

**CITY OF HERCULES  
CALIFORNIA**

**ANNUAL FINANCIAL REPORT  
For the fiscal year ended  
June 30, 2016**



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**CITY OF HERCULES**

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For the fiscal year ended June 30, 2016

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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, 2016, 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, 2016, 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**

#### *Prior period adjustments*

As disclosed in Note 8 to the financial statements, prior period adjustments were recorded for the correction of errors in prior year financial statements. Our opinion is not modified with respect to this matter.

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

As described in Note 17 to the financial statements, the City's General and Wastewater Funds have outstanding loans of \$28.6 million and \$10.6 million, respectively, owed by the former redevelopment agency (Agency), now a private purpose trust fund of the City. This outstanding loan represents approximately 71 percent of the City's General Fund's assets and 25 percent of the Wastewater Fund's assets. The City is also reporting significant advances to the Agency in other funds. The written agreement between the Agency and the City to fund costs on behalf of the Agency was signed within two years of the creation of the Agency. Under Assembly Bill X1 26 (Redevelopment Dissolution Act), a written agreement between a redevelopment agency and the city that created it that provided loans or other startup funds for the redevelopment agency that were entered into within two years of the formation of the redevelopment agency are valid. The City is currently working with the State Department of Finance to determine the outcome of these loans. The possible outcome of this matter cannot presently be determined. Accordingly, no provision for any allowance for doubtful accounts has been made in the financial statements for possible forgiveness of these loans.

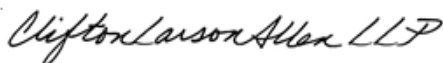
### **Other Matters**

#### *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 27, 2017 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 27, 2017



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

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## CITY OF HERCULES

### Management's Discussion and Analysis June 30, 2016

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, 2016. 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 \$143,602,830 (*net position*). Net position of \$7,026,074 are restricted for specific purposes (*restricted net position*), and \$79,451,423 represents net investment in capital assets. Unrestricted net position was \$57,125,333. The government's total net position, as adjusted, increased by \$12,373,268 in comparison with the prior year.
- The City's net investment in capital assets, increased by \$3,911,490.
- The City's governmental funds reported combined fund balances of \$52,541,729, a decrease of \$1,999,172 in comparison with the prior year, as adjusted. The unassigned portion of those fund balances was \$1,254,610.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- The *statement of net position* presents information on all City assets and deferred outflows and liabilities and deferred inflows, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and 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, 2016

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

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

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

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

The City maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Hercules Debt Service Fund, State Gas Tax Fund, Measure "C" Street Fund 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.

*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, 2016

*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 \$143,602,830 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 5% 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 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Current and Other Assets	\$ 75,389,749	\$ 71,629,459	\$ 33,090,914	\$ 30,727,860	\$ 108,480,663	\$ 102,357,319
Capital Assets	73,330,454	71,806,545	14,674,260	13,710,590	88,004,714	85,517,135
Total Assets	148,720,203	143,436,004	47,765,174	44,438,450	196,485,377	187,874,454
Deferred Outflows of Resources						
Deferred outflows - pensions	2,490,422	1,346,946	74,977	37,981	2,565,399	1,384,927
Current Liabilities	6,159,907	5,278,530	2,543,303	351,149	8,703,210	5,629,679
Long-Term Liabilities	33,917,635	33,924,365	10,920,462	11,137,956	44,838,097	45,062,321
Total Liabilities	40,077,542	39,202,895	13,463,765	11,489,105	53,541,307	50,692,000
Deferred Inflows of Resources						
Deferred inflows - pensions	1,810,697	2,347,481	95,942	113,309	1,906,639	2,460,790
Net investment in capital assets	67,814,198	65,597,425	11,637,225	9,942,508	79,451,423	75,539,933
Restricted	7,026,074	14,361,777	--	--	7,026,074	14,361,777
Unrestricted	34,482,114	23,273,372	22,643,219	22,931,509	57,125,333	46,204,881
Total Net Position	\$ 109,322,386	\$ 103,232,574	\$ 34,280,444	\$ 32,874,017	\$ 143,602,830	\$ 136,106,591

A significant portion of the City's net position, \$79,451,423, 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, 2016

The restricted portion of the City's net position, \$7,026,074, 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 \$57,125,333. It is to be noted that GASB 54 classifies long-term payroll liabilities to the unrestricted category. These reclassifications include liabilities for pensions, 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, increased by \$12,373,268 during the current fiscal year. The increase in net position is primarily attributed to the increase in grant reimbursement receivable. Sales tax went up by \$5.18 million. The miscellaneous revenue also went up by \$553,000.

The City's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Revenues						
Program Revenues:						
Fees, fines and charges for services	\$ 5,065,400	\$ 5,621,969	\$ 5,595,044	\$ 6,028,122	\$ 10,660,444	\$ 11,650,091
Operating grants/contributions	1,493,568	937,746	--	--	1,493,568	937,746
Capital grants/contributions	8,800,824	2,970,438	--	--	8,800,824	2,970,438
General Revenues:						
Property taxes	1,233,207	1,173,026	--	--	1,233,207	1,173,026
Sales taxes	3,211,109	2,693,075	--	--	3,211,109	2,693,075
Franchise taxes	960,124	1,011,888	--	--	960,124	1,011,888
Other taxes	3,628,145	3,511,023	--	--	3,628,145	3,511,023
Motor vehicle taxes in-lieu	1,645,846	1,554,491	--	--	1,645,846	1,554,491
Interest and investment income	1,133,587	1,055,791	24,058	23,484	1,157,645	1,079,275
Miscellaneous	1,029,258	476,033	--	--	1,029,258	476,033
Total Revenues	<u>28,201,068</u>	<u>21,005,480</u>	<u>5,619,102</u>	<u>6,051,606</u>	<u>33,820,170</u>	<u>27,057,086</u>
Expenses						
General government	3,706,717	3,133,995	--	--	3,706,717	3,133,995
Public safety	5,299,440	5,094,319	--	--	5,299,440	5,094,319
Streets and public works	4,667,439	4,880,174	--	--	4,667,439	4,880,174
Parks and recreation	2,216,525	2,074,783	--	--	2,216,525	2,074,783
Community development	400,754	742,529	--	--	400,754	742,529
Interest and long-term debt	1,301,053	1,277,353	--	--	1,301,053	1,277,353
Sewer	--	--	3,854,974	2,834,835	3,854,974	2,834,835
Total Expenses	<u>17,591,928</u>	<u>17,203,153</u>	<u>3,854,974</u>	<u>2,834,835</u>	<u>21,446,902</u>	<u>20,037,988</u>
Increase(decrease) in net position before transfers	10,609,140	3,802,327	1,764,128	3,216,771	12,373,268	7,019,098
Transfers	(10,452)	(92,736)	10,452	92,736	--	--
Change in Net Position	10,598,688	3,709,591	1,774,580	3,309,507	12,373,268	7,019,098
Net Position - Beginning, Restated	<u>98,723,698</u>	<u>99,522,983</u>	<u>32,505,864</u>	<u>29,564,510</u>	<u>131,229,562</u>	<u>129,087,493</u>
Net Position - Ending	<u>\$ 109,322,386</u>	<u>\$ 103,232,574</u>	<u>\$ 34,280,444</u>	<u>\$ 32,874,017</u>	<u>\$ 143,602,830</u>	<u>\$ 136,106,591</u>

## CITY OF HERCULES

### Management's Discussion and Analysis June 30, 2016

#### 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, 2016, the City's governmental funds reported combined fund balances of \$52,541,729. Of these combined fund balances, \$1,254,610 constitutes unassigned fund balance, which is available to meet the City's current and future needs.

The General Fund is the chief operating fund of the City. At June 30, 2016, unassigned fund balance was \$8,291,363, while total fund balance was \$39,106,470. 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 75% of total General Fund expenditures, while the total fund balance represents 354% of total General Fund expenditures.

Total governmental funds Fund Balance decreased by \$1,999,172 in comparison with the prior year. The major governmental funds had changes in fund balance as follows:

Hercules Debt Service Fund decreased by \$89,002, Measure "C" Fund increased by \$297,258 and State Gas Tax Fund decreased \$2,557,367. The non-major (other) governmental funds decreased by \$1,617,620. The decrease in Hercules Debt Service is primarily due to the reduction in the lease receivable.

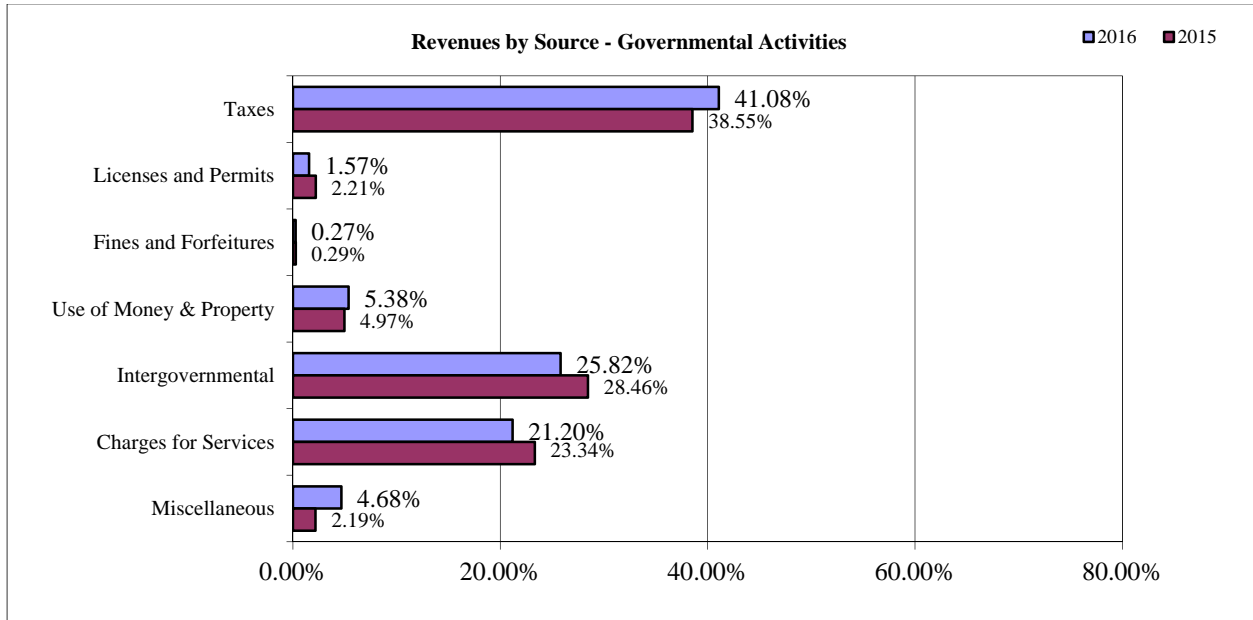
The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues Classified by Source Governmental Funds						
	FY 2016		FY 2015		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Taxes	\$ 9,032,585	41.08%	\$ 8,389,012	38.55%	\$ 643,573	7.67%
Licenses and Permits	344,374	1.57%	480,645	2.21%	(136,271)	-28.35%
Fines and Forfeitures	60,434	0.27%	62,069	0.29%	(1,635)	-2.63%
Use of Money & Property	1,183,964	5.38%	1,082,244	4.97%	101,720	9.40%
Intergovernmental	5,677,447	25.82%	6,194,872	28.46%	(517,425)	-8.35%
Charges for Services	4,660,592	21.20%	5,079,255	23.34%	(418,663)	-8.24%
Miscellaneous	1,029,258	4.68%	476,033	2.19%	553,225	116.22%
Total Revenue by Source	\$ 21,988,654	100.00%	\$ 21,764,130	100.00%	\$ 224,524	

## CITY OF HERCULES

### Management's Discussion and Analysis June 30, 2016

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.

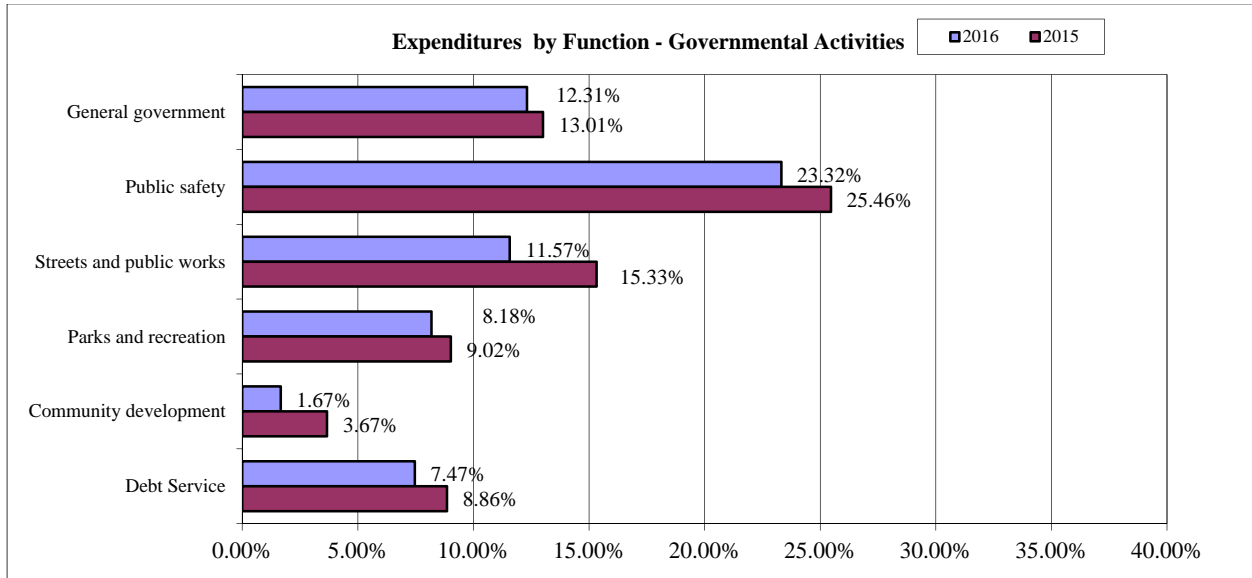
	FY 2016		FY 2015		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General government	\$ 2,952,966	12.32%	\$ 2,635,701	13.01%	\$ 317,265	12.04%
Public safety	5,589,583	23.32%	5,158,435	25.46%	431,148	8.36%
Streets and public works	2,772,877	11.57%	3,104,609	15.33%	(331,732)	-10.69%
Parks and recreation	1,961,669	8.18%	1,827,391	9.02%	134,278	7.35%
Community development	399,215	1.67%	743,110	3.67%	(343,895)	-46.28%
Debt Service	1,790,312	7.47%	1,793,820	8.86%	(3,508)	-0.20%
Capital outlay	8,504,827	35.48%	4,994,173	24.65%	3,510,654	70.30%
<b>Total by Function</b>	<b>\$ 23,971,449</b>	<b>100.00%</b>	<b>\$ 20,257,239</b>	<b>100.00%</b>	<b>\$ 3,714,210</b>	



## CITY OF HERCULES

### Management's Discussion and Analysis June 30, 2016

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 \$11,637,225. Unrestricted net position of the enterprise funds at fiscal year-end was \$22,643,219.

*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 \$2,315,594 and include \$777,477 invested in capital assets. The net position of the internal service funds decreased by \$133,833 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, 2016, amounted to \$88,004,714 (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, 2016

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	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,601,636	\$ 1,601,636	\$ 191,700	\$ 150,000	\$ 1,793,336	\$ 1,751,636
Construction In Progress	16,924,395	12,500,368	2,664,402	2,454,200	19,588,797	14,954,568
Land Improvements	11,720,361	9,985,733	--	--	11,720,361	9,985,733
Buildings & Improvements	25,861,711	25,861,711	11,335,199	11,335,199	37,196,910	37,196,910
Equipment	4,327,660	4,685,827	233,806	204,464	4,561,466	4,890,291
Infrastructure	81,229,126	79,490,198	11,702,090	10,161,008	92,931,216	89,651,206
Total	141,664,889	134,125,473	26,127,197	24,304,871	167,792,086	158,430,344
Accumulated Depreciation	(68,334,435)	(62,318,928)	(11,452,937)	(10,594,281)	(79,787,372)	(72,913,209)
Net Capital Assets	<u>\$ 73,330,454</u>	<u>\$ 71,806,545</u>	<u>\$ 14,674,260</u>	<u>\$ 13,710,590</u>	<u>\$ 88,004,714</u>	<u>\$ 85,517,135</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 \$31,491,213. Of this amount, \$19,855,000 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	
	2016	2015	2016	2015	2016	2014
Bonds payable	16,025,000	16,405,000	\$ 10,585,000	\$ 10,830,000	\$ 26,610,000	\$ 27,235,000
Unamortized discount/refunding	(380,520)	(397,817)	(174,522)	(181,794)	(555,042)	(579,611)
Lease payable	1,136,255	1,282,404	--	--	1,136,255	1,282,404
Loans payable	5,050,000	5,150,000	--	--	5,050,000	5,150,000
Total Debt	21,830,735	22,439,587	10,410,478	10,648,206	32,241,213	33,087,793
Less Current Portion	(653,144)	(626,149)	(250,000)	(245,000)	(903,144)	(871,149)
Net Long-Term Debt	<u>\$ 21,177,591</u>	<u>\$ 21,813,438</u>	<u>\$ 10,160,478</u>	<u>\$ 10,403,206</u>	<u>\$ 31,338,069</u>	<u>\$ 32,216,644</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

During FY 2015-16, the City of Hercules commenced construction on the Path-to-Transit phase of the Regional Intermodal Transit Center and the Victoria Crescent project. The Aventine Building, with 144 apartments was also completed.

The City also made use of the League of California Cities' financial diagnostic tool for the first time. This tool was used to bring the City of Hercules' financial condition more clearly into focus. The tool includes a 13-point report card that grades the near-term financial health of a city's General Fund and other operations. Each indicator receives either a green light (healthy), yellow light (caution) or red light (warning). Completing the tool helped the City of Hercules to identify areas of fiscal concern that should be addressed to avert fiscal crisis.

### 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, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and investments	\$ 13,987,014	12,379,389	\$ 26,366,403
Cash with fiscal agent	1,994,479	10,123,443	12,117,922
Accounts receivable	7,352,307	455	7,352,762
Interest receivable	9,474	--	9,474
Prepaid expenses	4,496	--	4,496
Inventories	19,028	--	19,028
Loans receivable	2,005,493	--	2,005,493
Lease receivable	9,478,368	--	9,478,368
Due from private purpose trust fund	40,429,573	10,587,627	51,017,200
Other post employment benefit asset	109,517	--	109,517
Capital assets:			
Nondepreciable	18,526,031	2,856,102	21,382,133
Depreciable, net of accumulated depreciation	54,804,423	11,818,158	66,622,581
Total Assets	148,720,203	47,765,174	196,485,377
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	2,490,422	74,977	2,565,399
<b>LIABILITIES</b>			
Accounts payable	3,258,543	2,330,720	5,589,263
Accrued wages	131,049	13,062	144,111
Accrued interest payable	1,457,656	199,521	1,657,177
Deposits with others	1,186,295	--	1,186,295
Claims and judgments payable	126,364	--	126,364
Noncurrent liabilities:			
Due within one year	970,923	278,746	1,249,669
Due in more than one year	21,274,318	10,160,478	31,434,796
Net pension liability	11,672,394	481,238	12,153,632
Total Liabilities	40,077,542	13,463,765	53,541,307
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	1,810,697	95,942	1,906,639
<b>NET POSITION</b>			
Net investment in capital assets	67,814,198	11,637,225	79,451,423
Restricted for:			
Public safety	736,073	--	736,073
Streets and roads	3,547,402	--	3,547,402
Development	1,018,613	--	1,018,613
Debt service	1,723,986	--	1,723,986
Unrestricted	34,482,114	22,643,219	57,125,333
Total Net Position	\$ 109,322,386	\$ 34,280,444	\$ 143,602,830

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

**CITY OF HERCULES**

Statement of Activities  
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 3,706,717	\$ 60,434	\$ 67,996	\$ --
Public safety	5,299,440	429,143	114,618	--
Streets and public works	4,667,439	2,673,078	1,310,954	8,800,824
Parks and recreation	2,216,525	1,538,554	--	--
Community development	400,754	364,191	--	--
Interest on long term debt	1,301,053	--	--	--
Total governmental activities	<u>17,591,928</u>	<u>5,065,400</u>	<u>1,493,568</u>	<u>8,800,824</u>
Business-Type Activities:				
Sewer	3,854,974	5,595,044	--	--
Total business-type activities	<u>3,854,974</u>	<u>5,595,044</u>	<u>--</u>	<u>--</u>
Total City	<u>\$ 21,446,902</u>	<u>\$ 10,660,444</u>	<u>\$ 1,493,568</u>	<u>\$ 8,800,824</u>

General Revenues and Transfers

Taxes:

  Secured and unsecured property taxes

  Sales and use taxes

  Franchise taxes

  Other taxes

  Unrestricted motor vehicle taxes in-lieu

  Use of money and property

  Miscellaneous revenue

Transfers

  Total general revenues and transfers

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
\$ (3,578,287)		\$ (3,578,287)
(4,755,679)		(4,755,679)
8,117,417		8,117,417
(677,971)		(677,971)
(36,563)		(36,563)
(1,301,053)		(1,301,053)
(2,232,136)	--	(2,232,136)
--	\$ 1,740,070	1,740,070
--	1,740,070	1,740,070
(2,232,136)	1,740,070	(492,066)
1,233,207	--	1,233,207
3,211,109	--	3,211,109
960,124	--	960,124
3,628,145	--	3,628,145
1,645,846	--	1,645,846
1,133,587	24,058	1,157,645
1,029,258	--	1,029,258
(10,452)	10,452	--
12,830,824	34,510	12,865,334
10,598,688	1,774,580	12,373,268
98,723,698	32,505,864	131,229,562
<u>\$ 109,322,386</u>	<u>\$ 34,280,444</u>	<u>\$ 143,602,830</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 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 Capital Projects Fund** – This fund accounts for the financial resources utilized in acquiring or constructing capital assets for the City.

**CITY OF HERCULES**

Balance Sheet  
Governmental Funds  
June 30, 2016

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and investments	\$ 3,088,609	\$ --	\$ 599,067
Cash and investments with fiscal agent	--	1,994,479	--
Accounts receivable	1,013,093	--	--
Interest receivable	9,474	--	--
Prepays	4,496	--	--
Due from other funds	6,811,434	--	69,796
Due from other governments	--	--	--
Inventories	8,015	--	--
Loans receivable	2,005,493	--	--
Lease receivable	--	9,478,368	--
Advances to other funds	28,630,863	6,703,250	--
Total Assets	<u>\$ 41,571,477</u>	<u>\$ 18,176,097</u>	<u>\$ 668,863</u>
 <b>LIABILITIES</b>			
Accounts payable	\$ 1,061,609	\$ --	\$ 38,017
Accrued wages	90,739	--	4,428
Deposits payable	1,186,295	--	--
Claims and judgments payable	126,364	--	--
Due to other funds	--	270,493	--
Total Liabilities	<u>2,465,007</u>	<u>270,493</u>	<u>42,445</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	<u>--</u>	<u>9,478,368</u>	<u>--</u>
 <b>FUND BALANCES</b>			
Nonspendable	28,643,374	6,703,250	--
Restricted	--	1,723,986	626,418
Assigned	2,171,733	--	--
Unassigned	8,291,363	--	--
Total Fund Balances	<u>39,106,470</u>	<u>8,427,236</u>	<u>626,418</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 41,571,477</u>	<u>\$ 18,176,097</u>	<u>\$ 668,863</u>

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

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ 1,006,637	\$ 2,818,610	\$ 4,352,483	\$ 11,865,406
--	--	--	1,994,479
--	6,262,791	76,372	7,352,256
--	--	--	9,474
--	--	--	4,496
--	126,555	--	7,007,785
--	--	--	--
11,013	--	--	19,028
--	--	--	2,005,493
--	--	--	9,478,368
--	--	5,417,515	40,751,628
<u>\$ 1,017,650</u>	<u>\$ 9,207,956</u>	<u>\$ 9,846,370</u>	<u>\$ 80,488,413</u>
\$ --	\$ 1,631,005	\$ 334,073	\$ 3,064,704
4,257	--	20,784	120,208
--	--	--	1,186,295
--	--	--	126,364
--	--	7,059,347	7,329,840
<u>4,257</u>	<u>1,631,005</u>	<u>7,414,204</u>	<u>11,827,411</u>
<u>378,114</u>	<u>6,262,791</u>	<u>--</u>	<u>16,119,273</u>
11,013	--	--	35,357,637
624,266	--	9,468,919	12,443,589
--	1,314,160	--	3,485,893
--	--	(7,036,753)	1,254,610
<u>635,279</u>	<u>1,314,160</u>	<u>2,432,166</u>	<u>52,541,729</u>
<u>\$ 1,017,650</u>	<u>\$ 9,207,956</u>	<u>\$ 9,846,370</u>	<u>\$ 80,488,413</u>

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

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## CITY OF HERCULES

Reconciliation of the Governmental Funds Balance Sheet  
to the Government-Wide Statement of Net Position - Governmental Activities  
June 30, 2016

Fund Balance - total governmental funds (pages 16 and 17)	\$ 52,541,729
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	109,517
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	72,552,977
Deferred outflows of resources reported in statement of net position	2,435,271
Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	16,119,273
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.	2,315,594
Deferred inflows of resources reported in statement of net position	(1,744,184)
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	(1,457,656)
Revenue bonds payable	(15,644,480)
Notes payable	(5,050,000)
Capital leases payable	(1,136,255)
Compensated absences	(387,266)
Net pension liability	<u>(11,332,134)</u>
Net position of governmental activities (page 11)	<u>\$ 109,322,386</u>

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

**CITY OF HERCULES**

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2016

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
Taxes and assessments	\$ 9,032,585	\$ --	\$ --
Licenses and permits	344,374	--	--
Fines and forfeitures	60,434	--	--
Use of money and property	339,973	828,658	6,333
Intergovernmental	1,707,098	--	544,207
Charges for services	1,999,726	--	--
Other revenues	533,922	--	--
Total Revenues	<u>14,018,112</u>	<u>828,658</u>	<u>550,540</u>
Expenditures:			
Current:			
General government	2,952,947	19	--
Public safety	5,589,583	--	--
Streets and public works	187,032	--	353,222
Parks and recreation	1,961,669	--	--
Community development	355,309	--	--
Capital outlay		--	1,022,326
Debt service:			
Principal	--	380,000	--
Interest and fiscal agent fees	--	1,105,213	--
Total Expenditures	<u>11,046,540</u>	<u>1,485,232</u>	<u>1,375,548</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,971,572</u>	<u>(656,574)</u>	<u>(825,008)</u>
Other Financing Sources (Uses):			
Transfers in	100,000	567,572	2,641
Transfers out	<u>(1,104,013)</u>	--	<u>(1,735,000)</u>
Total Other Financing Sources (Uses)	<u>(1,004,013)</u>	<u>567,572</u>	<u>(1,732,359)</u>
Net Changes in Fund Balances	1,967,559	(89,002)	(2,557,367)
Fund Balances, Beginning of Year, restated	<u>37,138,911</u>	<u>8,516,238</u>	<u>3,183,785</u>
Fund Balances, End of Year	<u>\$ 39,106,470</u>	<u>\$ 8,427,236</u>	<u>\$ 626,418</u>

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

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ --	\$ --	\$ --	\$ 9,032,585
--	--	--	344,374
--	--	--	60,434
1,872	--	7,128	1,183,964
766,747	2,538,033	121,362	5,677,447
--	--	2,660,866	4,660,592
--	--	495,336	1,029,258
<u>768,619</u>	<u>2,538,033</u>	<u>3,284,692</u>	<u>21,988,654</u>
--	--	--	2,952,966
--	--	--	5,589,583
263,514	--	1,969,109	2,772,877
--	--	--	1,961,669
--	--	43,906	399,215
9,374	6,954,766	518,361	8,504,827
--	--	246,149	626,149
--	--	58,950	1,164,163
<u>272,888</u>	<u>6,954,766</u>	<u>2,836,475</u>	<u>23,971,449</u>
<u>495,731</u>	<u>(4,416,733)</u>	<u>448,217</u>	<u>(1,982,795)</u>
2,527	8,663,441	2,450,896	11,787,077
(201,000)	--	(8,763,441)	(11,803,454)
<u>(198,473)</u>	<u>8,663,441</u>	<u>(6,312,545)</u>	<u>(16,377)</u>
297,258	4,246,708	(5,864,328)	(1,999,172)
<u>338,021</u>	<u>(2,932,548)</u>	<u>8,296,494</u>	<u>54,540,901</u>
<u>\$ 635,279</u>	<u>\$ 1,314,160</u>	<u>\$ 2,432,166</u>	<u>\$ 52,541,729</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, 2016

Net change to fund balance - total governmental funds (pages 20 and 21)		\$ (1,999,172)
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	\$ 8,263,173	
Less: current year depreciation	<u>(3,170,683)</u>	5,092,490
<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>		
		6,212,414
<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	626,149	
Amortization of bond premiums and discounts	<u>(17,297)</u>	608,852
<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		(25,293)
Change in net pension liability and related deferred inflows/outflows		1,076,277
Change in post employment benefits		(113,454)
Change in accrued interest payable		(119,593)
<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>(133,833)</u>
Change in net position of governmental activities (pages 12 and 13)		<u><u>\$ 10,598,688</u></u>

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

## PROPRIETARY FUNDS FINANCIAL STATEMENTS

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

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

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**CITY OF HERCULES**

Statement of Net Position  
Proprietary Funds  
June 30, 2016

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>ASSETS</b>		
Current Assets:		
Cash and investments	\$ 12,379,389	\$ 2,121,608
Cash with fiscal agent	10,123,443	--
Accounts receivable - net	455	51
Total Current Assets	<u>22,503,287</u>	<u>2,121,659</u>
Noncurrent Assets:		
Advances to other funds	<u>10,587,627</u>	<u>--</u>
Capital assets:		
Non-depreciable :		
Land	191,700	--
Construction in progress	2,664,402	--
Total Nondepreciable Capital Assets	<u>2,856,102</u>	<u>--</u>
Depreciable:		
Buildings and improvements	11,335,199	--
Infrastructure	11,702,090	--
Machinery and equipment	233,806	3,220,703
Total Depreciable Capital Assets	<u>23,271,095</u>	<u>3,220,703</u>
Less Accumulated Depreciation	<u>(11,452,937)</u>	<u>(2,443,226)</u>
Net Depreciable Capital Assets	<u>11,818,158</u>	<u>777,477</u>
Net Capital Assets	<u>14,674,260</u>	<u>777,477</u>
Total Noncurrent Assets	<u>25,261,887</u>	<u>777,477</u>
Total Assets	<u>47,765,174</u>	<u>2,899,136</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	<u>74,977</u>	<u>55,151</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, 2016

	Business-Type Activities - <u>Enterprise Funds</u>	Governmental Activities <u></u>
	Wastewater Fund <u></u>	Internal Service Funds <u></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 2,330,720	193,839
Salaries and benefits payable	13,062	10,841
Accrued interest payable	199,521	--
Compensated absences	28,746	27,240
Long term debt, due within one year	250,000	--
Total Current Liabilities	<u>2,822,049</u>	<u>231,920</u>
Noncurrent Liabilities:		
Net pension liability	481,238	340,260
Long term debt, due in more than one year	10,160,478	--
Total Noncurrent Liabilities	<u>10,641,716</u>	<u>340,260</u>
 Total Liabilities	 <u>13,463,765</u>	 <u>572,180</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	<u>95,942</u>	<u>66,513</u>
<b>NET POSITION</b>		
Net investment in capital assets	11,637,225	777,477
Unrestricted	22,643,219	1,538,117
Total Net Position	<u>\$ 34,280,444</u>	<u>\$ 2,315,594</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, 2016

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Wastewater Fund</u>	<u>Internal Service Funds</u>
Operating Revenues:		
Sales and charges for services	\$ 5,595,044	\$ 937,032
Other operating revenue	--	12,391
Total Operating Revenues	<u>5,595,044</u>	<u>949,423</u>
Operating Expenses:		
Salaries and benefits	422,524	317,704
Services and supplies	2,480,414	487,370
Depreciation	460,559	284,107
Total Operating Expenses	<u>3,363,497</u>	<u>1,089,181</u>
Operating Income (Loss)	<u>2,231,547</u>	<u>(139,758)</u>
Non-Operating Revenue (Expenses):		
Interest income	24,058	--
Interest expense	(491,477)	--
Total Non-Operating Revenue (Expenses)	<u>(467,419)</u>	<u>--</u>
Income (Loss) Before Transfers	1,764,128	(139,758)
Transfers:		
Transfers in	10,452	5,925
Transfers out	<u>--</u>	<u>--</u>
Change in Net Position	1,774,580	(133,833)
Net Position - Beginning of Year, restated	<u>32,505,864</u>	<u>2,449,427</u>
Net Position - End of Year	<u><u>\$ 34,280,444</u></u>	<u><u>\$ 2,315,594</u></u>

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

**CITY OF HERCULES**

Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2016

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Wastewater Fund</u>	<u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers	\$ 5,594,703	\$ --
Cash receipts from internal fund services provided	--	953,507
Cash paid to suppliers for goods and services	(671,493)	(497,340)
Cash paid to employees for services	<u>(453,681)</u>	<u>(340,924)</u>
Net Cash Provided (Used) by Operating Activities	<u>4,469,529</u>	<u>115,243</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers in	<u>10,452</u>	<u>5,925</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>10,452</u>	<u>5,925</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Payments related to the acquisition of capital assets	(1,407,220)	(281,385)
Principal repayments related to capital purposes	(245,000)	--
Interest repayments related to capital purposes	<u>(489,106)</u>	<u>--</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,141,326)</u>	<u>(281,385)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received (paid)	<u>24,058</u>	<u>--</u>
Net Cash Provided (Used) by Investing Activities	<u>24,058</u>	<u>--</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,362,713	(160,217)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>20,140,119</u>	<u>2,281,825</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 22,502,832</u>	<u>\$ 2,121,608</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Fund Net Position</b>		
Cash and investments	\$ 12,379,389	\$ 2,121,608
Cash with fiscal agent	10,123,443	--
<b>Total Cash and Cash Equivalents</b>	<u>\$ 22,502,832</u>	<u>\$ 2,121,608</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, 2016

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ 2,231,547	\$ (139,758)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	460,559	284,107
Loss on disposition of capital assets	--	1,903
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(341)	4,084
Increase (decrease) in:		
Accounts payable	1,808,921	(11,873)
Accrued salaries and benefits	2,972	3,934
Net pension liability and related deferred inflows and outflows	(35,708)	(27,402)
Compensated absences	1,579	248
	<b>\$ 4,469,529</b>	<b>\$ 115,243</b>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b>Noncash Investing, Capital, and Financing Activities:</b>		
Capital asset additions in accounts payable	<b>\$ 385,162</b>	<b>\$ --</b>

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, 2016

	OPEB Trust Fund	Private Purpose Trust Fund	Agency Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and investments	\$ 295,172	\$ 8,186,221	\$ 4,709,141
Cash and investments with fiscal agent	1,677,270	6,401,341	1,391,813
Accounts receivable	--	--	228,841
Due from City of Hercules	--	322,055	--
Loans receivable	--	12,015,878	--
Land held for resale	--	15,948,776	--
Capital assets:			
Depreciable	--	4,682,879	--
Nondepreciable	--	28,192,474	--
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>1,972,442</u>	<u>75,749,624</u>	<u>6,329,795</u>
<b>LIABILITIES</b>			
Accounts payable	11,422	18,141,465	--
Advances from City of Hercules	--	51,339,255	--
Due to other governments	--	--	--
Deposits payable	--	--	6,329,795
Unearned revenue	--	5,197,580	--
Unavailable revenue	--	--	--
Long-term debt			
Due within one year	--	3,368,043	--
Due in more than one year	--	108,706,231	--
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>11,422</u>	<u>186,752,574</u>	<u>6,329,795</u>
<b>NET POSITION</b>			
Held in trust for others	<u>1,961,020</u>	<u>(111,002,950)</u>	<u>--</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total Net Position	<u>\$ 1,961,020</u>	<u>\$ (111,002,950)</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, 2016

	OPEB Trust Fund	Private Purpose Trust Fund
Additions		
Taxes and assessments	\$ --	\$ 10,908,041
Investment income	(14,465)	13,975
Other revenue	230,000	733,004
Total Additions	215,535	11,655,020
Deductions		
Employee benefits	43,870	--
Community development		1,843,893
Depreciation	--	310,157
Debt service	--	5,522,000
Total Deductions	43,870	7,676,050
Change in net position	171,665	3,978,970
Net Position - Beginning of Year	1,789,355	(114,981,920)
Net Position - End of Year	\$ 1,961,020	\$ (111,002,950)

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



## CITY OF HERCULES

Notes to Financial Statements  
June 30, 2016

### 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, 2016

### 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 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, 2016

### 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.

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

All Governmental Funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after 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.

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

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

## CITY OF HERCULES

Notes to Financial Statements  
June 30, 2016

### 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, 2016

**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, 2016

### 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 / Unavailable Revenue

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows 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. The City records deferred outflows in connection with the pension.

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

#### G. Long-Term Obligations

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

## CITY OF HERCULES

Notes to Financial Statements  
June 30, 2016

### 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, 2016 are net position restricted by enabling legislation of \$7,255,118.

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, 2016, fund balances for governmental funds consist of the following categories:

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

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

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

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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**

The requirements of the following GASB Statements are effective for the purpose of implementation, if applicable to the City, for the fiscal year ended June 30, 2016:

Governmental Accounting Standards Board Statement No. 72

GASB Statement No. 72, *Fair Value Measurement and Application* is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements.



**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. New Accounting Pronouncements** (continued)

Governmental Accounting Standards Board Statement No. 73

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general-purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement did not impact the City's financial statements.

Governmental Accounting Standards Board Statement No. 76

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP).

**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	\$ 26,366,403
Cash and investments with fiscal agents	12,117,922

Statement of Fiduciary Net Position:

Cash and investments	13,190,534
Cash and investments with fiscal agents	9,470,424

Total	<u>\$ 61,145,283</u>
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Cash and investments as of June 30, 2016 consist of the following:

Deposits with financial institutions	\$ 26,950,878
Investments	<u>34,194,405</u>
Total	<u>\$ 61,145,283</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, 2016

**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

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, 2016

**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:

<u>Investment Type</u>	<u>Interest Rates</u>	<u>Totals</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 36 Months</u>	<u>37 to 48 Months</u>	<u>49 to 60 Months</u>	<u>More Than 60 Months</u>
State Investment Pool	0.299%	\$ 15,356,059	\$ 15,356,059	\$ --	\$ --	\$ --	\$ --	\$ --
OPEB Trust Mutual Fund	--	1,677,270	1,677,270	--	--	--	--	--
Held by Debt Trustees:								
Money Market Funds	--	17,161,076	17,161,076	--	--	--	--	--
<b>Total</b>		<b>\$ 34,194,405</b>	<b>\$ 34,194,405</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

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, 2016

**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	Not Rated
State Investment Pool	\$ 15,356,059	N/A	N/A	\$ --	\$ 15,356,059
OPEB Trust Mutual Fund	1,677,270	N/A	N/A	--	1,677,270
Held by Debt Trustees: Money Market Funds	17,161,076	N/A	N/A	17,161,076	--
Total	<u>\$ 34,194,405</u>			<u>\$ 17,161,076</u>	<u>\$ 17,033,329</u>

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent more than 5% of total City investments.

Custodial Credit Risk

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

As of June 30, 2016, \$17,051,798 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.

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.

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

Fair Value of Investments

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
OPEB Trust Mutual Fund	\$ 1,677,270	\$ 1,677,270		
Total investments measured at fair value level	1,677,270	\$ 1,677,270	\$ -	\$ -
Investments measured at the net asset value (NAV):				
Local Agency Investment Fund	15,356,059			
Money Market	17,161,076			
Total pooled and directed investments	\$ 34,194,405			

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 3: LOANS RECEIVABLE**

Loans Receivable

Loans receivable at June 30, 2016, consisted of the following:

Bio-Rad Loan	\$ 1,755,493
Employee Loans	<u>250,000</u>
Total	<u><u>\$ 2,005,493</u></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, 2016 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.

While the loan was not repaid by January 9, 2016, under the terms of the separation agreement, the Settlement Agreement between the parties entered into in 2013 provides the City with the right to enforce the Judgment provided for in the Settlement Agreement, including this loan amount, against any other known or unknown property, assets or income. It is uncertain as to whether any property, assets, or income will be identified in the future. City Management believes the loan is fully collectible and therefore, no allowance has been made.

**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, 2016 was \$1,755,493.

**NOTE 4: CAPITAL ASSETS**

At June 30, 2016, the City's capital assets consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Nondepreciable Assets:			
Land	\$ 1,601,636	\$ 191,700	\$ 1,793,336
Construction in progress	<u>16,924,395</u>	<u>2,664,402</u>	<u>19,588,797</u>
Total Nondepreciable Assets	<u>18,526,031</u>	<u>2,856,102</u>	<u>21,382,133</u>
Depreciable Assets:			
Land improvements	11,720,361	--	11,720,361
Buildings and improvements	25,861,711	11,335,199	37,196,910
Machinery and equipment	4,327,660	233,806	4,561,466
Infrastructure	<u>81,229,126</u>	<u>11,702,090</u>	<u>92,931,216</u>
Total Depreciable Assets	<u>123,138,858</u>	<u>23,271,095</u>	<u>146,409,953</u>
Less Accumulated Depreciation	<u>(68,334,435)</u>	<u>(11,452,937)</u>	<u>(79,787,372)</u>
Total Depreciable Assets, Net	<u>54,804,423</u>	<u>11,818,158</u>	<u>66,622,581</u>
Total Capital Assets, Net	<u><u>\$ 73,330,454</u></u>	<u><u>\$ 14,674,260</u></u>	<u><u>\$ 88,004,714</u></u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

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

Governmental Activities	Balance July 1, 2015	Additions	Retirements	Transfers / Adjustments	Balance June 30, 2016
Nondepreciable Capital Assets:					
Land	\$ 1,601,636	\$ --	\$ --	\$ --	\$ 1,601,636
Construction in progress	12,500,368	8,263,173	--	(3,839,146)	16,924,395
Total Nondepreciable Capital Assets	<u>14,102,004</u>	<u>8,263,173</u>	<u>--</u>	<u>(3,839,146)</u>	<u>18,526,031</u>
Depreciable Capital Assets:					
Land improvements	9,985,733	--	--	1,734,628	11,720,361
Buildings and improvements	25,861,711	--	--	--	25,861,711
Machinery and equipment	4,685,827	281,385	(639,552)	--	4,327,660
Infrastructure	79,480,198	--	--	1,738,928	81,219,126
Total Depreciable Capital Assets	<u>120,013,469</u>	<u>281,385</u>	<u>(639,552)</u>	<u>3,473,556</u>	<u>123,128,858</u>
Accumulated Depreciation:					
Land improvements	(5,582,498)	(526,787)	--	(1,000,011)	(7,109,296)
Buildings and improvements	(6,947,028)	(785,573)	--	(966,302)	(8,698,903)
Machinery and equipment	(3,826,925)	(296,121)	637,649	(9,831)	(3,495,228)
Infrastructure	(45,962,477)	(1,846,309)	--	(1,222,222)	(49,031,008)
Total Accumulated Depreciation	<u>(62,318,928)</u>	<u>(3,454,790)</u>	<u>637,649</u>	<u>(3,198,366)</u>	<u>(68,334,435)</u>
Net depreciable capital assets	<u>57,694,541</u>	<u>(3,173,405)</u>	<u>(1,903)</u>	<u>275,190</u>	<u>54,794,423</u>
Net Capital Assets	<u>\$ 71,796,545</u>	<u>\$ 5,089,768</u>	<u>\$ (1,903)</u>	<u>\$ (3,563,956)</u>	<u>\$ 73,320,454</u>

Depreciation Allocation

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

Governmental Activities:	
General government	\$ 482,832
Public safety	35,828
Public works	2,145,596
Parks and recreation	504,888
Community development	1,539
Capital assets held by internal services funds are charged to the various functions based on usage of the assets	<u>284,107</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,454,790</u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

Business-Type Activities	Balance July 1, 2015	Additions	Retirements	Transfers / Adjustments	Balance June 30, 2016
<b><u>Wastewater Fund</u></b>					
Nondepreciable Capital Assets:					
Land	\$ 150,000	\$ --	\$ --	\$ 41,700	\$ 191,700
Construction in progress	2,454,200	1,763,041	--	(1,552,839)	2,664,402
Total Nondepreciable Capital Assets	<u>2,604,200</u>	<u>1,763,041</u>	<u>--</u>	<u>(1,511,139)</u>	<u>2,856,102</u>
Depreciable Capital Assets:					
Buildings and improvements	11,335,199	--	--	1,541,082	12,876,281
Machinery and equipment	204,465	29,341	--	--	233,806
Infrastructure	10,161,008	--	--	--	10,161,008
Total Depreciable Capital Assets	<u>21,700,672</u>	<u>29,341</u>	<u>--</u>	<u>1,541,082</u>	<u>23,271,095</u>
Less accumulated depreciation	<u>(10,594,282)</u>	<u>(460,559)</u>	<u>--</u>	<u>(398,096)</u>	<u>(11,452,937)</u>
Net depreciable capital assets	<u>11,106,390</u>	<u>(431,218)</u>	<u>--</u>	<u>1,142,986</u>	<u>11,818,158</u>
Net Capital Assets	<u>\$ 13,710,590</u>	<u>\$ 1,331,823</u>	<u>\$ --</u>	<u>\$ (368,153)</u>	<u>\$ 14,674,260</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:	
Wastewater	<u>\$ 460,559</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 460,559</u>



**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

Private Purpose Trust Fund	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
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	(2,646,149)	(99,436)	--	(2,745,585)
Machinery and equipment	(34,860)	(5,810)	--	(40,670)
Infrastructure	(1,640,900)	(204,911)	--	(1,845,811)
Total Accumulated Depreciation	<u>(4,333,288)</u>	<u>(310,157)</u>	<u>--</u>	<u>(4,643,445)</u>
Net depreciable capital assets	<u>4,993,036</u>	<u>(310,157)</u>	<u>--</u>	<u>4,682,879</u>
Net Capital Assets	<u>\$ 33,185,510</u>	<u>\$ (310,157)</u>	<u>\$ --</u>	<u>\$ 32,875,353</u>

**NOTE 5: LONG-TERM OBLIGATIONS**

Governmental activities long-term liability activity for the fiscal year ended June 30, 2016, was as follows:

Governmental Activities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due Within One Year
2003B PFA Lease Revenue Bonds	\$ 6,990,000		\$ (235,000)	\$ 6,755,000	\$ 245,000
2009 PFA Taxable Lease Revenue Bonds	9,415,000		(145,000)	9,270,000	155,000
Discount on issuance	(397,817)		17,297	(380,520)	--
H.E.L.P. Loan	1,500,000		(50,000)	1,450,000	50,000
R.D.L.P. Loan	3,650,000		(50,000)	3,600,000	50,000
Suntrust Lease	1,282,404		(146,149)	1,136,255	153,144
Compensated absences	388,965	168,848	(143,307)	414,506	317,779
Total Long-Term Obligations	<u>\$ 22,828,552</u>	<u>\$ 168,848</u>	<u>\$ (752,159)</u>	<u>\$ 22,245,241</u>	<u>\$ 970,923</u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)**

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, 2016 is \$6,755,000.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	295,000	269,805	564,805
2022-2026	1,700,000	1,029,835	2,729,835
2027-2031	2,150,000	716,250	2,866,250
2032-2034	1,560,000	158,500	1,718,500
<b>Total</b>	<b><u>\$ 6,755,000</u></b>	<b><u>\$ 3,384,902</u></b>	<b><u>\$ 10,139,902</u></b>

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, 2016 is \$9,270,000.

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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
2017	\$ 155,000	\$ 759,240	\$ 914,240
2018	165,000	748,040	913,040
2019	175,000	736,140	911,140
2020	190,000	723,365	913,365
2021	200,000	708,465	908,465
2022-2026	1,285,000	3,252,544	4,537,544
2027-2031	1,910,000	2,601,491	4,511,491
2032-2036	2,845,000	1,621,410	4,466,410
2037-2039	2,345,000	305,970	2,650,970
Subtotal	9,270,000	11,456,665	20,726,665
Less: Discount	(380,520)	--	(380,520)
Total	<u>\$ 8,889,480</u>	<u>\$ 11,456,665</u>	<u>\$ 20,346,145</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, 2016 is \$1,450,000.

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)**

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 50,000	\$ --	\$ 50,000
2018	100,000	--	100,000
2019	100,000	--	100,000
2020	100,000	--	100,000
2021	100,000	--	100,000
2022-2026	500,000	--	500,000
2027	500,000	541,988	1,041,988
Total	<u>\$ 1,450,000</u>	<u>\$ 541,988</u>	<u>\$ 1,991,988</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, 2016 is \$3,600,000.

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 50,000	\$ --	\$ 50,000
2018	100,000	--	100,000
2019	100,000	--	100,000
2020	100,000	--	100,000
2021	100,000	--	100,000
2022-2026	500,000	--	500,000
2027	2,650,000	1,126,079	3,776,079
Total	<u>\$ 3,600,000</u>	<u>\$ 1,126,079</u>	<u>\$ 4,726,079</u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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, 2016, the outstanding balance of the master lease agreement is \$1,136,255

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
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	184,634	20,465	205,099
2022-2023	<u>293,650</u>	<u>13,998</u>	<u>307,648</u>
Total	<u>\$ 1,136,255</u>	<u>\$ 196,888</u>	<u>\$ 1,333,143</u>

Business-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2016, was as follows:

Business-Type Activities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
2010 PFA Wastewater Revenue Bonds	\$ 10,830,000	\$ --	\$ (245,000)	\$ 10,585,000	\$ 250,000
Discount on Issuance	(181,794)	--	7,272	(174,522)	--
Compensated absences	<u>27,167</u>	<u>12,865</u>	<u>(11,286)</u>	<u>28,746</u>	<u>28,746</u>
Total Long-Term Obligations	<u>\$ 10,675,373</u>	<u>\$ 12,865</u>	<u>\$ (249,014)</u>	<u>\$ 10,439,224</u>	<u>\$ 278,746</u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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, 2016 is \$10,585,000.

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

Year Ended June 30,	Principal	Interest	Total
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	285,000	449,175	734,175
2022-2026	1,590,000	2,064,069	3,654,069
2027-2031	1,970,000	1,664,750	3,634,750
2032-2036	2,505,000	1,121,375	3,626,375
2037-2041	3,185,000	413,875	3,598,875
Subtotal	10,585,000	7,595,875	18,180,875
Less: Discount	(174,522)	--	(174,522)
Total	<u>\$ 10,410,478</u>	<u>\$ 7,595,875</u>	<u>\$ 18,006,353</u>

Fiduciary-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2016, was as follows:

Business-Type Activities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
2005 Tax Allocation Bonds	\$ 42,140,000	\$ --	\$ (1,925,000)	\$ 40,215,000	\$ 2,015,000
Premium on issuance	1,450,648	--	(72,532)	1,378,116	72,532
Loss on refunding	(194,110)	--	9,705	(184,405)	(9,705)
2007A Housing Tax Allocation Bonds	11,245,000	--	(335,000)	10,910,000	350,000
2007B Housing Tax Allocation Bonds	9,175,000	--	(315,000)	8,860,000	330,000
Premium on issuance	56,638	--	(3,146)	53,492	3,146
2007 RDA Tax Allocation Bonds	50,765,000	--	(270,000)	50,495,000	260,000
Long-term note payable	347,070	--	--	347,070	347,070
Total Long-Term Obligations	<u>\$ 114,985,246</u>	<u>\$ --</u>	<u>\$ (2,910,973)</u>	<u>\$ 112,074,273</u>	<u>\$ 3,368,043</u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

2005 Tax Allocation Bonds

On August 5, 2005, the former Redevelopment Agency (Agency) issued Hercules Merged Project Area Tax Allocation Bonds. Series 2005, in the amount of \$56,260,000. The proceeds of the bonds were used to finance certain public capital improvements within the Agency's Merged Project Area and refund the Agency Subordinate Tax Allocation Bonds, Series 2001. The Bonds mature annually each August 1 from 2006 to 2035, in amounts ranging from \$740,000 to \$2,960,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2016, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2015, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2016 is \$40,215,000.

The annual debt service requirements to maturity at June 30, 2016, are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 2,015,000	\$ 1,932,370	\$ 3,947,370
2018	2,115,000	1,831,405	3,946,405
2019	2,220,000	1,725,179	3,945,179
2020	1,510,000	1,633,688	3,143,688
2021	1,585,000	1,561,074	3,146,074
2022-2026	9,140,000	6,538,169	15,678,169
2027-2031	11,650,000	3,971,900	15,621,900
2032-2035	9,980,000	941,881	10,921,881
Subtotal	40,215,000	20,135,666	60,350,666
Plus: Premium on issuance	1,378,116		
Less: Loss on refunding	(184,405)	--	(184,405)
Total	<u>\$ 41,408,711</u>	<u>\$ 20,135,666</u>	<u>\$ 60,166,261</u>

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferred loss on refunding of debt which is reported as part of long-term debt. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest. The total amount of the deferred loss was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year 2015-2016 was \$9,705, and the accumulated amortization at June 30, 2016 was \$106,755.

2007 Housing Tax Allocation Bonds Series A and B

On July 26, 2007, the former Redevelopment Agency issued Hercules Merged Project Area Housing Tax Allocation Bonds, 2007 Series A, in the amount of \$13,130,000 and 2007 Series B, in the amount of \$12,760,000. The proceeds of the bonds were used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2033, in amounts ranging from \$220,000 to \$950,000 and bear interest at rates ranging from 3.50% to 6.125%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2017, as a whole or in part, on any interest payment

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

date, at a price equal to the principal amount plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2016 for 2007 Series A and Series B are \$10,910,000 and \$8,860,000, respectively.

The annual debt service requirements to maturity at June 30, 2016 of the 2007 Series A and B bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 350,000	\$ 652,394	\$ 1,002,394
2018	375,000	631,731	1,006,731
2019	395,000	609,194	1,004,194
2020	420,000	584,744	1,004,744
2021	445,000	558,794	1,003,794
2022-2026	2,655,000	2,344,491	4,999,491
2027-2031	2,765,000	1,210,147	3,975,147
2032-2034	3,505,000	445,134	3,950,134
<b>Total</b>	<b>\$ 10,910,000</b>	<b>\$ 7,036,629</b>	<b>\$ 17,946,629</b>

Year Ended June 30,	Principal	Interest	Total
2017	\$ 330,000	\$ 415,719	\$ 745,719
2018	340,000	401,688	741,688
2019	355,000	386,919	741,919
2020	370,000	371,513	741,513
2021	385,000	354,988	739,988
2022-2026	825,000	1,583,463	2,408,463
2027-2031	2,435,000	932,425	3,367,425
2032-2034	3,820,000	400,475	4,220,475
<b>Subtotal</b>	<b>8,860,000</b>	<b>4,847,190</b>	<b>13,707,190</b>
<b>Plus: Premium</b>	<b>53,492</b>	<b>--</b>	<b>53,492</b>
<b>Total</b>	<b>\$ 8,913,492</b>	<b>\$ 4,847,190</b>	<b>\$ 13,760,682</b>

2007 Tax Allocation Bonds Series A

On December 20, 2007, the former Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, 2007 Series A, in the amount of \$60,555,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2043, in amounts ranging from \$260,000 to \$3,315,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after



**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

February 1, 2018, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2016 is \$50,495,000.

The annual debt service requirements to maturity at June 30, 2011, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 260,000	\$ 2,360,664	\$ 2,620,664
2018	285,000	2,350,575	2,635,575
2019	270,000	2,339,831	2,609,831
2020	1,075,000	2,312,931	3,387,931
2021	1,090,000	2,268,950	3,358,950
2022-2026	5,855,000	10,553,431	16,408,431
2027-2031	6,615,000	8,239,142	14,854,142
2032-2036	8,240,000	6,855,540	15,095,540
2037-2041	23,490,000	4,754,725	28,244,725
2042	3,315,000	80,106	3,395,106
<b>Total</b>	<b>\$ 50,495,000</b>	<b>\$ 42,115,895</b>	<b>\$ 92,610,895</b>

Long-Term Notes Payable

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

**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, 2016</u>
Reassessment District 2001-01 (Alfred Nobel)	\$ 9,810,000	\$ 1,650,000
Reassessment District 2005-1 (John Muir Parkway)	6,550,345	5,430,000

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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, 2016, the City's estimated claims liabilities were as follows.

General Liability	\$ 119,954
Workers Compensation	<u>6,410</u>
 Total	 <u><u>\$ 126,364</u></u>

Changes in the claims liabilities for the fiscal years ended June 30, 2016, 2015 and 2014 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	840,685	(799,515)	256,281
2015-2016	256,281	474,761	(604,678)	126,364

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.

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 7: RISK MANAGEMENT (CONTINUED)**

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, 2016 are as follows:

	General Fund	Hercules Public Financing Authority Debt Service Fund	State Gas Tax Fund	Measure "C" Fund	City Capital Projects Fund	Other Governmental Funds	Total
<b>Nonspendable:</b>							
Advances to other funds	\$ 28,630,863	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 28,630,863
Prepays and inventory	12,511	--	--	11,013	--	--	23,524
<b>Total Nonspendable</b>	<b>28,643,374</b>	<b>--</b>	<b>--</b>	<b>11,013</b>	<b>--</b>	<b>--</b>	<b>28,654,387</b>
<b>Restricted for:</b>							
Streets and roads	--	--	626,418	624,266	--	2,296,718	3,547,402
Public safety	--	--	--	--	--	736,073	736,073
Development	--	--	--	--	--	6,436,128	6,436,128
Debt service	--	8,427,236	--	--	--	--	8,427,236
<b>Total Restricted</b>	<b>--</b>	<b>8,427,236</b>	<b>626,418</b>	<b>624,266</b>	<b>--</b>	<b>9,468,919</b>	<b>19,146,839</b>
<b>Assigned for:</b>							
Economic uncertainty	2,171,733	--	--	--	--	--	2,171,733
Capital projects	--	--	--	--	1,314,160	--	1,314,160
<b>Total Assigned</b>	<b>2,171,733</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>1,314,160</b>	<b>--</b>	<b>3,485,893</b>
<b>Unassigned</b>	<b>8,291,363</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(7,036,753)</b>	<b>1,254,610</b>
<b>Total Fund Balance</b>	<b>\$ 39,106,470</b>	<b>\$ 8,427,236</b>	<b>\$ 626,418</b>	<b>\$ 635,279</b>	<b>\$ 1,314,160</b>	<b>\$ 2,432,166</b>	<b>\$ 52,541,729</b>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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.

	Government-Wide	Governmental Funds			Business Type	ISF	
	Governmental Activities	State Gas Tax Fund	Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Sewer Fund	Internal Service Funds
Fund balance / net position as of June 30, 2015, as previously reported	\$ 103,232,574	\$ 3,258,785	\$ 716,135	\$ (2,671,481)	\$ 8,527,233	\$ 32,874,017	\$ 2,451,619
<u>Restatement</u>							
Prior year revenues	(608,853)	--	(378,114)	--	(230,739)	--	--
Prior year expenditures	(336,067)	(75,000)	--	(261,067)	--	--	--
Prior year depreciation expense	(3,198,366)	--	--	--	--	(398,096)	(2,192)
Prior year capital assets	(365,590)	--	--	--	--	29,943	--
Total prior period adjustment	<u>(4,508,876)</u>	<u>(75,000)</u>	<u>(378,114)</u>	<u>(261,067)</u>	<u>(230,739)</u>	<u>(368,153)</u>	<u>(2,192)</u>
Fund balance/net position as of July 1, 2015, restated	<u>\$ 98,723,698</u>	<u>\$ 3,183,785</u>	<u>\$ 338,021</u>	<u>\$ (2,932,548)</u>	<u>\$ 8,296,494</u>	<u>\$ 32,505,864</u>	<u>\$ 2,449,427</u>

**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 (15<sup>th</sup>) anniversary date as to a portion or the entire premises by delivering to the City of Hercules not later than three (3) months prior to said fifteenth (15<sup>th</sup>) anniversary date or any applicable later termination date, a notice of such election.

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

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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 June 30,	<u>Amounts</u>
2017	\$ 841,542
2018	864,258
2019	886,974
2020	895,970
2021	902,222
2022-2026	4,604,890
2027-2031	4,797,460
2032-2036	4,950,440
2037-2039	<u>2,171,598</u>
	20,915,354
Less: Unearned Income	<u>(11,436,986)</u>
Net Investment in Lease Receivable	<u><u>\$ 9,478,368</u></u>

**NOTE 10: INTERFUND TRANSACTIONS**

Long-Term Advances

At June 30, 2016, 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	\$ 28,630,863
Nonmajor Governmental Funds	Private Purpose Trust Fund	5,417,515
Wastewater Fund	Private Purpose Trust Fund	10,587,627
Public Financing Authority Debt Service	Private Purpose Trust Fund	6,703,250
<b>Total</b>		<u><u>\$ 51,339,255</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, 2016

**NOTE 10: INTERFUND TRANSACTIONS (CONTINUED)**

Due To/From Other Funds

Due to/from other funds as of June 30, 2016 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 6,540,941
General Fund	Hercules Debt Service Fund	270,493
State Gas Tax Fund	Other Governmental Funds	69,796
City Capital Projects Fund	Other Governmental Funds	126,555
Private Purpose Trust Fund	Other Governmental Funds	322,055
Total		<u>\$ 7,329,840</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 Debt Service Fund	\$ 567,572	Debt service
	State Gas Tax Fund	2,641	Capital projects
	Measure "C" Fund	2,527	Capital projects
	Nonmajor Governmental Funds	514,896	Debt service
	Wastewater Fund	10,452	Sewer
	ISF	5,925	Inter department allocation
Measure "C" Fund	Nonmajor Governmental Funds	201,000	Capital projects
State Gas Tax Fund	Nonmajor Governmental Funds	1,735,000	Capital projects
Nonmajor Governmental Funds	General Fund	100,000	COPS program
	City Capital Projects Fund	8,663,441	Capital projects
		<u>\$ 11,803,454</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, 2016

**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, 2016, are summarized as follows:

	<u>Miscellaneous</u>		
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>	
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	8%	6.237%	
	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Safety PEPR A</u>
Hire Date			
Benefit formula	3.0% @ 50	2.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 63	50 - 63
Monthly benefits, as a % of eligible compensation	3%	2 - 2.7%	2 - 2.7%
Required employee contribution rates	9%	9%	11.5%
Required employer contribution rates	18.524%	16.523%	11.153%

**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, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Total</u>	<u>Miscellaneous</u>	<u>Safety</u>
Governmental activities:			
Governmental funds	\$ 1,277,305	\$ 270,846	\$ 1,006,459
Internal service funds	32,520	32,520	-
Total governmental activities	<u>1,309,825</u>	<u>303,366</u>	<u>1,006,459</u>
Business type activities			
Sewer fund	42,378	42,378	-
Total	<u>\$ 1,352,203</u>	<u>\$ 345,744</u>	<u>\$ 1,006,459</u>

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 11: PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)**

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

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

	Plan's Proportion to Total Pool @ June 30, 2014	Plan's Proportion to Total Pool @ June 30, 2015	Proportionate Share of Net Pension Liability
Miscellaneous	0.19015%	0.17554%	\$ 4,815,927
Miscellaneous - PEPRA	0.00000%	-0.00001%	\$ (150)
Safety Tier 1	0.18276%	0.17812%	7,339,257
Safety Tier 2	0.01429%	-0.00003%	(1,394)
Safety - PEPRA	0.00000%	0.00000%	(8)
			\$ 12,153,632

For the year ended June 30, 2016, the City recognized pension expense of (\$1,139,387). At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,553,327	\$ --
Change of assumptions	--	(818,563)
Differences between expected and actual experience	24,282	(128,024)
Change in proportion	735,413	(382,326)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	252,377	(164,136)
Net differences between projected and actual earnings on plan investments	--	(413,590)
Total	\$ 2,565,399	\$ (1,906,639)



**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**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 \$1,553,327 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the measurement year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in the measurement year as follows:

Year Ended June 30	
2016	\$ (275,175)
2017	(275,175)
2018	(240,820)
2019	<u>(103,397)</u>
Total	<u>\$ (894,567)</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Hired Prior to 1/1/2013	Miscellaneous Hired After to 1/1/2013	Miscellaneous PEPRA	Safety Tier 1	Safety Tier 2	Safety PEPRA
Valuation Date	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method			Entry-Age Normal Cost Method		
Actuarial Assumptions:						
Discount Rate	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.0%	3.0%	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)	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)	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, 2014 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, 2016

### 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 7.65% 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 7.65 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, 2016

**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	50.0%	5.25%	5.71%
Global Fixed Income	17.0%	0.99%	2.43%
Inflation Sensitive	4.0%	0.45%	3.36%
Private Equity	14.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	0.0%	4.50%	5.09%
Liquidity	4.0%	-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	Current Rate	1% Increase
<u>Net Pension Liability</u>	<u>6.65%</u>	<u>7.65%</u>	<u>8.65%</u>
Miscellaneous	\$ 5,377,411	\$ 4,815,777	\$ 1,414,037
Safety	11,765,100	7,337,854	3,707,594
Total	<u>\$ 17,142,511</u>	<u>\$ 12,153,631</u>	<u>\$ 5,121,631</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, 2016

### 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 2015-2016, the City contributed \$41,546, 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, 2016

**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	\$ 140,000
Interest on net OPEB obligation (asset)	(21,000)
Amortization of net OPEB obligation (asset)	36,000
Annual OPEB cost (expense)	155,000
Contributions made	(41,546)
Increase in net OPEB obligation	113,454
Net OPEB obligation (asset) - beginning of fiscal year	(222,971)
Net OPEB obligation (asset) - end of fiscal year	\$ (109,517)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2015, and 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation (Asset)
6/30/2014	\$ 229,000	118%	\$ (291,468)
6/30/2015	149,000	26%	(222,971)
6/30/2016	155,000	27%	(109,517)

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, 2016 Public Agency Retirement Services statement was \$1,677,270, resulting in an unfunded actuarial accrued liability (UAAL) of \$290,730. 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 8.6%.

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, 2016

#### **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, 2016 was 12 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, 2016

### 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.

In addition, obligations to AMBAC were also satisfied through the sale of the Sycamore Crossing site (Contra Costa County Assessor's Parcel Nos. 404-020-057 and 058) to Sycamore Crossing Land Developer, LLC, on October 13, 2106 (a subsequent period event). The balance of any AMBAC obligations will be satisfied from former redevelopment tax increment received by the City of Hercules as the Successor Agency for Non-Housing Assets.

### NOTE 15: JOINT POWERS AGREEMENTS

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

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

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

The City's payments to WCCTAC are in accordance with a formula under which each member Agency pays a proportionate share of the expenditures based on the number of voting members representing each agency. Audited financial statements can be obtained from the WCCTAC, One Alvarado Square, San Pablo, California 94806, The City has one voting member on the WCCTAC and pays 10% of expenditures, which amounted to \$36,675 for fiscal year 2015-2016.

#### 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.

**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 15: JOINT POWERS AGREEMENTS (CONTINUED)**

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

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

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

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

Deficit Fund Balances/Net Position

As of June 30, 2016, the following funds had a deficit fund balance/net position:

	<u>Balances</u>
Nonmajor Governmental Funds:	
Stormwater Assessment Special Revenue Fund	\$ 59,225
Grants Special Revenue Fund	6,977,528
Internal Service Fund:	
Facility Maintenance	\$ 22,094
Fiduciary Fund:	
Private Purpose Trust Fund	\$ 111,002,950

Private Purpose Trust Fund negative net position of \$111,002,950 will be financed through future revenues. Stormwater negative fund balance of \$59,225 will be financed through future revenues. Grants Special Revenue negative fund balance of \$6,977,528 will be financed through grants awarded to the City of Hercules. Facility Maintenance Fund negative fund balance of \$22,094 will be financed through future internal charges for service.

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>
Measure "C" Street Fund	\$ 3,755



**CITY OF HERCULES**

Notes to Financial Statements  
June 30, 2016

**NOTE 17: FINANCIAL CONDITION**

Of the \$41.57 million reported as assets in the General Fund, 68.9 percent of the balance represents interfund loans with the former Redevelopment Agency, now a private purpose trust fund of the City. The City is also reporting significant advances to the Agency in other funds.

A recap of the funds with outstanding loans due from the Agency at June 30, 2016 is below:

	<u>Total Assets</u>	<u>Advances to Agency</u>	<u>Percentage of Assets Representing Advances to Agency</u>
General Fund	\$ 41,571,477	\$ 28,630,863	68.9%
Hercules Debt Service Fund	18,176,097	6,703,250	36.9%
Nonmajor Governmental Funds:			
Developer Impact Fees	6,030,995	5,254,315	87.1%
Community Development	217,356	163,200	75.1%
Sewer Fund	<u>47,765,174</u>	<u>10,587,627</u>	<u>22.2%</u>
Total	<u>\$ 113,761,099</u>	<u>\$ 51,339,255</u>	<u>45.1%</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 \$28.6 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, 2016

**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:

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
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%
6/30/2016*	1,968,000	1,677,270 **	290,730	85.2%	3,383,000	8.6%

\* 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*	<u>Miscellaneous Plans</u>		<u>Safety Plans</u>	
	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Proportion of the net pension liability	\$ 4,815,777	\$ 4,699,656	\$ 7,337,854	\$ 6,858,740
Proportionate share of the net pension liability	0.18%	0.19%	0.18%	0.18%
Covered - employee payroll	\$ 2,655,670	3,241,378	2,118,549	1,942,665
Proportionate share of the net pension liability as percentage of covered-employee payroll	181.34%	144.99%	346.36%	353.06%
Plan's fiduciary net position	17,392,471	16,759,360	18,537,190	18,022,608
Plan fiduciary net position as a percentage of the total pension liability	78.32%	78.10%	71.64%	72.43%

\*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, 2016

**SCHEDULE OF CONTRIBUTIONS**

Last 10 Fiscal Years*	Miscellaneous Plans		Safety Plans	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Contractually required contribution (actuarially determined)	\$ 607,178	\$ 353,148	\$ 1,006,459	\$ 798,844
Contributions related to the actuarially determined contribution	607,178	353,148	1,006,459	798,844
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered-employee payroll	\$ 2,655,670	\$ 3,241,378	\$ 2,118,549	\$ 1,942,665
Contributions as a percentage of covered-employee payroll	22.86%	10.89%	47.51%	41.12%

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

**Notes to schedule**

Valuation date: 6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	For details, see June 30, 2014 Funding Valuation Report.
Asset valuation method	Actuarial value of assets. For details, see June 30, 2014 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50% Net of Pension Plan Investment and Administrative Expense; includes Inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**CITY OF HERCULES**

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 7,880,744	\$ 7,880,744	\$ 9,032,585	\$ 1,151,841
Licenses and permits	309,074	514,566	344,374	(170,192)
Fines, forfeits and penalties	20,000	20,000	60,434	40,434
Revenue from use of money and property	1,075,285	1,110,285	339,973	(770,312)
Aid from other governments	1,928,640	1,928,640	1,707,098	(221,542)
Charges for services	2,215,200	2,225,200	1,999,726	(225,474)
Miscellaneous revenue	546,985	546,985	533,922	(13,063)
<b>Total Revenues</b>	<b>13,975,928</b>	<b>14,226,420</b>	<b>14,018,112</b>	<b>(208,308)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
City Council	251,933	251,933	230,664	21,269
City manager	338,283	338,283	268,778	69,505
Legal services	664,715	664,715	552,942	111,773
Management services	372,167	372,167	369,744	2,423
City clerk	--	--	244	(244)
Cable TV	65,794	65,794	58,562	7,232
Risk management	665,194	665,194	480,843	184,351
Recruitment	188,038	188,038	146,229	41,809
Finance/operations	1,010,794	1,010,794	844,467	166,327
Finance/debt service	1,784,992	1,784,992	872,671	912,321
Miscellaneous	--	--	474	(474)
<b>Total general government</b>	<b>5,341,910</b>	<b>5,341,910</b>	<b>3,825,618</b>	<b>1,516,292</b>
<b>Public safety:</b>				
Police administration	2,389,663	2,389,663	2,267,483	122,180
Police patrol	3,218,608	3,218,608	3,322,100	(103,492)
<b>Total public safety</b>	<b>5,608,271</b>	<b>5,608,271</b>	<b>5,589,583</b>	<b>18,688</b>
<b>Streets and public works:</b>				
Street facilities	167,092	167,092	162,634	4,458
Engineering	42,111	42,111	24,398	17,713
<b>Total streets and public works</b>	<b>209,203</b>	<b>209,203</b>	<b>187,032</b>	<b>22,171</b>
<b>Parks and recreation:</b>				
Library	117,792	117,792	98,443	19,349
Administration	--	--	9,563	(9,563)
Facility rental	187,362	187,362	150,179	37,183
Day camp	138,371	138,371	110,470	27,901
Child care	604,960	604,960	590,463	14,497
Recreation classes	133,077	133,077	133,458	(381)
Senior citizens	61,340	61,340	63,571	(2,231)
Tiny tots	151,339	151,339	162,451	(11,112)
Swim center	347,939	347,939	284,771	63,168
Sports program	163,947	173,947	164,477	9,470
Teen program	20,230	20,230	32,615	(12,385)
Youth and teen resource center	138,053	138,053	161,208	(23,155)
<b>Total parks and recreation</b>	<b>2,064,410</b>	<b>2,074,410</b>	<b>1,961,669</b>	<b>112,741</b>

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	\$ 310,752	\$ 310,752	\$ 234,684	\$ 76,068
Building inspection	152,317	152,317	120,625	31,692
Total community development	463,069	463,069	355,309	107,760
Total Expenditures	13,686,863	13,696,863	11,919,211	1,777,652
Excess of Revenues Over Expenditures	289,065	529,557	2,098,901	1,569,344
Other Financing Sources (Uses):				
Transfers in	100,000	100,000	100,000	--
Transfers out	(264,915)	(264,907)	(231,342)	33,565
Total Other Financing Sources (Uses)	(164,915)	(164,907)	(131,342)	33,565
Net Change in Fund Balances	124,150	364,650	1,967,559	1,602,909
Budgetary Fund Balances - Beginning of Year			37,138,911	
Budgetary Fund Balances - End of Year			<u>\$ 39,106,470</u>	

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

	Budgetary Comparison Schedule	Transfers Budgeted as Debt Service	Statement of Revenues, Expenditures and Changes in Fund Balance
Total revenues	\$ 14,018,112	\$ --	\$ 14,018,112
Total expenditures	11,919,211	(872,671)	11,046,540
Revenues over expenditures	2,098,901	872,671	2,971,572
Total other financing sources (uses)	(131,342)	(872,671)	(1,004,013)
Net change in fund balances	<u>\$ 1,967,559</u>	<u>\$ --</u>	<u>\$ 1,967,559</u>



**CITY OF HERCULES**

Budgetary Comparison Schedule  
 State Gas Tax Special Revenue Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 10,200	\$ 10,200	\$ 6,333	\$ (3,867)
Intergovernmental revenues	528,338	528,338	544,207	15,869
Total Revenues	<u>538,538</u>	<u>538,538</u>	<u>550,540</u>	<u>12,002</u>
Expenditures:				
Current:				
Streets and public works	453,943	453,943	353,222	100,721
Capital outlay	<u>810,000</u>	<u>1,085,000</u>	<u>1,022,326</u>	<u>62,674</u>
Total Expenditures	<u>1,263,943</u>	<u>1,538,943</u>	<u>1,375,548</u>	<u>163,395</u>
Deficiency of Revenues Under Expenditures	<u>(725,405)</u>	<u>(1,000,405)</u>	<u>(825,008)</u>	<u>175,397</u>
Other Financing Sources (Uses):				
Transfer in	2,641	2,641	2,641	--
Transfer out	<u>(2,010,000)</u>	<u>(1,735,000)</u>	<u>(1,735,000)</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>(2,007,359)</u>	<u>(1,732,359)</u>	<u>(1,732,359)</u>	<u>--</u>
Net Change in Fund Balances	(2,732,764)	(2,732,764)	(2,557,367)	175,397
Fund Balances - Beginning of Year, restated	<u>3,183,785</u>	<u>3,183,785</u>	<u>3,183,785</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 451,021</u>	<u>\$ 451,021</u>	<u>\$ 626,418</u>	<u>\$ 175,397</u>

**CITY OF HERCULES**

Budgetary Comparison Schedule  
 Measure "C" Street Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 2,100	\$ 2,100	\$ 1,872	\$ (228)
Intergovernmental revenues	250,000	250,000	766,747	516,747
Total Revenues	<u>252,100</u>	<u>252,100</u>	<u>768,619</u>	<u>516,519</u>
Expenditures:				
Current:				
Streets and public works	244,133	244,133	263,514	(19,381)
Capital outlay	<u>25,000</u>	<u>25,000</u>	<u>9,374</u>	<u>15,626</u>
Total Expenditures	<u>269,133</u>	<u>269,133</u>	<u>272,888</u>	<u>(3,755)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(17,033)</u>	<u>(17,033)</u>	<u>495,731</u>	<u>512,764</u>
Other Financing Sources (Uses):				
Transfer in	2,527	2,527	2,527	--
Transfers out	<u>(201,000)</u>	<u>(201,000)</u>	<u>(201,000)</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u>(198,473)</u>	<u>(198,473)</u>	<u>(198,473)</u>	<u>--</u>
Net Change in Fund Balances	(215,506)	(215,506)	297,258	512,764
Fund Balances - Beginning of Year, restated	<u>338,021</u>	<u>338,021</u>	<u>338,021</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 122,515</u>	<u>\$ 122,515</u>	<u>\$ 635,279</u>	<u>\$ 512,764</u>

## CITY OF HERCULES

### Notes to Required Supplementary Information June 30, 2016

#### 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, 2016, 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.