



CliftonLarsonAllen

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hercules as of and for the year ended June 30, 2017, and have issued our report thereon dated January 31, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Hercules are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2017.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

- Management believes receivables are fully collectible based on historical experience. Accordingly, no allowance for doubtful accounts is included in the financial statements.
- Management's estimate of risk liability is derived from actuarial valuations obtained from experts. We compared the claims liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited. Considering the total liability at year-end is based on a third-party actuarial, the liability amount was deemed reasonable.

- Management's estimate of OPEB liability is derived from actuarial valuations obtained from experts. We compared the liability reported in the financial statements to the actuarial report prepared and issued for the year under audit. Considering the total liability at year-end is based on a third-party actuarial, the liability amount was deemed reasonable.
- Management's estimate of pension liability is derived from actuarial valuations obtained from PERS. We compared the liability reported in the financial statements to the actuarial report prepared and issued for the year under audit and tested underlying census data.
- With the dissolution of the redevelopment agency on February 1, 2012 there is uncertainty as to whether the City's funds will be repaid the accumulated \$51.1 million in loans owed by the Agency, now a private purpose trust fund of the City. Management 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.

#### Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

#### ***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### ***Corrected misstatements***

The attached schedule summarizes all misstatements (material and immaterial) detected as a result of audit procedures that were corrected by management. Management has accepted responsibility for such adjustments in its January 31, 2018 management representation letter.

#### ***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.



***Management representations***

We have requested certain representations from management that are included in the management representation letter dated January 31, 2018.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

***Other audit findings or issues***

We have provided a separate letter to you dated January 31, 2018, communicating internal control related matters identified during the audit.

***Other information in documents containing audited financial statements***

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.


With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated January 31, 2018.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.



Honorable Mayor and Members of the City Council  
City of Hercules  
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This communication is intended solely for the information and use of the Honorable Mayor, Members of the City Council and management of City of Hercules and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Roseville, California  
January 31, 2018



Client: 205-49920000 - Hercules City  
Engagement: AUD 2017 - City of Hercules  
Period Ending: 6/30/2017  
Trial Balance: 0900.00 - TB  
Workpaper: 0920.12 - PAJE Report  
Fund Level: All  
Index: All

Account	Description	W/P Ref	Debit	Credit
<b>Proposed Journal Entries</b>				
<b>Proposed Journal Entries JE # 601</b>				
JJ: To correct fund balance for deposits related to prior years.				
GF01.4060	CHARGES FOR SERVICES	2600.02	39,079.00	
GF01.3550	FUND BALANCE - UNASSIGNED			39,079.00
<b>Total</b>			<u>39,079.00</u>	<u>39,079.00</u>
<b>Proposed Journal Entries JE # 603</b>				
EZ: to post proposed adjustment for capitalized interest on Wastewater loan during construction				
EN01.1702	CONSTRUCTION IN PROGRESS	1700	43,000.00	
EN01.6110	DEBT SERVICE: INTEREST			43,000.00
<b>Total</b>			<u>43,000.00</u>	<u>43,000.00</u>
<b>Proposed Journal Entries JE # 604</b>				
EZ - Proposed passed adjustment for ISF lookback for CY and estimated PY				
EN01.8020	SERVICES AND SUPPLIES	0150	15,596.00	
GB34.1611	DUE FROM OTHER FUNDS		15,596.00	
EN01.2612	DUE TO OTHER FUNDS			15,596.00
GB34.4060	CHARGES FOR SERVICES			15,596.00
<b>Total</b>			<u>31,192.00</u>	<u>31,192.00</u>
<b>Total Proposed Journal Entries</b>			<u>113,271.00</u>	<u>113,271.00</u>
<b>Total All Journal Entries</b>			<u>113,271.00</u>	<u>113,271.00</u>





Client: 205-49920000 - Hercules City  
Engagement: AUD 2017 - City of Hercules  
Period Ending: 6/30/2017  
Trial Balance: 0900.00 - TB  
Workpaper: 0920.10 - AJE Report  
Fund Level: All  
Index: All

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries</b>				
<b>Adjusting Journal Entries JE # 101</b>				
JWP: To record prior year GASB 68 entries not recorded by the client.				
EN01.1915	DEFERRED OUTFLOWS - PENSION		37,981.00	
EN01.3073	NET ASSETS - UNRESTRICTED		537,911.00	
IS02.1915	DEFERRED OUTFLOWS - PENSION		23,090.00	
IS02.3073	NET ASSETS - UNRESTRICTED		327,020.00	
IS03.1915	DEFERRED OUTFLOWS - PENSION		3,671.00	
IS03.3073	NET ASSETS - UNRESTRICTED		52,004.00	
EN01.2796	PENSION LIABILITY			462,583.00
EN01.2915	DEFERRED INFLOWS - PENSION			113,309.00
IS02.2796	PENSION LIABILITY			281,224.00
IS02.2915	DEFERRED INFLOWS - PENSION			68,886.00
IS03.2796	PENSION LIABILITY			44,721.00
IS03.2915	DEFERRED INFLOWS - PENSION			10,954.00
<b>Total</b>			<b>981,677.00</b>	<b>981,677.00</b>
<b>Adjusting Journal Entries JE # 102</b>				
JJ: To classify AR recorded as Intergovernmental Revenues as unavailable.				
CP02.4030	INTERGOVERNMENTAL REVENUES		3,288,539.00	
CP02.2502	UNAVAILABLE REVENUES			3,288,539.00
<b>Total</b>			<b>3,288,539.00</b>	<b>3,288,539.00</b>
<b>Adjusting Journal Entries JE # 103</b>				
JWP: PBC To reverse adjustments recorded by client in prior year that shouldn't have been recorded.				
DS02.8110	DEBT SERVICE: INTEREST		119,593.00	
GF01.3550	FUND BALANCE - UNASSIGNED		40,377.00	
DS02.3550	FUND BALANCE - UNASSIGNED			119,593.00
GF01.6012	GG - NONPAYROLL EXPENSES			40,377.00
<b>Total</b>			<b>159,970.00</b>	<b>159,970.00</b>
<b>Adjusting Journal Entries JE # 104</b>				
JWP: To reverse Compensated Absences Accrual into Equity and reconcile fund balance.				
CP02.4030	INTERGOVERNMENTAL REVENUES		1.00	
DS02.4050	USE OF MONEY AND PROPERTY		1.00	
EN01.8020	SERVICES AND SUPPLIES		1.00	
GF01.3550	FUND BALANCE - UNASSIGNED		68,137.00	
IS01.3073	NET ASSETS - UNRESTRICTED		1.00	
IS02.8020	SERVICES AND SUPPLIES		537.00	
SR02.3550	FUND BALANCE - UNASSIGNED		1.00	
SR03.3550	FUND BALANCE - UNASSIGNED		3,099.00	
SR04.3550	FUND BALANCE - UNASSIGNED		252.00	
SR05.3550	FUND BALANCE - UNASSIGNED		1,268.00	
SR06.3550	FUND BALANCE - UNASSIGNED		157.00	
SR07.3550	FUND BALANCE - UNASSIGNED		1.00	
SR08.3550	FUND BALANCE - UNASSIGNED		159.00	
SR09.3550	FUND BALANCE - UNASSIGNED		1,313.00	
SR10.3550	FUND BALANCE - UNASSIGNED		1,322.00	
CP02.3550	FUND BALANCE - UNASSIGNED			1.00
DS02.3550	FUND BALANCE - UNASSIGNED			1.00
EN01.3073	NET ASSETS - UNRESTRICTED			1.00
GF01.6011	GG - PAYROLL AND RELATED EXPENSES			68,137.00
IS01.8020	SERVICES AND SUPPLIES			1.00
IS02.3073	NET ASSETS - UNRESTRICTED			537.00
SR02.6022	PP - NONPAYROLL EXPENSES			1.00
SR03.6011	GG - PAYROLL AND RELATED EXPENSES			3,099.00
SR04.6011	GG - PAYROLL AND RELATED EXPENSES			252.00
SR05.6011	GG - PAYROLL AND RELATED EXPENSES			1,268.00
SR06.6011	GG - PAYROLL AND RELATED EXPENSES			157.00
SR07.6082	CD - NONPAYROLL EXPENSES			1.00
SR08.6011	GG - PAYROLL AND RELATED EXPENSES			159.00
SR09.6031	PW - PAYROLL AND RELATED EXPENSES			1,313.00
SR10.6031	PW - PAYROLL AND RELATED EXPENSES			1,322.00
<b>Total</b>			<b>76,250.00</b>	<b>76,250.00</b>
<b>Adjusting Journal Entries JE # 105</b>				
JWP: PBC To reverse mkt value adjustment to cash that is no longer necessary and reverse agency fund amounts that should not be recorded on the City books. Added FV adj to GF for TA10 that was closed out				
EN01.8020	SERVICES AND SUPPLIES		21,534.00	
GF01.6012	GG - NONPAYROLL EXPENSES		8,061.00	
GF02.6012	GG - NONPAYROLL EXPENSES		2,590.00	
IS01.8020	SERVICES AND SUPPLIES		2,147.00	
PT01.6082	CD - NONPAYROLL EXPENSES		2,117.00	



SR02.6022	PP - NONPAYROLL EXPENSES	83.00	
SR03.6012	GG - NONPAYROLL EXPENSES	1,758.00	
SR04.6012	GG - NONPAYROLL EXPENSES	627.00	
SR05.1000	CASH AND INVESTMENTS	250.00	
SR06.6012	GG - NONPAYROLL EXPENSES	2,447.00	
SR07.6082	CD - NONPAYROLL EXPENSES	228.00	
SR08.6012	GG - NONPAYROLL EXPENSES	420.00	
SR09.6032	PW - NONPAYROLL EXPENSES	5,963.00	
SR10.6032	PW - NONPAYROLL EXPENSES	884.00	
SR11.6032	PW - NONPAYROLL EXPENSES	181.00	
SR12.6032	PW - NONPAYROLL EXPENSES	133.00	
SR13.6032	PW - NONPAYROLL EXPENSES	410.00	
SR15.6022	PS - NONPAYROLL EXPENSES	93.00	
TA02.2309	AGENCY OBLIGATIONS	34,368.00	
TA02.2309	AGENCY OBLIGATIONS	10,393.00	
TA03.2309	AGENCY OBLIGATIONS	311.00	
TA04.2309	AGENCY OBLIGATIONS	357.00	
TA05.2309	AGENCY OBLIGATIONS	632.00	
TA06.2309	AGENCY OBLIGATIONS	126.00	
TA08.2309	AGENCY OBLIGATIONS	101.00	
TA10.3107	RESTR NA OPEB	306.00	
EN01.1000	CASH AND INVESTMENTS		21,534.00
GF01.1000	CASH AND INVESTMENTS		8,081.00
GF02.1000	CASH AND INVESTMENTS		2,590.00
IS01.1000	CASH AND INVESTMENTS		2,147.00
PT01.1000	CASH AND INVESTMENTS		2,117.00
SR02.1000	CASH AND INVESTMENTS		83.00
SR03.1000	CASH AND INVESTMENTS		1,758.00
SR04.1000	CASH AND INVESTMENTS		627.00
SR05.4070	OTHER REVENUES		250.00
SR06.1000	CASH AND INVESTMENTS		2,447.00
SR07.1000	CASH AND INVESTMENTS		228.00
SR08.1000	CASH AND INVESTMENTS		420.00
SR09.1000	CASH AND INVESTMENTS		5,963.00
SR10.1000	CASH AND INVESTMENTS		884.00
SR11.1000	CASH AND INVESTMENTS		181.00
SR12.1000	CASH AND INVESTMENTS		133.00
SR13.1000	CASH AND INVESTMENTS		410.00
SR15.1000	CASH AND INVESTMENTS		93.00
TA02.1000	CASH AND INVESTMENTS		34,368.00
TA02.1000	CASH AND INVESTMENTS		10,393.00
TA03.1000	CASH AND INVESTMENTS		311.00
TA04.1000	CASH AND INVESTMENTS		357.00
TA05.1000	CASH AND INVESTMENTS		632.00
TA06.1000	CASH AND INVESTMENTS		126.00
TA08.1000	CASH AND INVESTMENTS		101.00
TA10.1000	CASH AND INVESTMENTS		306.00
GF01.1000	CASH AND INVESTMENTS		
GF01.4050	USE OF MONEY AND PROPERTY		
<b>Total</b>		<b>96,520.00</b>	<b>96,520.00</b>
<b>Adjusting Journal Entries JE # 106</b>			
		<b>1100.91</b>	
JWP: To record additional cash and liability for account not recorded in the city's books.			
GF01.1000	CASH AND INVESTMENTS	176,703.00	
GF01.2301	DEPOSITS FROM OTHERS		176,703.00
<b>Total</b>		<b>176,703.00</b>	<b>176,703.00</b>
<b>Adjusting Journal Entries JE # 107</b>			
		<b>2400.03</b>	
JWP: To record Prop Fund Net Pension Liability and Related Deferred Inflows and Outflows			
EN01.1915	DEFERRED OUTFLOWS - PENSION	80,984.00	
EN01.2915	DEFERRED INFLOWS - PENSION	38,813.00	
IS02.1915	DEFERRED OUTFLOWS - PENSION	45,227.00	
IS02.2915	DEFERRED INFLOWS - PENSION	21,677.00	
IS03.1915	DEFERRED OUTFLOWS - PENSION	15,155.00	
IS03.2915	DEFERRED INFLOWS - PENSION	7,263.00	
EN01.2796	PENSION LIABILITY		81,663.00
EN01.8010	SALARIES AND BENEFITS		38,134.00
IS02.2796	PENSION LIABILITY		45,607.00
IS02.8010	SALARIES AND BENEFITS		21,297.00
IS03.2796	PENSION LIABILITY		15,282.00
IS03.8010	SALARIES AND BENEFITS		7,136.00
<b>Total</b>		<b>209,119.00</b>	<b>209,119.00</b>
<b>Adjusting Journal Entries JE # 108</b>			
		<b>1350.04</b>	
JJ: PBC - To record payment on BioRAD lease receivable during FY16/17.			
DS02.2502	UNAVAILABLE REVENUES	78,181.00	
DS02.1272	LONG-TERM RECEIVABLES, LONG TERM		78,181.00
<b>Total</b>		<b>78,181.00</b>	<b>78,181.00</b>
<b>Adjusting Journal Entries JE # 109</b>			
		<b>1700.20</b>	
PP - PBC To accrue FY16-17 revenue and expense billed in FY17-18			
EN01.1702	CONSTRUCTION IN PROGRESS	1,001,511.00	



EN01.4070	OTHER REVENUES		1,001,511.00	
<b>Total</b>		<u>1,001,511.00</u>	<u>1,001,511.00</u>	
<b>Adjusting Journal Entries JE # 110</b>				
JJ: PBC - To record the change in deposits payable for FY16/17.				
GF01.2301	DEPOSITS FROM OTHERS	205,282.00		
GF01.4060	CHARGES FOR SERVICES		205,282.00	
<b>Total</b>		<u>205,282.00</u>	<u>205,282.00</u>	
<b>Adjusting Journal Entries JE # 111</b>				
EZ: to correct JE 0109 - zero out misc revenue and reduce fund expenses on Wastewater fund ( source of reimbursement is fed loan from State Water Board)				
EN01.4070	OTHER REVENUES	1,001,511.00		
EN01.8020	SERVICES AND SUPPLIES		1,001,511.00	
<b>Total</b>		<u>1,001,511.00</u>	<u>1,001,511.00</u>	
<b>Adjusting Journal Entries JE # 112</b>				
JWP: To record retentions payable and CIP				
EN01.1702	CONSTRUCTION IN PROGRESS	408,281.00		
EN01.2030	RETENTION PAYABLE		408,281.00	
<b>Total</b>		<u>408,281.00</u>	<u>408,281.00</u>	
<b>Adjusting Journal Entries JE # 113</b>				
EZ: to combine fund 295 with CP02 - eliminates deficit in SR13 that resulted from transferring cash for capital projects prior to receipt of reimbursement				
CP02.1210	ACCOUNTS RECEIVABLE	11,119.00		
CP02.3550	FUND BALANCE - UNASSIGNED	6,977,528.00		
CP02.9102	TRANSFERS OUT	1,735,000.00		
SR13.1000	CASH AND INVESTMENTS	8,189,406.00		
SR13.2612	DUE TO OTHER FUNDS	527,650.00		
SR13.4030	INTERGOVERNMENTAL REVENUES	6,591.00		
CP02.1000	CASH AND INVESTMENTS		8,189,406.00	
CP02.2612	DUE TO OTHER FUNDS		527,650.00	
CP02.4030	INTERGOVERNMENTAL REVENUES		6,591.00	
SR13.1210	ACCOUNTS RECEIVABLE		11,119.00	
SR13.3550	FUND BALANCE - UNASSIGNED		6,977,528.00	
SR13.9102	TRANSFERS OUT		1,735,000.00	
<b>Total</b>		<u>17,447,294.00</u>	<u>17,447,294.00</u>	
<b>Adjusting Journal Entries JE # 114</b>				
EZ: eliminate AJE 105 from SR13 and transfer to CP02 - consolidation of funds for FS presentation				
CP02.6032	PW - NONPAYROLL EXPENSES	410.00		
SR13.1000	CASH AND INVESTMENTS	410.00		
CP02.1000	CASH AND INVESTMENTS		410.00	
SR13.6032	PW - NONPAYROLL EXPENSES		410.00	
<b>Total</b>		<u>820.00</u>	<u>820.00</u>	
<b>Adjusting Journal Entries JE # 115</b>				
EZ: to eliminate unearned revenue from PYs				
PT01.2501	UNEARNED REVENUES	5,197,580.00		
PT01.9300	PRIOR PERIOD ADJUSTMENTS		5,197,580.00	
<b>Total</b>		<u>5,197,580.00</u>	<u>5,197,580.00</u>	
<b>Adjusting Journal Entries JE # 116</b>				
EZ: to zero out OPEB trust fund balances to reflect the funds are with PARS and should not be reported in City's FS - Impact report PPA for amounts reported in PY				
GF01.1000	CASH AND INVESTMENTS	283,750.00		
TA10.9300	Prior period adjustment	1,677,270.00		
TA10.9300	Prior period adjustment	283,750.00		
GF01.9300	PRIOR PERIOD ADJUSTMENTS		283,750.00	
TA10.1000	CASH AND INVESTMENTS		283,750.00	
TA10.1030	CASH WITH FISCAL AGENTS		1,677,270.00	
<b>Total</b>		<u>2,244,770.00</u>	<u>2,244,770.00</u>	
<b>Adjusting Journal Entries JE # 119</b>				
EZ - to zero out activity in OPEB trust - OPEB trust is with PARS not with City				
GF01.1000	CASH AND INVESTMENTS	5,734.00		
TA10.2010	ACCOUNTS PAYABLE	50,000.00		
TA10.4050	INVESTMENT INCOME	214,784.00		
TA10.4065	EMPLOYER CONTRIBUTIONS	50,000.00		
GF01.4050	USE OF MONEY AND PROPERTY		5,734.00	
TA10.1000	CASH AND INVESTMENTS		5,734.00	
TA10.1030	CASH WITH FISCAL AGENTS		204,089.00	
TA10.3107	RESTR NA OPEB		50,000.00	
TA10.8010	HEALTH CARE BENEFITS		44,733.00	
TA10.8030	Administrative expenses		10,228.00	
TA10.2010	ACCOUNTS PAYABLE			
<b>Total</b>		<u>320,518.00</u>	<u>320,518.00</u>	
<b>Total Adjusting Journal Entries</b>		<u>32,894,526.00</u>	<u>32,894,526.00</u>	
<b>Total All Journal Entries</b>		<u>32,894,526.00</u>	<u>32,894,526.00</u>	

