

CITY OF HERCULES

Presentation to the City Council
For the Fiscal Year Ended June 30, 2024

January 14, 2025



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SCOPE OF WORK

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- Audit of the Annual Comprehensive Financial Report
- Audit of the Hercules Wastewater Fund
- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*
- Agreed Upon Procedures:
 - GANN Limit
 - Measure B – Transactions and Use Tax Revenues
 - Measure N (formerly as Measure C) – Utility Users Tax Rate Revenues

OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

- Form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America
- Our responsibility is to plan and perform the audit to obtain “reasonable” assurance (not “absolute” assurance) about whether the financial statements are free of material misstatements.
- We considered internal control over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time.
- Communicate with those charged with governance

Required Communications (AU-C 260)

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- **Ethics and Independence**
 - Complied with ALL relevant ethical requirements regarding independence
- **Significant Accounting Policies**
 - The City disclosed all significant accounting policies in Note 1 to the financial statements.
- **Significant Estimates**
 - Investment fair value
 - Depreciation and amortization on capital assets
 - Net pension liability
 - Net other postemployment benefits (“OPEB”) liability

Required Communications (AU-C 260)

- **Sensitive Disclosures**
 - Note 1 - Summary of Significant Accounting Policies
 - Note 8 – Retirement Plans
 - Note 10 – Other Postemployment Benefits
 - Note 12 – Commitments and Contingencies
 - Note 14 – Stewardship, Compliance, and Accountability
- **Misstatements**
 - There were no material uncorrected misstatement.

Required Communications (AU-C 260)

- **Consultation with Other Accountants**
 - Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and other matters.
- **Significant Difficulties**
 - We encountered no significant difficulties in dealing with management.
- **Disagreement with Management**
 - We did not have any disagreement with management in terms of accounting treatments nor audit procedures performed.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL INDICATORS

City of Hercules
Government-Wide Statement of Net Position
June 30, 2024

	Governmental Activities	Business-Type Activities	Total
Assets	\$ 135,696,000	\$ 67,104,000	\$ 202,800,000
Deferred Outflows of Resources	8,608,000	448,000	9,056,000
Liabilities	47,832,000	30,480,000	78,312,000
Deferred Inflows of Resources	12,059,000	189,000	12,248,000
Net Position:			
Net investment in capital assets	59,889,000	20,884,000	80,773,000
Restricted	13,368,000	-	13,368,000
Unrestricted	11,156,000	15,999,000	27,155,000
Total Net Position	\$ 84,413,000	\$ 36,883,000	\$ 121,296,000

City of Hercules

Government-Wide Statement of Activities

For the Year Ended June 30, 2024

	Governmental Activities	Business-Type Activities	Total
Program Revenues:			
Charges for Services	\$ 3,389,000	\$ 5,892,000	\$ 9,281,000
Operating Grants and Contributions	6,413,000	-	6,413,000
Capital Grants and Contributions	1,909,000	-	1,909,000
Total Program Revenues	11,711,000	5,892,000	17,603,000
Expenses	29,419,000	5,262,000	34,681,000
Net Cost of Services	(17,708,000)	630,000	(17,078,000)
General Revenues	18,976,000	852,000	19,828,000
Changes in Net Position	\$ 1,268,000	\$ 1,482,000	\$ 2,750,000

City of Hercules
Governmental Activities
Cost of Services to Tax Revenues
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>	<u>Change</u>
Cost of Services	<u>\$ 17,708,000</u>	<u>\$ 12,612,000</u>	<u>\$ 5,096,000</u>
Tax Revenues	<u>13,343,000</u>	<u>13,465,000</u>	<u>(122,000)</u>
Ratio	<u><u>133%</u></u>	<u><u>94%</u></u>	<u><u>39%</u></u>

**City of Hercules
General Fund Summary
Fund Balance
June 30, 2024 and 2023**

	<u>2024</u>	<u>2023*</u>	<u>Change</u>
Fund Balance:			
Nonspendable	\$ 1,322,000	\$ 1,393,000	\$ (71,000)
Restricted	2,392,000	2,142,000	250,000
Committed	7,884,000	8,000,000	(116,000)
Assigned	8,595,000	6,197,000	2,398,000
Unassigned	<u>14,755,000</u>	<u>16,146,000</u>	<u>(1,391,000)</u>
Total Fund Balance	<u><u>\$ 34,948,000</u></u>	<u><u>\$ 33,878,000</u></u>	<u><u>\$ 1,070,000</u></u>

* Reclass loan receivable from unassigned to nonspendable

City of Hercules
General Fund Summary
Revenues, Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>	<u>Change</u>
Revenues	\$ 20,329,000	\$ 19,495,000	\$ 834,000
Expenditures	<u>(18,245,000)</u>	<u>(17,657,000)</u>	<u>(588,000)</u>
Revenues over Expenditures	2,084,000	1,838,000	246,000
Other Financing Sources (Uses)	<u>(1,014,000)</u>	<u>1,026,000</u>	<u>(2,040,000)</u>
Change in Fund Balance	<u><u>\$ 1,070,000</u></u>	<u><u>\$ 2,864,000</u></u>	<u><u>\$ (1,794,000)</u></u>

City of Hercules
General Fund
Unassigned Fund Balance to Annual Expenditures
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023*</u>	<u>Change</u>
Unassigned Fund Balance	<u>\$ 14,755,000</u>	<u>\$ 16,146,000</u>	<u>\$ (1,391,000)</u>
Annual Expenditures	<u>18,245,000</u>	<u>17,657,000</u>	<u>588,000</u>
Ratio	<u>81%</u>	<u>91%</u>	<u>-11%</u>
Committed/Assigned/Unassigned Fund Balance	<u>\$ 31,234,000</u>	<u>\$ 30,343,000</u>	<u>\$ 891,000</u>
Ratio	<u>171%</u>	<u>172%</u>	<u>-1%</u>

* Reclass loan receivable from unassigned to nonspendable

KEY PENSION AND OPEB INFORMATION

Net Pension Liability – Misc. Plan

	2024	2023
Plan Total Pension Liability	\$ 35,724,000	\$ 33,376,000
Plan Fiduciary Net Position	(26,171,000)	(24,408,000)
Net Pension Liability	<u>\$ 9,553,000</u>	<u>\$ 8,968,000</u>
Funding Ratio	<u>73%</u>	<u>73%</u>
Contribution Made During the Fiscal Year	<u>\$ 891,000</u>	<u>\$ 863,000</u>

Net Pension Liability – Safety Plan

	2024	2023
Plan Total Pension Liability	\$ 45,007,000	\$ 43,442,000
Plan Fiduciary Net Position	(33,264,000)	(32,655,000)
Net Pension Liability	<u>\$ 11,743,000</u>	<u>\$ 10,787,000</u>
Funding Ratio	<u>74%</u>	<u>75%</u>
Contribution Made During the Fiscal Year	<u>\$ 1,262,000</u>	<u>\$ 1,240,000</u>

Net OPEB Liability – PEHMCA PLAN

	2024	2023
Plan Total OPEB Liability	\$ 2,618,000	\$ 2,442,000
Plan Fiduciary Net Position	(2,889,000)	(2,668,000)
Net OPEB Asset	<u>\$ (271,000)</u>	<u>\$ (226,000)</u>
Funding Ratio	<u>110%</u>	<u>109%</u>
Contribution Made During the Fiscal Year	<u>\$ 87,000</u>	<u>\$ 110,000</u>

Net OPEB Liability – SOMAR PLAN

	2024	2023
Plan Total OPEB Liability	\$ 1,905,000	\$ 1,883,000
Plan Fiduciary Net Position	-	-
Net OPEB Liability	<u>\$ 1,905,000</u>	<u>\$ 1,883,000</u>
Funding Ratio	<u>0%</u>	<u>0%</u>
Contribution Made During the Fiscal Year	<u>\$ 49,000</u>	<u>\$ 44,000</u>

FINANCIAL AUDIT RESULTS

AUDIT RESULTS

- **Financial Statements**

- **Unmodified Opinion**

- Financial Statements are fairly presented in all material respects
 - Significant accounting policies have been consistently applied
 - Estimates are reasonable
 - Disclosures are properly reflected in the financial statements

- **Agreed Upon Procedures – GANN, Measure B, and Measure N**

- No exceptions were noted

- **Other Results**

- No disagreements with management
 - No material weaknesses in internal controls over financial reporting were reported
 - No accounting issues



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