTIONS</b>	
Community Development	2,512,594
Debt Service	<u>5,228,029</u>
Total Deductions	<u>7,740,623</u>
 <b>CHANGE IN NET POSITION</b>	 3,385,443
 Net Position - Beginning of Year	 <u>(108,997,886)</u>
 <b>NET POSITION - END OF YEAR</b>	 <u><u>\$(105,612,443)</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Hercules (City) was incorporated under the General Laws of the state of California and enjoys all the rights and privileges pertaining to such "General Law" cities. The City uses the City Council/Manager form of government. The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

The following is a brief review of the component units included in the accompanying basic financial statements of the City.

Hercules Public Financing Authority

The Hercules Public Financing Authority (Authority) was established July 24, 2001, by and between the City and the Authority, pursuant to the state of California Government Code. The purpose of the Authority is to finance the acquisition, construction, and improvement of public capital improvements, working capital requirements, or insurance programs.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14 as amended by GASB Statement No. 39. The City is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The Authority has been accounted for as "blended" component unit of the City. Despite being legally separate, the Authority is so intertwined with the City that it is, in substance, part of the City's operations. Accordingly, the balances and transactions of this component unit are reported within the funds of the City.

Separate detailed financial statements are available for the above component unit from the City's Finance Department.

**B. Basis of Accounting and Measurement Focus**

The accounts of the City are organized and operated on the basis of funds, each of which is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Government-Wide Financial Statements

The government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

The government-wide and the proprietary fund financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

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

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

The following are the description of the major funds:

General Fund accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds, For the City, the General Fund includes such activities as police, planning, engineering, public works, operations and maintenance, and legal and administrative services.

**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Hercules Debt Service Fund accounts for the accumulation of resources for, and the payment of, principal and interest on the Lease Revenue Bonds, Series 2003A issued to cover capital costs for the Hercules Municipal Utility and principal and interest on the Lease Revenue Bonds, Series 2003B issued to cover the financing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building, Series 2009 issued for the purpose of financing the acquisition of certain commercial condominium property (Bio-Rad).

State Gas Tax Fund accounts for revenue apportioned by the City from state-collected gasoline taxes primarily on the basis of population, to be expended for construction and maintenance of City streets.

Measure "C" Street Fund accounts for revenue allocated by the Contra Costa County Transportation Authority to the City from the state-collected sales tax to be expended for growth management planning and local street maintenance and improvement.

City Capital Projects Fund accounts for the financial resources utilized in acquiring or constructing capital assets for the City.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures, and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

Nonexchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Reconciliations of the governmental fund financial statements to the government-wide financial statements are provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows for each proprietary fund. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Wastewater Fund accounts for wastewater treatment to the cities of Hercules and Pinole and for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity which provides services on a user charge basis to residences and businesses.

Internal Service Funds accounts for activities related to vehicle replacement, IT equipment replacement, and facilities maintenance.

All proprietary fund types are accounted for on an "economic resources" measurement focus and accrual basis of accounting. Accordingly, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position. The statement of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the funds. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a statement of net position. The City's Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. When these assets are held under the terms of a formal trust agreement, a trust fund is used.

The City maintains nine fiduciary funds —Westcat Transit Fund, West Contra Costa Integrated Waste Management Authority Fund, Reassessment District 91-1 Debt Service Fund, Reassessment District 05-1 Debt Service Fund, A. Nobel Reassessment Debt Service Fund, Taylor Woodrow Maintenance LMOD Fund, Hercules Community Library Fund, Hercules Golf Club Fund, and Pinole/Hercules Wastewater Treatment Plant Fund.

The Private Purpose Trust Fund is a fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities, and activities of the Hercules Redevelopment Successor Agency. The sole purpose of this fund is to retire debt of the former redevelopment agency.



**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**C. Cash and Investments**

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

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB Statement No. 3)*, certain disclosure requirements for deposits and investment risks were made in the following areas: Interest Rate Risk, Credit Risk, Custodial Credit Risk, and Concentrations of Credit Risk.

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

The City has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are not readily available. Interest earned on investments is allocated using the Local Agency Investment Fund (LAIF) factor to selected funds by the City.

The City participates in an investment pool LAIF, which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the state of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

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

**D. Inventory, Property Held for Resale, and Accumulated Project Costs**

Inventories consist of materials and supplies held for future consumption and are priced at average cost using the first-in, first-out method. Property held for resale and accumulated project costs consists of land and project costs relating to property acquired or constructed which is available to be sold and is not used in City operations. The property held for resale is recorded at the lower of cost or estimated net realizable value.

**E. Capital Assets**

Capital assets including infrastructure capital assets were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Capital assets, which include land, buildings, building improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), which reported in the applicable governmental or business-type activities in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated acquisition value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

General Capital Assets	\$ 2,500
Infrastructure Capital Assets	\$ 5,000

Depreciation is recorded on a straight-line method (with half-year convention applied to the first year of acquisition and final year of useful life) over the useful lives of the assets as follows:

Buildings and Improvements	15 – 50 Years
Land Improvements	20 Years
Machinery and Equipment	5 – 20 Years
Infrastructure	15 – 50 Years

The Governmental Accounting Standards Board (GASB) Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure capital assets into its basic financial statements.

The City defines infrastructure assets as the basic physical assets that allow the City to function. The assets include:

- Street system
- Site amenities such as parking and landscaped areas used by the City in the conduct of its business.

Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signals), and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date was computed on a straight-line method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Capital assets acquired or constructed for proprietary funds are capitalized in their respective individual funds.

**F. Deferred Outflows/Inflows of Resources / Unavailable Revenue**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City records deferred outflows in connection with the pension and other postemployment benefits.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City records deferred inflows in connection with the pension and other postemployment benefits. The governmental funds have only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: intergovernmental revenue and use of money. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**G. Long-Term Obligations**

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

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

**H. Compensated Absences**

Compensated absences are comprised of unpaid vacation and compensated time off. The City accrues the costs of these absences when they are earned. For governmental funds, compensated absences are recorded as current and noncurrent liabilities only on the government-wide financial statements. For proprietary funds, current and noncurrent liabilities for compensated absences are recorded as expenses in both the government-wide financial statements and the fund financial statements.

**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**I. Net Position/Fund Balance**

In the government-wide financial statements, net position is classified in the following categories:

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

Restricted – This represents amounts restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

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

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. As of June 30, 2018, fund balances for governmental funds consist of the following categories:

Nonspendable Fund Balance – includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact (such as inventories, prepaid amounts and long term advances).

Restricted Fund Balance – includes amounts that can be spent only for specific purposes stipulated by external parties (such as creditors, grant providers, or contributors) or by law.

Committed Fund Balance – includes amounts that can be used only for the specific purpose determined by the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action. The formal action must occur prior to the end of the reporting period. The amount which will be subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance – is comprised of amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent can be expressed by the City Council or by an official or body to which the Council delegates the authority. Assigned fund balance can be used to eliminate a projected budgetary deficit in the subsequent year’s budget.

Unassigned Fund Balance – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted fund balance resources first, followed by the unrestricted resources in the committed and unassigned fund balances, as they are needed.

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

The City Council establishes, modifies, or rescinds fund balance commitments and assignments by passage of a resolution or an ordinance. This can be done through the adoption of the budget and subsequent budget amendments that occur throughout the year.

**J. Use of Restricted/Unrestricted Net Position**

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

**K. Property Taxes, Tax Increment, and Special Assessment Revenue**

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Costa levies, bills and collects property taxes and special assessments for the City and remits the full assessment regardless of the amounts received under a Teeter plan arrangement.

	<u>Secured Property Tax</u>	<u>Unsecured Property Tax</u>
Lien Date	January 1 preceding fiscal year	January 1 preceding fiscal year
Due Date	November 1 & February 1	August 31
Delinquent Date	December 10 & April 10	September 1

**L. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 CASH AND INVESTMENTS**

The City maintains a cash and investment pool for all funds. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled.

Statement of Net Position:	
Cash and Investments	\$ 39,958,610
Cash and Investments with Fiscal Agents	9,849,800
Statement of Fiduciary Net Position:	
Cash and Investments	7,888,424
Cash and Investments with Fiscal Agents	<u>12,114,827</u>
Total	<u><u>\$ 69,811,661</u></u>

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

Cash and investments as of June 30, 2018 consist of the following:

Deposits with Financial Institutions	\$ 11,492,107
Investments	<u>58,319,554</u>
Total	<u><u>\$ 69,811,661</u></u>

**Investments Authorized by the California Government Code and the City's Investment Policy**

The table below identifies the investment types that are authorized for the City of Hercules by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	N/A	\$50 Million	\$50 Million
U.S. Treasury Obligations	5 Years	None	None
U.S. Government Agency Issues	5 Years	None	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Bankers Acceptance (Must be Dollar Denominated)	180 Days	40%	30%
Commercial Paper	270 Days	15%	10%
Negotiable Time Certificates of Deposits	5 Years	30%	\$100,000
Nonnegotiable Time Certificates of Deposits	5 Years	30%	\$100,000
Federally Insured Time Deposits	5 Years	None	\$100,000
Repurchase Agreements	30 Days	None	10%
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 Years	30%	15%
Money Market Mutual Funds	N/A	20%	10%
Insured or Passbook Savings Accounts	N/A	None	\$100,000

**Investments Authorized by Debt Agreements**

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

**CITY OF HERCULES  
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Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$50 Million	\$50 Million
U.S. Treasury Obligations	30 Years	20%	None
U.S. Government Agency Issues	30 Years	20%	None
Insured Deposits with Banks and Savings and Loans Bankers Acceptance (Must be Dollar Denominated)	N/A	None	None
Commercial Paper	6 Months	40%	30%
Negotiable Time Certificates of Deposits	6 Months	15%	10%
Nonnegotiable Time Certificates of Deposits	5 Years	30%	\$100,000
Federally Insured Time Deposits	5 Years	30%	\$100,000
Repurchase Agreements	1 Year	20%	None
Reverse Repurchase Agreements	30 Days	None	None
Medium-Term Notes	92 Days	20%	None
Mutual Funds	5 Years	30%	15%
Money Market Funds	N/A	20%	None
Insured or Passbook Savings Accounts	N/A	None	None
Guaranteed Investment Contracts	N/A	None	\$100,000
	N/A	None	None

**Disclosures Relating to Interest Rate Risk**

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

Information about the sensitivity of the fair values of the City'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 City's investments by maturity:

Investment Type	Interest Rates	Totals	12 Months Or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months	More Than 60 Months
State Investment Pool	0.92 %	\$ 36,354,926	\$ 36,354,926	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds		496,822	496,822					
Held by Debt Trustees:								
Money Market Funds	-	21,467,806	21,467,806	-	-	-	-	-
Total		<u>\$ 58,319,554</u>	<u>\$ 58,319,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio, not to exceed three years.

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

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
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<u>Maturity</u>	<u>Percent of Portfolio</u>
Up to One Year	10% Minimum
One Year to Five Years	60% Maximum
More than Five Years	30% Maximum

**Disclosures Relating to Credit Risk**

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

<u>Investment Type</u>	<u>Amount</u>	<u>Maximum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>S&amp;P Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
State Investment Pool	\$ 36,354,926			\$ -	\$ 36,354,926
Money Market Funds Held by Debt Trustees:	496,822				496,822
Money Market Funds	<u>21,467,806</u>	N/A	N/A	<u>21,467,806</u>	<u>-</u>
Total	<u>\$ 58,319,554</u>			<u>\$ 21,467,806</u>	<u>\$ 36,851,748</u>

**Concentration of Credit Risk**

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There were no investments in any one issuer (other than the investment in the State Investment Pool) that represents more than 5% of total City investments.

**Custodial Credit Risk**

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

As of June 30, 2018, \$8,572,833 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.



**CITY OF HERCULES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Investment in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the state of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**Fair Value of Investments**

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The investments in an external investment pool are not subject to reporting within the level hierarchy. The three levels of the fair value hierarchy are described below:

*Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

*Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At June 30, 2018, the City of Hercules' investments were all measured at amortized cost.

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 3 LOANS RECEIVABLE**

**Loans Receivable – Governmental Activities**

Loans receivable at June 30, 2018, consisted of the following:

Bio-Rad Loan	\$ 1,659,373
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**Bio-Rad Loan**

The City advanced Bio-Rad Laboratories, Inc. \$2,000,000 in order to construct various tenant improvements in one or more of the buildings located at 203-295 Linus Pauling Drive. The terms of the loan call for monthly payments of \$10,418, at an interest rate of 4.5% per annum, with repayments commencing May 15, 2010 through September 14, 2038. The balance outstanding as of June 30, 2018 was \$1,659,373.

**Loans Receivable – Fiduciary-type Activities**

Loans receivable at June 30, 2018, consisted of the following

Business Development Loans	\$ 1,434,152
Bridge Housing Corporation	2,055,030
Home Emergency Loan	9,867
First Time Homebuyers	2,067,900
Homeowner Retention/Loss Mitigation	2,524,380
Revitalization and Beautification	279,655
Other Assistance Programs	<u>1,152,632</u>
	<u>\$ 9,523,616</u>

The Successor Agency to the Redevelopment Agency of the City of Hercules, a private purpose trust fund continues to administer the above listed outstanding loans receivable as it winds down the activities of the former Redevelopment Agency.

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 LEASES RECEIVABLE**

On August 14, 2008, the City of Hercules and Bio-Rad Laboratories, Inc. entered in to a lease agreement, which Bio-Rad agreed to lease from the City of Hercules, the premises, consisting of the land located in the City of Hercules, County of Contra Costa, state of California, commonly known as the Venture Commerce Center located at 203-295 Linus Pauling Drive, including five (5) buildings consisting of approximately 96,847 rentable square feet, together with the parking lot and associated improvements serving the buildings.

The term of this lease shall be for thirty (30) years, commencing on September 15, 2008 and ending on September 14, 2038, or terminated sooner pursuant to the terms of this lease. Bio-Rad Laboratories, Inc. has the option to terminate this lease anytime on or after the fifteenth (15<sup>th</sup>) anniversary date as to a portion or the entire premises by delivering to the City of Hercules not later than three (3) months prior to said fifteenth (15<sup>th</sup>) anniversary date or any applicable later termination date, a notice of such election.

The City of Hercules granted to Bio-Rad Laboratories, Inc. the option to purchase the premises, Bio-Rad Laboratories, Inc. may elect to exercise the Purchase Option by delivering to the City of Hercules written notice of such election within 30 days prior to either of the following dates: (i) the fifteenth (15<sup>th</sup>) anniversary date; (ii) the twentieth (20<sup>th</sup>) anniversary date; or (iii) the twenty-fifth (25<sup>th</sup>) anniversary date, If Bio-Rad Laboratories, Inc. has not elected to exercise the Purchase Option during the time period said above, then the Purchase Option shall automatically be deemed elected by Bio-Rad Laboratories, Inc. as of the expiration date unless Bio-Rad Laboratories, Inc., provides prior written notice to the City of Hercules within fifteen (15) days prior to the expiration date electing not to pursue the Purchase Option, If Bio-Rad Laboratories, Inc. elects to exercise the Purchase Option on the expiration date, the purchase price for the premises shall be one dollar (\$1.00).

Total lease revenue of \$26,723,100 will be received from the Bio-Rad Laboratories, Inc. during the term of lease. The interest rate on the lease payments is 8.0381%. Monthly lease payments vary from \$55,300 to \$83,699 will be received on the first day of each month without notice, offset, deduction, or demand, in advance, during the lease term.

Future estimated minimum lease payments to be received are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2019	\$ 886,974
2020	895,970
2021	902,222
2022	908,474
2023	914,726
2024-2028	4,667,410
2029-2033	4,881,620
2034-2038	4,984,760
2039-2040	167,398
Subtotal	<u>19,209,554</u>
Less: Unearned Income	<u>(9,917,682)</u>
Net Investment in Lease Receivable	<u><u>\$ 9,291,872</u></u>

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 5 CAPITAL ASSETS**

At June 30, 2018, the City's capital assets consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Nondepreciable Assets:			
Land	\$ 4,781,589	\$ 191,700	\$ 4,973,289
Construction in Progress	10,971,120	18,710,813	29,681,933
Total Nondepreciable Assets	<u>15,752,709</u>	<u>18,902,513</u>	<u>34,655,222</u>
Depreciable Assets:			
Land Improvements	11,720,361	-	11,720,361
Buildings and Improvements	26,344,899	11,335,199	37,680,098
Machinery and Equipment	4,605,234	250,345	4,855,579
Infrastructure	98,223,334	13,729,500	111,952,834
Total Depreciable Assets	<u>140,893,828</u>	<u>25,315,044</u>	<u>166,208,872</u>
Less: Accumulated Depreciation	<u>(75,169,475)</u>	<u>(12,413,315)</u>	<u>(87,582,790)</u>
Total Depreciable Assets, Net	<u>65,724,353</u>	<u>12,901,729</u>	<u>78,626,082</u>
 Total Capital Assets, Net	 <u>\$ 81,477,062</u>	 <u>\$ 31,804,242</u>	 <u>\$ 113,281,304</u>

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
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The following is a summary of capital assets for governmental activities:

Governmental Activities	Balance July 1, 2017	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2018
<b>Nondepreciable Assets:</b>					
Land	\$ 1,601,636	\$ 3,179,953	\$ -	\$ -	\$ 4,781,589
Construction in Progress	9,579,165	2,086,280	-	(694,325)	10,971,120
Total Nondepreciable Capital Assets	11,180,801	5,266,233	-	(694,325)	15,752,709
<b>Depreciable Assets:</b>					
Land Improvements	11,720,361	-	-	-	11,720,361
Buildings and Improvements	26,138,433	206,466	-	-	26,344,899
Machinery and Equipment	4,581,971	435,804	(412,541)	-	4,605,234
Infrastructure	97,111,132	417,877	-	694,325	98,223,334
Total Depreciable Capital Assets	139,551,897	1,060,147	(412,541)	694,325	140,893,828
<b>Accumulated Depreciation:</b>					
Land Improvements	(7,619,449)	(523,219)	-	-	(8,142,668)
Buildings and Improvements	(9,476,949)	(761,629)	-	-	(10,238,578)
Machinery and Equipment	(3,814,165)	(328,877)	397,112	-	(3,745,930)
Infrastructure	(50,904,027)	(2,138,272)	-	-	(53,042,299)
Total Accumulated Depreciation	(71,814,590)	(3,751,997)	397,112	-	(75,169,475)
Net Depreciable Capital Assets	67,737,307	(2,691,850)	(15,429)	694,325	65,724,353
Net Capital Assets	<u>\$ 78,918,108</u>	<u>\$ 2,574,383</u>	<u>\$ (15,429)</u>	<u>\$ -</u>	<u>\$ 81,477,062</u>

**Depreciation Allocation**

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

<b>Governmental Activities:</b>	
General Government	\$ 455,398
Public Safety	35,640
Public Works	2,484,649
Parks and Recreation	456,670
Capital Assets Held by Internal Services are Charged to the Various Functions Based on Usage of the Assets	<u>319,640</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,751,997</u>

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
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The following is a summary of capital assets for business-type activities:

Business-Type Activities	Balance July 1, 2017	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2018
<b>Nondepreciable</b>					
<b>Capital Assets:</b>					
Land	\$ 191,700	\$ -	\$ -	\$ -	\$ 191,700
Construction in Progress	9,510,857	9,199,956	-	-	18,710,813
Total Nondepreciable Capital Assets	9,702,557	9,199,956	-	-	18,902,513
<b>Depreciable Capital Assets:</b>					
<b>Buildings and</b>					
Improvements	11,335,199	-	-	-	11,335,199
Machinery and Equipment	250,345	-	-	-	250,345
Infrastructure	13,729,500	-	-	-	13,729,500
Total Depreciable Capital Assets	25,315,044	-	-	-	25,315,044
<b>Accumulated Depreciation:</b>					
<b>Buildings and</b>					
Improvements	(10,065,949)	(177,025)	-	-	(10,242,974)
Machinery and Equipment	(146,362)	(17,043)	-	-	(163,405)
Infrastructure	(1,693,059)	(313,877)	-	-	(2,006,936)
<b>Less: Accumulated</b>					
Depreciation	(11,905,370)	(507,945)	-	-	(12,413,315)
Total Depreciable Capital Assets, Net	13,409,674	(507,945)	-	-	12,901,729
Net Capital Assets	<u>\$ 23,112,231</u>	<u>\$ 8,692,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,804,242</u>

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

<b>Business-Type Activities:</b>	
Wastewater	<u>\$ 507,945</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 507,945</u></u>

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
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The following is a summary of capital assets for fiduciary-type activities:

<u>Private Purpose Trust Fund</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 217,040	\$ -	\$ -	\$ 217,040
Construction in Progress	27,975,434	-	-	27,975,434
Total Nondepreciable Capital Assets	28,192,474	-	-	28,192,474
<b>Depreciable Capital Assets:</b>				
Land Improvements	11,379	-	-	11,379
Buildings and Improvements	4,965,778	-	-	4,965,778
Machinery and Equipment	116,445	-	-	116,445
Infrastructure	4,232,722	-	-	4,232,722
Total Depreciable Capital Assets	9,326,324	-	-	9,326,324
<b>Accumulated Depreciation:</b>				
Land Improvements	(11,379)	-	-	(11,379)
Buildings and Improvements	(2,845,021)	(99,436)	-	(2,944,457)
Machinery and Equipment	(46,480)	(5,810)	-	(52,290)
Infrastructure	(2,050,722)	(204,911)	-	(2,255,633)
Total Accumulated Depreciation	(4,953,602)	(310,157)	-	(5,263,759)
Net Depreciable Capital Assets	4,372,722	(310,157)	-	4,062,565
Net Capital Assets	<u>\$ 32,565,196</u>	<u>\$ (310,157)</u>	<u>\$ -</u>	<u>\$ 32,255,039</u>

**NOTE 6 LONG-TERM OBLIGATIONS**

Governmental activities long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions and Adjustments</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
2003B PFA Lease Revenue Bonds	\$ 6,510,000	\$ -	\$ (255,000)	\$ 6,255,000	\$ 270,000
2009 PFA Taxable Lease Revenue Bonds	9,115,000	-	(165,000)	8,950,000	175,000
Discount on Issuance	(363,223)	-	17,297	(345,926)	-
H.E.L.P. Loan	1,400,000	200,000	-	1,600,000	90,279
R.D.L.P. Loan	3,550,000	200,000	-	3,750,000	-
SunTrust Lease	983,111	-	(160,473)	822,638	168,153
Compensated Absences	532,816	127,994	(174,076)	486,734	373,581
Total Long-Term Obligations	<u>\$ 21,727,704</u>	<u>\$ 527,994</u>	<u>\$ (737,252)</u>	<u>\$ 21,518,446</u>	<u>\$ 1,077,013</u>

**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Compensated Absences**

Compensated absences are comprised of unpaid vacation and compensated time off. The City accrues the cost of these absences when they are earned. The City expects the liability for compensated absences to be utilized and records this liability in the government-wide financial statements. The City liquidates the majority of governmental activities portion of the liability in the general fund.

**2003B Public Financing Authority Lease Revenue Bonds**

The Public Financing Authority issued lease revenue bonds, series 2003B, dated October 15, 2003, totaling \$9,150,000. The purpose of the bonds was to refinance the 1994 Refunding Certificates of Participation and to finance a portion of the construction for a public library. The interest rate on the bonds ranges from 2.00% to 5.00%. The interest is payable semiannually on June 1 and December 1, commencing December 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the facility lease. Principal is due annually beginning on December 1, 2005, in amounts ranging from \$170,000 to \$2,480,000. The bonds mature on December 1, 2033. The balance at June 30, 2018 is \$6,255,000.

Future debt service requirements on the 2003B Public Financing Authority Lease Revenue bonds are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 270,000	\$ 297,340	\$ 567,340
2020	280,000	283,590	563,590
2021	295,000	269,805	564,805
2022	310,000	255,735	565,735
2023	325,000	240,731	565,731
2024-2028	1,865,000	951,906	2,816,906
2029-2033	2,365,000	442,588	2,807,588
2034	545,000	13,625	558,625
Total	<u>\$ 6,255,000</u>	<u>\$ 2,755,320</u>	<u>\$ 9,010,320</u>

**2009 Public Financing Authority Taxable Lease Revenue Bonds (Bio-Rad Project)**

The Authority issued taxable lease revenue bonds, series 2009, dated July 29, 2009, totaling \$10,080,000. The purpose of the bonds was to finance the acquisition of certain commercial condominium properties, consisting of approximately 96,847 square feet located at 203-295 Linus Pauling Drive within the City from the City, funding a reserve fund for the Bonds and to paying the costs of issuance of the Bonds. The interest rates on the bonds range from 6.00% to 8.40%. The interest is payable semiannually on January 1 and July 1, commencing January 1, 2010. The bonds are subject to optional special mandatory redemption, and mandatory sinking account redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the property lease, Principal is due annually beginning on July 1, 2010, in amounts ranging from \$165,000 to \$845,000. The bonds mature on July 1, 2038. The balance at June 30, 2018 is \$8,950,000.



**CITY OF HERCULES  
NOTES TO BASIC FINANCIAL STATEMENTS  
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Future debt service requirements on the 2009 Public Financing Authority Taxable Lease Revenue bonds are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 175,000	\$ 736,140	\$ 911,140
2020	190,000	723,365	913,365
2021	200,000	708,465	908,465
2022	220,000	691,140	911,140
2023	235,000	672,371	907,371
2024-2028	1,505,000	3,022,781	4,527,781
2029-2033	2,235,000	2,257,352	4,492,352
2034-2038	3,345,000	1,102,290	4,447,290
2039	845,000	35,490	880,490
Subtotal	8,950,000	9,949,394	18,899,394
Less: Discount	(345,926)	-	(345,926)
Total	<u>\$ 8,604,074</u>	<u>\$ 9,949,394</u>	<u>\$ 18,553,468</u>

**H.E.L.P. Loan Payable**

In April 2005 the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency), a public instrumentality and political subdivision of the state of California to develop a 50-unit multifamily rental project that is a component to a mixed-used development, also consisting of 26,825 square feet of ground-floor commercial space. The Agency has authorized the making of a loan in the amount of \$1,600,000 known as the Housing Enabled by Local Partnerships (HELP) to the City of Hercules for the purpose of assisting in operating a local housing program. Under the terms of this original agreement the City of Hercules agreed to reimburse the Agency \$1,600,000, 10 years from April 11, 2005 at a 3% simple per annum interest. Interest is to be charged only on funds disbursed. In October 2013, the City and Agency amended the agreement to extend the due date of the loan and accumulated interest until April 2027 and to reduce the interest rate to 1.5% simple interest effective October 31, 2013. The balance at June 30, 2018 is \$1,600,000.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 90,279	\$ 9,721	\$ 100,000
2020	100,000	-	100,000
2021	100,000	-	100,000
2022	100,000	-	100,000
2023	100,000	-	100,000
2024-2027	1,109,721	271,967	1,381,688
Total	<u>\$ 1,600,000</u>	<u>\$ 281,688</u>	<u>\$ 1,881,688</u>

**R.D.L.P. Loan Payable**

In February 2007, the City of Hercules entered into a loan agreement with the California Housing Finance Agency (Agency) in the amount of \$3,750,000 (\$1,750,000 for predevelopment costs and \$2,000,000 for construction costs). The funds will be used to assist with site acquisition, predevelopment, and construction costs for 23 affordable ownership units within a 52-unit condominium project, which is a component to the Sycamore Downtown Street project, a mixed-use, mixed-income development. Under the terms of the original agreement, the City of Hercules agreed to repay the Agency \$3,750,000, four years from February 2007 at 3% simple per annum interest. In October

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2013, the City and Agency amended the agreement to extend the due date of the loan and accumulated interest until August 2026 and to reduce the interest rate to 1.5% simple interest effective October 31, 2013. The balance at June 30, 2018 is \$3,750,000.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 100,000	\$ 100,000
2020	55,358	44,642	100,000
2021	100,000	-	100,000
2022	100,000	-	100,000
2023	100,000	-	100,000
2024-2027	3,394,642	1,126,079	4,520,721
Total	<u>\$ 3,750,000</u>	<u>\$ 1,270,721</u>	<u>\$ 5,020,721</u>

**SunTrust Lease**

On September 27, 2007, the City entered into master lease agreements with SunTrust Leasing Corporation in order to provide funds for the financing of the EMS Project performed by Siemens Building Technologies in the amount of \$2,185,538. Payments are due semiannually on September 27 and March 27, at an interest rate of 4.73%. The Master Lease Agreement matures on September 27, 2022. The costs of these assets is \$2,358,636 and the net book value at June 30, 2018 is \$922,944.

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2018 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 168,153	\$ 36,946	\$ 205,099
2020	176,201	28,898	205,099
2021	184,634	20,465	205,099
2022	193,470	11,629	205,099
2023	100,180	2,369	102,549
Total	<u>\$ 822,638</u>	<u>\$ 100,307</u>	<u>\$ 922,945</u>

**Business-Type Activities**

Long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

<u>Business-Type Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
2010 PFA Wastewater					
Revenue Bonds	\$ 10,335,000	\$ -	\$ (260,000)	\$ 10,075,000	\$ 265,000
Discount on Issuance	(167,250)	-	7,272	(159,978)	-
Publicly Owned Treatment					
Works Construction Loan	6,786,667	8,378,827	-	15,165,494	-
Compensated Absences	39,196	10,958	(11,361)	38,793	38,793
Total Long-Term					
Obligations	<u>\$ 16,993,613</u>	<u>\$ 8,389,785</u>	<u>\$ (264,089)</u>	<u>\$ 25,119,309</u>	<u>\$ 303,793</u>

**2010 Public Financing Authority Wastewater Revenue Bonds**

The Public Financing Authority issued revenue bonds, series 2010, dated August 1, 2010, totaling \$11,765,000. The purpose of the bonds was to finance improvements to the City's wastewater system, fund a reserve fund for the bonds, and pay the costs of issuances of the

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bonds. The interest rates on the bonds range from 2.00% to 5.130%. Principal is due annually beginning August 1, 2011, in amounts ranging from \$230,000 to \$700,000. The bonds mature on August 1, 2040. The balance at June 30, 2018 is \$10,075,000.

Future debt service requirements on the 2010 Public Financing Authority Wastewater Revenue Bonds are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 265,000	\$ 467,075	\$ 732,075
2020	275,000	458,631	733,631
2021	285,000	449,175	734,175
2022	295,000	438,288	733,288
2023	305,000	426,288	731,288
2024-2028	1,725,000	1,921,088	3,646,088
2029-2033	2,165,000	1,466,156	3,631,156
2034-2038	2,755,000	858,625	3,613,625
2039-2040	2,005,000	153,625	2,158,625
Subtotal	10,075,000	6,638,951	16,713,951
Less: Discount	(159,978)	-	(159,978)
Total	<u>\$ 9,915,022</u>	<u>\$ 6,638,951</u>	<u>\$ 16,553,973</u>

**Publicly Owned Treatment Works Construction Loan**

In June 2016, the City of Hercules entered into an installment sale agreement with the California State Water Resources Control Board in the amount of \$26,500,000. The funds are for construction costs for the Pinole-Hercules Wastewater Pollution Control Plant Improvement Project. The interest rate on the loan is 1.7%. The first principal and interest payment is due August 31, 2019, and is contingent on the total drawdowns at project completion. The loan matures on August 31, 2038. The City has drawn down \$15,165,494 of the loan principal including construction loan interest as of June 30, 2018.

Future debt service requirements on the Construction Loan are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ -	\$ -
2020	651,934	265,590	917,524
2021	662,474	255,050	917,524
2022	674,590	242,935	917,525
2023	686,217	231,308	917,525
2024-2028	3,612,032	975,592	4,587,624
2029-2033	3,934,090	653,534	4,587,624
2034-2038	4,285,639	301,984	4,587,623
2039	658,518	15,547	674,065
Total	<u>\$ 15,165,494</u>	<u>\$ 2,941,540</u>	<u>\$ 18,107,034</u>

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**Fiduciary-Type Activities**

Long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

Fiduciary-Type Activities	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
2005 Tax Allocation Bonds	\$ 38,200,000	\$ -	\$ (2,115,000)	\$ 36,085,000	\$ 2,220,000
Premium on Issuance	1,305,584	-	(72,532)	1,233,052	-
2007A Housing Tax Allocation Bonds	10,560,000	-	(375,000)	10,185,000	395,000
2007B Housing Tax Allocation Bonds	8,530,000	-	(340,000)	8,190,000	355,000
Premium on Issuance	50,346	-	(3,146)	47,200	-
2007 RDA Tax Allocation Bonds	50,235,000	-	(285,000)	49,950,000	270,000
Long-Term Note Payable	347,070	-	-	347,070	347,070
Total Long-Term Obligations	<u>\$ 109,228,000</u>	<u>\$ -</u>	<u>\$ (3,190,678)</u>	<u>\$ 106,037,322</u>	<u>\$ 3,587,070</u>

**2005 Tax Allocation Bonds**

On August 5, 2005, the former Redevelopment Agency (Agency) issued Hercules Merged Project Area Tax Allocation Bonds. Series 2005, in the amount of \$56,260,000. The proceeds of the bonds were used to finance certain public capital improvements within the Agency's Merged Project Area and refund the Agency Subordinate Tax Allocation Bonds, Series 2001. The Bonds mature annually each August 1 from 2006 to 2035, in amounts ranging from \$740,000 to \$2,960,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2016, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2015, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2018 is \$36,085,000.

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The annual debt service requirements to maturity at June 30, 2018, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,220,000	\$ 1,725,179	\$ 3,945,179
2020	1,510,000	1,633,688	3,143,688
2021	1,585,000	1,561,074	3,146,074
2022	1,655,000	1,484,431	3,139,431
2023	1,735,000	1,400,356	3,135,356
2024-2028	10,075,000	5,585,570	15,660,570
2029-2033	12,830,000	2,758,381	15,588,381
2034-2035	4,475,000	223,031	4,698,031
Subtotal	<u>36,085,000</u>	<u>16,371,710</u>	<u>52,456,710</u>
Plus: Premium on Issuance	1,233,052	-	1,233,052
Total	<u>\$ 37,318,052</u>	<u>\$ 16,371,710</u>	<u>\$ 53,689,762</u>

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferred loss on refunding of debt which is reported as a deferred outflow. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest. The total amount of the deferred loss was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year 2017-2018 was \$9,705, and the accumulated amortization at June 30, 2018 was \$164,995.

**2007 Housing Tax Allocation Bonds Series A and B**

On July 26, 2007, the former Redevelopment Agency issued Hercules Merged Project Area Housing Tax Allocation Bonds, 2007 Series A, in the amount of \$13,130,000 and 2007 Series B, in the amount of \$12,760,000. The proceeds of the bonds were used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2033, in amounts ranging from \$220,000 to \$950,000 and bear interest at rates ranging from 3.50% to 6.125%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2017, as a whole or in part, on any interest payment date, at a price equal to the principal amount plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2018 for 2007 Series A and Series B are \$10,185,000 and \$8,190,000, respectively.

The annual debt service requirements to maturity at June 30, 2018 of the 2007 Series A and B bonds are as follows:

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<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 395,000	\$ 609,194	\$ 1,004,194
2020	420,000	584,744	1,004,744
2021	445,000	558,794	1,003,794
2022	470,000	531,344	1,001,344
2023	500,000	502,244	1,002,244
2024-2028	2,985,000	2,000,578	4,985,578
2029-2033	4,015,000	907,113	4,922,113
2033	955,000	58,494	1,013,494
Total	<u>\$ 10,185,000</u>	<u>\$ 5,752,505</u>	<u>\$ 15,937,505</u>

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 355,000	\$ 386,919	\$ 741,919
2020	370,000	371,513	741,513
2021	385,000	354,988	739,988
2022	405,000	337,213	742,213
2023	420,000	318,650	738,650
2024-2028	2,435,000	1,485,125	3,920,125
2029-2033	1,775,000	673,125	2,448,125
2033-2034	2,045,000	102,250	2,147,250
Subtotal	8,190,000	4,029,783	12,219,783
Plus: Premium	47,200	-	47,200
Total	<u>\$ 8,237,200</u>	<u>\$ 4,029,783</u>	<u>\$ 12,266,983</u>

**2007 Tax Allocation Bonds Series A**

On December 20, 2007, the former Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, 2007 Series A, in the amount of \$60,555,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2043, in amounts ranging from \$260,000 to \$3,315,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after February 1, 2018, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2018 is \$49,950,000.

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The annual debt service requirements to maturity at June 30, 2018, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 270,000	\$ 2,339,831	\$ 2,609,831
2020	1,075,000	2,312,931	3,387,931
2021	1,090,000	2,268,950	3,358,950
2022	1,110,000	2,222,881	3,332,881
2023	1,140,000	2,170,794	3,310,794
2024-2028	6,165,000	9,969,319	16,134,319
2029-2033	8,410,000	9,922,873	18,332,873
2033-2037	18,315,000	4,965,803	23,280,803
2038-2042	12,375,000	1,231,275	13,606,275
Total	<u>\$ 49,950,000</u>	<u>\$ 37,404,657</u>	<u>\$ 87,354,657</u>

**Long-Term Notes Payable**

In 1987, the Agency entered into Owner Participation Agreements with certain property owners (East Group and Bio Rad Laboratories) in the Redevelopment Area. Under the terms of these agreements, the Agency signed notes under which it promised to reimburse the owners by the year 2016 for the amount of incremental assessments levied on their properties, up to the cost of constructing public improvements. Payment on these notes is contingent on the property taxes and special assessments levied on these owners. As of June 30, 2018, the Agency's long-term notes payable for East Group and Bio Rad Laboratories were \$130,912 and \$216,159, respectively, and are all considered due in the current period.

**NOTE 7 NON-CITY OBLIGATIONS**

The District Bonds are not general obligations of the City nor any other political subdivision and the full faith and credit of the City is not pledged for repayment thereof since these debts do not constitute an obligation of the City and the City is not obligated to make payment beyond the available bond reserves, these bonds have not been reflected in the long-term debt in the accompanying financial statements.

<u>Description</u>	<u>Original Issuance</u>	<u>Balance June 30, 2018</u>
Reassessment District 2005-1 (John Muir Parkway)	\$ 6,550,345	\$ 3,295,000

**NOTE 8 RISK MANAGEMENT**

**General Liability Insurance**

Coverage is maintained with the Municipal Pooling Authority (MPA) with coverage limits of \$10,000,000 per occurrence. The City maintains a deductible of \$5,000 per occurrence.

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**Workers' Compensation**

The City has coverage limits for the following without a deductible:

MPA	\$-0- to \$500,000
American Safety Insurance	\$500,000
CSAC-EIA	\$1,000,000 to \$4,000,000
ACE American Insurance Company	\$5,000,000 to \$45,000,000

As of June 30, 2018, the City's estimated claims liabilities were as follows.

General Liability	\$ 208,916
Workers' Compensation	23,475
Total	<u><u>\$ 232,391</u></u>

Changes in the claims liabilities for the fiscal years ended June 30, 2018, 2017 and 2016 are as follows:

<u>Fiscal Year</u>	<u>Balances - Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balances - End of Fiscal Year</u>
2015-2016	\$ 256,281	\$ 474,761	\$ (604,678)	\$ 126,364
2016-2017	126,364	794,000	(751,193)	169,171
2017-2018	169,171	1,051,975	(988,755)	232,391

**Miscellaneous Coverages**

The MPA provides additional coverage for the following risks incurred by the City:

<u>Coverage Type</u>	<u>Deductibles</u>	<u>Coverage Limits</u>
Auto - Physical Damage:		
Police Vehicles	\$ 3,000	\$ 250,000
All Other Vehicles	2,000	250,000
All Risk Fire & Property	25,000	1,000,000,000
Boiler and Machinery	5,000	100,000,000

The MPA is governed by a board consisting of representatives from member municipalities. The board controls the operations of the MPA, 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 MPA are in accordance with formulas established by the MPA. 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. Audited financial statements can be obtained from the Municipal Pooling Authority, 1911 San Miguel Drive, #200, Walnut Creek, California 94596.



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**NOTE 9 NET POSITION/FUND BALANCES**

Details of the fund balance classifications of the governmental funds as of June 30, 2018 are as follows:

	General Fund	Hercules Public Financing Authority Debt Service Fund	State Gas Tax Fund	Measure "C" Fund	City Capital Projects Fund	Other Governmental Funds	Total
<b>Nonspendable:</b>							
Advances to Private Purpose Trust Fund	\$ 27,787,637	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,787,637
Prepays and Inventory	4,172 8,015	-	-	11,013	-	-	4,172 19,028
<b>Total</b>	<b>27,799,824</b>	<b>-</b>	<b>-</b>	<b>11,013</b>	<b>-</b>	<b>-</b>	<b>27,810,837</b>
<b>Restricted For:</b>							
Streets and Roads	-	-	1,179,906	728,237	-	2,206,666	4,114,809
Public Safety	-	-	-	-	-	976,911	976,911
Development	-	-	-	-	-	6,980,133	6,980,133
Debt Service	-	8,484,290	-	-	-	-	8,484,290
<b>Total Restricted</b>	<b>-</b>	<b>8,484,290</b>	<b>1,179,906</b>	<b>728,237</b>	<b>-</b>	<b>10,163,710</b>	<b>20,556,143</b>
<b>Assigned For:</b>							
Economic Uncertainty	2,321,483	-	-	-	-	-	2,321,483
<b>Unassigned</b>	<b>14,194,525</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,398,505)</b>	<b>(74,993)</b>	<b>12,721,027</b>
<b>Total Fund Balance</b>	<b>\$ 44,315,832</b>	<b>\$ 8,484,290</b>	<b>\$ 1,179,906</b>	<b>\$ 739,250</b>	<b>\$ (1,398,505)</b>	<b>\$ 10,088,717</b>	<b>\$ 63,409,490</b>

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and restated net position for the cumulative effect as follows:

	Governmental Activities	Internal Service Funds
<b>Governmental Activities</b>		
Net position at July 1, 2017 as previously stated	\$ 118,672,536	1,987,978
Net OPEB liability adjustment	(1,004,909)	(44,737)
<b>Net position at July 1, 2017, as restated</b>	<b>\$ 117,667,627</b>	<b>\$ 1,943,241</b>
<b>Business-Type Activities</b>		
Net position at July 1, 2017 as previously stated	\$ 37,033,254	
Net OPEB liability adjustment	(55,283)	
<b>Net position at July 1, 2017, as restated</b>	<b>\$ 36,977,971</b>	

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**NOTE 10 INTERFUND TRANSACTIONS**

**Due To/From Other Funds**

Due to/from other funds as of June 30, 2018 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	City Capital Projects Fund	\$ 1,644,242
	Nonmajor Governmental Funds	180,918
	Debt Service Fund	123,653
	Internal Service Funds	108,821
State Gas Tax Fund	City Capital Projects Fund	69,796
Total		<u>\$ 2,127,430</u>

The due to/from other funds are to provide cash flow for the funds with negative cash and for other short-term borrowings between funds.

**Transfers**

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Description</u>
General Fund	Debt Service Fund	\$ 564,400	Debt Service
	Nonmajor Governmental Funds	476,486	Debt Service
Gas Tax	Nonmajor Governmental Funds	41,586	
Measure C	Nonmajor Governmental Funds	41,586	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	184,745	Capital Projects
Nonmajor Governmental Funds	General Fund	100,000	COPS Program
Total		<u>\$ 1,408,803</u>	

**NOTE 11 PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**A. General Information about the Pension Plans**

**Plan Descriptions** – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by state statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>Miscellaneous</u>		
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>	
<u>Hire Date</u>			
Benefit Formula	2.0 @ 55	2.0% @ 62	
Benefit Vesting Schedule	5 Years Service	5 Years Service	
Benefit Payments	Monthly for Life	Monthly for Life	
Retirement Age	50 - 63	52 - 67	
Monthly Benefits, as a Percent of Eligible Compensation	1.426 - 2.148%	1.0 - 2.5%	
Required Employee Contribution Rates	7.0%	6.25%	
Required Employer Contribution Rates	8.377%	6.555%	
<u>Hire Date</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Safety PEPRA</u>
Benefit Formula	3.0 @ 50	2.0% @ 50	2.7% @ 57
Benefit Vesting Schedule	5 Years Service	5 Years Service	5 Years Service
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50	50 - 63	50 - 63
Monthly Benefits, as a Percent of Eligible Compensation	3.0%	2.0 - 2.7%	2.0 - 2.7%
Required Employee Contribution Rates	9.0%	9.0%	11.5%
Required Employer Contribution Rates	19.536%	17.689%	12.082%

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The City contributed \$659,810 and \$1,033,755 towards its Miscellaneous and Safety pension plans during the year ended June 30, 2018.

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For the year ended June 30, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Total</u>	<u>Miscellaneous</u>	<u>Safety</u>
Governmental Activities:			
Governmental Funds	\$ 1,656,536	\$ 453,179	\$ 1,203,357
Internal Service Funds	44,893	44,893	-
Total Governmental Activities	1,701,429	498,072	1,203,357
Business-Type Activities:			
Sewer Fund	60,243	60,243	-
Total	<u>\$ 1,761,672</u>	<u>\$ 558,315</u>	<u>\$ 1,203,357</u>

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2016 and 2017 was as follows:

	<u>Plan's Proportion to Total Pool at June 30, 2016</u>	<u>Plan's Proportion to Total Pool at June 30, 2017</u>	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	0.17363 %	0.17481 %	\$ 6,891,269
Safety	0.16431	0.15603	9,323,198
Total			<u>\$ 16,214,467</u>

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For the year ended June 30, 2018, the City recognized pension expense of \$2,741,560. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 1,693,565	\$ -
Change of Assumptions	2,292,240	175,366
Differences Between Expected and Actual Experience	93,333	144,834
Change in Proportion	390,669	231,409
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	642,067	193,882
Net Differences Between Projected and Actual Earnings on Plan Investments	508,427	-
Total	<u>\$ 5,620,301</u>	<u>\$ 745,491</u>

The City reported \$1,693,565 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the measurement year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in the measurement year as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2019	\$ 936,744
2020	1,567,823
2021	976,242
2022	(299,564)
Total	<u>\$ 3,181,245</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Hired Prior to 1/1/2013	Miscellaneous Hired After 1/1/2013	Miscellaneous PEPRA	Safety Tier 1	Safety Tier 2	Safety PEPRA
Valuation Date	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method			Entry-Age Normal Cost Method		
Actuarial Assumptions:						
Discount Rate	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increase	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)
Investment Rate of Return	7.50% (2)	7.50% (2)	7.50% (2)	7.50% (2)	7.50% (2)	7.50% (2)
Mortality	Based on CALPERS Specific Data					

(1) Depending on age, service, and type of employment

(2) Net of pension plan investment expenses, including inflation

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The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability as of June 30, 2017 was 7.15 percent for each Plan. This differs from the discount rate used as of June 30, 2016, which was 7.65 percent, due to a decrease in the long term expected rate of return.

The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods adopted by the Board in 2013 were used.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the pension plan

**Change of Assumptions and Methods** In December 2016, the CalPERS Board approved lowering the discount rate from 7.50 percent to 7.00 percent, which is to be phased –in over a three –year period. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease in consistent with the change in the financial reporting discount rate.

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The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00 %	4.90 %	5.38 %
Fixed Income	19.00	0.80	2.27
Inflation Assets	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
Total	<u>100.00 %</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the City’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<u>Net Pension Liability</u>	<u>Discount Rate</u>		
	<u>1% Discount 6.15%</u>	<u>Current Rate 7.15%</u>	<u>1% Increase 8.15%</u>
Miscellaneous	\$ 10,394,962	\$ 6,891,269	\$ 3,989,447
Safety	13,384,356	9,323,198	6,003,404
Total	<u>\$ 23,779,318</u>	<u>\$ 16,214,467</u>	<u>\$ 9,992,851</u>

**Pension Plan Fiduciary Net Position** – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

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**NOTE 12 DEFERRED COMPENSATION PLAN**

**457 Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is available to full-time employees. The Internal Revenue Service regulations allow an employer to designate a 457(b) Deferred Compensation Plan as an alternative to social security. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (ICMA) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457(g). Accordingly, these assets have been excluded from the City's Comprehensive Annual Financial Report.

**401A Plan**

The City contributes 4% of total gross salary to the plan for senior managers.

**PARS**

Part-time employees who do not participate in the Public Employees Retirement System are covered through the City's participation in Public Alternative Retirement System (PARS). Employees contribute 6.2% and the City contributes 1.3%.

**NOTE 13 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description and Administration**

The City Retiree Healthcare Plan (Plan) is a single-employer benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents. The Plan does not issue a financial report.

The City has prefunded a portion of its OPEB benefits in a Public Agency Retirement Services (PARS) trust. The PARS Trust is a tax qualified irrevocable trusts, organized under Internal Revenue Code (IRC) Section 115, established to pre-fund OPEB as described in GASB Statement 75. PARS issues annual audited financial statements for each participating agency of the Trust. PARS is considered an agency agent multiple-employer plan, required to provide financial statements and required supplementary information (Schedule of Changes in Fiduciary Net Position by Plan) that are prepared in conformance with GASB statement 75.

These reports may be obtained by writing the plan at the following address: PARS 4350 Von Karman Ave., Suite 100, Newport Beach, CA 92660-2043.

Employees become eligible to retire and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of service. The City contribution towards retiree health



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benefits is determined under the "Equal Contribution Method" under PEMHCA, under which the City's nominal contribution to PEMHCA is the same for active employees and retirees (\$128/month for 2017 and \$133/month for 2018, and scheduled to be indexed by medical inflation for years after 2018).

Members of the Hercules Police Officers' Association and Executive Management retirees may receive supplement benefits under a sick-leave conversion plan called "Supplemental Optional Monies Allowance for Retirees", or "SOMAR". In order to be eligible the employee must have served the City for at least 10 consecutive years prior to retirement and be at least age 50 when they separate from service, or retire with a disability retirement and have at least 20 years of service with the City.

The SOMAR benefit percentage is based on the lesser of actual years of service, or an equivalent based on sick-leave hours divided by 48, with a minimum percentage of 50% after 10 years and a maximum percentage of 100% after 20 years. The percentage is applied to a stated dollar amount prior to age 65 and the Kaiser Senior Advantage retiree-only premium after age 65, offset by the PEMHCA minimum, described above. The monthly dollar amounts under SOMAR are \$324.95 for 2017 and \$334.70 for 2018 (Police), \$244.48 for 2017 and \$251.81 for 2018 (Executive Management), and are contractually indexed each year by 3%.

**Contributions**

The contributions are based on pay-go for premiums and contributions to the PARS OPEB trust. The pay-go amount is the actual amount of retiree premiums. Total contributions (pay-go and trust contributions for the year ended June 30, 2018 were \$205,034.

**Actuarial Assumptions.**

The Net OPEB Liability was determined using an actuarial valuation as of July 1, 2017, using the following actuarial assumptions:

Inflation	2.25%
Salary increases	3.00% , average, including inflation
Discount rate	6.00%, net of investment expense, including inflation
Healthcare cost trend rates	8.00% for 2017-18, decreasing to 5.00% for 2020-21 and after
Retirees' share of costs	

The City makes the statutory minimum contribution under PEMHCA, as well as the supplemental benefits based on a sick-leave conversion formula to retired Police and Executive Management.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

The expected long-term rate of return on OPEB plan investments of 6.53%, gross of expenses, was determined by Highmark Capital Management using a building-block method in which best-estimate ranges of expected future real rates of return, net of inflation, are developed for each major asset class. These ranges are combined to produce the long-

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term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Employees Covered by Benefit Terms**

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	20
Active employees	67
Total	<u>87</u>

**Changes in the Net OPEB Liability**

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability as of June 30, 2018.

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at 6/30/17	2,949,300	1,881,359	1,067,941
Changes for the year:			-
Service Cost	99,270	-	99,270
Interest on total OPEB liability	179,763	-	179,763
Difference between expected and actual experience	437,919	-	437,919
Changes of assumptions	-	-	-
Contributions - employer	-	205,034	(205,034)
Net investment income - projected	-	122,033	(122,033)
Difference between projected and actual investment income	-	1,738	(1,738)
Benefit payments, including refunds of employee contributions	(105,034)	(105,034)	-
Net changes	<u>611,918</u>	<u>223,771</u>	<u>388,147</u>
Balance at 6/30/18	<u>\$ 3,561,218</u>	<u>\$ 2,105,130</u>	<u>\$ 1,456,088</u>

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the City, as well as what the City net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

	<u>1% Decrease (4.00%)</u>	<u>Current Rate (5.00%)</u>	<u>1% Increase (6.00%)</u>
Net OPEB Liability	\$ 1,998,793	\$ 1,456,088	\$ 1,018,169

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The following presents the net OPEB liability of the City, as well as what the City net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease (7.00% decreasing to 4%)	Current Rate (8.00% decreasing to 5%)	1% Increase (9.00% decreasing to 6%)
Net OPEB Liability	\$ 1,081,744	\$ 1,456,088	\$ 1,931,486

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the City recognized OPEB expense of \$219,212. OPEB expense represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, and actuarial assumptions or method. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	375,359	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,390
	\$ 375,359	\$ 1,390

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	62,560	348
2020	62,560	348
2021	62,560	348
2022	62,560	346
2023	62,560	-
2024	62,559	-
2025	-	-

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**NOTE 14 COMMITMENTS AND CONTINGENCIES**

**A. Lawsuits**

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

**B. Commitments**

AMBAC Litigation – On January 30, 2012, AMBAC filed an action in the Contra Costa County Superior Court against the City, the former Redevelopment Agency, and each individual member of the City Council, seeking to, among other things, compel the City to transfer \$4,100,000 from the Pooled Cash Account, which AMBAC alleges constitute the December 2011 tax increment receipts, to the Trustee, and in the alternative to impose a constructive trust on such funds and prevent the City from using those funds for any other purpose. The City, Agency, and Council members have vigorously opposed this action. The City believes that, unless the \$4,100,000 of December receipts are allowed to be accounted for to reimburse the temporary advance from the Pooled Cash Account made on August 1, 2011 to the Trustee, that advance will have been an unlawful diversion of legally restricted funds which itself would need to be reversed in order to avoid violation of various state statutory and constitutional restrictions on the use of those funds. On January 31, 2012, AMBAC filed an ex parte application seeking, among other thing, a temporary restraining order effectively freezing \$4,100,000 of City funds and, in the alternative, a writ of attachment on certain real estate owned by the City. The court denied AMBAC's request for immediate relief on all points, but issued an order to show cause why a preliminary injunction freezing the funds should not issue against the City in several weeks. The City and AMBAC briefed the issue for the court and at a hearing on February 21, 2012, the Court was to evaluate whether AMBAC had demonstrated sufficient urgency to warrant issuing a preliminary injunction against the City, which injunction would have compelled the City in some way to set aside \$4,100,000.

On March 8, 2012, a stipulation and Writ of Attachment was signed between AMBAC and the Hercules Redevelopment Agency and the City of Hercules. It was agreed that as consideration for AMBAC's forbearance on seeking an immediate writ of mandate and preliminary injunction on March 20, 2012, AMBAC received a Writ of Attachment on the real property commonly known as "Parcel C" (Contra Costa County Assessor's Parcel No. 404-020-076-0) (Property "A") and the real property commonly known as "Victoria Crescent" (Contra Costa County Assessor's Parcel No. 404-040-062-6)(Property "B"). These properties were to be sold in 2014 to satisfy what is owed to AMBAC.

On February 24, 2014, the City of Hercules sold the real property commonly known as "Victoria Crescent" (Contra Costa County Assessor's Parcel No. 404-040-062-6) (Property "B") and on August 26, 2014, the City of Hercules sold the real property commonly known as "Parcel C" (Contra Costa County Assessor's

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Parcel No. 404-020-076-0)(Property "A"), net proceeds from both properties were paid to AMBAC.

In August 2014, the City, and the City as Successor Agency to the Redevelopment Agency entered into a stipulation with AMBAC that resulted in a dismissal of the litigation against the City and Agency which confirmed that AMBAC would receive the unencumbered proceeds from the sale of Victoria Crescent and Parcel C, and there is no obligation to the City's general fund. These proceeds were paid to AMBAC.

In addition, the remaining obligations to AMBAC were satisfied through the sale of the Sycamore Crossing site (Contra Costa County Assessor's Parcel Nos. 404-020-057 and 058) to Sycamore Crossing Land Developer, LLC, on October 13, 2016. The final related obligation to AMBAC which requires the Successor Agency to replenish the debt service reserve fund held by the Bond Trustee will be satisfied from former redevelopment tax increment received by the City of Hercules as the Successor Agency for Non-Housing Assets.

**NOTE 15 JOINT POWERS AGREEMENTS**

The City is a member of the joint powers agencies described below. Each of these agencies is governed by a board, which controls their operation, including selection of management and approval of operating budgets, independent of influence by member municipalities beyond their representation on the board.

**A. West Contra Costa Transportation Advisory Committee (WCCTAC)**

WCCTAC was established in 1990 to develop regional strategies and meet regional requirements established by Measure "C" and to cooperatively address West Contra Costa County transportation issues.

The City's payments to WCCTAC are in accordance with a formula under which each member Agency pays a proportionate share of the expenditures based on the number of voting members representing each agency. Audited financial statements can be obtained from the WCCTAC, One Alvarado Square, San Pablo, California 94806, The City has one voting member on the WCCTAC and pays 10% of annual expenditures.

**B. West Contra Costa Integrated Waste Management Authority (WCCIWMA)**

WCCIWMA was established in 1991 to coordinate landfill use reduction in the West Contra Costa County Area as mandated by the state of California. The City is represented by one Director. Funding for WCCIWMA is provided for through a surcharge collected from the ratepayers within WCCIWMA's jurisdiction.

Audited financial statements can be obtained from the WCCIWMA, One Alvarado Square, San Pablo, California 94806.

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**C. Pinole/Hercules Wastewater Treatment Plant**

On January 23, 2001, the cities of Pinole and Hercules entered into a joint powers agreement for the operation and ownership of the Pinole/Hercules Wastewater Treatment Plant (Plant). The City retains responsibility for the operation and maintenance of its wastewater collection system. The City of Hercules has an undivided fifty percent (50%) ownership interest in the Plant. The City of Pinole has the right and responsibility to manage and operate the Plant. Also, the City of Pinole maintains the records and accounts for all the transactions.

The records are available and can be obtained from the City of Pinole, 2131 Pear Street, Pinole, California 94564.

**NOTE 16 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Deficit Fund Balances/Net Position**

As of June 30, 2018, the following funds had a deficit fund balance/net position:

	<u>Balances</u>
City Capital Projects Fund	\$ 1,398,505
Nonmajor Governmental Funds:	
Stormwater Assessment Special Revenue Fund	74,996
Internal Service Fund:	
Facility Maintenance	157,413
Fiduciary Fund:	
Private Purpose Trust Fund	105,612,443

Private Purpose Trust Fund negative net position of \$105,612,443 will be financed through future revenues. The Stormwater Assessment Special Revenue Fund negative fund balance of \$74,996 will be financed through future revenues. City Capital Projects Fund negative fund balance of \$1,398,505 will be financed through grants receivable that were not received within the City's availability period. Facility Maintenance Fund negative fund balance of \$153,736 will be financed through future internal charges for service.

**Expenditures in Excess of Appropriations**

The following fund had expenditures in excess of budget. Sufficient revenues were available to fund these expenditures:

	<u>Excess of Appropriations</u>
Stormwater Assessment Special Revenue Fund	\$ 1,419
LLAD Fund	24,089

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**NOTE 17 FINANCIAL CONDITION**

Of the \$46.3 million reported as assets in the General Fund, 60.0% of the balance represents amounts due from the Private Purpose Trust Fund, the Successor Agency to the City of Hercules Redevelopment Agency. The City is also reporting significant advances to the Agency in other funds.

A recap of the amounts due from the Private Purpose Trust Fund and the total assets of the receivable fund at June 30, 2018 is below:

	<u>Total Assets</u>	<u>Amounts Due from Private Purpose Trust Fund</u>	<u>Percentage of Assets Representing Amounts Due to the City</u>
General Fund	\$ 46,341,933	\$ 27,787,637	60.0 %
Hercules Debt Service Fund	17,899,815	6,703,250	37.4
Nonmajor Governmental Funds:			
Developer Impact Fees	6,551,590	5,254,315	80.2
Community Development	323,294	163,200	50.5
Wastewater Fund	69,129,583	10,587,627	15.3
Total	<u>\$ 140,246,215</u>	<u>\$ 50,496,029</u>	36.0

With the dissolution of the redevelopment agency on February 1, 2012 there is uncertainty as to whether the City's General Fund will be repaid the accumulated \$27.8 million loan owed by the Agency, now a private purpose trust fund of the City. However, the written agreement between the Agency and the City to fund costs on behalf of the Agency was signed within two years of the creation of the agency. Under Assembly Bill X1 26 (Redevelopment Dissolution Act), a written agreement between a redevelopment agency and the city that created it that provided loans or other startup funds for the redevelopment agency that were entered into within two years of the formation of the redevelopment agency are valid. The City is currently working with the State Department of Finance to determine the outcome of these loans. The possible outcome of this matter cannot presently be determined. Accordingly, no provision for any allowance for doubtful accounts has been made in the financial statements for possible forgiveness of these loans.

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**CITY OF HERCULES  
REQUIRED SUPPLEMENTARY INFORMATION  
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**OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)- SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**

Last 10 Fiscal Years\*

	FY 2018
<b>Total OPEB liability</b>	
Service Cost	\$ 99,270
Interest	179,763
Changes in benefit terms	
Differences between expected and actual experience	437,919
Changes in assumption	
Benefit payments	(105,034)
Net change in total OPEB liability	611,918
Total OPEB liability - beginning	2,949,300
Total OPEB liability - ending (a)	\$ 3,561,218
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 205,034
Net investment income	123,771
Benefit payments	(105,034)
Net change in plan fiduciary net position	223,771
Plan fiduciary net position - beginning	1,881,359
Plan fiduciary net position - ending (b)	\$ 2,105,130
 City's net OPEB liability - ending (a) - (b)	 \$ 1,456,088
 Plan fiduciary net position as a percentage of the total OPEB liability	 59.11%
 Covered employee payroll	 \$ 10,035,146
 City's net OPEB liability as a percentage of covered-employee payroll	 14.51%
 Measurement date	 6/30/2018

\* Additional years will be presented as they become available

**CITY OF HERCULES  
REQUIRED SUPPLEMENTARY INFORMATION  
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**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

\* Last 10 Fiscal Years

	Miscellaneous Plans			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Net Pension Liability	\$ 6,891,269	\$ 6,031,627	\$ 4,815,777	\$ 4,699,656
Proportionate Share of the Net Pension Liability	0.17%	0.17%	0.18%	0.19%
Covered Payroll	\$ 2,705,492	\$ 2,697,183	\$ 2,655,670	\$ 3,241,378
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	254.71%	223.63%	181.34%	144.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.39%	75.87%	78.32%	78.10%
	Safety Plans			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Net Pension Liability	\$ 9,323,198	\$ 8,509,821	\$ 7,337,854	\$ 6,858,740
Proportionate Share of the Net Pension Liability	0.16%	0.16%	0.18%	0.18%
Covered Payroll	\$ 2,259,824	\$ 2,220,165	\$ 2,118,549	\$ 1,942,665
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	412.56%	383.30%	346.36%	353.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.74%	72.69%	71.64%	72.43%

\* Fiscal Year 2015 was the first year of implementation. Additional years will be presented as they become available.

**CITY OF HERCULES  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

**SCHEDULE OF CONTRIBUTIONS**

\* Last 10 Fiscal Years

	Miscellaneous Plans Reporting Date (Measurement Date)			
	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Contractually Required Contribution (Actuarially Determined)	659,810	\$ 558,315	\$ 529,212	\$ 353,148
Contributions Related to the Actuarially Determined Contribution	<u>659,810</u>	<u>558,315</u>	<u>529,212</u>	<u>353,148</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,705,492	\$ 2,697,183	\$ 2,655,670	\$ 3,241,378
Contributions as a Percentage of Covered Payroll	24.39%	20.70%	22.86%	10.89%

	Safety Plans Reporting Date (Measurement Date)			
	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Contractually Required Contribution (Actuarially Determined)	1,033,755	\$ 1,203,357	\$ 1,024,115	\$ 798,844
Contributions Related to the Actuarially Determined Contribution	<u>1,033,755</u>	<u>1,203,357</u>	<u>1,024,115</u>	<u>798,844</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,259,824	\$ 2,220,165	\$ 2,118,549	\$ 1,942,665
Contributions as a Percentage of Covered Payroll	45.74%	54.20%	47.51%	41.12%

\* Additional years will be presented as they become available.

**Notes to Schedule**

Valuation Date: 6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	For details, see June 30, 2016 Funding Valuation Report.
Asset Valuation Method	Actuarial value of assets. For details, see June 30, 2016 Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expense; includes Inflation.
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include five years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**CITY OF HERCULES  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 9,241,965	\$ 9,241,965	\$ 9,310,110	\$ 68,145
Licenses and Permits	422,469	422,469	910,120	487,651
Fines, Forfeits and Penalties	20,000	20,000	48,579	28,579
Revenue from Use of Money and Property	325,500	325,500	426,142	100,642
Aid from Other Governments	1,791,105	1,791,105	2,314,222	523,117
Charges for Services	1,937,554	1,937,554	2,350,699	413,145
Miscellaneous Revenue	504,053	504,053	1,131,084	627,031
Total Revenues	<u>14,242,646</u>	<u>14,242,646</u>	<u>16,490,956</u>	<u>2,248,310</u>
<b>EXPENDITURES</b>				
Current:				
General Government:				
City Council	257,807	257,807	359,936	(102,129)
City Manager	347,392	347,392	269,758	77,634
Legal Services	390,000	390,000	400,574	(10,574)
City Clerk Management Services	306,406	304,274	281,890	22,384
City Clerk - Outreach			301	
Cable TV	63,479	62,913	40,530	22,383
Risk Management	648,462	648,370	699,134	(50,764)
Information Systems	-	115,000	150,664	(35,664)
Recruitment	244,350	242,620	234,297	8,323
Finance/Operations	1,228,673	1,222,086	905,991	316,095
Finance/Debt Service	969,608	969,608	-	969,608
Miscellaneous	2,102,213	2,102,213	149,007	1,953,206
Total General Government	<u>6,558,390</u>	<u>6,662,283</u>	<u>3,492,082</u>	<u>3,170,201</u>
Public Safety:				
Police Administration	3,026,588	3,008,830	2,595,712	413,118
Police Patrol	3,700,995	3,646,965	3,699,307	(52,342)
Total Public Safety	<u>6,727,583</u>	<u>6,655,795</u>	<u>6,295,019</u>	<u>360,776</u>
Streets and Public Works:				
Street Facilities	344,318	444,161	571,753	(127,592)
Engineering	47,214	47,214	29,639	17,575
Total Streets and Public Works	<u>391,532</u>	<u>491,375</u>	<u>601,392</u>	<u>(110,017)</u>
Parks and Recreation:				
Library	126,300	126,300	79,698	46,602
Administration	2,037	2,037	(1,181)	3,218
Facility Rental	201,696	200,924	187,605	13,319
Day Camp	191,999	185,246	134,955	50,291
Child Care	685,216	680,188	639,550	40,638
Recreation Classes	167,798	167,219	112,920	54,299
Senior Citizens	70,349	69,308	73,991	(4,683)
Tiny Tots	168,513	167,664	221,984	(54,320)
Swim Center	378,559	378,019	346,636	31,383
Sports Program	125,272	124,585	125,402	(817)
Teen Program	23,911	23,824	11,124	12,700
Youth and Teen Resource Center	162,743	161,118	168,685	(7,567)
Total Parks and Recreation	<u>2,304,393</u>	<u>2,286,432</u>	<u>2,101,369</u>	<u>185,063</u>

**CITY OF HERCULES  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES (CONTINUED)</b>				
Current (Continued):				
Community Development:				
Business and Regional Planning	\$ 339,404	\$ 423,587	\$ 298,878	\$ 124,709
Building Inspection	187,913	224,534	140,430	84,104
Total Community Development	<u>527,317</u>	<u>648,121</u>	<u>439,308</u>	<u>208,813</u>
Total Expenditures	<u>16,509,215</u>	<u>16,744,006</u>	<u>12,929,170</u>	<u>3,814,836</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(2,266,569)	(2,501,360)	3,561,786	6,063,146
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	110,000	110,000	100,000	(10,000)
Transfers Out	<u>(245,070)</u>	<u>(245,070)</u>	<u>(1,040,886)</u>	<u>(795,816)</u>
Total Other Financing Sources (Uses)	<u>(135,070)</u>	<u>(135,070)</u>	<u>(940,886)</u>	<u>(805,816)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(2,401,639)	(2,636,430)	2,620,900	5,257,330
Budgetary Fund Balances - Beginning of Year			<u>41,694,932</u>	
<b>BUDGETARY FUND BALANCES - END OF YEAR</b>			<u><u>\$ 44,315,832</u></u>	

**CITY OF HERCULES  
BUDGETARY COMPARISON SCHEDULE  
STATE GAS TAX SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 697,650	\$ 837,650	\$ 670,083	\$ (167,567)
Use Of Money And Property	6,331	6,331	13,422	7,091
Other Revenues	-	-	5,579	5,579
Total Revenues	<u>703,981</u>	<u>843,981</u>	<u>689,084</u>	<u>(154,897)</u>
<b>EXPENDITURES</b>				
Current:				
Streets and Public Works	1,096,952	1,406,827	1,179,647	227,180
Total Expenditures	<u>1,096,952</u>	<u>1,406,827</u>	<u>1,179,647</u>	<u>227,180</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(392,971)	(562,846)	(490,563)	72,283
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer Out	(41,586)	(41,586)	(41,586)	-
Total Other Financing Sources (Uses)	<u>(41,586)</u>	<u>(41,586)</u>	<u>(41,586)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(434,557)	(604,432)	(532,149)	72,283
Fund Balances - Beginning of Year	<u>1,712,055</u>	<u>1,712,055</u>	<u>1,712,055</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,277,498</u>	<u>\$ 1,107,623</u>	<u>\$ 1,179,906</u>	<u>\$ 72,283</u>

Explanation of differences between statement of revenues, expenditures and changes in fund balance:

Streets and Public Works expenditures contain \$694,454 of capital outlay.



**CITY OF HERCULES  
BUDGETARY COMPARISON SCHEDULE  
MEASURE "C" STREET FUND  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 400,817	\$ 400,817	\$ 799,628	\$ 398,811
Use of Money and Property	1,872	1,871	5,916	4,045
Other Revenues	-	-	68,326	68,326
Total Revenues	<u>402,689</u>	<u>402,688</u>	<u>873,870</u>	<u>471,182</u>
<b>EXPENDITURES</b>				
Current:				
Streets and Public Works	780,801	790,264	628,227	162,037
Total Expenditures	<u>780,801</u>	<u>790,264</u>	<u>628,227</u>	<u>162,037</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(378,112)	(387,576)	245,643	633,219
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(41,586)	(41,586)	(41,586)	-
Total Other Financing Sources (Uses)	<u>(41,586)</u>	<u>(41,586)</u>	<u>(41,586)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(419,698)	(429,162)	204,057	633,219
Fund Balances - Beginning of Year	<u>535,193</u>	<u>535,193</u>	<u>535,193</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 115,495</u>	<u>\$ 106,031</u>	<u>\$ 739,250</u>	<u>\$ 633,219</u>

Explanation of differences between statement of revenues, expenditures and changes in fund balance:

Streets and Public Works expenditures contain \$331,513 of capital outlay.

**CITY OF HERCULES**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

**BUDGETARY PRINCIPLES**

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

1. In June, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution before July 1.
4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device. Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP) and are consistent with the basis used for financial reporting. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any reconciliation. The General Fund budget is adopted on the budgetary basis, which is not consistent with accounting principles generally accepted in the United States of America. Commitments for material and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are encumbered at year-end lapse, then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2018, based on the calculations by City Management, proceeds of taxes did not exceed the appropriations limit.
7. Budget revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue sources and re-appropriated amounts for prior year encumbrances. The City Manager must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications, with approval of the Finance Director.
8. Certain appropriations carryover and are re-budgeted for the subsequent year.
9. Budget appropriations for the various governmental funds become effective July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level.