

**HERCULES PUBLIC FINANCING AUTHORITY  
(A COMPONENT UNIT OF THE  
CITY OF HERCULES, CALIFORNIA)**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2017**



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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Hercules Public Financing Authority (Authority), a component unit of the City of Hercules, California (City) as of and for the fiscal year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Authority'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 basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

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

**Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Authority, as of June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

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

The Authority has outstanding loans of \$6.7 million owed by the former redevelopment agency (Agency), now a private purpose trust fund of the City. This outstanding loan represents approximately 20.46% of the Authority's assets. 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*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance.. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Roseville, California  
February 7, 2018



**BASIC FINANCIAL STATEMENTS —  
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**HERCULES PUBLIC FINANCING AUTHORITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**ASSETS**

Current Assets:

Cash and Investments with Fiscal Agents	8,750,879
Interest Receivable	598,546
Total Current Assets	9,349,425

Noncurrent Assets:

Lease Receivable	16,678,648
Due from RDA Successor Agency	6,703,250
Total Noncurrent Assets	23,381,898

Total Assets	32,731,323
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**LIABILITIES**

Current Liabilities:

Due to City of Hercules	118,349
Accrued Interest Payable	598,546
Total Current Liabilities	716,895

Noncurrent Liabilities:

Due Within One Year	680,000
Due in More than One Year	24,749,527
Total Noncurrent Liabilities	25,429,527

Total Liabilities	26,146,422
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**NET POSITION**

Restricted for Debt Service	6,584,901
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Total Net Position	\$ 6,584,901
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**HERCULES PUBLIC FINANCING AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

<b>EXPENSES</b>	
Interest and Fiscal Agent Charges	\$ 1,581,645
<b>PROGRAM REVENUES</b>	
Lease Revenue - Interest	<u>1,715,129</u>
<b>NET PROGRAM REVENUES (EXPENSES)</b>	133,484
<b>GENERAL REVENUES</b>	
Investment Earnings	<u>18,659</u>
<b>CHANGE IN NET POSITION</b>	152,143
Net Position - Beginning of Year	<u>6,432,758</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 6,584,901</u></u>

See accompanying Notes to Basic Financial Statements.

**BASIC FINANCIAL STATEMENTS —  
FUND FINANCIAL STATEMENTS**

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**HERCULES PUBLIC FINANCING AUTHORITY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017**

	Debt Service Funds			Total
	2003B PFA Lease Revenue Bonds	2009 PFA Taxable Lease Revenue Bonds	2010 PFA Wastewater Revenue Bonds	
<b>ASSETS</b>				
Cash with Fiscal Agents	20	1,861,884	6,888,975	8,750,879
Lease Receivable	6,509,980	6,889,893	3,278,775	16,678,648
Due from Other Funds	155,044	-	-	155,044
Advances to Successor RDA Agency	6,703,250	-	-	6,703,250
 Total Assets	<u>\$ 13,368,294</u>	<u>\$ 8,751,777</u>	<u>\$ 10,167,750</u>	<u>\$ 32,287,821</u>
<b>LIABILITIES</b>				
Due to the City of Hercules	\$ -	\$ 118,349	\$ -	\$ 118,349
Due to Other Funds	-	155,044	-	155,044
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	6,509,980	6,889,893	3,278,775	16,678,648
<b>FUND BALANCES</b>				
Restricted for Debt Service/Capital Projects	<u>6,858,314</u>	<u>1,588,491</u>	<u>6,888,975</u>	<u>15,335,780</u>
 Total Fund Balances	<u>6,858,314</u>	<u>1,588,491</u>	<u>6,888,975</u>	<u>15,335,780</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 13,368,294</u>	<u>\$ 8,751,777</u>	<u>\$ 10,167,750</u>	<u>\$ 32,287,821</u>

See accompanying Notes to Basic Financial Statements.

**HERCULES PUBLIC FINANCING AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

Total Fund Balances - Governmental Funds \$ 15,335,780

Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds because of the following:

Interest on lease receivable is not accrued in governmental funds but rather is recognized when due. 598,546

Lease receivables are not available to pay for current period expenditures and, therefore are deferred in the governmental funds. 16,678,648

Long-term liabilities are not due and payable in the current period and, therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net position.

Bonds Outstanding	\$ (25,960,000)	
Unamortized Discount on Bonds Outstanding	530,473	
Accrued Interest on Long-Term Debt	(598,546)	
	(26,028,073)	

Total Net Position - Governmental Activities \$ 6,584,901



**HERCULES PUBLIC FINANCING AUTHORITY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2017**

	Debt Service Funds			Total
	2003B PFA Lease Revenue Bonds	2009 PFA Taxable Lease Revenue Bonds	2010 PFA Wastewater Revenue Bonds	
<b>REVENUES</b>				
Use of Money and Property	\$ 21	\$ 10,548	\$ 8,090	\$ 18,659
Lease Revenue	722,536	771,098	239,418	1,733,052
Total Revenues	<u>722,557</u>	<u>781,646</u>	<u>247,508</u>	<u>1,751,711</u>
<b>EXPENDITURES</b>				
Debt Service:				
Principal	245,000	155,000	250,000	650,000
Interest and Fiscal Agent Fees	322,493	762,140	481,975	1,566,608
Total Expenditures	<u>567,493</u>	<u>917,140</u>	<u>731,975</u>	<u>2,216,608</u>
<b>NET CHANGE IN FUND BALANCE</b>	155,064	(135,494)	(484,467)	(464,897)
Fund Balances - Beginning of Year	<u>6,703,250</u>	<u>1,723,985</u>	<u>7,373,442</u>	<u>15,800,677</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 6,858,314</u></u>	<u><u>\$ 1,588,491</u></u>	<u><u>\$ 6,888,975</u></u>	<u><u>\$ 15,335,780</u></u>

See accompanying Notes to Basic Financial Statements.

**HERCULES PUBLIC FINANCING AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Governmental Funds	\$	(464,897)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Lease receivables are reported as financial resources in the fund statements; however these amounts represent the change in the long-term investment in leases to the Hercules Public Financing Authority and decrease net position.</p>		(17,923)
<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. In addition, interest on long-term debt is not accrued in governmental funds.</p>		
Change in Accrued Interest on Long-Term Debt		9,533
<p>Long-term debt proceeds provide current financial resources for governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Payment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal Repayments on Long Term Debt	\$ 650,000	
Amortization of Discounts	(24,570)	
		625,430
Change in Net Position of Governmental Activities	\$	152,143

See accompanying Notes to Basic Financial Statements.

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**HERCULES PUBLIC FINANCING AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Hercules Public Financing Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**A. Financial Reporting Entity**

The Authority is a joint powers authority organized by the City of Hercules (City) and the Hercules Redevelopment Agency (Agency) on July 24, 2001, under the laws of the State of California. The Authority was organized to provide financing for public capital improvements and working capital for the City and the Agency through lease, acquisition, or construction of such public capital improvements. Administrative and related normal business expenditures incurred in the day-to-day operations of the Authority are provided by the City and are not included in the accompanying basic financial statements. Management believes that such expenditures are not material to the Authority's operations.

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

The accounts of the Authority 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 Authority's government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental activities for the Authority.

The basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority'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.

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**B. Basis of Accounting and Measurement Focus (Continued)**

Government-wide Financial Statements (Continued)

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances for all major governmental funds. Accompanying schedules are 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, and the difference in change in fund balance in the governmental funds to change in net position in the government-wide statements. The Authority has presented all major funds that met the qualifications for major fund reporting. All funds of the Authority are debt service funds.

The following is the description of the major funds:

2003B PFA Lease Revenue Bond Debt Service Fund only the debt component of the City fund, accounts for the accumulation of resources used for the payment of principal and interest on the bonds 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.

2009 PFA Taxable Lease Revenue Bond Debt Service Fund only the debt component of the City fund, accounts for the accumulation of resources used for the payment of principal and interest on the bonds issued to cover the financing of the acquisition of certain commercial condominium properties, consisting of approximately 96,847 square feet located at 203-295 Linus Pauling Drive within the City.

2010 PFA Wastewater Revenue Bonds Debt Service Fund only the debt component of the City fund, accounts for the accumulation of resources used for the payment of principal and interest on the bonds issued to cover capital improvements to the City of Hercules' wastewater system.

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 sheet. The statement of revenues, expenditures, and changes in fund balances presents 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 revenues which are subject to accrual (generally 60 days after year-end), which are recognized when due to the Authority.

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**C. Cash and Investment with Fiscal Agents**

Cash and investments are held by fiscal agents for the redemption of bonded debt and maintaining required reserves.

**D. Long-Term Obligations**

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

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, in the period in which they were paid/received. 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.

**E. Fund Balances**

In the governmental funds, the following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

*Nonspendable Fund Balance* – amounts that cannot be spent because they are either not spendable in form or legally or contractually required to remain intact.

*Restricted Fund Balance* – amounts with constraints placed on their use by those external to the Authority, including creditors, grantors, contributors or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.

*Committed Fund Balance* – amounts that can only be used for specific purposes determined by formal action of the Authority's highest level of decision-making authority (the board of directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the closer of the reporting period.

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**E. Fund Balances (Continued)**

Assigned Fund Balance – amounts that are constrained by the Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making or by a body or an official designed for that purpose.

Unassigned Fund Balance – the residual classification that includes amounts not contained in the other classifications.

The Authority’s board establishes, modifies, or rescinds fund balance commitments and assignments by passage of a resolution. When restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, followed by unrestricted, committed, assigned and unassigned resources as they are needed.

**F. Net Position**

In the government-wide financial statements, net position may be 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 was attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position (Deficit) – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

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

**G. Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires Authority’s management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 2 CASH AND INVESTMENTS**

The Agency pools its cash and investments with the City in order to achieve a higher return on investment. Certain funds, which are held and invested by independent outside custodians through contractual agreements are not pooled.

Cash and investments at June 30, 2017 consisted of the following:

Investments Held with Fiscal Agent	\$ 8,750,879
Total Investments	<u>\$ 8,750,879</u>

**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. A method the Authority utilizes to manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, thereby 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 Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table, which shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>		
	<u>Totals</u>	<u>12 Months or Less</u>	<u>More Than 60 Months</u>
Held by Debt Trustees:			
Money Market Funds	\$ 8,606,923	\$ 8,606,923	\$ -
Guaranteed Investments	143,956	-	143,956
Totals	<u>\$ 8,750,879</u>	<u>\$ 8,606,923</u>	<u>\$ 143,956</u>

**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 Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.



**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Disclosures Relating to Credit Risk (Continued)**

Investment Type	Amount	Maximum Legal Rating	Exempt from Disclosure	S&P Rating as of Fiscal Year End	
				AAAm	Not Rated
Held by Debt Trustees:					
Money Market Funds	\$ 8,606,923	N/A	\$ -	\$ 6,888,995	\$ 1,717,928
Guaranteed Investment Contracts	143,956	N/A	-	-	143,956
Total	<u>\$ 8,750,879</u>		<u>\$ -</u>	<u>\$ 6,888,995</u>	<u>\$ 1,861,884</u>

**NOTE 3 LEASE RECEIVABLE**

The Authority has entered into several noncancelable lease agreements with the City as part of its issuances of debt. These agreements call for the Authority to receive lease amounts that are structured to be sufficient in timing and amount to meet the Authority's related debt service payments. Interest earned on the lease payment account and other monies held by the trustee are applied to the lease payments made by the City.

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

Year Ending	2003B PFA Lease Revenue Bonds	2009 PFA Taxable Lease Revenue Bonds	2010 PFA Wastewater Revenue Bonds	Total
2018	\$ 564,509	\$ 918,815	\$ 734,950	\$ 2,218,274
2019	567,340	917,265	732,075	2,216,680
2020	563,590	920,015	733,631	2,217,236
2021	564,805	916,715	734,175	2,215,695
2022	565,735	920,215	733,288	2,219,238
2023-2027	2,736,525	4,589,538	3,650,306	10,976,369
2028-2032	1,722,325	4,587,370	3,633,350	9,943,045
2033-2037	2,290,000	4,586,920	3,618,125	10,495,045
2038-2042	-	1,832,480	2,879,000	4,711,480
Subtotal	9,574,829	20,189,333	17,448,900	47,213,062
Less: Discount	-	(363,223)	(167,250)	(530,473)
Less: Unearned Income	(3,064,829)	(11,074,333)	(7,113,900)	(21,253,062)
Less: Fiscal Agent Cash	(20)	(1,861,884)	(6,888,975)	(8,750,879)
Net Investment in Lease Receivable	<u>\$ 6,509,980</u>	<u>\$ 6,889,893</u>	<u>\$ 3,278,775</u>	<u>\$ 16,678,648</u>

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 4 LONG-TERM OBLIGATIONS**

A summary of the Authority's long-term debt transactions for the fiscal year ended June 30, 2017, is presented below:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
2003B PFA Lease Revenue					
Bonds	\$ 6,755,000	\$ -	\$ (245,000)	\$ 6,510,000	\$ 255,000
2009 PFA Taxable Lease					
Revenue Bonds	9,270,000	-	(155,000)	9,115,000	165,000
Discount on Issuance	(380,520)	-	17,297	(363,223)	-
2010 PFA Wastewater					
Revenue Bonds	10,585,000	-	(250,000)	10,335,000	260,000
Discount on Issuance	(174,522)	-	7,272	(167,250)	-
Total Long-Term Liabilities	<u>\$ 26,054,958</u>	<u>\$ -</u>	<u>\$ (625,431)</u>	<u>\$ 25,429,527</u>	<u>\$ 680,000</u>

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

The 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 rates on the bonds range 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, 2017 is \$6,510,000.

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	310,000	255,735	565,735
2023-2027	1,780,000	956,525	2,736,525
2028-2032	1,290,000	432,325	1,722,325
2033-2035	2,030,000	260,000	2,290,000
Total	<u>\$ 6,510,000</u>	<u>\$ 3,064,829</u>	<u>\$ 9,574,829</u>

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**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 Units 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, 2017 is \$9,115,000.

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 165,000	\$ 753,815	\$ 918,815
2019	175,000	742,265	917,265
2020	190,000	730,015	920,015
2021	200,000	716,715	916,715
2022	220,000	700,215	920,215
2023-2027	1,390,000	3,199,538	4,589,538
2028-2032	2,065,000	2,522,370	4,587,370
2033-2037	3,085,000	1,501,920	4,586,920
2038-2040	1,625,000	207,480	1,832,480
Total	<u>\$ 9,115,000</u>	<u>\$ 11,074,333</u>	<u>\$ 20,189,333</u>

**2010 Public Financing Authority Wastewater Revenue Bonds**

The 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, 2017 is \$10,335,000.

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**2010 Public Financing Authority Wastewater Revenue Bonds (Continued)**

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	295,000	438,288	733,288
2023-2027	1,655,000	1,995,306	3,650,306
2028-2032	2,065,000	1,568,350	3,633,350
2033-2037	2,625,000	993,125	3,618,125
2038-2042	2,610,000	269,000	2,879,000
Total	<u>\$ 10,335,000</u>	<u>\$ 7,113,900</u>	<u>\$ 17,448,900</u>

**NOTE 5 TRANSACTIONS WITH THE CITY OF HERCULES**

**Due To City of Hercules**

At June 30, 2017, the Authority had the following due to the City:

Due to City of Hercules	\$ 118,349
Total	<u>\$ 118,349</u>

Amounts represent short-term borrowings to cover temporary cash deficit of the Authority.

**NOTE 6 CONTINGENCIES**

The Authority is not involved in any matters of litigation that have arisen in the normal course of conducting Authority business as of June 30, 2017. Additionally, the Authority's management believes that the Authority's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

**NOTE 7 INTERFUND TRANSACTIONS**

**Due To/From Other Funds**

Due to/from other funds as of June 30, 2017 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
2003B PFA Lease Revenue	2009 PFA Taxable Lease	
Bonds	Revenue Bonds	\$ 155,044
Total		<u>\$ 155,044</u>

Amounts represent short-term borrowing to cover temporary cash deficits between funds of the Authority.

**HERCULES PUBLIC FINANCING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 8 FINANCIAL CONDITION**

With the dissolution of the redevelopment agency (Agency) on February 1, 2012 there is uncertainty as to whether the Authority will be repaid the accumulated \$6.7 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 not invalid. 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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**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***

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Hercules Public Financing Authority (Authority), a component unit of the City of Hercules, California (City) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and we have issued our report thereon dated February 7, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

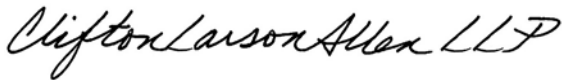
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Roseville, California  
February 7, 2018