

***CITY OF HERCULES
CALIFORNIA***

**ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2015**

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CITY OF HERCULES

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For the fiscal year ended June 30, 2015

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council of the 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, 2015, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2015, 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.

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

Emphasis of Matter

Implementation of New Accounting Standards

As disclosed in Note 1 to the financial statements, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, effective July 1, 2014.

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 Fund has outstanding loans of \$27.8 million owed by the former redevelopment agency (Agency), now a private purpose trust fund of the City. This outstanding loan represents approximately 71 percent of the City's General 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.

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 funding progress – other postemployment benefits plan, schedule of the City's proportionate share of the net pension liability and schedule of contributions 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016 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 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 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.



Roseville, California
March 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF HERCULES

Management's Discussion and Analysis June 30, 2015

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, 2015. 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 \$136,106,591 (*net position*). Net position of \$21,070,727 are restricted for specific purposes (*restricted net position*), and \$75,539,933 represents net investment in capital assets. Unrestricted net position was \$39,495,931. The government's total net position, as adjusted, decreased by \$6,612,247 in comparison with the prior year.
- The City's net investment in capital assets, increased by \$3,053,962.
- The City's governmental funds reported combined fund balances of \$55,485,821, an increase of \$1,407,786 in comparison with the prior year, as adjusted. The unassigned portion of those fund balances was \$5,199,095.

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 liabilities, with the difference between the two 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 expenditures 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.

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.

CITY OF HERCULES

Management's Discussion and Analysis June 30, 2015

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 activities* 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 Public Financing Authority Debt Service Fund, State Gas Tax Fund, Measure "C" Street Fund and the other governmental funds combined into a single, aggregated column. Government Accounting Standards Board (GASB) Statement No. 34 defines major governmental funds as those with revenues, expenditures, assets or liabilities 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. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* in the supplementary information.

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.

CITY OF HERCULES

Management's Discussion and Analysis June 30, 2015

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 Post-Employment 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.

Other Report section includes the Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. After the Other Report section is the Schedule of Findings and Responses.

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 \$136,106,591 at the close of the most recent fiscal year. Of these combined net position 55% reflects the City's investment in capital assets, net of related debt. Another 11% of the City's net position is subject to external restrictions on how they may be used.

The City's Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Current and Other Assets	\$ 71,629,459	\$ 70,185,145	\$ 30,727,860	\$ 28,221,361	\$ 102,357,319	\$ 98,406,506
Capital Assets	71,806,545	69,082,117	13,710,590	13,411,371	85,517,135	82,493,488
Total Assets	143,436,004	139,267,262	44,438,450	41,632,732	187,874,454	180,899,994
Deferred Outflows of Resources						
Deferred outflows - pensions	1,346,946	--	37,981	--	1,384,927	--
Current Liabilities	5,278,530	3,250,513	351,149	621,488	5,629,679	3,872,001
Long-Term Liabilities	33,924,365	23,406,731	11,137,956	10,902,424	45,062,321	34,309,155
Total Liabilities	39,202,895	26,657,244	11,489,105	11,523,912	50,692,000	38,181,156
Deferred Inflows of Resources						
Deferred inflows - pensions	2,347,481	--	113,309	--	2,460,790	--
Net investment in capital assets	65,597,425	62,588,422	9,942,508	9,897,549	75,539,933	72,485,971
Restricted	14,361,777	13,670,630	--	--	14,361,777	13,670,630
Unrestricted	23,273,372	36,350,966	22,931,509	20,211,271	46,204,881	56,562,237
Total Net Position	\$ 103,232,574	\$ 112,610,018	\$ 32,874,017	\$ 30,108,820	\$ 136,106,591	\$ 142,718,838

A significant portion of the City's net position, \$75,539,933, 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.

CITY OF HERCULES

Management's Discussion and Analysis
June 30, 2015

The restricted portion of the City's net position, \$14,361,777, 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 due to governmental activities is \$23,273,372. It is to be noted that GASB 54 classifies long-term payroll liabilities to the unrestricted category. These reclassifications include liabilities for other post-employment 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, decreased by \$6,612,247 during the current fiscal year. The decrease in net position is primarily attributed to the implementation of GASB 68 which restated beginning net position by \$12.2 million for the governmental activities and \$544 thousand for the business-type activities as reported in Note 8. Change in net position due to current year operations was \$3.7 million for the governmental activities and \$3.3 million for the business-type activities.

The City's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
Revenues						
Program Revenues:						
Fees, fines and charges for services	\$ 5,621,969	\$ 4,815,901	\$ 6,028,122	\$ 7,690,524	\$ 11,650,091	\$ 12,506,425
Operating grants/contributions	937,746	1,371,396	--	--	937,746	1,371,396
Capital grants/contributions	2,970,438	1,066,000	--	--	2,970,438	1,066,000
General Revenues:						
Property taxes	1,173,026	992,934	--	--	1,173,026	992,934
Sales taxes	2,693,075	2,593,675	--	--	2,693,075	2,593,675
Franchise taxes	1,011,888	799,180	--	--	1,011,888	799,180
Other taxes	3,511,023	3,265,624	--	--	3,511,023	3,265,624
Motor vehicle taxes in-lieu	1,554,491	1,323,651	--	--	1,554,491	1,323,651
Interest and investment income	1,055,791	1,002,389	23,484	45,822	1,079,275	1,048,211
Miscellaneous	476,033	1,397,677	--	86,637	476,033	1,484,314
Special item	--	--	--	561,703	--	561,703
Total Revenues	21,005,480	18,628,427	6,051,606	8,384,686	27,057,086	27,013,113
Expenses						
General government	3,133,995	4,350,428	--	--	3,133,995	4,350,428
Public safety	5,094,319	4,905,837	--	--	5,094,319	4,905,837
Streets and public works	4,880,174	5,761,359	--	--	4,880,174	5,761,359
Parks and recreation	2,074,783	2,147,560	--	--	2,074,783	2,147,560
Community development	742,529	3,295,068	--	--	742,529	3,295,068
Interest and long-term debt	1,277,353	1,073,240	--	--	1,277,353	1,073,240
Sewer	--	--	2,834,835	3,494,287	2,834,835	3,494,287
Utility	--	--	--	2,491,837	--	2,491,837
Total Expenses	17,203,153	21,533,492	2,834,835	5,986,124	20,037,988	27,519,616
Increase(decrease) in net position before transfers	3,802,327	(2,905,065)	3,216,771	2,398,562	7,019,098	(506,503)
Transfers	(92,736)	7,387,453	92,736	(7,387,453)	--	--
Change in Net Position	3,709,591	4,482,388	3,309,507	(4,988,891)	7,019,098	(506,503)
Net Position - Beginning, Restated	99,522,983	108,127,630	29,564,510	35,097,711	129,087,493	143,225,341
Net Position - Ending	\$ 103,232,574	\$ 112,610,018	\$ 32,874,017	\$ 30,108,820	\$ 136,106,591	\$ 142,718,838

CITY OF HERCULES

Management's Discussion and Analysis June 30, 2015

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, 2015, the City's governmental funds reported combined fund balances of \$55,485,821. Of these combined fund balances, \$7,969,320 constitutes unassigned fund balance of the General Fund, which is available to meet the City's current and future needs. The restricted fund balance, \$15,647,512 consists of amounts with constraints put on their use by externally imposed creditors, grantors, laws, regulations, or enabling legislation.

The General Fund is the chief operating fund of the City. At June 30, 2015, unassigned fund balance was \$7,969,320, while total fund balance was \$37,138,911. 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 78% of total General Fund expenditures, while the total fund balance represents 364% of total General Fund expenditures.

Total governmental funds Fund Balance increased by \$2,588,566 in comparison with the prior year. The major governmental funds had changes in fund balance as follows:

Measure "C" Fund increase by \$277,651 and State Gas Tax Fund increased \$204,689. The non-major (other) governmental funds decreased by \$1,572,186. The primary reason for the decrease in the non-major governmental funds is that the Measure "C" Fund and the State Gas Tax Fund are now major governmental funds instead of non-major (other) governmental funds per Government Accounting Standards Board (GASB) Statement No. 34.

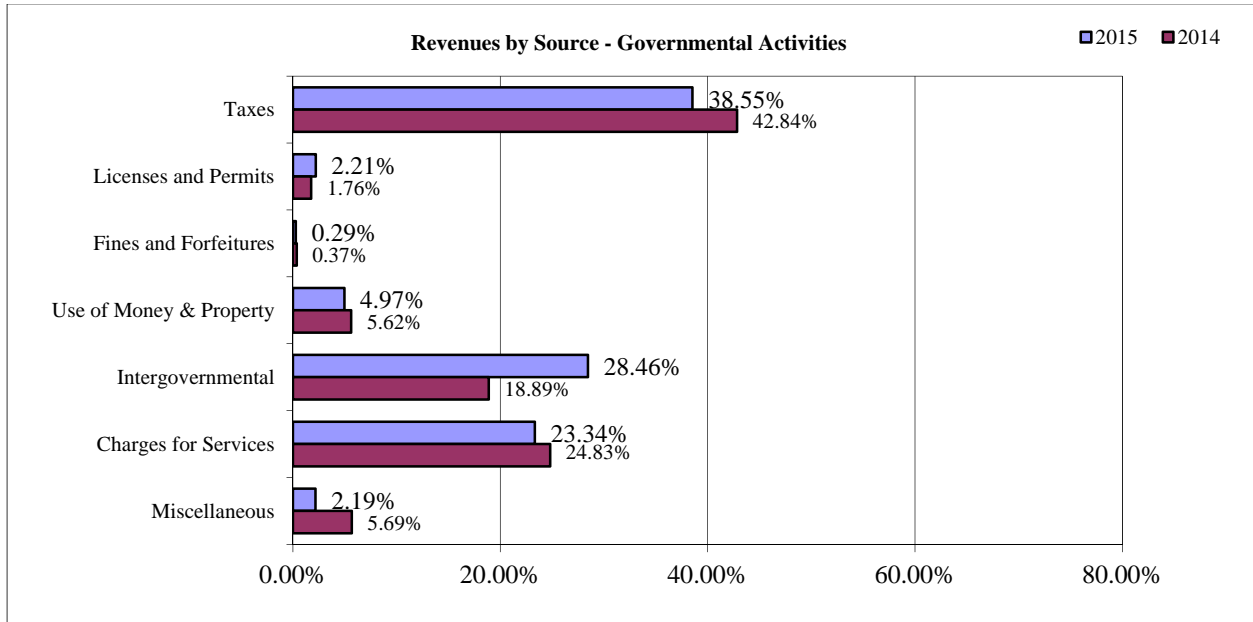
The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues Classified by Source Governmental Funds						
	FY 2015		FY 2014		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Taxes	\$ 8,389,012	38.55%	\$ 7,651,413	42.84%	\$ 737,599	9.64%
Licenses and Permits	480,645	2.21%	315,086	1.76%	165,559	52.54%
Fines and Forfeitures	62,069	0.29%	66,488	0.37%	(4,419)	-6.65%
Use of Money & Property	1,082,244	4.97%	1,003,729	5.62%	78,515	7.82%
Intergovernmental	6,194,872	28.46%	3,374,022	18.89%	2,820,850	83.60%
Charges for Services	5,079,255	23.34%	4,434,327	24.83%	644,928	14.54%
Miscellaneous	476,033	2.19%	1,015,728	5.69%	(539,695)	-53.13%
Total Revenue by Source	<u>\$ 21,764,130</u>	<u>100.00%</u>	<u>\$ 17,860,793</u>	<u>100.00%</u>	<u>\$ 3,903,337</u>	

CITY OF HERCULES

Management's Discussion and Analysis June 30, 2015

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



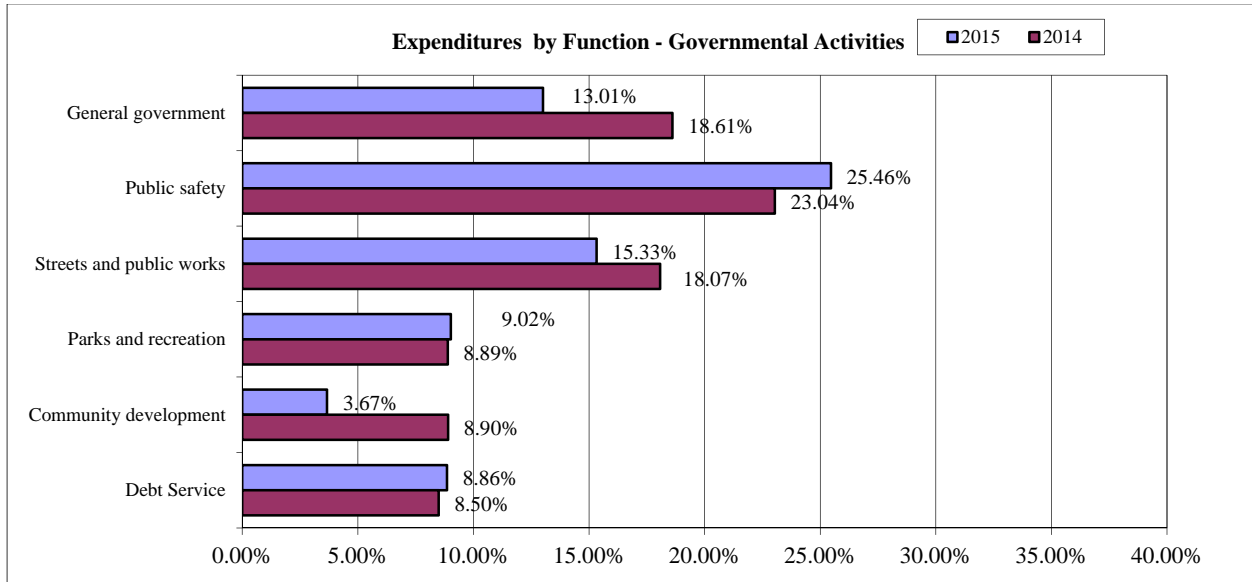
The following table presents expenditures by function compared to prior year amounts.

	FY 2015		FY 2014		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General government	\$ 2,635,701	13.01%	\$ 3,934,402	20.34%	\$ (1,298,701)	-33.01%
Public safety	5,158,435	25.46%	4,869,782	25.18%	288,653	5.93%
Streets and public works	3,104,609	15.33%	3,820,523	19.75%	(715,914)	-18.74%
Parks and recreation	1,827,391	9.02%	1,878,925	9.71%	(51,534)	-2.74%
Community development	743,110	3.67%	1,882,181	9.73%	(1,139,071)	-60.52%
Debt Service	1,793,820	8.86%	1,796,142	9.29%	(2,322)	-0.13%
Capital outlay	4,994,173	24.65%	1,161,622	6.01%	3,832,551	329.93%
Total by Function	\$ 20,257,239	100.00%	\$ 19,343,577	100.00%	\$ 913,662	

CITY OF HERCULES

Management's Discussion and Analysis June 30, 2015

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 \$9,942,508. Unrestricted net position of the enterprise funds at fiscal year-end was \$22,931,509.

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 \$2,451,619 and include \$784,294 invested in capital assets. The net position of the internal service funds decreased by \$10,874 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, 2015, amounted to \$85,517,135 (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, 2015

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	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,601,636	\$ 1,601,636	\$ 150,000	\$ 150,000	\$ 1,751,636	\$ 1,751,636
Construction In Progress	12,500,368	7,171,848	2,454,200	2,454,200	14,954,568	9,626,048
Land Improvements	9,985,733	9,985,733	--	--	9,985,733	9,985,733
Buildings & Improvements	25,861,711	25,861,711	11,335,199	11,335,199	37,196,910	37,196,910
Equipment	4,685,827	4,275,404	204,464	187,925	4,890,291	4,463,329
Infrastructure	79,490,198	79,462,448	10,161,008	9,513,058	89,651,206	88,975,506
Total	134,125,473	128,358,780	24,304,871	23,640,382	158,430,344	151,999,162
Accumulated Depreciation	(62,318,928)	(59,276,663)	(10,594,281)	(10,229,011)	(72,913,209)	(69,505,674)
Net Capital Assets	<u>\$ 71,806,545</u>	<u>\$ 69,082,117</u>	<u>\$ 13,710,590</u>	<u>\$ 13,411,371</u>	<u>\$ 85,517,135</u>	<u>\$ 82,493,488</u>

Additional information regarding capital assets is presented in note 4.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total outstanding debt obligations of \$32,216,644. Of this amount, \$20,245,000 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 Debt Obligations					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Bonds payable	16,405,000	\$ 16,770,000	\$ 10,830,000	\$ 11,070,000	\$ 27,235,000	\$ 27,840,000
Unamortized discount/refunding	(397,817)	(415,114)	(181,794)	(189,066)	(579,611)	(604,180)
Lease payable	1,282,404	1,421,878	--	--	1,282,404	1,421,878
Loans payable	5,150,000	5,250,000	--	--	5,150,000	5,250,000
Total Debt	22,439,587	23,026,764	10,648,206	10,880,934	33,087,793	33,907,698
Less Current Portion	(626,149)	(604,474)	(245,000)	(240,000)	(871,149)	(844,474)
Net Long-Term Debt	<u>\$ 21,813,438</u>	<u>\$ 22,422,290</u>	<u>\$ 10,403,206</u>	<u>\$ 10,640,934</u>	<u>\$ 32,216,644</u>	<u>\$ 33,063,224</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 5.

HIGHLIGHTS

In August 2014 the City sold Parcel C to LD Hercules Land LLC and the City has a Purchase and Sale Agreement for the Sycamore Crossing project. These parcels will generate fees for the City and ongoing utility user tax and sales tax upon build-out and completion of the projects. These activities are contributing to the City of Hercules ongoing financial sustainability. In November, 2014, the City Council combined two finance related Citizen Committees into a single five member Finance Commission to provide advice to the City Council on financial matters. On July 28, 2015, after the end of the fiscal year, the City Council placed two measures on the November 2015 ballot which sought to extend the existing sales tax and utility users' tax overrides; these two Measures were overwhelmingly supported by the voters in November and will assist the City in its progress towards fiscal sustainability.

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF HERCULES

Statement of Net Position June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 14,606,148	13,259,995	\$ 27,866,143
Cash with fiscal agent	2,080,581	6,880,124	8,960,705
Accounts receivable	1,900,072	114	1,900,186
Interest receivable	9,474	--	9,474
Prepaid expenses	10,411	--	10,411
Inventories	19,028	--	19,028
Loans receivable	2,050,411	--	2,050,411
Lease receivable	9,528,745	--	9,528,745
Due from private purpose trust fund	39,586,347	10,587,627	50,173,974
Due from other government	1,615,271	--	1,615,271
Other post employment benefit asset	222,971	--	222,971
Capital assets:			
Nondepreciable	14,102,004	2,604,200	16,706,204
Depreciable, net of accumulated depreciation	57,704,541	11,106,390	68,810,931
Total Assets	<u>143,436,004</u>	<u>44,438,450</u>	<u>187,874,454</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	<u>1,346,946</u>	<u>37,981</u>	<u>1,384,927</u>
LIABILITIES			
Accounts payable	2,642,652	136,637	2,779,289
Accrued wages	167,944	10,090	178,034
Accrued interest payable	1,338,063	204,422	1,542,485
Deposits with others	873,590	--	873,590
Claims and judgments payable	256,281	--	256,281
Noncurrent liabilities:			
Due within one year	918,690	272,167	1,190,857
Due in more than one year	21,909,862	10,403,206	32,313,068
Net pension liability	11,095,813	462,583	11,558,396
Total Liabilities	<u>39,202,895</u>	<u>11,489,105</u>	<u>50,692,000</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	<u>2,347,481</u>	<u>113,309</u>	<u>2,460,790</u>
NET POSITION			
Net investment in capital assets	65,597,425	9,942,508	75,539,933
Restricted for:			
Public safety	60,099	--	60,099
Streets and roads	5,499,747	--	5,499,747
Development	6,994,643	--	6,994,643
Debt service	8,516,238	--	8,516,238
Unrestricted	16,564,422	22,931,509	39,495,931
Total Net Position	<u>\$ 103,232,574</u>	<u>\$ 32,874,017</u>	<u>\$ 136,106,591</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 3,133,995	\$ 241,993	\$ 119,230	--
Public safety	5,094,319	409,735	113,973	--
Streets and public works	4,880,174	2,475,080	704,543	2,970,438
Parks and recreation	2,074,783	1,604,294	--	--
Community development	742,529	890,867	--	--
Interest on long term debt	1,277,353	--	--	--
Total governmental activities	<u>17,203,153</u>	<u>5,621,969</u>	<u>937,746</u>	<u>2,970,438</u>
Business-Type Activities:				
Sewer	2,834,835	6,028,122	--	--
Total business-type activities	<u>2,834,835</u>	<u>6,028,122</u>	<u>--</u>	<u>--</u>
Total City	<u>\$ 20,037,988</u>	<u>\$ 11,650,091</u>	<u>\$ 937,746</u>	<u>\$ 2,970,438</u>

General Revenues and Special Items:

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

Transfers

 Total general revenues, transfers and special item

Change in net position

 Net Position - Beginning of Year, Restated

 Net Position - End of Year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (2,772,772)		\$ (2,772,772)
(4,570,611)		(4,570,611)
1,269,887		1,269,887
(470,489)		(470,489)
148,338		148,338
<u>(1,277,353)</u>		<u>(1,277,353)</u>
<u>(7,673,000)</u>	--	<u>(7,673,000)</u>
--	\$ 3,193,287	3,193,287
--	<u>3,193,287</u>	<u>3,193,287</u>
<u>(7,673,000)</u>	<u>3,193,287</u>	<u>(4,479,713)</u>
1,173,026	--	1,173,026
2,693,075	--	2,693,075
1,011,888	--	1,011,888
3,511,023	--	3,511,023
1,554,491	--	1,554,491
1,055,791	23,484	1,079,275
476,033	--	476,033
(92,736)	92,736	--
<u>11,382,591</u>	<u>116,220</u>	<u>11,498,811</u>
3,709,591	3,309,507	7,019,098
<u>99,522,983</u>	<u>29,564,510</u>	<u>129,087,493</u>
<u>\$ 103,232,574</u>	<u>\$ 32,874,017</u>	<u>\$ 136,106,591</u>

The accompanying notes are an integral part of these financial statements.

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FUND FINANCIAL STATEMENTS

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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 Public Financing Authority 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.

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

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 OF HERCULES

Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Hercules Public Financing Authority Debt Service Fund	State Gas Tax Fund
ASSETS			
Cash and investments	\$ 6,533,504	\$ --	\$ 3,373,575
Cash and investments with fiscal agent	--	2,080,581	--
Accounts receivable	922,518	--	--
Interest receivable	9,474	--	--
Prepays	10,411	--	--
Due from other funds	276,836	--	69,796
Due from other governments	1,615,271	--	--
Inventories	8,015	--	--
Loans receivable	2,050,411	--	--
Lease receivable	--	9,528,745	--
Advances to other funds	27,787,637	6,703,250	--
Total Assets	<u>\$ 39,214,077</u>	<u>\$ 18,312,576</u>	<u>\$ 3,443,371</u>
LIABILITIES			
Accounts payable	\$ 807,608	\$ --	\$ 181,376
Accrued wages	137,687	--	3,210
Deposits payable	873,590	--	--
Claims and judgments payable	256,281	--	--
Due to other funds	--	267,593	--
Total Liabilities	<u>2,075,166</u>	<u>267,593</u>	<u>184,586</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	--	9,528,745	--
FUND BALANCES			
Nonspendable	27,806,063	--	--
Restricted	--	8,516,238	3,258,785
Assigned	1,363,528	--	--
Unassigned	7,969,320	--	--
Total Fund Balances	<u>37,138,911</u>	<u>8,516,238</u>	<u>3,258,785</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 39,214,077</u>	<u>\$ 18,312,576</u>	<u>\$ 3,443,371</u>

The accompanying notes are an integral part of these financial statements.

Measure "C" Street Fund	Other Governmental Funds	Total
\$ 710,856	\$ 1,706,388	\$ 12,324,323
--	--	2,080,581
378,114	595,305	1,895,937
--	--	9,474
--	--	10,411
--	126,556	473,188
--	--	1,615,271
11,013	--	19,028
--	--	2,050,411
--	--	9,528,745
--	5,417,515	39,908,402
<u>\$ 1,099,983</u>	<u>\$ 7,845,764</u>	<u>\$ 69,915,771</u>
\$ 2,655	\$ 1,445,301	\$ 2,436,940
3,079	17,061	161,037
--	--	873,590
--	--	256,281
--	527,650	795,243
<u>5,734</u>	<u>1,990,012</u>	<u>4,523,091</u>
<u>378,114</u>	<u>--</u>	<u>9,906,859</u>
11,013	--	27,817,076
705,122	8,590,582	21,070,727
--	35,395	1,398,923
--	(2,770,225)	5,199,095
<u>716,135</u>	<u>5,855,752</u>	<u>55,485,821</u>
<u>\$ 1,099,983</u>	<u>\$ 7,845,764</u>	<u>\$ 69,915,771</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2015

Fund Balance - total governmental funds (pages 16 and 17)	\$ 55,485,821
Amounts reported for governmental activities in the statement of net position are different because:	
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.	
Other post employment benefit asset	222,971
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	71,022,251
Deferred inflows of resources reported in statement of net position	1,320,185
Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	9,906,859
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.	2,451,619
Deferred outflows of resources reported in statement of net position	(2,267,641)
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	(1,338,063)
Revenue bonds payable	(16,007,183)
Notes payable	(5,150,000)
Capital leases payable	(1,282,404)
Compensated absences	(361,973)
Net pension liability	<u>(10,769,868)</u>
Net position of governmental activities (page 11)	<u>\$ 103,232,574</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF HERCULES

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Hercules Public Financing Authority Debt Service Fund	State Gas Tax Fund
Revenues:			
Taxes and assessments	\$ 8,389,012	\$ --	\$ --
Licenses and permits	480,645	--	--
Fines and forfeitures	62,069	--	--
Use of money and property	247,365	825,679	6,450
Intergovernmental	1,710,260	--	704,543
Charges for services	2,210,036	--	--
Other revenues	474,228	1	--
Total Revenues	<u>13,573,615</u>	<u>825,680</u>	<u>710,993</u>
Expenditures:			
Current:			
General government	2,635,701	--	--
Public safety	5,152,092	--	--
Streets and public works	203,145	--	551,382
Parks and recreation	1,827,391	--	--
Community development	394,923	--	--
Capital outlay		--	--
Debt service:			
Principal	--	365,001	--
Interest and fiscal agent fees	--	1,123,721	--
Total Expenditures	<u>10,213,252</u>	<u>1,488,722</u>	<u>551,382</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,360,363</u>	<u>(663,042)</u>	<u>159,611</u>
Other Financing Sources (Uses):			
Transfers in	111,779	572,108	45,078
Transfers out	(877,206)	--	--
Total Other Financing Sources (Uses)	<u>(765,427)</u>	<u>572,108</u>	<u>45,078</u>
Net Changes in Fund Balances	2,594,936	(90,934)	204,689
Fund Balances, Beginning of Year	34,550,345	8,607,172	3,054,096
Prior Period Adjustment	(6,370)	--	--
Fund Balances, End of Year	<u>\$ 37,138,911</u>	<u>\$ 8,516,238</u>	<u>\$ 3,258,785</u>

The accompanying notes are an integral part of these financial statements.

Measure "C" Street Fund	Other Governmental Funds	Total
\$ --	\$ --	\$ 8,389,012
--	--	480,645
--	--	62,069
395	2,355	1,082,244
371,332	3,408,737	6,194,872
--	2,869,219	5,079,255
(1)	1,805	476,033
<u>371,726</u>	<u>6,282,116</u>	<u>21,764,130</u>
--	--	2,635,701
--	6,343	5,158,435
181,933	2,168,149	3,104,609
--	--	1,827,391
--	348,187	743,110
--	4,994,173	4,994,173
--	239,473	604,474
--	65,625	1,189,346
<u>181,933</u>	<u>7,821,950</u>	<u>20,257,239</u>
<u>189,793</u>	<u>(1,539,834)</u>	<u>1,506,891</u>
99,931	653,238	1,482,134
(12,073)	(685,591)	(1,574,870)
<u>87,858</u>	<u>(32,353)</u>	<u>(92,736)</u>
277,651	(1,572,187)	1,414,155
438,484	7,427,939	54,078,036
--	--	(6,370)
<u>\$ 716,135</u>	<u>\$ 5,855,752</u>	<u>\$ 55,485,821</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2015

Net change to fund balance - total governmental funds (pages 20 and 21)		\$ 1,414,155
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 5,362,613	
Less: current year depreciation	<u>(2,872,770)</u>	2,489,843
<p>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</p>		
		(756,923)
<p>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.</p>		
Principal repayments	604,474	
Amortization of bond premiums and discounts	<u>(17,297)</u>	587,177
<p>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.</p>		
Change in compensated absences		(5,727)
Change in net pension liability and related deferred inflows/outflows		150,992
Change in post employment benefits		(110,090)
Change in accrued interest payable		(70,710)
<p>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.</p>		
		<u>10,874</u>
Change in net position of governmental activities (pages 12 and 13)		<u><u>\$ 3,709,591</u></u>

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Sewer 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.

Hercules Municipal Utilities Fund – This fund accounts for the operations of the City's electric utility that provides electrical power to areas of new development within Hercules' city limits.

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, 2015

	Business-Type Activities - <u>Enterprise Funds</u>	Governmental Activities
	Sewer Fund	Internal Service Funds
ASSETS		
Current Assets:		
Cash and investments	\$ 13,259,995	\$ 2,281,825
Cash with fiscal agent	6,880,124	--
Accounts receivable - net	<u>114</u>	<u>4,135</u>
Total Current Assets	<u>20,140,233</u>	<u>2,285,960</u>
Noncurrent Assets:		
Advances to other funds	<u>10,587,627</u>	<u>--</u>
Capital assets:		
Non-depreciable :		
Land	150,000	--
Construction in progress	<u>2,454,200</u>	<u>--</u>
Total Nondepreciable Capital Assets	<u>2,604,200</u>	<u>--</u>
Depreciable:		
Buildings and improvements	11,335,199	--
Infrastructure	10,161,008	--
Machinery and equipment	<u>204,465</u>	<u>3,578,870</u>
Total Depreciable Capital Assets	<u>21,700,672</u>	<u>3,578,870</u>
Less Accumulated Depreciation	<u>(10,594,282)</u>	<u>(2,794,576)</u>
Net Depreciable Capital Assets	<u>11,106,390</u>	<u>784,294</u>
Net Capital Assets	<u>13,710,590</u>	<u>784,294</u>
Total Noncurrent Assets	<u>24,298,217</u>	<u>784,294</u>
Total Assets	<u>44,438,450</u>	<u>3,070,254</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	<u>37,981</u>	<u>26,761</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Statement of Net Position (continued)
 Proprietary Funds
 June 30, 2015

	Business-Type Activities - <u>Enterprise Funds</u>	Governmental Activities
	Sewer Fund	Internal Service Funds
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 136,637	205,712
Salaries and benefits payable	10,090	6,907
Accrued interest payable	204,422	--
Compensated absences	27,167	26,992
Long term debt, due within one year	245,000	--
Total Current Liabilities	<u>623,316</u>	<u>239,611</u>
Noncurrent Liabilities:		
Net pension liability	462,583	325,945
Long term debt, due in more than one year	10,403,206	--
Total Noncurrent Liabilities	<u>10,865,789</u>	<u>325,945</u>
 Total Liabilities	 <u>11,489,105</u>	 <u>565,556</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	<u>113,309</u>	<u>79,840</u>
NET POSITION		
Net investment in capital assets	9,942,508	784,294
Unrestricted	22,931,509	1,667,325
Total Net Position	<u>\$ 32,874,017</u>	<u>\$ 2,451,619</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Sewer Fund</u>	<u>Internal Service Funds</u>
Operating Revenues:		
Sales and charges for services	\$ 6,028,122	\$ 895,693
Other operating revenue	--	16,449
Total Operating Revenues	<u>6,028,122</u>	<u>912,142</u>
Operating Expenses:		
Salaries and benefits	381,445	271,049
Services and supplies	1,588,584	458,996
Depreciation	365,271	169,496
Total Operating Expenses	<u>2,335,300</u>	<u>899,541</u>
Operating Income (Loss)	<u>3,692,822</u>	<u>12,601</u>
Non-Operating Revenue (Expenses):		
Interest income	23,484	(1,727)
Interest expense	(499,535)	--
Total Non-Operating Revenue (Expenses)	<u>(476,051)</u>	<u>(1,727)</u>
Income (Loss) Before Transfers and Special Item	3,216,771	10,874
Transfers:		
Transfers in	<u>92,736</u>	<u>--</u>
Change in Net Position	3,309,507	10,874
Net Position - Beginning of Year, restated	<u>29,564,510</u>	<u>2,440,745</u>
Net Position - End of Year	<u>\$ 32,874,017</u>	<u>\$ 2,451,619</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF HERCULES

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Sewer Fund</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 6,028,812	\$ --
Cash receipts from internal fund services provided	--	908,114
Cash paid to suppliers for goods and services	(1,861,461)	(587,743)
Cash paid to employees for services	<u>(377,629)</u>	<u>(270,728)</u>
Net Cash Provided (Used) by Operating Activities	<u>3,789,722</u>	<u>49,643</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	<u>92,736</u>	<u>--</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>92,736</u>	<u>--</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments related to the acquisition of capital assets	(664,490)	(234,585)
Principal repayments related to capital purposes	(240,000)	--
Interest repayments related to capital purposes	<u>(494,263)</u>	<u>--</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,398,753)</u>	<u>(234,585)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (paid)	<u>23,484</u>	<u>(1,727)</u>
Net Cash Provided (Used) by Investing Activities	<u>23,484</u>	<u>(1,727)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,507,189	(186,669)
Cash and Cash Equivalents, Beginning of Year	<u>17,632,930</u>	<u>2,468,494</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,140,119</u>	<u>\$ 2,281,825</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Fund Net Position		
Cash and investments	\$ 13,259,995	\$ 2,281,825
Cash with fiscal agent	6,880,124	--
Total Cash and Cash Equivalents	<u>\$ 20,140,119</u>	<u>\$ 2,281,825</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2015

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Sewer Fund	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 3,692,822	\$ 12,601
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	365,271	--
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	690	(4,028)
Increase (decrease) in:		
Accounts payable	(272,877)	40,749
Accrued salaries and benefits	4,538	1,559
Net pension liability	(6,399)	(4,509)
Compensated absences	5,677	3,271
Net Cash Provided (Used) by Operating Activities	\$ 3,789,722	\$ 49,643

The accompanying notes are an integral part of these financial statements.

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FIDUCIARY FUND FINANCIAL STATEMENTS

OPEB Trust Fund is used to account for funds set aside by the City each year to pre-fund future medical expenses for retired employees.

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.

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.

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CITY OF HERCULES

Statement of Fiduciary Net Position
June 30, 2015

	OPEB Trust Fund	Private Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 108,411	\$ 5,256,683	\$ 9,682,960
Cash and investments with fiscal agent	1,694,235	10,140,076	1,389,553
Due from City of Hercules	--	322,055	--
Loans receivable	--	12,521,454	--
Land held for resale	--	15,948,776	--
Capital assets:			
Depreciable	--	4,993,036	--
Nondepreciable	--	28,192,474	--
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>1,802,646</u>	<u>77,374,554</u>	<u>11,072,513</u>
 LIABILITIES			
Accounts payable	13,291	20,062,347	--
Advances from City of Hercules	--	50,496,029	--
Due to other governments	--	1,615,271	--
Deposits payable	--	--	11,072,513
Unearned revenue	--	5,197,580	--
Long-term debt			
Due within one year	--	2,845,000	--
Due in more than one year	--	112,140,247	--
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>13,291</u>	<u>192,356,474</u>	<u>11,072,513</u>
 NET POSITION			
Held in trust for others	<u>1,789,355</u>	<u>(114,981,920)</u>	<u>--</u>
	<u> </u>	<u> </u>	<u> </u>
Total Net Position	<u>\$ 1,789,355</u>	<u>\$ (114,981,920)</u>	<u>\$ --</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

	OPEB Trust Fund	Private Purpose Trust Fund
Additions		
Taxes and assessments	\$ --	\$ 5,148,260
Investment income	51,970	2,458
Other revenue	--	337,528
Total Additions	51,970	5,488,246
Deductions		
Employee benefits	52,223	--
Community development	--	12,754,868
Depreciation	--	310,157
Debt service	--	6,825,177
Total Deductions	52,223	19,890,202
Change in net position	(253)	(14,401,956)
Net Position - Beginning of Year	1,789,608	(100,579,964)
Net Position - End of Year	\$ 1,789,355	\$ (114,981,920)

The accompanying notes are an integral part of these financial statements.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

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 Agency, 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 Agency and the Authority have been accounted for as "blended" component units of the City. Despite being legally separate, the entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units 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.

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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting and Measurement Focus (continued)

Government-wide Financial Statements (continued)

The basic 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.

Hercules Public Financing Authority 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 (BioRad).

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting and Measurement Focus (continued)

Governmental Fund Financial Statements (continued)

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.

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 yearend) are recognized when due.

Non-exchange 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.

Sewer 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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting and Measurement Focus (continued)

Proprietary Fund Financial Statements (continued)

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 non-operating 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 Other Postemployment Benefits (OPEB) trust fund is accounted for using the "economic resources" measurement focus. The OPEB trust fund is used to account for resources legally held in trust for special purposes. The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The OPEB trust fund is accounted for using the accrual basis of accounting.

The City maintains ten fiduciary funds — OPEB Trust Fund, 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.

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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Investments (continued)

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

The 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.

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, fair 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

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets (continued)

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.

Interest accrued during capital assets construction, if any, is capitalized for the business-type activities and proprietary funds as part of the asset cost.

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows or 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.

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 government has 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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Long-Term Obligations (continued)

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 non-current 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.

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.

Included in total restricted net position at June 30, 2015 are net position restricted by enabling legislation of \$6,569,822.57.

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, 2015, 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 or prepaid amounts).

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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Position/Fund Balance (continued)

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.

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.

M. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for periods beginning after June 15, 2014. The principal objective of this statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions. An additional objective is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. New Accounting Pronouncements (continued)

Governmental Accounting Standards Board Statement No. 71

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, is effective for periods beginning after June 15, 2014. This statement addresses the application of contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

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	\$ 27,866,143
Cash and investments with fiscal agents	8,960,705

Statement of Fiduciary Net Position:

Cash and investments	15,048,054
Cash and investments with fiscal agents	13,223,864

Total	<u>\$ 65,098,766</u>
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Cash and investments as of June 30, 2015 consist of the following:

Deposits with financial institutions	\$ 23,410,853
Investments	41,687,913
Total	<u>\$ 65,098,766</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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and the City's Investment Policy (continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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
Non-negotiable 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

At June 30, 2015, the City held two negotiable certificates of deposit which were in excess of the City's investment policy of \$100,000 per issuer limit. The City was in compliance with state law.

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum 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	N/A	None	None
Bankers Acceptance (must be dollar denominated)	6 months	40%	30%
Commercial Paper	6 months	15%	10%
Negotiable Time Certificates of Deposits	5 years	30%	\$100,000
Non-negotiable Time Certificates of Deposits	5 years	30%	\$100,000
Federally Insured Time Deposits	1 year	20%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	15%
Mutual Funds	N/A	20%	None
Money Market Funds	N/A	None	None
Insured or Passbook Savings Accounts	N/A	None	\$100,000
Guaranteed Investment Contracts	N/A	None	None

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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	0.23%	\$ 15,295,607	\$ 15,295,607	\$ --	\$ --	\$ --	\$ --	\$ --
Certificates of Deposit	1.910% - 1.970%	503,066	--	503,066	--	--	--	--
Fed Nat Mortgage Assn	1.840% - 1.470%	2,010,340	--	2,010,340	--	--	--	--
OPEB Trust Mutual Fund	--	1,694,235	1,694,235	--	--	--	--	--
Held by Debt Trustees:								
Money Market Funds	--	21,867,232	21,867,232	--	--	--	--	--
Guaranteed Investment Contracts	--	317,381	--	--	--	--	--	317,381
State Investment Pool	--	52	52	--	--	--	--	--
Total		\$ 41,687,913	\$ 38,857,126	\$ 2,513,406	\$ --	\$ --	\$ --	\$ 317,381

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:

<u>Maturity</u>	<u>% of Portfolio</u>
Up to one year	10% (Minimum)
one year to five years	60% (Maximum)
more than five years	30% (Maximum)

Disclosures Relating to Credit Risk

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

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk (continued)

Investment Type	Amounts	Minimum Legal Rating	Exempt from Disclosure	Rating at Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 15,295,607	N/A	N/A	\$ --	\$ --	\$ --	\$ 15,295,607
Certificates of Deposit	503,066	N/A	N/A	--	--	--	503,066
Fed Nat Mortgage Assn	2,010,340	N/A	N/A	2,010,340	--	--	--
OPEB Trust Mutual Fund	1,694,235	N/A	N/A	--	--	--	1,694,235
Held by Debt Trustees:							
Money Market Funds	21,867,232	N/A	N/A	21,867,232	--	--	--
Guaranteed Investment Contracts	317,381	N/A	N/A	--	--	--	317,381
State Investment Pool	52	N/A	N/A	--	--	--	52
Total	\$ 41,687,913			\$ 23,877,572	\$ --	\$ --	\$ 17,810,341

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent more than 5% of total City investments are as follows:

Investment Type	Reporting Amount	% of Pool
Federal National Mortgage Association	\$ 2,010,340	11.3%

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, 2015, \$19,316,151 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

The City's investments are carried at fair value as required by accounting principles generally accepted in the United States of America. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end, and it includes the effects of these adjustments in investment income for that fiscal year.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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.

NOTE 3: LOANS RECEIVABLE

Loans Receivable

Loans receivable at June 30, 2015, consisted of the following:

Bio-Rad Loan	\$ 1,800,411
Employee Loans	<u>250,000</u>
Total	<u>\$ 2,050,411</u>

A. Employee Loan (Related Party)

The City loaned \$250,000 to the City Manager for the purchase of a residence within the City of Hercules. The loan is to be repaid from the proceeds of the sale of the house with no interest when the contract between the City and the City Manager is terminated. The balance outstanding as of June 30, 2015 was \$250,000. In December 2010, the City Manager terminated his employment with the City and signed a separation agreement that extends the repayment of the loan to January 9, 2016.

B. 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, 2015 was \$1,800,411.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 4: CAPITAL ASSETS

At June 30, 2015, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 1,601,636	\$ 150,000	\$ 1,751,636
Construction in progress	12,500,368	2,454,200	14,954,568
Total Nondepreciable Assets	14,102,004	2,604,200	16,706,204
Depreciable Assets:			
Land improvements	9,985,733	--	9,985,733
Buildings and improvements	25,861,711	11,335,199	37,196,910
Machinery and equipment	4,685,827	204,465	4,890,292
Infrastructure	79,490,198	10,161,008	89,651,206
Total Depreciable Assets	120,023,469	21,700,672	141,724,141
Less Accumulated Depreciation	(62,318,928)	(10,594,282)	(72,913,210)
Total Depreciable Assets, Net	57,704,541	11,106,390	68,810,931
Total Capital Assets, Net	\$ 71,806,545	\$ 13,710,590	\$ 85,517,135

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 4: CAPITAL ASSETS (CONTINUED)

The following is a summary of capital assets for governmental activities:

Governmental Activities	Balance July 1, 2014	Additions	Balance June 30, 2015
Nondepreciable Capital Assets:			
Land	\$ 1,601,636	\$ --	\$ 1,601,636
Construction in progress	7,171,848	5,328,520	12,500,368
Total Nondepreciable Capital Assets	8,773,484	5,328,520	14,102,004
Depreciable Capital Assets:			
Land improvements	9,985,733	--	9,985,733
Buildings and improvements	25,861,711	--	25,861,711
Machinery and equipment	4,275,404	410,423	4,685,827
Infrastructure	79,462,448	27,750	79,490,198
Total Depreciable Capital Assets	119,585,296	438,173	120,023,469
Accumulated Depreciation:			
Land improvements	(5,181,485)	(401,013)	(5,582,498)
Buildings and improvements	(6,291,981)	(655,047)	(6,947,028)
Machinery and equipment	(3,640,310)	(186,615)	(3,826,925)
Infrastructure	(44,162,887)	(1,799,590)	(45,962,477)
Total Accumulated Depreciation	(59,276,663)	(3,042,265)	(62,318,928)
Net depreciable capital assets	60,308,633	(2,604,092)	57,704,541
Net Capital Assets	\$ 69,082,117	\$ 2,724,428	\$ 71,806,545

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:

Governmental Activities:	
General government	\$ 455,220
Public safety	29,826
Public works	2,124,419
Parks and recreation	261,766
Community development	1,539
Capital assets held by internal services funds are charged to the various functions based on usage of the assets	169,495
Total Depreciation Expense - Governmental Activities	\$ 3,042,265

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 4: CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
<u>Sewer</u>				
Nondepreciable Capital Assets:				
Land	\$ 150,000	\$ --	\$ --	\$ 150,000
Construction in progress	2,454,200	--	--	2,454,200
Total Nondepreciable Capital Assets	<u>2,604,200</u>	<u>--</u>	<u>--</u>	<u>2,604,200</u>
Depreciable Capital Assets:				
Buildings and improvements	11,335,199	--	--	11,335,199
Machinery and equipment	187,925	16,540	--	204,465
Infrastructure	9,513,058	647,950	--	10,161,008
Total Depreciable Capital Assets	<u>21,036,182</u>	<u>664,490</u>	<u>--</u>	<u>21,700,672</u>
Less accumulated depreciation	<u>(10,229,011)</u>	<u>(365,271)</u>	<u>--</u>	<u>(10,594,282)</u>
Net depreciable capital assets	<u>10,807,171</u>	<u>299,219</u>	<u>--</u>	<u>11,106,390</u>
Net Capital Assets	<u>\$ 13,411,371</u>	<u>\$ 299,219</u>	<u>\$ --</u>	<u>\$ 13,710,590</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:

Business-Type Activities:	
Sewer	<u>\$ 365,271</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 365,271</u>

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 4: CAPITAL ASSETS (CONTINUED)

<u>Private Purpose Trust Fund</u>	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Nondepreciable Capital Assets:				
Land	\$ 217,040	\$ --	\$ --	\$ 217,040
Construction in progress	27,975,434	--	--	27,975,434
Total Nondepreciable Capital Assets	<u>28,192,474</u>	<u>--</u>	<u>--</u>	<u>28,192,474</u>
Depreciable Capital Assets:				
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	<u>9,326,324</u>	<u>--</u>	<u>--</u>	<u>9,326,324</u>
Accumulated Depreciation:				
Land improvements	(11,379)	--	--	(11,379)
Buildings and improvements	(2,546,713)	(99,436)	--	(2,646,149)
Machinery and equipment	(29,050)	(5,810)	--	(34,860)
Infrastructure	(1,435,989)	(204,911)	--	(1,640,900)
Total Accumulated Depreciation	<u>(4,023,131)</u>	<u>(310,157)</u>	<u>--</u>	<u>(4,333,288)</u>
Net depreciable capital assets	<u>5,303,193</u>	<u>(310,157)</u>	<u>--</u>	<u>4,993,036</u>
Net Capital Assets	<u>\$ 33,495,667</u>	<u>\$ (310,157)</u>	<u>\$ --</u>	<u>\$ 33,185,510</u>

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 5: LONG-TERM OBLIGATIONS

Governmental activities long-term liability activity for the fiscal year ended June 30, 2015, was as follows:

Governmental Activities	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amount Due Within One Year
2003B PFA Lease Revenue Bonds	\$ 7,220,000		\$ (230,000)	\$ 6,990,000	\$ 235,000
2009 PFA Taxable Lease Revenue Bonds	9,550,000		(135,000)	9,415,000	145,000
Discount on issuance	(415,114)		17,297	(397,817)	--
H.E.L.P. Loan	1,550,000		(50,000)	1,500,000	50,000
R.D.L.P. Loan	3,700,000		(50,000)	3,650,000	50,000
Suntrust Lease	1,421,878		(139,474)	1,282,404	146,149
Compensated absences	379,967	294,967	(285,969)	388,965	292,541
Total Long-Term Obligations	\$ 23,406,731	\$ 294,967	\$ (873,146)	\$ 22,828,552	\$ 918,690

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, 2015 is \$6,990,000.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 235,000	\$ 330,153	\$ 565,153
2017	245,000	320,073	565,073
2018	255,000	309,509	564,509
2019	270,000	297,340	567,340
2020	280,000	283,590	563,590
2021-2025	1,625,000	1,199,640	2,824,640
2026-2030	2,050,000	765,500	2,815,500
2031-2034	2,030,000	209,250	2,239,250
Total	<u>\$ 6,990,000</u>	<u>\$ 3,715,055</u>	<u>\$ 10,705,055</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, 2015 is \$9,415,000.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

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

Future debt service requirements on the 2009 Public Financing Authority Taxable Lease Revenue bonds are:

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 145,000	\$ 769,740	\$ 914,740
2017	155,000	759,240	914,240
2018	165,000	748,040	913,040
2019	175,000	736,140	911,140
2020	1,100,000	3,447,500	4,547,500
2021-2025	1,630,000	2,893,463	4,523,463
2025-2030	2,420,000	2,062,733	4,482,733
2031-2035	<u>3,625,000</u>	<u>809,550</u>	<u>4,434,550</u>
Subtotal	9,415,000	12,226,406	21,641,406
Less: Discount	<u>(397,817)</u>	<u>--</u>	<u>(397,817)</u>
Total	<u>\$ 9,017,183</u>	<u>\$ 12,226,406</u>	<u>\$ 21,243,589</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 percent simple interest effective October 31, 2013. The balance at June 30, 2015 is \$1,500,000.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

H.E.L.P. Loan Payable (continued)

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 50,000	\$ --	\$ 50,000
2017	50,000	--	50,000
2018	100,000	--	100,000
2019	100,000	--	100,000
2020	100,000	--	100,000
2021-2025	500,000	--	500,000
2026-2027	600,000	541,988	1,141,988
Total	<u>\$ 1,500,000</u>	<u>\$ 541,988</u>	<u>\$ 2,041,988</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, 4 years from February 2007 at 3% simple per annum interest. In October 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 percent simple interest effective October 31, 2013. The balance at June 30, 2015 is \$3,650,000.

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 50,000	\$ --	\$ 50,000
2017	50,000	--	50,000
2018	100,000	--	100,000
2019	100,000	--	100,000
2020	100,000	--	100,000
2021-2025	500,000	--	500,000
2026-2027	2,750,000	1,126,079	3,876,079
Total	<u>\$ 3,650,000</u>	<u>\$ 1,126,079</u>	<u>\$ 4,776,079</u>

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

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. As of June 30, 2015, the outstanding balance of the master lease agreement is \$1,282,404.

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2015 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 146,149	\$ 58,950	\$ 205,099
2017	153,144	51,955	205,099
2018	160,473	44,626	205,099
2019	168,153	36,946	205,099
2020	176,201	28,898	205,099
2021-2024	<u>478,284</u>	<u>34,463</u>	<u>512,747</u>
Total	<u>\$ 1,282,404</u>	<u>\$ 255,838</u>	<u>\$ 1,538,242</u>

Business-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2015, was as follows:

Business-Type Activities	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
2010 PFA Wastewater Revenue Bonds	\$ 11,070,000	\$ --	\$ (240,000)	\$ 10,830,000	\$ 245,000
Discount on Issuance	(189,066)	--	7,272	(181,794)	--
Compensated absences	<u>21,490</u>	<u>35,424</u>	<u>(29,747)</u>	<u>27,167</u>	<u>27,167</u>
Total Long-Term Obligations	<u>\$ 10,902,424</u>	<u>\$ 35,424</u>	<u>\$ (262,475)</u>	<u>\$ 10,675,373</u>	<u>\$ 272,167</u>

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

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 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, 2015 is \$10,830,000.

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>
2016	\$ 245,000	\$ 487,856	\$ 732,856
2017	250,000	481,975	731,975
2018	260,000	474,950	734,950
2019	265,000	467,075	732,075
2020	275,000	458,631	733,631
2021-2025	1,530,000	2,127,622	3,657,622
2026-2030	1,885,000	1,755,659	3,640,659
2031-2035	2,385,000	1,243,088	3,628,088
2036-2040	3,035,000	569,375	3,604,375
2041	700,000	17,500	717,500
Subtotal	10,830,000	8,083,731	18,913,731
Less: Discount	(181,794)	--	(181,794)
Total	<u>\$ 10,648,206</u>	<u>\$ 8,083,731</u>	<u>\$ 18,731,937</u>

Defeasance of Debt – Hercules Municipal Utility Fund

During April 2014, the City defeased revenue bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2015, \$3,990,000 of defeased bonds remain outstanding,

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 6: 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 as of June 30, 2015</u>
Reassessment District 2001-01 (Alfred Nobel)	\$ 9,810,000	\$ 2,195,000
Reassessment District 2005-1 (John Muir Parkway)	6,550,345	5,580,000

NOTE 7: 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.

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, 2015, the City's estimated claims liabilities were as follows.

General Liability	\$ 233,091
Workers Compensation	23,190
Total	<u>\$ 256,281</u>

Changes in the claims liabilities for the fiscal years ended June 30, 2014 and 2015 are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2013-2014	\$ 165,867	\$ 766,413	\$ (717,169)	\$ 215,111
2014-2015	215,111	840,684	(799,515)	256,281

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 7: RISK MANAGEMENT (CONTINUED)

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 & 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.

NOTE 8: NET POSITION/FUND BALANCES

Details of the fund balance classifications of the governmental funds as of June 30, 2015 are as follows:

	General Fund	Hercules Public Financing Authority Debt Service Fund	State Gas Tax Fund	Measure "C" Fund	Other Governmental Funds	Total
Nonspendable:						
Advances to other funds	\$ 27,787,637		\$ --	\$ --	\$ --	\$ 27,787,637
Prepays and inventory	18,426	--	--	11,013	--	29,439
Total Nonspendable	27,806,063	--	--	11,013	--	27,817,076
Restricted for:						
Streets and roads	--	--	3,258,785	705,122	1,535,840	5,499,747
Public safety	--	--	--	--	60,099	60,099
Development	--	--	--	--	6,994,643	6,994,643
Debt service	--	8,516,238	--	--	--	8,516,238
Total Restricted	--	8,516,238	3,258,785	705,122	8,590,582	21,070,727
Assigned for:						
Economic uncertainty	1,363,528	--	--	--	--	1,363,528
Total Assigned	1,363,528	--	--	--	--	1,363,528
Unassigned	7,969,320	--	--	--	(2,770,225)	5,199,095
Total Fund Balance	\$ 37,138,911	\$ 8,516,238	\$ 3,258,785	\$ 716,135	\$ 5,820,357	\$ 55,450,426

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 8: NET POSITION/FUND BALANCES (CONTINUED)

Restatement of Fund Balance/Net Position

Adjustments resulting from errors or changes to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the City reports these changes as restatements of beginning fund balance or net position.

	Governmental Activities	Business-Type Activities	Total
Fund balance as of June 30, 2014, as previously reported	\$ 112,610,019	\$ 30,108,820	\$ 142,718,839
<u>Implementation of New Accounting Standard</u>			
Net pension liability adjustment due to GASB 68	(12,251,849)	(544,310)	(12,796,159)
<u>Restatement</u>			
Adjust balance from closed entity HMU to General Fund	208	-	208
Accrue interest from prior years on HELP and RDLP loans	(828,817)	-	(828,817)
Reclassification of expense to the proper fund	(6,578)	-	(6,578)
Total prior period adjustment	(13,087,036)	(544,310)	(13,631,346)
Fund balance as of July 1, 2014, restated	\$ 99,522,983	\$ 29,564,510	\$ 129,087,493

NOTE 9: CAPITAL LEASE – SALES TYPE

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 (15th) 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 (15th) 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 (15th) anniversary date; (ii) the twentieth (20th) anniversary date; or (iii) the twenty-fifth (25th) 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).

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 9: CAPITAL LEASE – SALES TYPE (CONTINUED)

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:

Fiscal Year Ended <u>June 30,</u>	<u>Amounts</u>
2016	\$ 818,826
2017	841,542
2018	864,258
2019	886,974
2020	895,970
2021-2025	4,573,630
2026-2030	4,751,150
2031-2035	4,933,280
2036-2038	<u>3,168,550</u>
	21,734,180
Less: Unearned Income	<u>(12,205,435)</u>
Net Investment in Lease Receivable	<u><u>\$ 9,528,745</u></u>

NOTE 10: INTERFUND TRANSACTIONS

Long-Term Advances

At June 30, 2015, the City had the following long-term advances:

Advances from/to other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Private Purpose Trust Fund	\$ 27,787,637
Nonmajor Governmental Funds	Private Purpose Trust Fund	5,417,515
Sewer Fund	Private Purpose Trust Fund	10,587,627
Public Financing Authority Debt Service	Private Purpose Trust Fund	6,703,250
Total		<u><u>\$ 50,496,029</u></u>

The advances represent outstanding loans to the former redevelopment agency of the City, now a private purpose trust fund.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 10: INTERFUND TRANSACTIONS (CONTINUED)

Due To/From Other Funds

Due to/from other funds as of June 30, 2015 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 276,836
State Gas Tax Fund	Other Governmental Funds	69,796
Nonmajor Governmental Funds	Other Governmental Funds	126,555
Private Purpose Trust Fund	Other Governmental Funds	322,055
Total		<u>\$ 795,242</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	Hercules Public Financing Authority Debt Service Fund	\$ 572,108	Debt service
	Nonmajor Governmental Funds	305,098	Debt service
Measure "C"	Nonmajor Governmental Funds	12,073	Capital projects
Nonmajor Governmental Funds	General Fund	111,779	COPS program
	Measure "C"	99,931	Capital projects
	Nonmajor Governmental Funds	45,078	Capital projects
	Enterprise Funds	92,736	Sewer
		<u>\$ 1,238,803</u>	

NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM

1. 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 non-duty 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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

1. General Information about the Pension Plans (continued)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	2.0 @ 55	2% @ 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 % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	11.92%	6.25%
	Safety Tier 1	Safety Tier 2
Hire Date		
Benefit formula	3.0% @ 50	2.0% @ 50
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 63
Monthly benefits, as a % of eligible compensation	3%	2 - 2.7%
Required employee contribution rates	9%	9%
Required employer contribution rates	28.65%	20.92%

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.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	Safety Tier 1	Safety Tier 2
Contributions - employer	\$ 453,201	\$ 509,800	\$ 441
Contributions - employee	269,081	184,974	13,843

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>	
Miscellaneous	\$	4,699,656
Safety Tier 1		6,855,187
Safety Tier 2		3,553
Total Net Pension Liability	\$	<u>11,558,396</u>

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, 2014, 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, 2013 rolled forward to June 30, 2014 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, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Proportion - June 30, 2013	0.17955%	0.16847%	0.00010%
Proportion - June 30, 2014	0.19015%	0.18276%	0.00009%
Change - Increase (Decrease)	0.01060%	0.01429%	-0.00001%

For the year ended June 30, 2015, the City recognized pension expense of \$1,001,752. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 1,352,203	\$ --
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	--	(35,001)
Net differences between projected and actual earnings on plan investments	--	(2,393,064)
Total	<u>\$ 1,352,203</u>	<u>\$ (2,428,065)</u>

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The City reported \$1,352,203 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 year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2015	\$ (610,765)
2016	(610,765)
2017	(608,266)
2018	(598,269)
2019	<u> --</u>
Total	<u><u>\$ (2,428,065)</u></u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Hired Prior to <u>1/1/2013</u>	Miscellaneous Hired After to <u>1/1/2013</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Valuation Date	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method		Entry-Age Normal Cost Method	
Actuarial Assumptions:				
Discount Rate	7.5%	7.5%	7.5%	7.5%
Inflation	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.0%	3.0%	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)	7.5% (2)	7.5% (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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11 + (b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100.0%</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:

	Disclosure Rate		
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net Pension Liability			
Miscellaneous	\$ 7,546,468	\$ 4,699,656	\$ 2,337,073
Safety Tier 1	10,185,421	6,855,187	4,111,219
Safety Tier 2	6,114	3,553	1,442
Total	<u>\$ 17,738,003</u>	<u>\$ 11,558,396</u>	<u>\$ 6,449,734</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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

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: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City provides certain health insurance benefits to retired employees in accordance with memorandums of understanding with each employee group as follows:

For employees who retire from the City of Hercules after at least five (5) years of service with the City and who have reached the age of fifty (50) years old, and who continue health insurance through a City-sponsored health insurance plan, the City will contribute the minimum monthly amount of \$115 of the health insurance premium. For police and police management retirees who have at least ten (10) years of service, or twenty (20) years of service if they retire on disability and continue receiving health insurance through a City-sponsored health insurance plan, the City will contribute a percentage of \$297.38/month for police and \$223.73/month for senior managers, based on the retirees accumulated sick leave and years of service, at retirement. As soon as the retiree is eligible for Medicare, the City will contribute a percentage of the retirees' Kaiser Medicare supplement.

Funding Policy

The City's policy is to contribute an amount sufficient to pay the current year's premiums and set-aside an amount equal to the annual required contribution, based on a twenty (20) year amortization. For fiscal year 2014-2015, the City contributed \$38,910, which covered current premiums, and also transferred \$0 to the Public Agency Retirement Services. Currently, there are seven (7) retirees who are receiving benefits.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 13: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years (the City has elected a twenty year amortization period). The following table shows the components of the City's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 136,000
Interest on net OPEB obligation (asset)	(22,000)
Amortization of net OPEB obligation (asset)	35,000
Annual OPEB cost (expense)	149,000
Contributions made	(38,910)
Increase in net OPEB obligation	110,090
Net OPEB obligation (asset) - beginning of fiscal year	(333,061)
Net OPEB obligation (asset) - end of fiscal year	\$ (222,971)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2014, and 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation (Asset)
6/30/2013	\$ 224,000	116%	\$ (291,468)
6/30/2014	229,000	118%	(333,061)
6/30/2015	149,000	26%	(222,971)

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was 67.6% funded. The actuarial accrued liability for benefits was \$1,968,000, and the actuarial value of assets based on the June 30, 2015 Public Agency Retirement Services statement was \$1,694,235, resulting in an unfunded actuarial accrued liability (UAAL) of \$273,765. The covered payroll (annual payroll of active employees covered by the plan) was \$3,383,000, and the ratio of the UAAL to the covered payroll was 8.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF HERCULES

Notes to Financial Statements June 30, 2015

NOTE 13: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions (continued)

In the June 30, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return, which is the expected long-term investment returns on plan assets, a projected salary increase assumption rate of 3.25 percent, and an annual healthcare cost trend rate of 5 percent. The actuarial value of asset gains or losses are recognized over five years. The UAAL is being amortized as a level percentage of covered payroll over twenty years. The remaining amortization period at June 30, 2015 was 13 years.

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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 14: COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Commitments (continued)

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 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 that confirms that Ambac will receive the unencumbered proceeds from the sale of Victoria Crescent and Parcel C, and does not obligate the City's general fund.

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 expenditures, which amounted to \$36,675 for fiscal year 2014-2015.

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.

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.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 16: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances/Net Position

As of June 30, 2015, the following funds had a deficit fund balance/net position:

	<u>Balances</u>
Nonmajor Governmental Funds:	
Stormwater Assessment Special Revenue Fund	\$ 66,952
Grants Special Revenue Fund	26,092
AB1939 - JPA Special Revenue Fund	5,700
Capital Projects Fund	2,671,481
Fiduciary Fund:	
Private Purpose Trust Fund	\$ 114,981,920

Private Purpose Trust Fund negative net position of \$114,981,920 will be financed through future revenues. Stormwater negative fund balance of \$66,652 will be financed through future revenues. Grants Special Revenue negative fund balance of \$26,092 will be financed through grants awarded to the City of Hercules. AB1939 – JPA Special Revenue Fund negative fund balance of \$5,700 will be financed through Solid Waste Recycling Revenue. Capital Projects negative fund balance of \$2,671,481 will be financed through revenues from local funding sources.

Expenditures in Excess of Appropriations

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

	<u>Excess of Appropriations</u>
Nonmajor Governmental Funds:	
LLAD Fund	\$ 57,102
AB 939 - JPA Fund	6,343
STMP Traffic Impact Fund	114,170

NOTE 17: FINANCIAL CONDITION

Of the \$39.21 million reported as assets in the General Fund, 70.86 percent of the balance represents interfund loans with the former Redevelopment Agency (Agency), now a private purpose trust fund of the City. The City is also reporting significant advances to the Agency in other funds.

CITY OF HERCULES

Notes to Financial Statements
June 30, 2015

NOTE 17: FINANCIAL CONDITION (CONTINUED)

A recap of the funds with outstanding loans due from the Agency at June 30, 2015 is below:

	Total Assets	Advances to Agency	Percentage of Assets Representing Advances to Agency
General Fund	\$ 39,214,077	\$ 27,787,637	70.9%
Hercules Public Financing Authority Debt Service Fund	18,312,576	6,703,250	36.6%
Nonmajor Governmental Funds:			
Developer Impact Fees	6,578,686	5,254,315	79.9%
Community Development	289,440	163,200	56.4%
Sewer Fund	<u>20,140,233</u>	<u>10,587,627</u>	<u>52.6%</u>
Total	<u>\$ 84,535,012</u>	<u>\$ 50,496,029</u>	<u>59.7%</u>

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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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HERCULES

Required Supplementary Information
June 30, 2015

SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS PLAN (OPEB)

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2013*	\$ 2,155,000	\$ 1,044,621 ***	\$ 1,110,379	48.5%	\$ 4,798,000	23.1%
6/30/2014**	1,968,000	1,429,000 ***	539,000	72.6%	3,383,000	15.9%
6/30/2015**	1,968,000	1,694,235 ***	273,765	86.1%	3,383,000	8.1%

* Source: 6/30/11 Retiree Healthcare Plan Actuarial Valuation

** Source: 6/30/14 Retiree Healthcare Plan Actuarial Valuation

*** Source: 6/30 Public Agency Retirement Services (PARS) Statement

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years*	Miscellaneous 6/30/2014	Safety Tier 1 6/30/2014	Safety Tier 2 6/30/2014
Proportion of the net pension liability	0.19015%	0.18276%	0.00009%
Proportionate share of the net pension liability	\$ 4,699,656	\$ 6,855,187	\$ 3,553
Covered-employee payroll	\$ 3,241,378	\$ 1,863,297	\$ 79,368
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	144.99%	367.91%	4.48%
Plan fiduciary net position as a percentage of the total pension liability	78.10%	72.43%	81.42%

*Fiscal year 2015 was the 1st year of implementation. Additional years will be presented as they become available.

CITY OF HERCULES

Required Supplementary Information
June 30, 2015

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years*	Miscellaneous 6/30/2014	Safety Tier 1 6/30/2014	Safety Tier 2 6/30/2014
Actuarially determined contribution	\$ 353,148	\$ 765,952	\$ 32,892
Contributions related to the actuarially determined contribution	353,148	765,952	32,892
Contribution deficiency (excess)	\$ -	\$ -	\$ -
County's covered-employee payroll	\$ 3,241,378	\$ 1,863,297	\$ 79,368
Contributions as a percentage of covered-employee payroll	10.89%	41.11%	41.44%

*Fiscal year 2015 was the 1st year of implementation. Additional years will be presented as they become available.

Notes to schedule

Validation date 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by entry age and service
	7.75%, net of pension plan investment expense, including inflation
Investment rate of return	
Retirement age	59 years Misc., 54 years Safety
	Derived using CalPERS' membership data for all funds
Mortality	

CITY OF HERCULES

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 6,651,164	\$ 6,783,025	\$ 8,389,012	\$ 1,605,987
Licenses and permits	335,600	335,600	480,645	145,045
Fines, forfeits and penalties	30,000	30,000	62,069	32,069
Revenue from use of money and property	859,203	859,203	243,165	(616,038)
Aid from other governments	1,356,500	1,356,500	1,710,260	353,760
Charges for services	2,049,500	2,129,500	2,210,036	80,536
Miscellaneous revenue	521,335	521,335	474,228	(47,107)
Total Revenues	11,803,302	12,015,163	13,569,415	1,554,252
Expenditures:				
Current:				
General government:				
City Council	259,898	259,898	220,652	39,246
City manager	356,147	431,147	335,458	95,689
Legal services	664,715	664,715	259,370	405,345
Management services	275,681	275,681	229,195	46,486
City clerk	--	--	215	(215)
Cable TV	64,022	64,022	55,144	8,878
Risk management	657,651	657,651	512,328	145,323
Recruitment	164,997	164,997	167,311	(2,314)
Finance/operations	893,918	893,918	838,810	55,108
Finance/debt service	568,468	568,468	-	568,468
Miscellaneous	305,099	305,099	23,575	281,524
Unreconciled difference	--	--	(6,357)	6,357
Total general government	4,210,596	4,285,596	2,635,701	1,649,895
Public safety:				
Police administration	2,224,536	2,224,536	2,062,726	161,810
Police patrol	3,091,976	3,091,976	3,089,366	2,610
Total public safety	5,316,512	5,316,512	5,152,092	164,420
Streets and public works:				
Street facilities	173,028	173,028	166,838	6,190
Engineering	20,958	20,958	36,307	(15,349)
Total streets and public works	193,986	193,986	203,145	(9,159)
Parks and recreation:				
Library	103,758	103,758	86,588	17,170
Administration	1	1	10,794	
Facility rental	137,812	154,812	172,461	(17,649)
Day camp	138,472	138,472	129,557	8,915
Child care	585,096	585,096	532,733	52,363
Recreation classes	103,893	124,893	116,854	8,039
Senior citizens	48,080	48,080	55,548	(7,468)
Tiny tots	146,681	146,681	148,732	(2,051)
Swim center	327,322	327,322	276,144	51,178
Sports program	151,124	181,124	184,379	(3,255)
Teen program	17,448	17,448	14,606	2,842
Youth and teen resource center	137,618	137,618	98,995	38,623
Total parks and recreation	1,897,305	1,965,305	1,827,391	137,914

continued

CITY OF HERCULES

Budgetary Comparison Schedule (continued)
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures (continued):				
Current (continued):				
Community development:				
Business and regional planning	\$ 311,596	\$ 311,596	\$ 282,256	\$ 29,340
Building inspection	109,842	109,842	112,667	(2,825)
Total community development	<u>421,438</u>	<u>421,438</u>	<u>394,923</u>	<u>26,515</u>
Total Expenditures	<u>12,039,837</u>	<u>12,182,837</u>	<u>10,213,252</u>	<u>1,969,585</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(236,535)</u>	<u>(167,674)</u>	<u>3,356,163</u>	<u>3,523,837</u>
Other Financing Sources (Uses):				
Transfers in	--	--	111,779	111,779
Transfers out	<u>(877,206)</u>	<u>(877,206)</u>	<u>(877,206)</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>(877,206)</u>	<u>(877,206)</u>	<u>(765,427)</u>	<u>111,779</u>
Net Change in Fund Balances	(1,113,741)	(1,044,880)	2,590,736	3,635,616
Budgetary Fund Balances - Beginning of Year			<u>34,550,345</u>	
Budgetary Fund Balances - End of Year			<u>\$ 37,141,081</u>	

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

	Budgetary Comparison Schedule	Funds Not Budgeted	Statement of Revenues, Expenditures and Changes in Fund Balance
Total revenues	\$ 13,569,415	\$ 4,200	\$ 13,573,615
Total expenditures	<u>10,213,252</u>	<u>--</u>	<u>10,213,252</u>
Revenues over (under) expenditures	3,356,163	4,200	3,360,363
Total other financing sources (uses)	<u>(765,427)</u>	<u>--</u>	<u>(765,427)</u>
Net change in fund balances	<u>\$ 2,590,736</u>	<u>\$ 4,200</u>	<u>\$ 2,594,936</u>

CITY OF HERCULES

Budgetary Comparison Schedule
 State Gas Tax Special Revenue Fund
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 7,000	\$ 7,000	\$ 6,450	\$ (550)
Intergovernmental revenues	700,616	700,616	704,543	3,927
Total Revenues	<u>707,616</u>	<u>707,616</u>	<u>710,993</u>	<u>3,377</u>
Expenditures:				
Current:				
Streets and public works	<u>1,141,508</u>	<u>1,636,008</u>	<u>551,382</u>	<u>1,084,626</u>
Total Expenditures	<u>1,141,508</u>	<u>1,636,008</u>	<u>551,382</u>	<u>1,084,626</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(433,892)</u>	<u>(928,392)</u>	<u>159,611</u>	<u>1,088,003</u>
Other Financing Sources (Uses):				
Transfer in	<u>--</u>	<u>--</u>	<u>45,078</u>	<u>45,078</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>45,078</u>	<u>45,078</u>
Net Change in Fund Balances	(433,892)	(928,392)	204,689	1,133,081
Fund Balances - Beginning of Year	<u>3,054,096</u>	<u>3,054,096</u>	<u>3,054,096</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 2,620,204</u>	<u>\$ 2,125,704</u>	<u>\$ 3,258,785</u>	<u>\$ 1,133,081</u>

CITY OF HERCULES

Budgetary Comparison Schedule
Measure "C" Street Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 4,300	\$ 4,300	\$ 395	\$ (3,905)
Intergovernmental revenues	250,000	250,000	371,332	121,332
Other revenues	--	--	(1)	(1)
Total Revenues	<u>254,300</u>	<u>254,300</u>	<u>371,726</u>	<u>117,426</u>
Expenditures:				
Current:				
Streets and public works	<u>347,530</u>	<u>347,530</u>	<u>181,933</u>	<u>165,597</u>
Total Expenditures	<u>347,530</u>	<u>347,530</u>	<u>181,933</u>	<u>165,597</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(93,230)</u>	<u>(93,230)</u>	<u>189,793</u>	<u>283,023</u>
Other Financing Sources (Uses):				
Transfer in	--	--	99,931	99,931
Transfers out	--	--	(12,073)	(12,073)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>87,858</u>	<u>87,858</u>
Net Change in Fund Balances	(93,230)	(93,230)	277,651	370,881
Fund Balances - Beginning of Year	<u>438,484</u>	<u>438,484</u>	<u>438,484</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 345,254</u>	<u>\$ 345,254</u>	<u>\$ 716,135</u>	<u>\$ 370,881</u>

CITY OF HERCULES

Notes to Required Supplementary Information June 30, 2015

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, 2015, 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 reappropriated 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 rebudgeted 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.