

City of Hercules

*111 Civic Drive
Hercules, CA 94547*



Meeting Agenda

Monday, February 26, 2018

7:00 PM

Council Chambers

Finance Commission

*J. Yamamoto, Chair
Stanley Tom, Vice Chair
Zania Harris, Commissioner
Lori Rlsby, Commissioner
Aida Torres, Commissioner*

I. CALL TO ORDER - ROLL CALL**II. PLEDGE OF ALLEGIANCE****III. INTRODUCTIONS/PRESENTATIONS - NONE****IV. AGENDA ADDITIONS/DELETIONS****V. PUBLIC COMMUNICATIONS****VI. DIRECTOR REPORT**

Disbursement List is located at <http://www.ci.hercules.ca.us>. Click on Departments and Services. Click on Finance. Click on Disbursement List.

1. [18-40](#) Review and Discuss CAFR for FY 2016-2017.

Attachments: [2017 Letter from CliftonLarsonAllen](#)
[2017 Independent Accountant's Report on Applying Agreed Upon Procedures](#)
[FY 2017 Annual Financial Report](#)
[FY 2017 Single Audit Report](#)
[FY 2017 Hercules Wastewater Fund](#)
[FY 2017 Hercules Public Financing Authority](#)
[FY 2017 Hercules Measure B Report](#)
[FY 2017 Hercules Measure C Report](#)

2. [18-41](#) Review and Discuss Mid-Year report for FY 2017-2018.

Attachments: [Staff Report: Mid-Year Budget Report FY 2017-2018](#)
[Mid-Year Budget Report FY 2017-2018](#)

VII. CONSENT CALENDAR

1. [18-42](#) **Minutes**
Recommendation: Review and Approve the Finance Commission Minutes from the January 22, 2018 Meeting.

Attachments: [Finance Commission Minutes 01.22.18](#)

2. [18-43](#) **Minutes**
Recommendation: Review and Approve the Finance Commission Minutes from the February 8, 2018 Meeting.

Attachments: [Finance Commission Minutes 02.08.18](#)

VIII. DISCUSSION AND/OR ACTION ITEMS

1. [18-44](#) Parks & Recreation Sub-Committee updates.
2. [18-45](#) Measure B& C Sub-Committee Report.

Attachments: [Measure B & C Presentation](#)
 [Measure B & C Report](#)

IX. COMMISSIONER REPORTS AND ANNOUNCEMENTS

X. FUTURE AGENDA ITEMS

1. [18-46](#) Future Agenda Items Work Plan.

Attachments: [Finance Commission Workplan](#)

XI. ADJOURNMENT

The next Regular Meeting of the Commission will be held on Monday, March 26, 2018 at 7:00 p.m. in the Council Chambers.

Agendas are posted in accordance with Government Code Section 54954.2(a) or Section 54956. Members of the public can view electronic agendas and staff reports from the City's website at www.ci.hercules.ca.us and can receive e-mail notification of agenda postings by signing up to receive an e-notice from the City's website. Agendas and staff reports may also be obtained by contacting the Administrative Services Department at (510) 799-8215.

Posted: February 22, 2018

THE COMMISSION ADHERES TO THE FOLLOWING POLICIES, PROCEDURES AND REGULATIONS REGARDING COMMISSION MEETINGS

SPECIAL ACCOMODATIONS: In compliance with the Americans with Disabilities Act, if you require special accommodations to participate at a commission meeting, please contact the City Clerk at 510-799-8215 at least 48 hours prior to the meeting.

AGENDA ITEMS: Persons wishing to add an item to an agenda must submit the final written documentation 12 calendar days prior to the meeting. The City retains the discretion whether to add items to the agenda. Persons wishing to address the Commission otherwise may make comments during the Public Communication period of the meeting.

AGENDA POSTING: Agendas of regular commission meetings are posted at least 72 hours prior to the meeting at City Hall, the Hercules Swim Center, Ohlone Child Care Center, Hercules Post Office, and on the City's website (www.ci.hercules.ca.us),

PUBLIC COMMUNICATIONS: Persons who wish to address the Commission should complete the speaker form prior to the Commission's consideration of the item on the agenda.

Anyone who wishes to address the Commission on a topic that is not on the agenda and is relevant to the Commission should complete the speaker form prior to the start of the meeting. Speakers will be called upon during the Public Communication portion of the meeting. In accordance with the Brown Act, the Commission may not take action on items not listed on the agenda. The Commission may refer to staff any matters brought before them at this time and those matters may be placed on a future agenda.

In the interests of conducting an orderly and efficient meeting, speakers will be limited to three (3) minutes.

Anyone may also submit written comments at any time before or during the meeting.

Written and oral comments become part of the public record. Oral comments are summarized in the minutes of the commission's meeting.

CONSENT CALENDAR: All matters listed under Consent Calendar are considered to be routine and will be enacted by one motion. There will be no separate discussion of these items unless requested by a member of the Commission or a member of the public prior to the time the Commission votes on the motion to adopt.

COMMISSIONER REPORTS AND ANNOUNCEMENTS: This is the time for brief announcements by commissioners on issues of interests to the community. In accordance with provisions of the Brown Act, matters which do not appear on the agenda, but require Commission discussion may be either (a) referred to staff or other resources for factual information or (b) placed on a future meeting agenda.

LEGAL CHALLENGES: If you challenge a decision of the Commission in court, you may be limited to raising only those issues you or someone else raised at the meeting or in written correspondence delivered at, or prior to, the meeting. Actions challenging Commission decisions shall be subject to the time limitations contained in Code of Civil Procedure Section 1094.6. In order to ensure the efficient conduct of meetings, and to provide opportunities for all interested persons to speak and be heard, the Commission will adhere to the following meeting procedures:



Legislation Details (With Text)

File #: 18-40 **Version:** 1 **Name:**

Type: Director Report **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Review and Discuss CAFR for FY 2016-2017.

Sponsors:

Indexes:

Code sections:

Attachments: [2017 Letter from CliftonLarsonAllen](#)
[2017 Independent Accountant's Report on Applying Agreed Upon Procedures](#)
[FY 2017 Annual Financial Report](#)
[FY 2017 Single Audit Report](#)
[FY 2017 Hercules Wastewater Fund](#)
[FY 2017 Hercules Public Financing Authority](#)
[FY 2017 Hercules Measure B Report](#)
[FY 2017 Hercules Measure C Report](#)

Date	Ver.	Action By	Action	Result
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Review and Discuss CAFR for FY 2016-2017.



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAAconnect.com

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
Proposed Journal Entries				
Proposed Journal Entries JE # 601				
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
Total			39,079.00	39,079.00
Proposed Journal Entries JE # 603				
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
Total			43,000.00	43,000.00
Proposed Journal Entries JE # 604				
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
Total			31,192.00	31,192.00
Total Proposed Journal Entries			113,271.00	113,271.00
Total All Journal Entries			113,271.00	113,271.00

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
Adjusting Journal Entries				
Adjusting Journal Entries JE # 101				
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
Total			981,677.00	981,677.00
Adjusting Journal Entries JE # 102				
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
Total			3,288,539.00	3,288,539.00
Adjusting Journal Entries JE # 103				
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
Total			159,970.00	159,970.00
Adjusting Journal Entries JE # 104				
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
Total			76,250.00	76,250.00
Adjusting Journal Entries JE # 105				
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		
Total		96,520.00	96,520.00
Adjusting Journal Entries JE # 106			
		1100.91	
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
Total		176,703.00	176,703.00
Adjusting Journal Entries JE # 107			
		2400.03	
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
Total		209,119.00	209,119.00
Adjusting Journal Entries JE # 108			
		1350.04	
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
Total		78,181.00	78,181.00
Adjusting Journal Entries JE # 109			
		1700.20	
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	
Total		<u>1,001,511.00</u>	<u>1,001,511.00</u>	
Adjusting Journal Entries JE # 110				
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	
Total		<u>205,282.00</u>	<u>205,282.00</u>	
Adjusting Journal Entries JE # 111				
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	
Total		<u>1,001,511.00</u>	<u>1,001,511.00</u>	
Adjusting Journal Entries JE # 112				
JWP: To record retentions payable and CIP				
EN01.1702	CONSTRUCTION IN PROGRESS	408,281.00		
EN01.2030	RETENTION PAYABLE		408,281.00	
Total		<u>408,281.00</u>	<u>408,281.00</u>	
Adjusting Journal Entries JE # 113				
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	
Total		<u>17,447,294.00</u>	<u>17,447,294.00</u>	
Adjusting Journal Entries JE # 114				
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	
Total		<u>820.00</u>	<u>820.00</u>	
Adjusting Journal Entries JE # 115				
EZ: to eliminate unearned revenue from PYs				
PT01.2501	UNEARNED REVENUES	5,197,580.00		
PT01.9300	PRIOR PERIOD ADJUSTMENTS		5,197,580.00	
Total		<u>5,197,580.00</u>	<u>5,197,580.00</u>	
Adjusting Journal Entries JE # 116				
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	
Total		<u>2,244,770.00</u>	<u>2,244,770.00</u>	
Adjusting Journal Entries JE # 119				
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			
Total		<u>320,518.00</u>	<u>320,518.00</u>	
Total Adjusting Journal Entries		<u>32,894,526.00</u>	<u>32,894,526.00</u>	
Total All Journal Entries		<u>32,894,526.00</u>	<u>32,894,526.00</u>	

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by the City of Hercules, on the Appropriations Limit calculation of the City of Hercules (City) for the year ended June 30, 2017. The City's management is responsible for the Appropriations Limit calculation. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We obtained the completed calculation, and compared the limit and annual adjustment factors in the calculation to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned calculation to those that were selected by a recorded vote of the Council.

Finding: No exceptions noted as a result of our procedures.

2. For the Appropriations Limit calculation, we added last year's limit to total adjustments, and compared the resulting amount to this year's limit.

Finding: The City used an incorrect prior year limit which resulted in the limit adopted by resolution of the City Council to be \$1,277,871 lower than our calculation.

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

3. We compared the current year information presented in the Appropriations Limit calculation to the other calculation described in procedure 1 above.

Finding: The City used an incorrect prior year limit which resulted in the limit adopted by resolution of the City Council to be \$1,277,871 lower than our calculation.

4. We compared the prior year appropriations limit presented in the Appropriations Limit calculation to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions noted as a result of our procedures

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit calculation. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Hercules and management of the City of Hercules and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP
Roseville, California
February 7, 2018

**CITY OF HERCULES,
CALIFORNIA**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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**CITY OF HERCULES
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YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
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, 2017, 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, 2017, 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.

Emphasis of 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 \$28.4 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 65 percent of the City's General Fund's assets and 18 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. Our opinion is not modified with respect to this matter.

Prior Period Adjustments

As disclosed in Note 9 to the financial statements, prior period adjustments were recorded for the correction of errors in the prior year financial statements. Our opinion is not modified with respect to this matter.

Other Matters

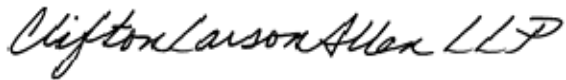
Required Supplementary Information

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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 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 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 City'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 City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Roseville, California
January 31, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017. 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 \$155,705,790 (*net position*). Net position of \$18,239,035 are restricted for specific purposes (*restricted net position*), and \$82,790,312 represents net investment in capital assets. Unrestricted net position was \$54,676,443. The government's total net position, as adjusted, increased by \$11,819,210 in comparison with the prior year.
- The City's net investment in capital assets, increased by \$3,338,889.
- The City's governmental funds reported combined fund balances of \$58,245,329, an increase of \$5,419,850 from operating activities plus \$283,750 due to correction of an error in prior year statements. The unassigned portion of those fund balances was \$5,378,030.

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 expenses 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.

CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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.

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, City Capital Projects Fund, and the other governmental funds combined into a single, aggregated column. Governmental Accounting Standards Board (GASB) Statement No. 34 defines major governmental funds as those with revenues, expenditures, assets and deferred outflows or liabilities and deferred inflows 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.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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.

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 Postemployment 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.

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 \$155,705,790 at the close of the most recent fiscal year. Of these combined net position 53% reflects the City's investment in capital assets, net of related debt. Another 20% of the City's net position is subject to external restrictions on how they may be used.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The City's Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 76,388,162	\$ 75,389,749	\$ 33,640,876	\$ 33,090,914	\$ 110,029,038	\$ 108,480,663
Capital Assets	78,918,108	73,330,454	23,112,231	14,674,260	102,030,339	88,004,714
Total Assets	155,306,270	148,720,203	56,753,107	47,765,174	212,059,377	196,485,377
Deferred Outflows of Resources						
Deferred Outflows - Pensions	4,777,404	2,490,422	155,961	74,977	4,933,365	2,565,399
Current Liabilities	4,990,251	6,159,907	2,825,072	2,543,303	7,815,323	8,703,210
Long-Term Liabilities	35,706,251	33,917,635	16,993,613	10,920,462	52,699,864	44,838,097
Total Liabilities	40,696,502	40,077,542	19,818,685	13,463,765	60,515,187	53,541,307
Deferred Inflows of Resources						
Deferred Inflows - Pensions	714,636	1,810,697	57,129	95,942	771,765	1,906,639
Net Investment in Capital Assets	73,286,966	67,814,198	9,503,346	11,637,225	82,790,312	79,451,423
Restricted	18,239,035	7,026,074	-	-	18,239,035	7,026,074
Unrestricted	27,146,535	34,482,114	27,529,908	22,643,219	54,676,443	57,125,333
Total Net Position	<u>\$ 118,672,536</u>	<u>\$ 109,322,386</u>	<u>\$ 37,033,254</u>	<u>\$ 34,280,444</u>	<u>\$ 155,705,790</u>	<u>\$ 143,602,830</u>

A significant portion of the City's net position, \$82,790,312, 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.

The restricted portion of the City's net position, \$18,239,035, 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 is \$54,676,443. It is to be noted that GASB 34 classifies long-term payroll liabilities to the unrestricted category. These reclassifications include liabilities for pensions, other postemployment 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 \$11,819,210 during the current fiscal year. The increase in net position is primarily attributed to the increase in program revenues such as Fees, Fines, and Charges for Services, as well as Operating Grants and Contribution.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The City's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Fees, Fines and						
Charges for Services	\$ 5,701,875	\$ 5,065,400	\$ 5,797,766	\$ 5,595,044	\$ 11,499,641	\$ 10,660,444
Operating Grants/						
Contributions	1,727,375	1,493,568	-	-	1,727,375	1,493,568
Capital Grants/						
Contributions	8,410,511	8,800,824	-	-	8,410,511	8,800,824
General Revenues:						
Property Taxes	1,286,788	1,233,207	-	-	1,286,788	1,233,207
Sales Taxes	3,324,807	3,211,109	-	-	3,324,807	3,211,109
Franchise Taxes	878,574	960,124	-	-	878,574	960,124
Other Taxes	3,712,519	3,628,145	-	-	3,712,519	3,628,145
Motor Vehicle Taxes						
In-Lieu	1,799,014	1,645,846	-	-	1,799,014	1,645,846
Interest and Investment						
Income	1,114,795	1,133,587	47,424	24,058	1,162,219	1,157,645
Miscellaneous	448,688	1,029,258	-	-	448,688	1,029,258
Special Item	-	-	-	-	-	-
Total Revenues	28,404,946	28,201,068	5,845,190	5,619,102	34,250,136	33,820,170
Expenses						
General Government	4,025,706	3,706,717	-	-	4,025,706	3,706,717
Public Safety	5,365,068	5,299,440	-	-	5,365,068	5,299,440
Streets and Public Works	5,035,767	4,667,439	-	-	5,035,767	4,667,439
Parks and Recreation	3,050,786	2,216,525	-	-	3,050,786	2,216,525
Community Development	640,428	400,754	-	-	640,428	400,754
Interest and Long-Term						
Debt	1,220,791	1,301,053	-	-	1,220,791	1,301,053
Wastewater	-	-	3,092,380	3,854,974	3,092,380	3,854,974
Utility	-	-	-	-	-	-
Total Expenses	19,338,546	17,591,928	3,092,380	3,854,974	22,430,926	21,446,902
Increase (Decrease) in Net						
Position before Transfers	9,066,400	10,609,140	2,752,810	1,764,128	11,819,210	12,373,268
Transfers	-	(10,452)	-	10,452	-	-
Change in Net Position	9,066,400	10,598,688	2,752,810	1,774,580	11,819,210	12,373,268
Net Position - Beginning,						
Restated	109,606,136	98,723,698	34,280,444	32,505,864	143,886,580	131,229,562
Net Position - Ending	\$ 118,672,536	\$ 109,322,386	\$ 37,033,254	\$ 34,280,444	\$ 155,705,790	\$ 143,602,830

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017, the City's governmental funds reported combined fund balances of \$58,245,329. Of these combined fund balances, \$5,378,030 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, 2017, unassigned fund balance was \$9,426,610, while total fund balance was \$41,694,932. 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 92% of total General Fund expenditures, while the total fund balance represents 351% of total General Fund expenditures.

Total governmental funds Fund Balance increased by \$5,419,850 in comparison with the prior year. The major governmental funds had changes in fund balance as follows:

Hercules Debt Service Fund increased by \$19,569, Measure "C" Fund decreased by \$100,086, State Gas Tax Fund increased \$1,085,637, and City Capital Projects Fund increased by \$1,718,143. The nonmajor (other) governmental funds increased by \$391,875.

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

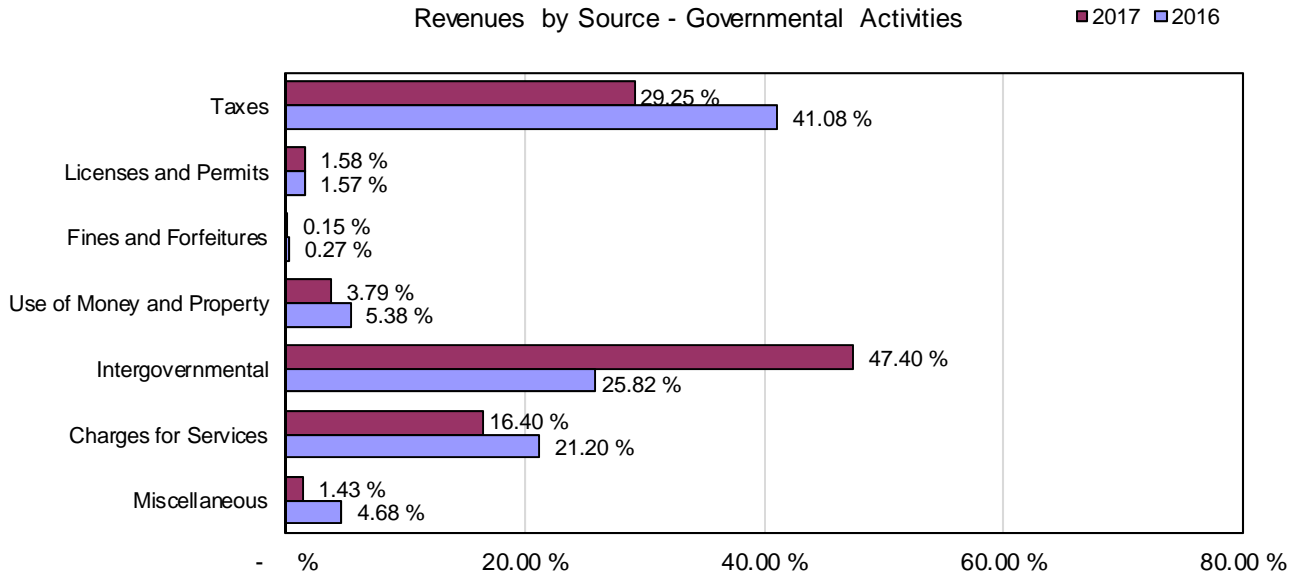
Revenues Classified by Source
Governmental Funds

	2017		2016		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Taxes	\$ 9,202,688	29.25 %	\$ 9,032,585	41.08 %	\$ 170,103	1.88 %
Licenses and Permits	496,355	1.58	344,374	1.57	151,981	44.13
Fines and Forfeitures	47,824	0.15	60,434	0.27	(12,610)	(20.87)
Use of Money and Property	1,192,976	3.79	1,183,964	5.38	9,012	0.76
Intergovernmental	14,911,152	47.40	5,677,447	25.82	9,233,705	162.64
Charges for Services	5,157,696	16.40	4,660,592	21.20	497,104	10.67
Miscellaneous	448,688	1.43	1,029,258	4.68	(580,570)	(56.41)
Total Revenue by Source	<u>\$ 31,457,379</u>	100.00	<u>\$ 21,988,654</u>	100.00	<u>\$ 9,468,725</u>	

Intergovernmental revenues increased by \$9,233,705 as a result of a new \$5.5 million grant in the fiscal year 2016-2017 and the recognition of approximately \$3 million in unavailable grant revenue from the prior year.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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

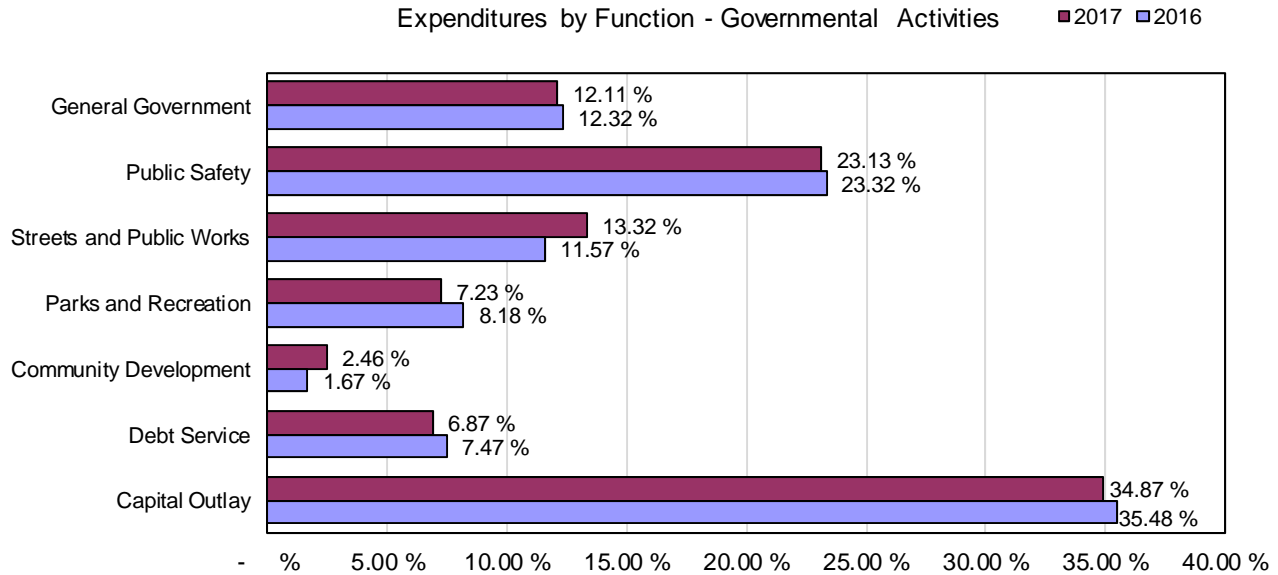


The following table presents expenditures by function compared to prior year amounts.

	2017		2016		Increase (Decrease)	
	Percent of		Percent of		Percent of	
	Amount	Total	Amount	Total	Amount	Change
General Government	\$ 3,153,498	12.11 %	\$ 2,952,966	12.32 %	\$ 200,532	6.79 %
Public Safety	6,022,005	23.13	5,589,583	23.32	432,422	7.74
Streets and Public Works	3,469,283	13.32	2,772,877	11.57	696,406	25.11
Parks and Recreation	1,883,159	7.23	1,961,669	8.18	(78,510)	(4.00)
Community Development	640,625	2.46	399,215	1.67	241,410	60.47
Debt Service	1,789,732	6.87	1,790,312	7.47	(580)	(0.03)
Capital Outlay	9,079,227	34.87	8,504,827	35.48	574,400	6.75
Total by Function	<u>\$ 26,037,529</u>	100.00	<u>\$ 23,971,449</u>	100.00	<u>\$ 2,066,080</u>	

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The following graph shows an illustrative picture of how City funds were spent.



Proprietary funds reporting focuses on determining operating income, changes in net position (or cost recovery), financial position, and cash flows using the full accrual basis of accounting.

Enterprise funds report the business-type activities of the City. Enterprise funds are used to account for the operations of the Wastewater Fund.

Enterprise fund net position net investment in capital assets at fiscal year-end was \$9,503,346. Unrestricted net position of the enterprise funds at fiscal year-end was \$27,529,908.

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 \$1,987,978 and include \$723,069 invested in capital assets. The net position of the internal service funds decreased by \$327,616 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, 2017, amounted to \$102,030,339 (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, 2017**

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	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,601,636	\$ 1,601,636	\$ 191,700	\$ 191,700	\$ 1,793,336	\$ 1,793,336
Construction in Progress	9,579,165	16,924,395	9,510,857	2,664,402	19,090,022	19,588,797
Land Improvements	11,720,361	11,720,361	-	-	11,720,361	11,720,361
Buildings & Improvements	26,138,433	25,861,711	11,335,199	12,876,281	37,473,632	38,737,992
Equipment	4,581,971	4,327,660	250,345	233,806	4,832,316	4,561,466
Infrastructure	97,111,132	81,229,126	13,729,500	10,161,008	110,840,632	91,390,134
Total	150,732,698	141,664,889	35,017,601	26,127,197	185,750,299	167,792,086
Accumulated Depreciation	(71,814,590)	(68,334,435)	(11,905,370)	(11,452,937)	(83,719,960)	(79,787,372)
Net Capital Assets	<u>\$ 78,918,108</u>	<u>\$ 73,330,454</u>	<u>\$ 23,112,231</u>	<u>\$ 14,674,260</u>	<u>\$ 102,030,339</u>	<u>\$ 88,004,714</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 long-term obligations of \$38,890,488. Of this amount, \$19,450,000 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 Obligations					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Bonds Payable	\$ 15,625,000	\$ 16,025,000	\$ 10,335,000	\$ 10,585,000	\$ 25,960,000	\$ 26,610,000
Unamortized Discount/ Refunding	(363,223)	(380,520)	(167,250)	(174,522)	(530,473)	(555,042)
Lease Payable	983,111	1,136,255	-	-	983,111	1,136,255
Loans Payable	4,950,000	5,050,000	6,786,667	-	11,736,667	5,050,000
Compensated absences	532,816	414,506	39,196	28,746	572,012	443,252
Self-insurance liability	169,171	126,364	-	-	169,171	126,364
Total	21,896,875	22,371,605	16,993,613	10,439,224	38,890,488	32,810,829
Less Current Portion	(1,187,664)	(653,144)	(288,746)	(250,000)	(1,476,410)	(903,144)
Net Long-Term Obligations	<u>\$ 20,709,211</u>	<u>\$ 21,718,461</u>	<u>\$ 16,704,867</u>	<u>\$ 10,189,224</u>	<u>\$ 37,414,078</u>	<u>\$ 31,907,685</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

The City of Hercules continues on a path to fiscal sustainability. Highlights from the FY 2016-17 fiscal year include the City Council having engaged in a process to update the City's Strategic Plan, with final adoption occurring in July 2017. The Sycamore Crossing site was sold with the proceeds applied to obligations of the former Redevelopment Agency and with future development of the site to add to the

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

City's revenue base. The City Council selected a buyer for the Queen Anne home with the house to be relocated to another community once the project is environmentally cleared. The 144 unit Muir Pointe residential community started construction. The City entered into a new tri-City agreement with Pinole and San Pablo for CAD/RMS services in addition to dispatch services which should be more cost effective in the long-term. The City was the first municipality to sign-on to PG & E's Solar Choice Program which has a share of the City's electricity usage sourced from renewables.

Investment in infrastructure continues to be a priority in FY 2016-17 as well. The City adopted a trench-cut ordinance to reduce future street maintenance costs by requiring those who do work in the streets to meet a higher standard of restoration after the work. A more than \$50 million upgrade and expansion of the joint Pinole Hercules Wastewater plant started construction. The resurfacing of Refugio Valley Road was completed, the pools at the Community Center re-plastered and their life extended; an upgrade of broadcast equipment in the City Council Chambers was completed and other community projects were in the design phase including improvements to the Duck Pond Park. The City also embarked on an update of the Circulation element of the General Plan which will serve, in part, to guide future investments in our transportation infrastructure.

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



GOVERNMENT-WIDE FINANCIAL STATEMENTS



**CITY OF HERCULES
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments	\$ 17,958,329	\$ 16,164,274	\$ 34,122,603
Cash with Fiscal Agent	1,861,969	6,888,975	8,750,944
Accounts Receivable	4,934,253	-	4,934,253
Interest Receivable	9,474	-	9,474
Prepaid Expenses	18,460	-	18,460
Inventories	19,028	-	19,028
Loans Receivable	1,708,512	-	1,708,512
Lease Receivable	9,400,187	-	9,400,187
Due from Private Purpose Trust Fund	40,477,950	10,587,627	51,065,577
Capital Assets:			
Nondepreciable	11,180,801	9,702,557	20,883,358
Depreciable, Net of Accumulated Depreciation	67,737,307	13,409,674	81,146,981
Total Assets	155,306,270	56,753,107	212,059,377
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pension	4,777,404	155,961	4,933,365
LIABILITIES			
Accounts Payable	1,424,365	1,640,451	3,064,816
Due to Private Purpose Trust Fund	322,056	-	322,056
Retentions Payable	-	408,281	408,281
Accrued Wages	212,456	17,169	229,625
Accrued Interest Payable	1,524,562	196,270	1,720,832
Deposits with Others	1,329,891	-	1,329,891
Claims and Judgments Payable	169,171	-	169,171
Noncurrent Liabilities:			
Due Within One Year	1,187,664	288,746	1,476,410
Due in More Than One Year	20,540,040	16,704,867	37,244,907
OPEB Liability	7,750	-	7,750
Net Pension Liability	13,978,547	562,901	14,541,448
Total Liabilities	40,696,502	19,818,685	60,515,187
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension	714,636	57,129	771,765
NET POSITION			
Net Investment in Capital Assets	73,286,966	9,503,346	82,790,312
Restricted for:			
Public Safety	973,466	-	973,466
Streets and Roads	5,189,762	-	5,189,762
Development	6,367,058	-	6,367,058
Debt Service	5,708,749	-	5,708,749
Unrestricted	27,146,535	27,529,908	54,676,443
Total Net Position	\$ 118,672,536	\$ 37,033,254	\$ 155,705,790

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 4,025,706	\$ 47,824	\$ 66,051	\$ -
Public Safety	5,365,068	403,221	768,739	-
Streets and Public Works	5,035,767	2,711,483	892,585	8,410,511
Parks and Recreation	3,050,786	1,715,375	-	-
Community Development	640,428	823,972	-	-
Interest on Long-Term Debt	1,220,791	-	-	-
Total Governmental Activities	19,338,546	5,701,875	1,727,375	8,410,511
Business-Type Activities:				
Wastewater	3,092,380	5,797,766	-	-
Total Business-Type Activities	3,092,380	5,797,766	-	-
Total City	\$ 22,430,926	\$ 11,499,641	\$ 1,727,375	\$ 8,410,511

GENERAL REVENUES

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
 Total General Revenues

CHANGE IN NET POSITION

Net Position - Beginning of Year, Restated

NET POSITION - END OF YEAR

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (3,911,831)	\$ -	\$ (3,911,831)
(4,193,108)	-	(4,193,108)
6,978,812	-	6,978,812
(1,335,411)	-	(1,335,411)
183,544	-	183,544
(1,220,791)	-	(1,220,791)
(3,498,785)	-	(3,498,785)
-	2,705,386	2,705,386
-	2,705,386	2,705,386
(3,498,785)	2,705,386	(793,399)
1,286,788	-	1,286,788
3,324,807	-	3,324,807
878,574	-	878,574
3,712,519	-	3,712,519
1,799,014	-	1,799,014
1,114,795	47,424	1,162,219
448,688	-	448,688
12,565,185	47,424	12,612,609
9,066,400	2,752,810	11,819,210
109,606,136	34,280,444	143,886,580
<u>\$ 118,672,536</u>	<u>\$ 37,033,254</u>	<u>\$ 155,705,790</u>



FUND FINANCIAL STATEMENTS



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.

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.

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

**CITY OF HERCULES
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
ASSETS			
Cash and Investments	\$ 9,179,729	\$ -	\$ 1,666,616
Cash and Investments with Fiscal Agent	65	1,861,904	-
Accounts Receivable	1,038,819	-	-
Interest Receivable	9,474	-	-
Prepays	18,460	-	-
Due from Other Funds	3,906,075	-	69,796
Inventories	8,015	-	-
Loans Receivable	1,708,512	-	-
Lease Receivable	-	9,400,187	-
Due from Private Purpose Trust Fund	28,357,185	6,703,250	-
	<u>\$ 44,226,334</u>	<u>\$ 17,965,341</u>	<u>\$ 1,736,412</u>
LIABILITIES			
Accounts Payable	\$ 867,802	\$ -	\$ 18,908
Accrued Wages	164,538	-	5,449
Deposits Payable	1,329,891	-	-
Claims and Judgments Payable	169,171	-	-
Due to Other Funds	-	118,349	-
Amounts due to Private Purpose Trust Fund	-	-	-
Total Liabilities	<u>2,531,402</u>	<u>118,349</u>	<u>24,357</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	-	9,400,187	-
FUND BALANCES			
Nonspendable	30,092,172	-	-
Restricted	-	8,446,805	1,712,055
Assigned	2,176,150	-	-
Unassigned	9,426,610	-	-
Total Fund Balances	<u>41,694,932</u>	<u>8,446,805</u>	<u>1,712,055</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 44,226,334</u>	<u>\$ 17,965,341</u>	<u>\$ 1,736,412</u>

See accompanying Notes to Basic Financial Statements.

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ 496,460	\$ -	\$ 4,764,102	\$ 16,106,907
-	-	-	1,861,969
411,087	3,299,708	184,639	4,934,253
-	-	-	9,474
-	-	-	18,460
-	-	-	3,975,871
11,013	-	-	19,028
-	-	-	1,708,512
-	-	-	9,400,187
-	-	5,417,515	40,477,950
<u>\$ 918,560</u>	<u>\$ 3,299,708</u>	<u>\$ 10,366,256</u>	<u>\$ 78,512,611</u>
\$ -	\$ 35,643	\$ 344,192	\$ 1,266,545
5,253	-	25,627	200,867
-	-	-	1,329,891
-	-	-	169,171
-	3,598,695	194,868	3,911,912
-	322,056	-	322,056
<u>5,253</u>	<u>3,956,394</u>	<u>564,687</u>	<u>7,200,442</u>
378,114	3,288,539	-	13,066,840
11,013	-	-	30,103,185
524,180	-	9,904,924	20,587,964
-	-	-	2,176,150
-	(3,945,225)	(103,355)	5,378,030
<u>535,193</u>	<u>(3,945,225)</u>	<u>9,801,569</u>	<u>58,245,329</u>
<u>\$ 918,560</u>	<u>\$ 3,299,708</u>	<u>\$ 10,366,256</u>	<u>\$ 78,512,611</u>



CITY OF HERCULES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION — GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Fund Balance - Total Governmental Funds (Pages 17 and 18)	\$ 58,245,329
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	78,195,039
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Deferred outflows of resources reported in statement of net position	4,661,871
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Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	13,066,840
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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.	1,987,978
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Deferred inflows of resources reported in statement of net position	(677,063)
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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	(1,524,562)
Revenue Bonds Payable	(15,261,777)
Notes Payable	(4,950,000)
Capital Leases Payable	(983,111)
Compensated Absences	(502,860)
OPEB Liability	(7,750)
Net Pension Liability	<u>(13,577,398)</u>

Net Position of Governmental Activities (Page 14)	<u><u>\$ 118,672,536</u></u>
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CITY OF HERCULES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
REVENUES			
Taxes And Assessments	\$ 9,202,688	\$ -	\$ -
Licenses And Permits	496,355	-	-
Fines And Forfeitures	47,824	-	-
Use Of Money And Property	237,235	939,130	-
Intergovernmental	2,458,474	-	481,498
Charges For Services	2,140,443	-	-
Other Revenues	276,501	-	-
Total Revenues	<u>14,859,520</u>	<u>939,130</u>	<u>481,498</u>
EXPENDITURES			
Current:			
General Government	3,153,498	-	-
Public Safety	6,021,830	-	-
Streets And Public Works	213,999	-	595,679
Parks And Recreation	1,883,159	-	-
Community Development	512,151	-	-
Capital Outlay	-	-	535,182
Debt Service:			
Principal	-	400,000	-
Interest And Fiscal Agent Fees	-	1,084,633	-
Total Expenditures	<u>11,784,637</u>	<u>1,484,633</u>	<u>1,130,861</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,074,883	(545,503)	(649,363)
OTHER FINANCING SOURCES (USES)			
Transfers In	100,000	565,072	1,735,000
Transfers Out	(870,171)	-	-
Total Other Financing Sources (Uses)	<u>(770,171)</u>	<u>565,072</u>	<u>1,735,000</u>
NET CHANGES IN FUND BALANCES	2,304,712	19,569	1,085,637
Fund Balances - Beginning of Year, Restated	<u>39,390,220</u>	<u>8,427,236</u>	<u>626,418</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 41,694,932</u></u>	<u><u>\$ 8,446,805</u></u>	<u><u>\$ 1,712,055</u></u>

See accompanying Notes to Basic Financial Statements.

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 9,202,688
-	-	-	496,355
-	-	-	47,824
1,635	-	14,976	1,192,976
411,087	11,391,354	168,739	14,911,152
-	-	3,017,253	5,157,696
-	-	172,187	448,688
<u>412,722</u>	<u>11,391,354</u>	<u>3,373,155</u>	<u>31,457,379</u>
-	-	-	3,153,498
-	-	175	6,022,005
279,986	410	2,379,209	3,469,283
-	-	-	1,883,159
-	-	128,474	640,625
232,822	7,937,801	373,422	9,079,227
-	-	253,144	653,144
-	-	51,955	1,136,588
<u>512,808</u>	<u>7,938,211</u>	<u>3,186,379</u>	<u>26,037,529</u>
(100,086)	3,453,143	186,776	5,419,850
-	-	305,099	2,705,171
-	(1,735,000)	(100,000)	(2,705,171)
-	(1,735,000)	205,099	-
(100,086)	1,718,143	391,875	5,419,850
<u>635,279</u>	<u>(5,663,368)</u>	<u>9,409,694</u>	<u>52,825,479</u>
<u>\$ 535,193</u>	<u>\$ (3,945,225)</u>	<u>\$ 9,801,569</u>	<u>\$ 58,245,329</u>

CITY OF HERCULES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES — GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2017

Net Change to Fund Balance - Total Governmental Funds (Pages 20 and 21)	\$ 5,419,850
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Amounts reported for governmental activities in the statement of activities are different because:

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.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 8,813,498	
Less: Current Year Depreciation	(3,171,436)	5,642,062

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	(3,052,433)
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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.

Principal Repayments	653,144	
Amortization of Bond Premiums and Discounts	(17,297)	635,847

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.

Change in Compensated Absences	(115,594)
Change in Net Pension Liability and Related Deferred Inflows/Outflows	1,048,457
Change in Postemployment Benefits	(117,267)
Change in Accrued Interest Payable	(66,906)

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.

	(327,616)
Change in Net Position of Governmental Activities (Pages 15 and 16)	\$ 9,066,400

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.



CITY OF HERCULES
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
ASSETS		
Current Assets:		
Cash and Investments	\$ 16,164,274	\$ 1,851,422
Cash with Fiscal Agent	6,888,975	-
Total Current Assets	<u>23,053,249</u>	<u>1,851,422</u>
Noncurrent Assets:		
Amounts due from Private Purpose Trust Fund	10,587,627	-
Capital Assets:		
Nondepreciable :		
Land	191,700	-
Construction in Progress	9,510,857	-
Total Nondepreciable Capital Assets	<u>9,702,557</u>	<u>-</u>
Depreciable:		
Buildings and Improvements	11,335,199	-
Infrastructure	13,729,500	-
Machinery and Equipment	250,345	3,475,014
Total Depreciable Capital Assets	<u>25,315,044</u>	<u>3,475,014</u>
Less Accumulated Depreciation	<u>(11,905,370)</u>	<u>(2,751,945)</u>
Net Depreciable Capital Assets	<u>13,409,674</u>	<u>723,069</u>
Net Capital Assets	<u>23,112,231</u>	<u>723,069</u>
Total Noncurrent Assets	<u>33,699,858</u>	<u>723,069</u>
Total Assets	56,753,107	2,574,491
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension	155,961	115,533

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,640,451	\$ 157,820
Retentions Payable	408,281	-
Salaries and Benefits Payable	17,169	11,589
Accrued Interest Payable	196,270	-
Compensated Absences	28,746	29,956
Due to other funds	-	63,959
Long Term Debt, Due Within One Year	260,000	-
Total Current Liabilities	<u>2,550,917</u>	<u>263,324</u>
Noncurrent Liabilities:		
Net Pension Liability	562,901	401,149
Compensated absences	10,450	-
Long Term Debt, Due in More than One Year	16,694,417	-
Total Noncurrent Liabilities	<u>17,267,768</u>	<u>401,149</u>
Total Liabilities	19,818,685	664,473
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pension	<u>57,129</u>	<u>37,573</u>
NET POSITION		
Net Investment in Capital Assets	9,503,346	723,069
Unrestricted	<u>27,529,908</u>	<u>1,264,909</u>
Total Net Position	<u><u>\$ 37,033,254</u></u>	<u><u>\$ 1,987,978</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
OPERATING REVENUES		
Sales and Charges for Services	\$ 5,797,766	\$ 981,424
Other Operating Revenue	-	5,594
Total Operating Revenues	<u>5,797,766</u>	<u>987,018</u>
OPERATING EXPENSES		
Salaries and Benefits	428,387	324,910
Services and Supplies	1,724,314	656,535
Depreciation	452,433	333,189
Total Operating Expenses	<u>2,605,134</u>	<u>1,314,634</u>
OPERATING INCOME (LOSS)	3,192,632	(327,616)
NONOPERATING REVENUE (EXPENSES)		
Interest Income	47,424	-
Interest Expense	(487,246)	-
Total Nonoperating Revenue (Expenses)	<u>(439,822)</u>	<u>-</u>
CHANGE IN NET POSITION	2,752,810	(327,616)
Net Position - Beginning of Year	<u>34,280,444</u>	<u>2,315,594</u>
NET POSITION - END OF YEAR	<u><u>\$ 37,033,254</u></u>	<u><u>\$ 1,987,978</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customers	\$ 5,798,221	\$ -
Cash Receipts from Internal Fund Services Provided	-	987,069
Cash Paid to Suppliers for Goods and Services	(2,799,745)	(689,950)
Cash Paid to Employees for Services	(451,964)	(349,879)
Net Cash Provided (Used) by Operating Activities	2,546,512	(52,760)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances from other funds	-	63,959
Net Cash Provided (Used) by Noncapital Financing Activities	-	63,959
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	6,786,667	-
Payments Related to the Acquisition of Capital Assets	(8,096,961)	(281,385)
Principal Repayments Related to Capital Purposes	(250,000)	-
Interest Repayments Related to Capital Purposes	(483,225)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,043,519)	(281,385)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received (Paid)	47,424	-
Net Cash Provided (Used) by Investing Activities	47,424	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	550,417	(270,186)
Cash and Cash Equivalents - Beginning of Year	22,502,832	2,121,608
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 23,053,249</u>	<u>\$ 1,851,422</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FUND NET POSITION		
Cash and Investments	\$ 16,164,274	\$ 1,851,422
Cash with Fiscal Agent	6,888,975	-
Total Cash and Cash Equivalents	<u>\$ 23,053,249</u>	<u>\$ 1,851,422</u>

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 3,192,632	\$ (327,616)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	452,433	333,890
Loss on Disposition of Capital Assets	-	1,903
(Increase) Decrease in Assets:		
Receivables	455	51
Increase (Decrease) in Liabilities:		
Accounts Payable	(1,075,431)	(36,019)
Accrued Salaries and Benefits	4,107	748
Net Pension Liability and Related Deferred Inflows and Outflows	(38,134)	(28,433)
Compensated Absences	10,450	2,716
	<u>\$ 2,546,512</u>	<u>\$ (52,760)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital Asset Additions in Accounts Payable	<u>\$ 385,162</u>	<u>\$ -</u>
Capital Asset Additions in Retentions Payable	<u>\$ 408,281</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.



FIDUCIARY FUND FINANCIAL STATEMENTS

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.

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.



CITY OF HERCULES
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Investments	\$ 9,880,391	\$ 3,849,525
Cash and Investments with Fiscal Agent	7,448,831	2,905,472
Accounts Receivable	-	79,644
Amounts due from City of Hercules	322,056	-
Loans Receivable	11,107,110	-
Land Held for Resale	4,898,570	-
Capital Assets:		
Depreciable	4,372,722	-
Nondepreciable	28,192,474	-
Total Assets	<u>66,222,154</u>	<u>6,834,641</u>
DEFERRED OUTFLOWS		
Deferred loss on refunding	174,700	
LIABILITIES		
Accounts Payable	15,101,163	-
Amounts due to City of Hercules	51,065,577	-
Deposits Payable	-	6,834,641
Long-Term Debt:		
Due Within One Year	3,462,070	-
Due in More than One Year	105,765,930	-
Total Liabilities	<u>175,394,740</u>	<u>\$ 6,834,641</u>
NET POSITION		
Held in Trust for Others	<u>(108,997,886)</u>	
Total Net Position	<u><u>\$ (108,997,886)</u></u>	

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017

	Private Purpose Trust Fund
ADDITIONS	
Taxes and Assessments	\$ 12,562,248
Investment Income	94,153
Other Revenue	585,686
Total Additions	<u>13,242,087</u>
DEDUCTIONS	
Community Development	2,594,956
Depreciation	310,157
Debt Service	5,375,527
Loss on Disposal of Capital Assets	8,153,963
Total Deductions	<u>16,434,603</u>
CHANGE IN NET POSITION	(3,192,516)
Net Position - Beginning of Year, Restated	<u>(105,805,370)</u>
NET POSITION - END OF YEAR	<u><u>\$(108,997,886)</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 unit 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 Authority, 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. 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 Authority has been accounted for as "blended" component unit of the City. Despite being legally separate, the Authority is so intertwined with the City that it is, in substance, part of the City's operations. Accordingly, the balances and transactions of this component unit 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

The government-wide and the proprietary fund 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 (Bio-Rad).

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 year-end) are recognized when due.

Nonexchange 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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 nonoperating 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

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 Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City maintains nine fiduciary funds — 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 of 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.

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 noncurrent 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 are net position restricted by enabling legislation of \$7,311,748.

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, 2017, 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.

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted fund balance resources first, followed by the unrestricted resources in the committed, assigned and unassigned fund balances, as they are needed.

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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	\$ 34,122,603
Cash and Investments with Fiscal Agents	8,750,944

Statement of Fiduciary Net Position:

Cash and Investments	13,729,916
Cash and Investments with Fiscal Agents	<u>10,354,303</u>

Total	<u><u>\$ 66,957,766</u></u>
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Cash and investments as of June 30, 2017 consist of the following:

Deposits with Financial Institutions	\$ 16,423,475
Investments	<u>50,534,291</u>
Total	<u><u>\$ 66,957,766</u></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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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
Nonnegotiable 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	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
Nonnegotiable 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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Interest Rates	Totals	12 Months Or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months	More Than 60 Months
State Investment Pool	0.92 %	\$ 31,429,041	\$ 31,429,041	\$ -	\$ -	\$ -	\$ -	\$ -
Held by Debt Trustees:								
Money Market Funds	-	19,105,250	19,105,250	-	-	-	-	-
Total		<u>\$ 50,534,291</u>	<u>\$ 50,534,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

As a means of maintaining liquidity and minimizing interest rate risk, the City's investment policy limits are as follows:

<u>Maturity</u>	<u>Percent 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.

<u>Investment Type</u>	<u>Amount</u>	<u>Maximum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>S&P Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
State Investment Pool	\$ 31,429,041			\$ -	\$ 31,429,041
Held by Debt Trustees:					
Money Market Funds	19,105,250	N/A	N/A	19,105,250	-
Total	<u>\$ 50,534,291</u>			<u>\$ 19,105,250</u>	<u>\$ 31,429,041</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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

As of June 30, 2017, \$4,406,094 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, except for investments held with the State of California Local Agency Investment Fund and investments held in money market accounts which are reported at amortized cost.

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.

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.

At June 30, 2017, the City of Hercules' investments were all measured at amortized cost.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 LOANS RECEIVABLE

Loans Receivable – Governmental Activities

Loans receivable at June 30, 2017, consisted of the following:

Bio-Rad Loan	\$ 1,708,512
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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, 2017 was \$1,708,512.

Loans Receivable – Fiduciary-type Activities

Loans receivable at June 30, 2017, consisted of the following

Business Development Loans	\$ 1,533,887
Bridge Housing Corporation	2,034,039
Home Emergency Loan	9,867
First Time Homebuyers	3,309,935
Homeowner Retention/Loss Mitigation	2,543,962
Revitalization and Beautification	417,720
Other Assistance Programs	1,257,700
	<u>\$ 11,107,110</u>

The Successor Agency to the Redevelopment Agency of the City of Hercules, a private purpose trust fund continues to administer the above listed outstanding loans receivable as it winds down the activities of the former Redevelopment Agency.

The Agency offered loans to businesses within the City of Hercules in amounts up to \$75,000 with annual interest of 3% and terms of \$20 years. The loan issued to Bridge Housing Corporation for the construction of a 60 unit senior citizen development adjacent to City Hall carries an interest rate of 3.5% and is due in 2041. The Agency's First Time Homebuyer and homeowner assistance loans offered secondary financing to low and moderate income families and carry interest rates of 3%, with deferred payment for the first 10 years and loan repayment due in 20 years. The Revitalization and Beautification program loans offered financial assistance to rehabilitate properties and carried an interest rate of 3%, with payments deferred for the first 10 years and loan repayment due in 20 years.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 LEASES RECEIVABLE

On August 14, 2008, the City of Hercules and Bio-Rad Laboratories, Inc. entered in to a lease agreement, which Bio-Rad agreed to lease from the City of Hercules, the premises, consisting of the land located in the City of Hercules, County of Contra Costa, state of California, commonly known as the Venture Commerce Center located at 203-295 Linus Pauling Drive, including five (5) buildings consisting of approximately 96,847 rentable square feet, together with the parking lot and associated improvements serving the buildings.

The term of this lease shall be for thirty (30) years, commencing on September 15, 2008 and ending on September 14, 2038, or terminated sooner pursuant to the terms of this lease. Bio-Rad Laboratories, Inc. has the option to terminate this lease anytime on or after the fifteenth (15th) anniversary date as to a portion or the entire premises by delivering to the City of Hercules not later than three (3) months prior to said fifteenth (15th) anniversary date or any applicable later termination date, a notice of such election.

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

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:

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$ 864,258
2019	886,974
2020	895,970
2021	902,222
2022	908,474
2023-2027	4,636,150
2028-2032	4,840,950
2033-2037	4,967,600
2038-2040	1,171,214
Subtotal	20,073,812
Less: Unearned Income	(10,673,625)
Net Investment in Lease Receivable	<u>\$ 9,400,187</u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS

At June 30, 2017, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 1,601,636	\$ 191,700	\$ 1,793,336
Construction in Progress	9,579,165	9,510,857	19,090,022
Total Nondepreciable Assets	<u>11,180,801</u>	<u>9,702,557</u>	<u>20,883,358</u>
Depreciable Assets:			
Land Improvements	11,720,361	-	11,720,361
Buildings and Improvements	26,138,433	11,335,199	37,473,632
Machinery and Equipment	4,581,971	250,345	4,832,316
Infrastructure	97,111,132	13,729,500	110,840,632
Total Depreciable Assets	<u>139,551,897</u>	<u>25,315,044</u>	<u>164,866,941</u>
Less: Accumulated Depreciation	<u>(71,814,590)</u>	<u>(11,905,370)</u>	<u>(83,719,960)</u>
Total Depreciable Assets, Net	<u>67,737,307</u>	<u>13,409,674</u>	<u>81,146,981</u>
Total Capital Assets, Net	<u><u>\$ 78,918,108</u></u>	<u><u>\$ 23,112,231</u></u>	<u><u>\$ 102,030,339</u></u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

Governmental Activities	Balance July 1, 2016	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2017
Nondepreciable Assets:					
Land	\$ 1,601,636	\$ -	\$ -	\$ -	\$ 1,601,636
Construction in Progress	16,924,395	8,514,631	(38,815)	(15,821,046)	9,579,165
Total Nondepreciable Capital Assets	18,526,031	8,514,631	(38,815)	(15,821,046)	11,180,801
Depreciable Assets:					
Land Improvements	11,720,361	-	-	-	11,720,361
Buildings and Improvements	25,861,711	276,722	-	-	26,138,433
Machinery and Equipment	4,327,660	278,781	(24,470)	-	4,581,971
Infrastructure	81,229,126	60,960	-	15,821,046	97,111,132
Total Depreciable Capital Assets	123,138,858	616,463	(24,470)	15,821,046	139,551,897
Accumulated Depreciation:					
Land Improvements	(7,109,296)	(510,153)	-	-	(7,619,449)
Buildings and Improvements	(8,698,903)	(778,046)	-	-	(9,476,949)
Machinery and Equipment	(3,495,228)	(343,407)	24,470	-	(3,814,165)
Infrastructure	(49,031,008)	(1,873,019)	-	-	(50,904,027)
Total Accumulated Depreciation	(68,334,435)	(3,504,625)	24,470	-	(71,814,590)
Net Depreciable Capital Assets	54,804,423	(2,888,162)	-	15,821,046	67,737,307
Net Capital Assets	<u>\$ 73,330,454</u>	<u>\$ 5,626,469</u>	<u>\$ (38,815)</u>	<u>\$ -</u>	<u>\$ 78,918,108</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	\$ 251,480
Public Safety	45,678
Public Works	1,640,496
Parks and Recreation	1,233,782
Capital Assets Held by Internal Services are Charged to the Various Functions Based on Usage of the Assets	<u>333,189</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,504,625</u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The following is a summary of capital assets for business-type activities:

Business-Type Activities	Balance July 1, 2016	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2017
Nondepreciable					
Capital Assets:					
Land	\$ 191,700	\$ -	\$ -	\$ -	\$ 191,700
Construction in Progress	2,664,402	8,966,315	-	(2,119,860)	9,510,857
Total Nondepreciable Capital Assets	2,856,102	8,966,315	-	(2,119,860)	9,702,557
Depreciable Capital Assets:					
Buildings and Improvements	12,876,281	-	-	(1,541,082)	11,335,199
Machinery and Equipment	233,806	-	-	16,539	250,345
Infrastructure	10,161,008	201,182	-	3,367,310	13,729,500
Total Depreciable Capital Assets	23,271,095	201,182	-	1,842,767	25,315,044
Accumulated Depreciation:					
Buildings and Improvements	(9,881,265)	(184,684)	-	-	(10,065,949)
Machinery and Equipment	(129,319)	(17,043)	-	-	(146,362)
Infrastructure	(1,442,353)	(250,706)	-	-	(1,693,059)
Less: Accumulated Depreciation	(11,452,937)	(452,433)	-	-	(11,905,370)
Total Depreciable Capital Assets, Net	11,818,158	(251,251)	-	1,842,767	13,409,674
Net Capital Assets	<u>\$ 14,674,260</u>	<u>\$ 8,715,064</u>	<u>\$ -</u>	<u>\$ (277,093)</u>	<u>\$ 23,112,231</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>\$ 452,433</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 452,433</u></u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The following is a summary of capital assets for fiduciary-type activities:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Private Purpose Trust Fund				
Nondepreciable Capital Assets:				
Land	\$ 217,040	\$ -	\$ -	\$ 217,040
Construction in Progress	27,975,434	-	-	27,975,434
Total Nondepreciable Capital Assets	28,192,474	-	-	28,192,474
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	9,326,324	-	-	9,326,324
Accumulated Depreciation:				
Land Improvements	(11,379)	-	-	(11,379)
Buildings and Improvements	(2,745,585)	(99,436)	-	(2,845,021)
Machinery and Equipment	(40,670)	(5,810)	-	(46,480)
Infrastructure	(1,845,811)	(204,911)	-	(2,050,722)
Total Accumulated Depreciation	(4,643,445)	(310,157)	-	(4,953,602)
Net Depreciable Capital Assets	4,682,879	(310,157)	-	4,372,722
Net Capital Assets	\$ 32,875,353	\$ (310,157)	\$ -	\$ 32,565,196

NOTE 6 LONG-TERM OBLIGATIONS

Governmental activities long-term liability activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Governmental Activities					
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)	-
H.E.L.P. Loan	1,450,000	-	(50,000)	1,400,000	100,000
R.D.L.P. Loan	3,600,000	-	(50,000)	3,550,000	100,000
SunTrust Lease	1,136,255	-	(153,144)	983,111	160,473
Compensated Absences	414,506	289,513	(171,203)	532,816	407,191
Total Long-Term Obligations	\$ 22,245,241	\$ 289,513	\$ (807,050)	\$ 21,727,704	\$ 1,187,664

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 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
2033-2034	2,030,000	260,000	2,290,000
Total	<u>\$ 6,510,000</u>	<u>\$ 3,064,829</u>	<u>\$ 9,574,829</u>

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

The Authority issued taxable lease revenue bonds, series 2009, dated July 29, 2009, totaling \$10,080,000. The purpose of the bonds was to finance the acquisition of certain commercial condominium properties, consisting of approximately 96,847 square feet located at 203-295 Linus Pauling Drive within the City from the City, funding a reserve fund for the Bonds and to paying the costs of issuance of the Bonds. The interest rates on the bonds range from 6.00% to 8.40%. The interest is payable semiannually on January 1 and July 1, commencing January 1, 2010. The bonds are subject to optional special mandatory redemption, and mandatory sinking account redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the property lease. Principal is due annually beginning on July 1, 2010, in amounts ranging from \$165,000 to \$845,000. The bonds mature on July 1, 2038. The balance at June 30, 2017 is \$9,115,000.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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	1,625,000	207,480	1,832,480
Subtotal	9,115,000	11,074,333	20,189,333
Less: Discount	(363,223)	-	(363,223)
Total	<u>\$ 8,751,777</u>	<u>\$ 11,074,333</u>	<u>\$ 19,826,110</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% simple interest effective October 31, 2013. The balance at June 30, 2017 is \$1,400,000.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,000	\$ -	\$ 100,000
2019	100,000	-	100,000
2020	100,000	-	100,000
2021	100,000	-	100,000
2022	100,000	-	100,000
2023-2027	900,000	541,988	1,441,988
Total	<u>\$ 1,400,000</u>	<u>\$ 541,988</u>	<u>\$ 1,941,988</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, four years from February 2007 at 3% simple per annum interest. In October

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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% simple interest effective October 31, 2013. The balance at June 30, 2017 is \$3,550,000.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,000	\$ -	\$ 100,000
2019	100,000	-	100,000
2020	100,000	-	100,000
2021	100,000	-	100,000
2022	100,000	-	100,000
2023-2027	3,050,000	1,126,079	4,176,079
Total	<u>\$ 3,550,000</u>	<u>\$ 1,126,079</u>	<u>\$ 4,676,079</u>

SunTrust Lease

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 \$2,184,297. 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. The cost of these assets is \$2,184,297 and the net book value at June 30, 2017 is \$1,140,680.

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2017 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	193,470	11,629	205,099
2023	100,180	2,369	102,549
Total	<u>\$ 983,111</u>	<u>\$ 144,933</u>	<u>\$ 1,128,044</u>

Business-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2017, was as follows:

<u>Business-Type Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
2010 PFA Wastewater					
Revenue Bonds	\$ 10,585,000	\$ -	\$ (250,000)	\$ 10,335,000	\$ 260,000
Discount on Issuance	(174,522)	-	7,272	(167,250)	-
Publicly Owned Treatment					
Works Construction Loan	-	6,786,667	-	6,786,667	-
Compensated Absences	28,746	20,831	(10,381)	39,196	28,746
Total Long-Term					
Obligations	<u>\$ 10,439,224</u>	<u>\$ 6,807,498</u>	<u>\$ (253,109)</u>	<u>\$ 16,993,613</u>	<u>\$ 288,746</u>

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

CITY OF HERCULES
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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.

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
2038-2040	2,610,000	269,000	2,879,000
Subtotal	10,335,000	7,113,900	17,448,900
Less: Discount	(167,250)	-	(167,250)
Total	<u>\$ 10,167,750</u>	<u>\$ 7,113,900</u>	<u>\$ 17,281,650</u>

Publicly Owned Treatment Works Construction Loan

In June 2016, the City of Hercules entered into an installment sale agreement with the California State Water Resources Control Board in the amount of \$26,500,000. The funds will be used for construction costs for the Pinole-Hercules Wastewater Pollution Control Plant Improvement Project. The interest rate on the loan is 1.7%. The first principal and interest payment is due August 31, 2019, in the amount of \$1,347,202, and second on August 31, 2020 in the amount of \$1,539,216. Principal and interest payments are due annually beginning on August 31, 2021 in the amount of \$1,582,487. The loan matures on August 31, 2038. The City had drawn down \$6,786,667 of the loan principal as of June 30, 2017.

Future debt service requirements on the Publicly Owned Treatment Works Construction Loan are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 157,281	\$ 157,281
2019	-	157,281	157,281
2020	993,143	157,281	1,150,424
2021	1,143,017	140,397	1,283,414
2022	1,169,581	120,966	1,290,547
2023-2027	3,480,926	299,960	3,780,886
Total	<u>\$ 6,786,667</u>	<u>\$ 1,033,166</u>	<u>\$ 7,819,833</u>

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Fiduciary-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2017, was as follows:

	Balance			Balance	Amounts
Fiduciary-Type Activities	July 1, 2016	Additions	Deletions	June 30, 2017	Due Within One Year
2005 Tax Allocation Bonds	\$ 40,215,000	\$ -	\$ (2,015,000)	\$ 38,200,000	\$ 2,115,000
Premium on Issuance	1,378,116	-	(72,532)	1,305,584	-
2007A Housing Tax					
Allocation Bonds	10,910,000	-	(350,000)	10,560,000	375,000
2007B Housing Tax					
Allocation Bonds	8,860,000	-	(330,000)	8,530,000	340,000
Premium on Issuance	53,492	-	(3,146)	50,346	-
2007 RDA Tax Allocation					
Bonds	50,495,000	-	(260,000)	50,235,000	285,000
Long-Term Note Payable	347,070	-	-	347,070	347,070
Total Long-Term					
Obligations	<u>\$ 112,258,678</u>	<u>\$ -</u>	<u>\$ (3,030,678)</u>	<u>\$ 109,228,000</u>	<u>\$ 3,462,070</u>

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, 2017 is \$38,200,000.

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The annual debt service requirements to maturity at June 30, 2017, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,655,000	1,484,431	3,139,431
2023-2027	9,595,000	6,073,550	15,668,550
2028-2032	12,225,000	3,379,781	15,604,781
2033-2035	7,295,000	514,188	7,809,188
Subtotal	38,200,000	18,203,296	56,403,296
Plus: Premium on Issuance	1,305,584	-	1,305,584
Total	<u>\$ 39,505,584</u>	<u>\$ 18,203,296</u>	<u>\$ 57,708,880</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 a deferred outflow. 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 2016-2017 was \$9,705, and the accumulated amortization at June 30, 2017 was \$116,460.

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 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, 2017 for 2007 Series A and Series B are \$10,560,000 and \$8,530,000, respectively.

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NOTES TO BASIC FINANCIAL STATEMENTS
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The annual debt service requirements to maturity at June 30, 2017 of the 2007 Series A and B bonds are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	470,000	531,344	1,001,344
2023-2027	2,815,000	2,177,891	4,992,891
2028-2032	3,785,000	1,175,234	4,960,234
2033	1,855,000	115,303	1,970,303
Total	<u>\$ 10,560,000</u>	<u>\$ 6,384,235</u>	<u>\$ 16,944,235</u>

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	405,000	337,213	742,213
2023-2027	420,000	1,555,450	1,975,450
2028-2032	4,210,000	870,325	5,080,325
2033-2034	2,045,000	153,375	2,198,375
Subtotal	8,530,000	4,431,471	12,961,471
Plus: Premium	50,346	-	50,346
Total	<u>\$ 8,580,346</u>	<u>\$ 4,431,471</u>	<u>\$ 13,011,817</u>

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 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, 2017 is \$50,235,000.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
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The annual debt service requirements to maturity at June 30, 2017, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,110,000	2,222,881	3,332,881
2023-2027	6,010,000	10,264,131	16,274,131
2028-2032	8,220,000	10,312,023	18,532,023
2033-2037	17,055,000	5,788,259	22,843,259
2038-2042	15,120,000	1,895,650	17,015,650
Total	<u>\$ 50,235,000</u>	<u>\$ 39,755,231</u>	<u>\$ 89,990,231</u>

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, 2017, the Agency's long-term notes payable for East Group and Bio Rad Laboratories were \$130,912 and \$216,159, respectively, and are all considered due in the current period.

NOTE 7 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 June 30, 2017</u>
Reassessment District 2005-1 (John Muir Parkway)	\$ 6,550,345	\$ 5,115,000

NOTE 8 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.

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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, 2017, the City's estimated claims liabilities were as follows.

General Liability	\$ 101,263
Workers' Compensation	67,908
Total	<u><u>\$ 169,171</u></u>

Changes in the claims liabilities for the fiscal years ended June 30, 2017, 2016 and 2015 are as follows:

<u>Fiscal Year</u>	<u>Balances - Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balances - End of Fiscal Year</u>
2014-2015	\$ 215,111	\$ 840,685	\$ (799,515)	\$ 256,281
2015-2016	256,281	474,761	(604,678)	126,364
2016-2017	126,364	794,000	(751,193)	169,171

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 and Machinery	5,000	100,000,000

The MPA is governed by a board consisting of representatives from member municipalities. The board controls the operations of the MPA, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

The City's deposits with the MPA are in accordance with formulas established by the MPA. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. Audited financial statements can be obtained from the Municipal Pooling Authority, 1911 San Miguel Drive, #200, Walnut Creek, California 94596.

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NOTE 9 NET POSITION/FUND BALANCES

Details of the fund balance classifications of the governmental funds as of June 30, 2017 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
Nonspendable:							
Advances to Private Purpose Trust Fund	\$ 28,357,185	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,357,185
Loans receivable	\$ 1,708,512						1,708,512
Prepays and Inventory	26,475	-	-	11,013	-	-	37,488
Total Nonspendable	30,092,172	-	-	11,013	-	-	30,103,185
Restricted For:							
Streets and Roads	-	-	1,712,055	524,180	-	2,564,400	4,800,635
Public Safety	-	-	-	-	-	973,466	973,466
Development	-	-	-	-	-	6,367,058	6,367,058
Debt Service	-	8,446,805	-	-	-	-	8,446,805
Total Restricted	-	8,446,805	1,712,055	524,180	-	9,904,924	20,587,964
Assigned For:							
Economic Uncertainty	2,176,150	-	-	-	-	-	2,176,150
Total Assigned	2,176,150	-	-	-	-	-	2,176,150
Unassigned	9,426,610	-	-	-	(3,945,225)	(103,355)	5,378,030
Total Fund Balance	<u>\$ 41,694,932</u>	<u>\$ 8,446,805</u>	<u>\$ 1,712,055</u>	<u>\$ 535,193</u>	<u>\$ (3,945,225)</u>	<u>\$ 9,801,569</u>	<u>\$ 58,245,329</u>

The City reported the following prior period adjustments to reflect restatements to net position for the correction of errors as follows:

	Government-Wide Statements	Governmental Funds			Fiduciary Funds	
	Governmental Activities	General Fund	City Capital Projects Fund	Other Nonmajor	Private Purpose Trust	OPEB Trust
Fund balance/ net position as of June 30, 2016, as previously reported	\$ 109,322,386	39,106,470	1,314,160	2,432,166	(111,002,950)	1,961,020
Eliminate assets not part of trust fund	283,750	283,750	-	-	-	(283,750)
Fund consolidation/ reclassification	-	-	(6,977,528)	6,977,528	-	-
Eliminate unearned revenue left on books in error	-	-	-	-	5,197,580	-
Eliminate assets not part of City's OPEB trust	-	-	-	-	-	(1,677,270)
Fund balance/net position as of July 1, 2016, restated	<u>\$ 109,606,136</u>	<u>\$ 39,390,220</u>	<u>\$ (5,663,368)</u>	<u>\$ 9,409,694</u>	<u>\$ (105,805,370)</u>	<u>\$ -</u>

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NOTE 10 INTERFUND TRANSACTIONS

Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount
General Fund	City Capital Projects Fund	\$ 3,528,899
	Nonmajor Governmental Funds	194,868
	Debt Service Fund	118,349
	Internal Service Funds	63,959
State Gas Tax Fund	City Capital Projects Fund	69,796
Total		<u>\$ 3,975,871</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

Transfer From	Transfer To	Amount	Description
General Fund	Debt Service Fund	\$ 565,072	Debt Service
	Nonmajor Governmental Funds	305,099	Debt Service
City Capital Projects Fund	State Gas Tax Fund	1,735,000	Capital Projects
Nonmajor Governmental Funds	General Fund	100,000	COPS Program
Total		<u>\$ 2,705,171</u>	

NOTE 11 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

A. 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 nonduty 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.

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The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous		
	Prior to January 1, 2013	On or After January 1, 2013	
<u>Hire Date</u>			
Benefit Formula	2.0 @ 55	2.0% @ 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 Percent of Eligible Compensation	1.426 - 2.148%	1.0 - 2.5%	
Required Employee Contribution Rates	7.0%	6.25%	
Required Employer Contribution Rates	8.377%	6.555%	
<u>Hire Date</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Safety PEPRA</u>
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 Percent of Eligible Compensation	3.0%	2.0 - 2.7%	2.0 - 2.7%
Required Employee Contribution Rates	9.0%	9.0%	11.5%
Required Employer Contribution Rates	19.536%	17.689%	12.082%

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. The City contributed \$558,315 and \$1,203,357 towards its Miscellaneous and Safety pension plans during the year ended June 30, 2017.

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For the year ended June 30, 2017, 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	\$ 1,467,288	\$ 443,173	\$ 1,024,115
Internal Service Funds	<u>37,358</u>	<u>37,358</u>	<u>-</u>
Total Governmental Activities	1,504,646	480,531	1,024,115
Business-Type Activities:			
Sewer Fund	<u>48,681</u>	<u>48,681</u>	<u>-</u>
Total	<u><u>\$ 1,553,327</u></u>	<u><u>\$ 529,212</u></u>	<u><u>\$ 1,024,115</u></u>

B. 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, 2016, 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, 2015 rolled forward to June 30, 2016 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, 2015 and 2016 was as follows:

	<u>Plan's Proportion to Total Pool at June 30, 2015</u>	<u>Plan's Proportion to Total Pool at June 30, 2016</u>	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	0.17554 %	0.17363 %	\$ 6,031,627
Safety	0.17808	0.16431	8,509,821
Total			<u><u>\$ 14,541,448</u></u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

For the year ended June 30, 2017, the City recognized pension expense of \$646,648. At June 30, 2017, 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	\$ 1,761,672	\$ -
Change of Assumptions	-	(527,903)
Differences Between Expected and Actual Experience	-	(66,361)
Change in Proportion	241,448	(177,501)
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	285,329	-
Net Differences Between Projected and Actual Earnings on Plan Investments	2,644,916	-
Total	<u>\$ 4,933,365</u>	<u>\$ (771,765)</u>

The City reported \$1,761,672 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 fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in the following reporting years:

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$ 226,820
2019	268,779
2020	1,216,988
2021	687,341
Total	<u>\$ 2,399,928</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Hired Prior to 1/1/2013	Miscellaneous Hired After 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	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increase	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)	3.30 - 14.20% (1)
Investment Rate of Return	7.50% (2)	7.50% (2)	7.50% (2)	7.50% (2)	7.50% (2)	7.50% (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

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 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.

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% 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% 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% 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%. 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00 %	4.90 %	5.38 %
Fixed Income	19.00	0.80	2.27
Inflation Assets	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	1.00	(0.40)	(0.90)
Total	99.00 %		

(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:

Net Pension Liability	Discount Rate		
	1% Discount 6.65%	Current Rate 7.65%	1% Increase 8.65%
Miscellaneous	\$ 9,089,927	\$ 6,031,627	\$ 3,504,093
Safety	12,095,741	8,509,821	5,566,150
Total	\$ 21,185,668	\$ 14,541,448	\$ 9,070,243

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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 and contributed \$21, 581 in 2017.

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%. The City contributed \$19,470 in 2017.

NOTE 13 POSTEMPLOYMENT 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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 2016-2017, the City contributed \$44,733, and also transferred \$-0- to the Public Agency Retirement Services. Currently, there are seven (7) retirees who are receiving benefits.

The City participates in the Public Agencies Post-Retirement Health Care Plan Trust, a public agency agent multiple-employer post-retirement health care trust. The purpose of the Trust is to provide public agencies economies of scale and efficiency of administration in the funding of each agency's respective other post-employment benefit obligation. The Plan issues separate financial statements.

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	\$ 145,000
Interest on Net OPEB Obligation (Asset)	(20,000)
Amortization of Net OPEB Obligation (Asset)	37,000
Annual OPEB Cost (Expense)	162,000
Contributions Made	(44,733)
Increase in Net OPEB Obligation	117,267
Net OPEB Obligation (Asset) - Beginning of Fiscal Year	(109,517)
Net OPEB Obligation (Asset) - End of Fiscal Year	<u>\$ 7,750</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2016, and 2017 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contribution</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2015	\$ 149,000	26 %	\$ (222,971)
6/30/2016	155,000	27	(109,517)
6/30/2017	162,000	28	7,750

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 was \$1,330,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$638,000. 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 18.9%.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

In the June 30, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 6.5% investment rate of return, which is the expected long-term investment returns on plan assets, a projected salary increase assumption rate of 3.25%, and an annual healthcare cost trend rate of 5%. 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, 2017 was 11 years.

Net OPEB Liability of the Plan

As of June 30, 2014, the City's most recent actuarial date, the Plan's unfunded accrued liability (UAAL) was \$638,000. Since then, the City has made additional contributions to its OPEB trust plan and has not engaged an actuary to perform an updated actuarial valuation.

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

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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 which confirmed that AMBAC would receive the unencumbered proceeds from the sale of Victoria Crescent and Parcel C, and there is no obligation to the City's general fund. These proceeds were paid to AMBAC.

In addition, the remaining obligations to AMBAC were 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, 2016. The final related obligation to AMBAC which requires the Successor Agency to replenish the debt service reserve fund held by the Bond Trustee will be satisfied from former redevelopment tax increment received by the City of Hercules as the Successor Agency for Non-Housing Assets.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$39,675 for fiscal year 2016-2017.

B. West Contra Costa Integrated Waste Management Authority (WCCIWMA)

WCCIWMA was established in 1991 to coordinate landfill use reduction in the West Contra Costa County Area as mandated by the state of California. The City is represented by one Director. Funding for WCCIWMA is provided for through a surcharge collected from the ratepayers within WCCIWMA's jurisdiction.

Audited financial statements can be obtained from the WCCIWMA, One Alvarado Square, San Pablo, California 94806.

C. Pinole/Hercules Wastewater Treatment Plant

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

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

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 16 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances/Net Position

As of June 30, 2017, the following funds had a deficit fund balance/net position:

	<u>Balances</u>
City Capital Projects Fund	\$ 3,945,225
Nonmajor Governmental Funds:	
Stormwater Assessment Special Revenue Fund	103,174
STMP Traffic Impact Fee	181
Internal Service Fund:	
Facility Maintenance	120,421
Fiduciary Fund:	
Private Purpose Trust Fund	108,997,886

Private Purpose Trust Fund negative net position of \$108,997,886 will be financed through future revenues. The Stormwater Assessment Special Revenue Fund negative fund balance of \$103,174 will be financed through future revenues. STMP Traffic Impact Fee negative fund balance of \$181 will be financed through future revenues. City Capital Projects Fund negative fund balance of \$3,945,225 will be financed through grants receivable that were not received within the City's availability period. Facility Maintenance Fund negative fund balance of \$120,421 will be financed through future internal charges for service.

Expenditures in Excess of Appropriations

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

	<u>Excess of Appropriations</u>
State Gas Tax Fund	\$ 52,661

NOTE 17 FINANCIAL CONDITION

Of the \$43.9 million reported as assets in the General Fund, 64.5% of the balance represents amounts due from the Private Purpose Trust Fund, the Successor Agency to the City of Hercules Redevelopment Agency. The City is also reporting significant advances to the Agency in other funds.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

A recap of the amounts due from the Private Purpose Trust Fund and the total assets of the receivable fund at June 30, 2017 is below:

	<u>Total Assets</u>	<u>Amounts Due from Private Purpose Trust Fund</u>	<u>Percentage of Assets Representing Amounts Due to the City</u>
General Fund	\$ 44,226,334	\$ 28,357,185	64.1 %
Hercules Debt Service Fund	17,965,341	6,703,250	37.3
Nonmajor Governmental Funds:			
Developer Impact Fees	5,970,331	5,254,315	88.0
Community Development	272,041	163,200	60.0
Wastewater Fund	56,753,107	10,587,627	18.7
Total	<u>\$ 125,187,154</u>	<u>\$ 51,065,577</u>	40.8

With the dissolution of the redevelopment agency on February 1, 2012 there is uncertainty as to whether the City will be repaid the accumulated \$51.1 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, 2017**

SCHEDULE OF FUNDING PROGRESS — OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)

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

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Payroll
6/30/2007	\$ 1,166,000	\$ -	\$ 1,166,000	0.0%	\$ 6,615,000	17.6%
6/30/2011	2,155,000	884,000	1,271,000	41.0%	4,798,000	26.5%
6/30/2014	1,968,000	1,330,000	638,000	67.6%	3,383,000	18.9%

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

* Last 10 Fiscal Years

	Miscellaneous Plans		
	6/30/2016	6/30/2015	6/30/2014
Proportion of the Net Pension Liability	\$ 6,031,627	\$ 4,815,777	\$ 4,699,656
Proportionate Share of the Net Pension Liability	0.17%	0.18%	0.19%
Covered Payroll	\$ 2,697,183	\$ 2,655,670	\$ 3,241,378
Proportionate Share of the Net Pension Liability as a Percentage of Payroll	223.63%	181.34%	144.99%
Plan's Fiduciary Net Position	\$ 16,776,789	\$ 17,392,471	\$ 16,759,360
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.56%	78.32%	78.10%
	Safety Plans		
	6/30/2016	6/30/2015	6/30/2014
Proportion of the Net Pension Liability	\$ 8,509,821	\$ 7,337,854	\$ 6,858,740
Proportionate Share of the Net Pension Liability	0.16%	0.18%	0.18%
Covered Payroll	\$ 2,220,165	\$ 2,118,549	\$ 1,942,665
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	383.30%	346.36%	353.06%
Plan's Fiduciary Net Position	\$ 18,212,549	\$ 18,537,190	\$ 18,022,608
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.15%	71.64%	72.43%

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

**CITY OF HERCULES
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

SCHEDULE OF CONTRIBUTIONS

* Last 10 Fiscal Years

	Miscellaneous Plans		
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 558,315	\$ 529,212	\$ 353,148
Contributions Related to the Actuarially Determined Contribution	<u>558,315</u>	<u>529,212</u>	<u>353,148</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,697,183	\$ 2,655,670	\$ 3,241,378
Contributions as a Percentage of the Covered Payroll	20.70%	22.86%	10.89%

	Safety Plans		
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 1,203,357	\$ 1,024,115	\$ 798,844
Contributions Related to the Actuarially Determined Contribution	<u>1,203,357</u>	<u>1,024,115</u>	<u>798,844</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,220,165	\$ 2,118,549	\$ 1,942,665
Contributions as a Percentage of the Covered Payroll	54.20%	47.51%	41.12%

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

Notes to Schedule

Valuation Date: 6/30/2015

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	For details, see June 30, 2015 Funding Valuation Report.
Asset Valuation Method	Actuarial value of assets. For details, see June 30, 2015 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 five years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 9,930,286	\$ 9,930,286	\$ 9,202,688	\$ (727,598)
Licenses and Permits	1,772,534	1,772,534	496,355	(1,276,179)
Fines, Forfeits and Penalties	449,399	449,399	47,824	(401,575)
Revenue from Use of Money and Property	40,000	40,000	237,235	197,235
Aid from Other Governments	1,194,763	394,763	2,458,474	2,063,711
Charges for Services	2,020,442	2,020,442	2,140,443	120,001
Miscellaneous Revenue	502,679	1,117,679	276,501	(841,178)
Total Revenues	15,910,103	15,725,103	14,859,520	(865,583)
EXPENDITURES				
Current:				
General Government:				
City Council	211,873	211,873	121,260	90,613
City Manager	1,050,443	1,050,443	266,050	784,393
Legal Services	390,000	390,000	398,516	(8,516)
Management Services	323,850	323,850	258,578	65,272
City Clerk	-	-	299	(299)
Cable TV	59,666	59,666	57,510	2,156
Risk Management	721,789	736,789	667,989	68,800
Information Systems	-	-	334	(334)
Recruitment	232,252	232,252	167,218	65,034
Finance/Operations	1,088,316	1,088,316	1,163,074	(74,758)
Finance/Debt Service	1,784,992	1,784,992	870,171	914,821
Miscellaneous	-	-	2,670	(2,670)
Total General Government	5,863,181	5,878,181	3,973,669	1,904,512
Public Safety:				
Police Administration	2,559,953	2,559,953	2,318,158	241,795
Police Patrol	3,344,485	3,709,485	3,703,672	5,813
Total Public Safety	5,904,438	6,269,438	6,021,830	247,608
Streets and Public Works:				
Street Facilities	448,462	448,462	187,094	261,368
Engineering	64,996	64,996	26,905	38,091
Total Streets and Public Works	513,458	513,458	213,999	299,459
Parks and Recreation:				
Library	90,824	90,824	75,511	15,313
Administration	98,135	98,135	17,733	80,402
Facility Rental	364,232	364,232	203,479	160,753
Day Camp	154,173	154,173	100,457	53,716
Child Care	637,057	637,057	584,950	52,107
Recreation Classes	159,160	159,160	87,493	71,667
Senior Citizens	62,650	62,650	60,421	2,229
Tiny Tots	158,498	158,498	175,509	(17,011)
Swim Center	362,355	362,355	312,627	49,728
Sports Program	119,982	119,982	115,398	4,584
Teen Program	22,500	22,500	9,477	13,023
Youth and Teen Resource Center	149,600	149,600	140,104	9,496
Total Parks and Recreation	2,379,166	2,379,166	1,883,159	496,007

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
EXPENDITURES (CONTINUED)				
Current (Continued):				
Community Development:				
Business and Regional Planning	\$ 385,244	\$ 486,373	\$ 404,450	\$ 81,923
Building Inspection	176,609	176,609	107,701	68,908
Total Community Development	<u>561,853</u>	<u>662,982</u>	<u>512,151</u>	<u>150,831</u>
Total Expenditures	<u>15,222,096</u>	<u>15,703,225</u>	<u>12,604,808</u>	<u>3,098,417</u>
EXCESS OF REVENUES OVER EXPENDITURES	688,007	21,878	2,254,712	2,232,834
OTHER FINANCING SOURCES (USES)				
Transfers In	94,192	131,899	100,000	(31,899)
Transfers Out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>44,192</u>	<u>81,899</u>	<u>50,000</u>	<u>(31,899)</u>
NET CHANGE IN FUND BALANCES	732,199	103,777	2,304,712	2,200,935
Fund Balance - Beginning of Year, Restated			<u>39,390,220</u>	
FUND BALANCE - END OF YEAR			<u><u>\$ 41,694,932</u></u>	

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

	<u>Budgetary Comparison Schedule</u>	<u>Transfers Budgeted as Debt Service</u>	<u>Statement of Revenues, Expenditures and Changes in Fund Balance</u>
Total Revenues	\$ 14,859,520	\$ -	\$ 14,859,520
Total Expenditures	<u>12,604,808</u>	<u>(820,171)</u>	<u>11,784,637</u>
Revenues Over Expenditures	2,254,712	820,171	3,074,883
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>(820,171)</u>	<u>(770,171)</u>
Net Change in Fund Balances	<u><u>\$ 2,304,712</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,304,712</u></u>

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE
STATE GAS TAX SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental Revenues	\$ 604,302	\$ 604,302	\$ 481,498	\$ (122,804)
Total Revenues	604,302	604,302	481,498	(122,804)
EXPENDITURES				
Current:				
Streets and Public Works	586,200	586,200	595,679	(9,479)
Capital outlay	492,000	492,000	535,182	(43,182)
Total Expenditures	1,078,200	1,078,200	1,130,861	(52,661)
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(473,898)	(473,898)	(649,363)	(175,465)
OTHER FINANCING SOURCES (USES)				
Transfer In	2,641	1,737,641	1,735,000	(2,641)
Transfer Out	(982,279)	(982,279)	-	982,279
Total Other Financing Sources (Uses)	(979,638)	755,362	1,735,000	979,638
NET CHANGE IN FUND BALANCES	(1,453,536)	281,464	1,085,637	804,173
Fund Balances - Beginning of Year	626,418	626,418	626,418	-
FUND BALANCES - END OF YEAR	<u>\$ (827,118)</u>	<u>\$ 907,882</u>	<u>\$ 1,712,055</u>	<u>\$ 804,173</u>

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE
MEASURE "C" STREET FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Use of Money and Property	\$ -	\$ -	\$ 1,635	\$ 1,635
Intergovernmental Revenues	346,301	346,301	411,087	64,786
Total Revenues	346,301	346,301	412,722	66,421
EXPENDITURES				
Current:				
Streets and Public Works	279,236	430,236	279,986	150,250
Capital outlay	198,000	198,000	232,822	(34,822)
Total Expenditures	477,236	628,236	512,808	115,428
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(130,935)	(281,935)	(100,086)	181,849
OTHER FINANCING SOURCES (USES)				
Transfer In	2,527	2,527	-	(2,527)
Transfers Out	(151,000)	-	-	-
Total Other Financing Sources (Uses)	(148,473)	2,527	-	(2,527)
NET CHANGE IN FUND BALANCES	(279,408)	(279,408)	(100,086)	179,322
Fund Balances - Beginning of Year	635,279	635,279	635,279	-
FUND BALANCES - END OF YEAR	<u>\$ 355,871</u>	<u>\$ 355,871</u>	<u>\$ 535,193</u>	<u>\$ 179,322</u>

CITY OF HERCULES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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, 2017, 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 re-appropriated 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 re-budgeted 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.

Embedded Secure Document

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**HERCULES WASTEWATER FUND
(AN ENTERPRISE FUND OF THE
CITY OF HERCULES, CALIFORNIA)**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017



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**HERCULES WASTEWATER FUND
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INDEPENDENT AUDITORS' REPORT

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 Wastewater Fund (Fund) of the City of Hercules (City), as of and for the year ended June 30, 2017, and the related notes to the 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Fund, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

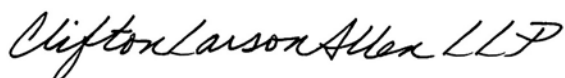
As discussed in Note 1, the financial statements present only the Wastewater Fund, an enterprise fund of the City, and do not purport to, and do not present fairly the financial position of the City of Hercules as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As described in Note 9 to the financial statements, the Hercules Wastewater Fund has outstanding loans of \$10.6 million owed by the former redevelopment agency (Agency), now a private purpose trust fund of the City. These outstanding loans represent approximately 19% of the Hercules Wastewater Fund's assets. The written agreement between the Agency and the Hercules Wastewater Fund 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 Fund 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 Hercules Wastewater Fund 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.

Our opinion is not modified with respect to these matters.

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 Fund'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 Fund'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 Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
February 7, 2018

HERCULES WASTEWATER FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current Assets:	
Cash and Investments	\$ 16,164,274
Cash with Fiscal Agent	<u>6,888,975</u>
Total Current Assets	23,053,249
Noncurrent Assets:	
Due from Former Hercules Redevelopment Agency	10,587,627
Capital Assets:	
Nondepreciable:	
Land	191,700
Construction in Progress	<u>9,510,857</u>
Total Nondepreciable Capital Assets	9,702,557
Depreciable:	
Buildings and Improvements	11,335,199
Infrastructure	13,729,500
Machinery and Equipment	<u>250,345</u>
Total Depreciable Capital Assets	25,315,044
Less Accumulated Depreciation	<u>(11,905,370)</u>
Net Depreciable Capital Assets	<u>13,409,674</u>
Net Capital Assets	<u>23,112,231</u>
Total Noncurrent Assets	<u>33,699,858</u>
Total Assets	56,753,107

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension	155,961
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LIABILITIES

Current Liabilities:	
Accounts Payable	1,640,451
Retention Payable	408,281
Salaries and Benefits Payable	17,169
Accrued Interest Payable	196,270
Compensated Absences	28,746
Long Term Debt, Due Within One Year	<u>260,000</u>
Total Current Liabilities	2,550,917
Noncurrent Liabilities:	
Net Pension Liability	562,901
Compensated Absences	10,450
Long Term Debt, Due in More Than One Year	<u>16,694,417</u>
Total Noncurrent Liabilities	<u>17,267,768</u>
Total Liabilities	19,818,685

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	<u>57,129</u>
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NET POSITION

Net Investment in Capital Assets	9,503,346
Unrestricted	<u>27,529,908</u>
Total Net Position	<u>\$ 37,033,254</u>

See accompanying Notes to Financial Statements.

HERCULES WASTEWATER FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

OPERATING REVENUES

Sales and Charges for Services	\$ 5,797,766
Total Operating Revenues	<u>5,797,766</u>

OPERATING EXPENSES

Salaries and Benefits	428,387
Services and Supplies	1,724,314
Depreciation	<u>452,433</u>
Total Operating Expenses	<u>2,605,134</u>

OPERATING INCOME

3,192,632

NONOPERATING REVENUES (EXPENSES)

Interest Income	47,424
Interest Expense	<u>(487,246)</u>
Total Nonoperating Revenues (Expenses)	<u>(439,822)</u>

CHANGE IN NET POSITION

2,752,810

Net Position - Beginning of Year

34,280,444

NET POSITION - END OF YEAR

\$ 37,033,254

See accompanying Notes to Financial Statements.

**HERCULES WASTEWATER FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Receipts from Customers	\$ 5,798,221
Cash Paid to Suppliers for Goods and Services	(2,799,745)
Cash Paid to Employees for Services	(451,964)
Net Cash Provided (Used) by Operating Activities	<u>2,546,512</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from the Issuance of Debt	6,786,667
Payments Related to the Acquisition of Capital Assets	(8,096,961)
Principal Repayments Related to Capital Purposes	(250,000)
Interest Repayments Related to Capital Purposes	(483,225)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,043,519)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received (Paid)	<u>47,424</u>
Net Cash Provided (Used) by Investing Activities	<u>47,424</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

550,417

Cash and Cash Equivalents - Beginning of Year

22,502,832

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 23,053,249

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT
OF NET POSITION**

Cash and Investments	\$ 16,164,274
Cash with Fiscal Agent	<u>6,888,975</u>

Total Cash and Cash Equivalents

\$ 23,053,249

See accompanying Notes to Financial Statements.

**HERCULES WASTEWATER FUND
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income	\$ 3,192,632
Adjustments To Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	452,433
(Increase) Decrease in Assets:	
Receivables	455
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,075,431)
Accrued Salaries and Benefits	4,107
Net Pension Liability and Related Deferred Inflows and Outflows	(38,134)
Compensated Absences	10,450
	<hr/>
Net Cash Provided by Operating Activities	<u><u>\$ 2,546,512</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Additions in Accounts Payable	<u><u>\$ 385,162</u></u>
Capital Asset Additions in Retentions Payable	<u><u>\$ 408,281</u></u>

See accompanying Notes to Financial Statements.

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hercules Wastewater Fund was formed to account for the City's cost of providing wastewater and sewage treatment services to the residents of the City of Hercules.

A. Reporting Entity

The financial statements present information on the financial activities of the Wastewater Fund. The Fund is included as an enterprise fund of the City's financial statements. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to the Hercules Wastewater Fund is determined by its measurement focus. The Hercules Wastewater Fund is accounted for on an "*economic resources*" measurement focus, which means that all assets and liabilities (whether current or noncurrent) associated with the 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.

The Hercules Wastewater Fund is accounted for using the accrual basis of accounting. Accordingly, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the Hercules Wastewater Fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

C. Cash and Investments

The Hercules Wastewater Fund pools cash resources with City funds in order to facilitate the management of cash.

Governmental Accounting Standards Board Statement No. 40 requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk, and interest rate risk. The Fund adheres to the City's investment policy that addresses specific types of risk.

For additional information regarding the City's investments refer to the City's financial statements.

For purposes of the statement of cash flows the Wastewater Fund considers all highly liquid investments with an original maturity of three months or less when purchased, and its equity in the City's investment pool to be cash and cash equivalents.

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments with Fiscal Agents

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

E. Receivables

All receivables are shown net of an allowance for doubtful accounts. Wastewater revenues (wastewater disposal services) are recorded as billed to customers on a cyclical basis. All wastewater customers are billed annually by the Contra Costa County Treasurer-Tax Collector Office.

F. Capital Assets

Capital assets are capitalized at their historical costs if purchased. Contributed assets are recorded at the fair value as of the date of receipt. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

Wastewater Structures	30 Years
Equipment and Furniture	4 Years
Infrastructure	15 – 20 Years

G. Accounts Payable

Accounts payable consists of general administration costs incurred and construction services performed during the fiscal year, but paid after the fiscal year.

H. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities. 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.

I. Compensated Absences

Compensated absences are comprised of unpaid vacation and compensated time off and are reported as a long-term liability when the benefits vest and are earned.

J. Net Position

In the financial statements, net position may be classified in the following categories:

Net Investment in capital assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the Hercules Wastewater Fund, not restricted for any project or other purpose.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Hercules Wastewater Fund's policy is to apply restricted net position first.

K. Use of Estimates

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

NOTE 2 CASH AND INVESTMENTS

The Hercules Wastewater Fund 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. Interest earned on investments is allocated using the LAIF factor and average quarterly balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the City's financial statements. The City's financial statements may be obtained by contacting the City's Finance Department's office at 111 Civic Drive, Hercules, California.

Investments held in the City's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

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

Cash and Investments Held with the City	\$ 16,164,274
Investments Held with Fiscal Agent	6,888,975
Total Cash and Investments	<u>\$ 22,502,832</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 Fund 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.

HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Information about the sensitivity of the fair values of the Fund'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 Fund's investments by maturity:

Investment Type	Remaining Maturity (in Months)	
	Totals	12 Months or Less
Held by Debt Trustees:		
Money Market Funds	\$ 6,888,975	\$ 6,888,975
Totals	<u>\$ 6,888,975</u>	<u>\$ 6,888,975</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 Fund's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

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	\$ 6,888,975	N/A	\$ -	\$ 6,888,975	\$ -
Total	<u>\$ 6,888,975</u>		<u>\$ -</u>	<u>\$ 6,888,975</u>	<u>\$ -</u>

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 CAPITAL ASSETS

At June 30, 2017, the Hercules Wastewater Fund's capital assets consisted of the following:

	Balance July 1, 2016	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2017
Nondepreciable Assets:					
Land	\$ 191,700	\$ -	\$ -	\$ -	\$ 191,700
Construction in Progress	2,664,402	8,966,315	-	(2,119,860)	9,510,857
Total Nondepreciable Assets	2,856,102	8,966,315	-	(2,119,860)	9,702,557
Depreciable Assets:					
Infrastructure	10,161,008	201,182	-	3,367,310	13,729,500
Structures and improvements	12,876,281	-	-	(1,541,082)	11,335,199
Equipment	233,806	-	-	16,539	250,345
Total Depreciable Assets	23,271,095	201,182	-	1,842,767	25,315,044
Less Accumulated Depreciation for:					
Infrastructure	(1,442,353)	(250,706)	-	-	(1,693,059)
Structures and Improvements	(9,881,265)	(184,684)	-	-	(10,065,949)
Equipment	(129,319)	(17,043)	-	-	(146,362)
Total Accumulated Depreciation	(11,452,937)	(452,433)	-	-	(11,905,370)
Total Depreciable Assets, Net	11,818,158	(251,251)	-	1,842,767	13,409,674
Total Capital Assets	<u>\$ 14,674,260</u>	<u>\$ 8,715,064</u>	<u>\$ -</u>	<u>\$ (277,093)</u>	<u>\$ 23,112,231</u>

NOTE 4 LONG-TERM LIABILITIES

The following is a summary of long-term liabilities activity of Hercules Wastewater Fund for the fiscal year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Business-Type Activities:					
2010 PFA Wastewater Revenue Bonds	\$ 10,585,000	\$ -	\$ (250,000)	\$ 10,335,000	\$ 260,000
Discount on Issuance	(174,522)	-	7,272	(167,250)	-
Publicly Owned Treatment Works Construction Loan	-	6,786,667	-	6,786,667	-
Compensated Absences	28,746	20,831	(10,381)	39,196	28,746
Total Long-Term Liabilities	<u>\$ 10,439,224</u>	<u>\$ 6,807,498</u>	<u>\$ (253,109)</u>	<u>\$ 16,993,613</u>	<u>\$ 288,746</u>

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LONG-TERM LIABILITIES (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, 2017 is \$10,335,000.

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
Subtotal	10,335,000	7,113,900	17,448,900
Less: Discount	(167,250)	-	(167,250)
Total	<u>\$ 10,167,750</u>	<u>\$ 7,113,900</u>	<u>\$ 17,281,650</u>

Publicly Owned Treatment Works Construction Loan

In June 2016, the City of Hercules entered into an installment sale agreement with the California State Water Resources Control Board in the amount of \$26,500,000. The funds will be used for construction costs for the Pinole-Hercules Wastewater Pollution Control Plant Improvement Project. The interest rate on the loan is 1.7%. The first principal and interest payment is due August 31, 2019, in the amount of \$1,347,202, and second on August 31, 2020 in the amount of \$1,539,216. Principal and interest payments are due annually beginning on August 31, 2021 in the amount of \$1,582,487. The loan matures on August 31, 2038. The City had drawn down \$6,786,667 of the loan principal as of June 30, 2017.

Future debt service requirements on the Publicly Owned Treatment Works Construction Loan are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 157,281	\$ 157,281
2019	-	157,281	157,281
2020	993,143	157,281	1,150,424
2021	1,143,017	140,397	1,283,414
2022	1,169,581	120,966	1,290,547
2023-2027	3,480,926	299,960	3,780,886
Total	<u>\$ 6,786,667</u>	<u>\$ 1,033,166</u>	<u>\$ 7,819,833</u>

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 DUE FROM THE FORMER HERCULES REDEVELOPMENT AGENCY

The Hercules Wastewater Fund has advanced funds to the former Redevelopment Agency of the City. At June 30, 2017, the balance was \$10,587,627. There was no set repayment schedule as of June 30, 2017.

NOTE 6 RISK MANAGEMENT

The Hercules Wastewater Fund is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Fund participates in the City's insurance programs to insure against these losses. Complete information on risk management can be found in the City's audited financial statements.

NOTE 7 PUBLIC EMPLOYEE RETIREMENT SYSTEM

A. General Information about the Pension Plan

Hercules Wastewater Fund employees are covered under the retirement plan of the City of Hercules.

The City contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute. Copies of PERS' annual financial report may be obtained from their executive office – 400 Q Street, Lincoln Plaza East, Sacramento, CA 95811 or www.calpers.ca.gov.

Required disclosure information regarding employee's retirement plan can be found in the City's audited financial statements.

B. Net Pension Liability

The Wastewater Fund's proportionate share of the City of Hercules' net pension liability for the retirement plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the retirement plan is measured as of June 30, 2015, rolled forward to June 30, 2016 using standard update procedures. The principal assumptions and methods used to determine the net pension liability are shown in the City's audited financial statements.

HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 PUBLIC EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

C. Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Wastewater Fund's proportionate share of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate:

	Discount Rate		
	1% Discount 6.65%	Current Rate 7.65%	1% Increase 8.65%
Net Pension Liability	<u>\$ 820,099</u>	<u>\$ 562,901</u>	<u>\$ 351,110</u>

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Wastewater Fund recognized pension expense of \$25,970. At June 30, 2017, the Wastewater Fund 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	\$ 55,693	\$ -
Changes of Assumptions	-	(39,077)
Differences Between Expected and Actual Experience	-	(4,913)
Change in Proportion	7,633	(13,139)
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	9,020	-
Net Differences Between Projected and Actual Earnings on Plan Investments	83,615	-
Total	<u>\$ 155,961</u>	<u>\$ (57,129)</u>

**HERCULES WASTEWATER FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 PUBLIC EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

C. Sensitivity of Net Pension Liability to Changes in the Discount Rate (Continued)

Deferred outflows of resources of \$55,693 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$ 4,077
2019	4,831
2020	21,876
2021	12,355

NOTE 8 COMMITMENTS AND CONTINGENCIES

The Hercules Wastewater Fund is not involved in any matters of litigation that have arisen in the normal course of conducting Hercules Wastewater Fund business as of June 30, 2017. Additionally, the Hercules Wastewater Fund management believes that the insurance coverage is sufficient to cover any potential losses should any litigation with an unfavorable outcome materialize in the future.

NOTE 9 FINANCIAL CONDITION

With the dissolution of the redevelopment agency on February 1, 2012 there is uncertainty as to whether the Hercules Wastewater Fund will be repaid the accumulated \$10.5 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.

**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 the
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 Hercules Wastewater Fund (Fund) of the City of Hercules as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

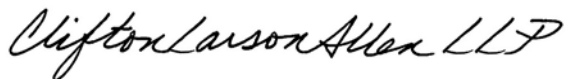
Honorable Mayor and Members of the
City Council of the City of Hercules
Hercules, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Roseville, California
February 7, 2018

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017



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**HERCULES PUBLIC FINANCING AUTHORITY
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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	<u>598,546</u>
Total Current Assets	9,349,425

Noncurrent Assets:

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

Total Assets	<u>32,731,323</u>
--------------	-------------------

LIABILITIES

Current Liabilities:

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

Noncurrent Liabilities:

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

Total Liabilities	<u>26,146,422</u>
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NET POSITION

Restricted for Debt Service	<u>6,584,901</u>
-----------------------------	------------------

Total Net Position	<u><u>\$ 6,584,901</u></u>
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See accompanying Notes to Basic Financial Statements.

**HERCULES PUBLIC FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

EXPENSES

Interest and Fiscal Agent Charges	\$ 1,581,645
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PROGRAM REVENUES

Lease Revenue - Interest	<u>1,715,129</u>
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NET PROGRAM REVENUES (EXPENSES)

133,484

GENERAL REVENUES

Investment Earnings	<u>18,659</u>
---------------------	---------------

CHANGE IN NET POSITION

152,143

Net Position - Beginning of Year

6,432,758

NET POSITION - END OF YEAR

\$ 6,584,901

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			
	2003B PFA	2009 PFA	2010 PFA	
	Lease	Taxable	Wastewater	
	Revenue	Lease	Revenue	
	Bonds	Revenue	Bonds	Total
		Bonds		
ASSETS				
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>
LIABILITIES				
Due to the City of Hercules	\$ -	\$ 118,349	\$ -	\$ 118,349
Due to Other Funds	-	155,044	-	155,044
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	6,509,980	6,889,893	3,278,775	16,678,648
FUND BALANCES				
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	<u>(598,546)</u>	
		<u>(26,028,073)</u>

Total Net Position - Governmental Activities	<u>\$ 6,584,901</u>
--	---------------------

**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	
REVENUES				
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	722,557	781,646	247,508	1,751,711
EXPENDITURES				
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	567,493	917,140	731,975	2,216,608
NET CHANGE IN FUND BALANCE	155,064	(135,494)	(484,467)	(464,897)
Fund Balances - Beginning of Year	6,703,250	1,723,985	7,373,442	15,800,677
FUND BALANCES - END OF YEAR	<u>\$ 6,858,314</u>	<u>\$ 1,588,491</u>	<u>\$ 6,888,975</u>	<u>\$ 15,335,780</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)
--	----	-----------

Amounts reported for governmental activities in the statement of activities are different because:

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.		(17,923)
--	--	----------

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.		
Change in Accrued Interest on Long-Term Debt		9,533

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.

Principal Repayments on Long Term Debt	\$	650,000
Amortization of Discounts		(24,570)

		625,430
Change in Net Position of Governmental Activities	\$	<u><u>152,143</u></u>

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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:

Investment Type	Remaining Maturity (in Months)		
	Totals	12 Months or Less	More Than 60 Months
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:

<u>Year Ending</u>	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:

Year Ended June 30	Principal	Interest	Total
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 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.

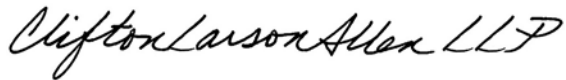
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant. Given these limitations, during our audit we did not identify any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

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

CliftonLarsonAllen LLP

Roseville, California
February 7, 2018

Embedded Secure Document

The file <https://hercules.legistar.com/View.ashx?M=F&ID=5824303&GUID=02D687AE-BCC0-4BE3-A445-D434557E7C51> is a secure document that has been embedded in this document. Double click the pushpin to view.



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Legislation Details (With Text)

File #: 18-41 **Version:** 1 **Name:**

Type: Director Report **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Review and Discuss Mid-Year report for FY 2017-2018.

Sponsors:

Indexes:

Code sections:

Attachments: [Staff Report: Mid-Year Budget Report FY 2017-2018](#)
[Mid-Year Budget Report FY 2017-2018](#)

Date	Ver.	Action By	Action	Result
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Review and Discuss Mid-Year report for FY 2017-2018.



STAFF REPORT TO THE FINANCE COMMISSION

DATE: Meeting of February 26, 2018

TO: Members of the Finance Commission

SUBMITTED BY: David Biggs, City Manager
Annie To, Finance Director

SUBJECT: FY 2017-18 Mid-Year Budget Review and Various Mid-Year Budget Appropriations and Adjustments

RECOMMENDED ACTION:

Receive a report on the FY 2017-18 mid-year budget review and various mid-year budget appropriations and adjustments.

FISCAL IMPACT OF RECOMMENDATION:

There will be increases and decreases to a variety of revenue and expenditure accounts (budget appropriations) as indicated if approved by the City Council.

DISCUSSION: The Finance Commission is tasked with undertaking a quarterly review of the City's budget including revenue and expenditures. The second quarter review occurs in conjunction with the mid-year budget review. The mid-year budget review and recommended adjustments is on the City Council agenda for Tuesday, February 27th. A copy of the staff report for the City Council is attached and that provides the information needed for the Commission's review. Any Commission comments or issues will be shared with the City Council on the 27th.

ATTACHMENTS:

1. City Council Midyear Budget Review Staff Report

Description: FY 2017-18 mid-year budget review and forecast and appropriation request

Funding Source: Various funding sources

Budget Recap:

Total Estimated cost:	\$	New Revenue:	\$
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$
Council Policy Change: Yes <input type="checkbox"/> No <input type="checkbox"/>			



STAFF REPORT TO THE CITY COUNCIL

DATE: Meeting of February 27, 2018

TO: Members of the City Council

SUBMITTED BY: David Biggs, City Manager
Annie To, Finance Director

SUBJECT: FY 2017-18 Mid-Year Budget Review and Adopt a Resolution Approving Various Mid-Year Budget Appropriations and Adjustments

RECOMMENDED ACTION:

Receive a report on the FY 2017-18 mid-year budget review and adopt a resolution approving various mid-year budget appropriations and adjustments.

FINANCE COMMISSION AND RECOMMENDATION:

The mid-year review was presented to the Finance Commission on February 26, 2017. Any Commission comments will be provided to the City Council at the meeting.

FISCAL IMPACT OF RECOMMENDATION:

The Discussion section below gives a synopsis of the General Fund and Wastewater Fund. There will be increases and decreases to a variety of revenue and expenditure accounts (budget appropriations).

DISCUSSION:

Prior Year Results

With the completion of the audit for FY 2016-17, prior fiscal year end results are being provided for the same two funds being covered in the Mid-Year review and are shown in Chart 1 General Fund and Chart 2 Wastewater Fund, in order to provide the City Council with a point of reference for the overall status of these funds.

Chart 1 – FY16-17 General Fund Revenue and Expenditures

CITY OF HERCULES - FY16-17 ACTUAL REV AND EXP REPORT							
GENERAL FUND							
				Expenditure Fiscal Year 2017	Values		
Type	Activity Basic Account Description	Activity Sub Account Description	Sum of Budget Plan	Sum of YTD Encumbrance	Sum of YTD Actuals	Remaining Balance	
REV	TAXES	TRANSIENT OCCUPANCY TAX	8,000		8,128	(128)	
		PROPERTY TAXES	1,319,791		1,278,659	41,132	
		SALES AND USE TAX	3,687,450		3,324,807	362,643	
		DOCU TRANSFER TAX	131,990		136,467	(4,477)	
		BUSINESS LICENSE FEES	154,475		131,240	23,235	
		FRANCHISE	777,257		878,574	(101,317)	
		UTILITY USERS TAX	3,851,323		3,576,052	275,271	
	INTERGOVERNMENTAL	STATE/COUNTY	1,772,534		1,858,474	(85,940)	
	LICENSES & PERMITS	BUILDING FEES	429,642		362,215	67,427	
		ENGINEERING FEES	19,757		2,899	16,858	
	FINES & FORFEITURES	VEHICLE CODE FINES	40,000		47,824	(7,824)	
	USE OF MONEY & PROPERTY	INTEREST INCOME	210,638		56,352	154,286	
		CELL TOWER	118,625		132,817	(14,192)	
		SALE OF PROPERTY	0		3,500	(3,500)	
		LEASE PAYMENT	65,500		31,825	33,675	
	CHARGES FOR SERVICES	POLICE SERVICES	437,500		403,221	34,279	
		PLANNING SERVCS	18,000		185,398	(167,398)	
		RECREATION SERVICES	1,564,942		1,551,225	13,717	
	MISCELLANEOUS REVENUE	MISCELLANEOUS REVENUE	808,756		844,601	(35,845)	
		ASSET FORFEITURE	5,000		0	5,000	
		MISC REIMBURSEMENTS	303,923		322,388	(18,465)	
	TRANSFERS IN	TRANSFERS IN	94,192		131,899	(37,707)	
REV Total			15,819,295		15,268,567	550,728	
EXP	SALARIES AND BENEFITS	SALARIES AND WAGES	5,206,422	0	4,954,141	252,281	
		SALARIES AND BENEFITS	2,557,055	0	2,286,840	270,215	
	SERVICES	SEMI-PROFESSIONAL SERVICE	10,500	0	6,012	4,488	
		PROFESSIONAL SERVICES	1,554,979	97,402	1,078,658	378,919	
		REPAIR & MAINT	264,051	27,123	213,964	22,964	
		UTILITY SERVICES	251,131	0	206,372	44,759	
		ADMINISTRATIVE SERVICES	124,705	1,140	84,717	38,848	
		RENTS	1,826,404	0	906,060	920,344	
		INSURANCE SERVICES	714,300	(17,553)	651,279	80,574	
		MISCELLANEOUS SERVICES	783,850	(663)	780,334	4,178	
	OFFICE EXPENSES	MAINTENANCE SUPPLIES	111,630	1,980	98,705	10,945	
		OPERATING SUPPLIES	130,855	(2,700)	127,596	5,959	
		OFFICE	41,124	0	33,909	7,215	
	OTHER EXPENSES	OTHER MISCELLANEOUS EXP	972,782	0	659,147	313,635	
		CHARGEBACK	31,200	0	(35,366)	66,566	
	CAPITAL OUTLAY	IMPROVEMENTS	250,000	100,002	0	149,998	
	INTERFUND/ALLOC/TRANSFERS	ALLOCATED COSTS	872,237	0	872,237	0	
	TRANSFERS OUT	TRANSFERS OUT TO	50,000	0	50,000	0	
EXP Total			15,753,225	206,731	12,974,606	2,571,888	
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE			66,070	(206,731)	2,293,961	(2,021,160)	

Chart 2 – FY16-17 Wastewater Fund Revenue and Expenditure

CITY OF HERCULES - FY16-17 ACTUAL REV AND EXP REPORT						
WASTEWATER FUNDS						
			Expenditure F	Values		
			2017			
Type	Activity Basic Account Description	Activity Sub Account Description	Sum of Budget Plan	Sum of YTD Encumbrance	Sum of YTD Actuals	Remaining Balance
REV	USE OF MONEY & PROPERTY	INTEREST INCOME	21,000		47,424	(26,424)
	CHARGES FOR SERVICES	SEWER SERVICES	5,392,899		5,797,764	(404,865)
	MISCELLANEOUS REVENUE	MISCELLANEOUS REVENUE	8,000,000		9,251,800	(1,251,800)
		MISC REIMBURSEMENTS	0		(9,251,800)	9,251,800
	TRANSFERS IN	TRANSFERS IN	19,160,000		0	19,160,000
REV Total			32,573,899		5,845,188	26,728,711
EXP	SALARIES AND BENEFITS	SALARIES AND WAGES	318,480	0	331,673	(13,193)
		SALARIES AND BENEFITS	140,128	0	91,461	48,667
	SERVICES	PROFESSIONAL SERVICES	2,180,000	21,639	137,857	2,020,504
		REPAIR & MAINT	61,500	0	42,360	19,140
		UTILITY SERVICES	73,100	60	77,743	(4,703)
		ADMINISTRATIVE SERVICES	16	0	8	9
		MISCELLANEOUS SERVICES	1,778,000	209,904	985,785	582,311
	OFFICE EXPENSES	MAINTENANCE SUPPLIES	0	0	4,284	(4,284)
		OPERATING SUPPLIES	1,500	0	1,893	(393)
	OTHER EXPENSES	OTHER MISCELLANEOUS EXP	0	0	(9,829,532)	9,829,532
		CHARGEBACK	7,000	0	1,007	5,993
	CAPITAL OUTLAY	IMPROVEMENTS	13,485,000	704,424	10,635,684	2,144,892
		DEPRECIATION	0	0	355,940	(355,940)
	DEBT SERVICE	DEBT SERVICE	598,990	0	487,246	111,744
	INTERFUND/ALLOC/TRANSF	INTERFUND CHARGES	126,050	0	126,050	0
		ALLOCATED COSTS	45,949	0	45,949	0
	TRANSFERS OUT	TRANSFERS OUT TO	245,000	0	245,000	0
EXP Total			19,060,713	936,028	3,740,407	14,384,278
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE			13,513,186	(936,028)	2,104,781	12,344,433

Mid-Year Budget Review

The purpose of the mid-year budget review is to determine if the City's revenues and expenditures for the current fiscal year are tracking appropriately and if any adjustments are necessary. Departments are charged to operate within their adopted budgets, to utilize already appropriated funding, and to manage within their overall budget. In order to have a more refined projection, the data used in developing the mid-year reflects revenues and expenditures booked through mid-February. Adjustments recommended at this point in the fiscal year would be for those items of significance which have arose after the adoption of the budget and which cannot be handled within the already appropriated amounts or where an error or oversight in the adopted FY 2017/18 budget needs to be corrected. . The mid-year budget review also serves as a more refined starting point for the development of the proposed budget for the next fiscal year.

Most line-items were projected using a straight-line approach based on Year to Date extrapolated out to the end of the fiscal year. The Finance Director and City Manager did review the initial straight-line projections and modified them where necessary to ensure a more refined projection based on known timing or other impacts. For example, property tax revenues were projected to be the budgeted number given three factors – our property tax consultant's projections, the timing of property tax receipts, and factoring in a higher level of property owners having paid both installments in December in order to avoid impacts of changes in Federal tax laws. The projection also assumes that all Decision Packages are completed or carried-over.

In addition, attached is a Decision Package Status Update (Attachment 2) as requested by the City Council.

GENERAL FUND

As of February 17, 2018, the General Fund has received revenue of \$7.4 million and expended approximately \$9.0 million.

Chart 3 – FY17-18 General Fund Revenue and Expenditure

CITY OF HERCULES - FY17-18 REV AND EXP REPORT 02-17-18 (62%)								
FUND 100 - GENERAL FUND								
Type	Activity Basic Account Description	Activity Sub Account Description	Budget Plan	YTD Encumbrance	YTD Actuals	Remaining Balance	YE Projection	Sum Projected Variance
REV	TAXES	TRANSIENT OCCUPANCY TAX	9,000		4,757	4,243	8,202	798
		SECURED PROP TAX	1,189,548		739,225	450,323	1,189,548	0
		UNSECURED PROP TAX	50,000		31,604	18,396	57,463	(7,463)
		PRIOR YR SECURED/UNSECURD	(7,356)		(3,184)	(4,172)	(5,789)	(1,567)
		SUPPLMNTL-SECURD PROP TX	30,000		4,587	25,413	8,341	21,659
		PROPERTY TAX ADMIN COSTS	(9,825)		0	(9,825)	0	(9,825)
		GARBAGE LIENS/ASSMTS	125,000		57,834	67,166	105,153	19,847
		SALES AND USE TAX	2,062,711		820,753	1,241,958	1,992,000	70,711
		SALES TAX-PROP 172/SB 509	159,929		58,474	101,455	141,800	18,129
		MEASURE O	1,001,061		471,437	529,624	1,079,000	(77,939)
		DOCU TRANSFER TAX	118,208		60,229	57,979	103,844	14,364
		BUSINESS LICENSE FEES	187,377		62,082	125,295	107,038	80,339
		CASP FEE	0		768	(768)	1,323	(1,323)
		GAS	32,257		977	31,280	1,685	30,572
		ELECTRIC	63,590		2,997	60,593	5,167	58,423
		CABLE	368,022		110,042	257,980	262,005	106,017
		1% PEG	44,977		22,009	22,969	37,946	7,031
		GARBAGE	279,268		178,150	101,118	307,155	(27,887)
		GAS UUT	341,416		121,816	219,600	347,715	(6,299)
		ELECTRICITY UUT	1,217,746		674,938	542,808	1,230,556	(12,810)
		TELEPHONE UUT	953,400		455,221	498,179	882,566	70,834
		WATER UUT	542,725		326,920	215,805	563,654	(20,929)
		CABLE UUT	482,910		292,916	189,994	551,810	(68,900)
	INTERGOVERNMENTAL	STATE/COUNTY	1,791,105		1,068,340	722,765	1,852,262	(61,157)
	LICENSES & PERMITS	BUILDING FEES	410,200		266,138	144,062	458,858	(48,658)
		ENGINEERING FEES	12,269		180	12,089	310	11,959
	FINES & FORFEITURES	VEHICLE CODE FINES	20,000		23,541	(3,541)	40,587	(20,587)
	USE OF MONEY & PROPERTY	INTEREST INCOME	181,500		50,946	130,554	87,839	93,661
		CELL TOWER	106,500		46,953	59,547	80,954	25,546
		LEASE PAYMENT	37,500		17,790	19,710	30,672	6,828
	CHARGES FOR SERVICES	POLICE SERVICES	420,887		229,519	191,368	479,860	(58,973)
		PLANNING SVCS	19,166		31,049	(11,883)	53,533	(34,367)
		RECREATION SERVICES	1,497,500		923,567	573,933	1,592,357	(94,857)
	MISCELLANEOUS REVENUE	MISCELLANEOUS REVENUE	172,349		104,960	67,389	180,966	(8,617)
		MISC REIMBURSEMENTS	331,698		166,025	165,673	286,250	45,448
	TRANSFERS IN	TRANSFERS IN	110,000		0	110,000	100,000	10,000
REV Sum			14,352,638		7,423,558	6,929,080	14,222,628	130,010
EXP	SALARIES AND BENEFITS	SALARIES AND WAGES	5,890,355	0	3,488,656	2,401,699	5,508,900	381,455
		SALARIES AND BENEFITS	2,694,806	0	1,450,851	1,243,955	2,340,082	354,724
	SERVICES	SEMI-PROFESSIONAL SERVICE	10,500	0	2,790	7,710	4,500	6,000
		PROFESSIONAL SERVICES	2,053,152	37,171	384,227	1,631,754	1,602,522	450,630
		REPAIR & MAINT	229,491	39,556	134,730	55,205	181,470	48,021
		UTILITY SERVICES	277,022	0	63,547	213,475	102,494	174,528
		ADMINISTRATIVE SERVICES	136,672	1,771	64,465	70,436	90,211	46,461
		RENTS	1,011,820	0	226,481	785,339	1,008,207	3,613
		INSURANCE SERVICES	624,148	5,435	554,585	64,128	641,133	(16,985)
		MISCELLANEOUS SERVICES	763,850	7,619	186,230	570,001	757,378	6,472
	OFFICE EXPENSES	MAINTENANCE SUPPLIES	107,880	11,294	59,120	37,467	106,648	1,232
		OPERATING SUPPLIES	136,805	1,242	65,254	70,308	106,491	30,314
		OFFICE	41,814	1,354	15,453	25,007	26,278	15,536
	OTHER EXPENSES	OTHER MISCELLANEOUS EXP	257,352	0	128,906	128,446	207,912	49,440
		CHARGEBACK	(5,227)	0	(18,212)	12,985	(29,374)	24,147
	CAPITAL OUTLAY	IMPROVEMENTS	150,000	0	249,821	(99,821)	250,000	(100,000)
		FIXED ASSETS	559,000	14,242	37,291	507,467	559,000	0
	INTERFUND/ALLOD/TRANSFERS	ALLOCATED COSTS	898,382	0	453,764	444,618	900,382	(2,000)
	TRANSFERS OUT	TRANSFERS OUT TO	847,366	0	50,000	797,366	847,366	0
EXP Sum			16,685,188	119,685	7,597,957	8,967,546	15,211,601	1,473,587
LESS ONE TIME EXP AND COUNCIL APPROVED ITEMS FROM BUDGET BALANCING SPREADSHEET							(2,808,422)	(2,808,422)
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE							1,819,449	1,464,845

Notes to General Fund Revenue and Expenditure Report:

1. Cable revenue is projected to be under-budget by approximately \$106K at year end.
2. Salaries and Wages are projected to be under-budget by approximately \$381K at year end.
3. Salaries and Benefits are projected to be under-budget by approximately \$354K at year end.
4. Professional Services expenditures are projected to be under-budget by approximately \$450K at year end.
5. Utility Services expenditures are projected to be under-budget by \$174K at year end.
6. Capital Outlay expenditures are projected to be over budget by \$100K due to carryforward from FY15-16.
A midyear adjustment to re-appropriate the \$100K has been requested in the midyear budget adjustments.

LANDSCAPE AND LIGHTING DISTRICTS FUNDS

Staff will bring back to the Council the analysis of The Landscape and Lighting District Funds within the next 30 to 60 days as part of the annual renewal and proposed Proposition 218 balloting process.

WASTEWATER FUND

The Revenue for Wastewater is received in December (55%), April (40%), and June (5%) with the property taxes.

The Wastewater Fund has received \$3.9 million and expended \$3.2 million as of February 17, 2018.

Chart 4 – Wastewater Revenue and Expenditures

As of February 17, 2018, the Wastewater fund has received approximately \$3.9 million and expended \$3.2 million.

CITY OF HERCULES - FY17-18 REV AND EXP REPORT 02-17-18 (62%)										
FUND 420 - WASTEWATER FUND										
Type	Department Description	Activity Basic Account Description	Activity Sub Account Description	Budget Plan	YTD Encumbrance	YTD Actuals	Remaining Balance	YE Projection	Sum Projected Variance	
REV		USE OF MONEY & PROPERTY	INTEREST INCOME	24,895		28,323	(3,428)	51,496	(26,601)	
		CHARGES FOR SERVICES	SEWER SERVICES	5,790,870		3,850,374	1,940,496	7,000,681	(1,209,811)	1
		MISCELLANEOUS REVENUE	MISCELLANEOUS REVENUE	0		3,364,515	(3,364,515)	6,117,300	(6,117,300)	2
			MISC REIMBURSEMENTS	0		(3,329,091)	3,329,091	(6,052,892)	6,052,892	3
		TRANSFERS IN	TRANSFERS IN	16,000,000		0	16,000,000	0	16,000,000	
REV Sum				21,815,765		3,914,121	17,901,644	7,116,584	14,699,181	
EXP	ASSET CAPITALIZATION	OTHER EXPENSES	OTHER MISCELLANEOUS EXP	0	0	(2,844,877)	2,844,877	(7,503,804)	7,503,804	4
	CAPITAL PROJECTS	OTHER EXPENSES	OTHER MISCELLANEOUS EXP	0	0	3,500	(3,500)	5,645	(5,645)	
		CAPITAL OUTLAY	IMPROVEMENTS	9,600,000	0	4,652,359	4,947,641	7,503,804	2,096,196	5
	OTHER	DEBT SERVICE	DEBT SERVICE	734,950	0	240,675	494,275	476,966	257,984	
	PUBLIC WORKS	SALARIES AND BENEFITS	SALARIES AND WAGES	331,020	0	236,259	94,761	381,063	(50,043)	
			SALARIES AND BENEFITS	145,854	0	104,077	41,777	167,866	(22,012)	
		SERVICES	PROFESSIONAL SERVICES	2,242,000	161,358	99,200	1,981,441	321,359	1,920,641	6
			REPAIR & MAINT	55,000	0	46,983	8,017	75,778	(20,778)	
			UTILITY SERVICES	74,000	5,000	43,275	25,725	74,798	(798)	
			ADMINISTRATIVE SERVICES	5,500	0	0	5,500	0	5,500	
			MISCELLANEOUS SERVICES	4,862	1,567,423	292,890	(1,855,451)	1,862,000	(1,857,138)	7
		OFFICE EXPENSES	MAINTENANCE SUPPLIES	4,000	0	1,188	2,812	1,916	2,084	
			OPERATING SUPPLIES	1,500	0	923	577	1,488	12	
		OTHER EXPENSES	CHARGEBACK	7,000	0	0	7,000	0	7,000	
		CAPITAL OUTLAY	IMPROVEMENTS	40,000	5,000	0	35,000	5,000	35,000	
			DEPRECIATION	31,292	0	256,269	(224,977)	413,336	(382,044)	8
		INTERFUND/ALLOC/ TRANSFERS	INTERFUND CHARGES	129,831	0	64,916	64,916	104,702	25,129	
			ALLOCATED COSTS	47,326	0	23,663	23,663	38,166	9,160	
EXP Sum				13,454,135	1,738,781	3,221,298	8,494,056	3,930,086	9,524,049	
EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE								3,186,498	5,175,132	

Notes to the Wastewater Revenue and Expenditure

1. Sewer Service Charge revenues is expected to be over budget by \$1.2 million at year end.
2. Misc. Revenue from Wells Fargo Trust account is expected to be \$6.1 million at year end. This is the projected loan reimbursements from the State Water Resource Board.
3. The Misc. Reimbursement account is the offset to the Misc. Revenue account from Wells Fargo Trust account which is expected to be \$6.1 million at year end.
4. Other expenses and capital outlay is expected to be \$7.5 million. This is the offset account for the capital outlay account at year end.
5. Other expenses and capital outlay is expected to be \$7.5 million at year end.
6. Professional Services is expected to be \$321K at year end and will be under budget by \$1.9 million at year end.
7. Miscellaneous Services is expected to be (\$1.8) million and will be over budget by \$ 1.8 million. The net amount between Professional Services will be approximately under budget by \$100K at year end.
8. Depreciation Expenses is expected to be \$415K at year end. A mid-year budget adjustment is requested for this line item.

BUDGET APPROPRIATIONS

Staff is recommending that the Council adopt the following FY17-18 budget appropriations:

Request for FY17-18 Midyear Budget Appropriations

#	Type	Fund	Fund Desc	Amount	Description
1	Expenditure	100	General Fund	\$ 115,000	1% PEG Fee - BugID
2	Expenditure	100	General Fund	\$ 100,000	Street Maintenance Program from FY16-17
	TOTAL		General Fund	\$ 215,000	
3	Revenue	226	CFD	\$ (44,000)	Increase in Revenue
4	Expenditure	226	CFD	\$ 12,852	New Expenditure Budget for CFD
	TOTAL		CFD	\$ (31,148)	
5	Expenditure	262	State Gas Tax	\$ 150,000	Additional Appropriation from Fund Balance for Prof Services
6	Expenditure	262	State Gas Tax	\$ 10,000	Additional Appropriation for a Regular Part-Time Employee
	TOTAL		State Gas Tax	\$ 160,000	
7	Expenditure	262	Measure J	\$ 10,000	Additional Appropriation for a Regular Part-Time Employee
	TOTAL		State Gas Tax	\$ 10,000	
8	Revenue	295	Grant	\$ (8,600,000)	Transfer In from Capital Project
9	Expenditure	331	Capital Project	\$ 8,600,000	Transfer Out to Grant Fund
	TOTAL		Grant	\$ -	
10	Expenditure	420	Sewer Fund	\$ 1,860,138	Correct typo. The budgeted should be \$1,862,000 not \$1,862.
11	Expenditure	420	Sewer Fund	\$ 482,083	Increase Depreciation Amount for Fixed Asset
12	Expenditure	420	Sewer Fund	\$ 5,000	Additional Appropriation for Regular Part-Time
	TOTAL		Sewer Fund	\$ 2,347,221	
13	Revenue	470	Facility Maintenance	\$ (200,000)	Revenues from BART Parking Lot
14	Expenditure	470	Facility Maintenance	\$ 5,690	Additional Appropriation for a Regular Part-Time Employee
15	Expenditure	470	Facility Maintenance	\$ 7,500	Onsite Maintenance
16	Expenditure	470	Facility Maintenance	\$ 15,000	Landscaping and stormwater
17	Expenditure	470	Facility Maintenance	\$ 15,000	Street Light Maintenance
18	Expenditure	470	Facility Maintenance	\$ 3,600	Water - EBMUD
19	Expenditure	470	Facility Maintenance	\$ 18,000	Electricity - PG&E
20	Expenditure	470	Facility Maintenance	\$ -	Capital Upgrade & Infrastructure Allowance
21	Expenditure	470	Facility Maintenance	\$ 3,600	Equipment -Annual Porta Pottie Maint
22	Expenditure	470	Facility Maintenance	\$ 2,500	Equipment -Annual Bike Locker Maint
23	Expenditure	470	Facility Maintenance	\$ 3,600	Internal Service Fund - Admin
24	Expenditure	470	Facility Maintenance	\$ 2,400	Internal Service Fund - IT
25	Expenditure	470	Facility Maintenance	\$ 4,800	Internal Service Fund - Facilities
26	Expenditure	470	Facility Maintenance	\$ 4,800	Internal Service Fund - Vehicle Replacement
27	Expenditure	470	Facility Maintenance	\$ -	Police Services
28	Expenditure	470	Facility Maintenance	\$ 29,000	WestCat for Permits
29	Expenditure	470	Facility Maintenance	\$ 53,000	Capital Improvements for Parking Kiosk, Landscape, LED...
30	Expenditure	470	Facility Maintenance	\$ 37,000	Appropriation from Fund Balance for Prof Services
31	Expenditure	470	Facility Maintenance	\$ 35,000	Appropriation from Fund Balance for Repair & Maint
32	Expenditure	470	Facility Maintenance	\$ 25,000	Appropriation from Fund Balance for HVAC
33	Expenditure	470	Facility Maintenance	\$ 42,000	Appropriation from Fund Balance for Bldgs&Structures
34	Expenditure	470	Facility Maintenance	\$ 2,000	Appropriation from Fund Balance for Other
35	Expenditure	470	Facility Maintenance	\$ 25,000	Appropriation from Fund Balance for Fire
36	Expenditure	470	Facility Maintenance	\$ 650	Appropriation from Fund Balance for Cell Phone/Pager
37	Expenditure	470	Facility Maintenance	\$ 45,000	Appropriation from Fund Balance for Water
38	Expenditure	470	Facility Maintenance	\$ 50,000	Appropriation from Fund Balance for Contract Janitorial
39	Expenditure	470	Facility Maintenance	\$ 8,000	Appropriation from Fund Balance for Vehicle Repair
40	Expenditure	470	Facility Maintenance	\$ (22,500)	Correction of a typo. Should be \$2,500 not \$25,000
	TOTAL		Facility Maintenance	\$ 215,640	

The recommended appropriations fall into the following categories:

Items 1- 2: Carryover of prior year's capital allocations for projects that did not proceed until FY 2017/18.

Items 3-4: A new Community Facilities District was formed to maintain the retention basin adjacent to Muir Pointe and the revenues and expenditures need to be added.

Items 5: The City will be receiving additional gas tax revenues as a result of SB 1. Funding is requested to commence design in FY 2017/18 of street improvements to be constructed in 2018/19.

Items 6, 7, and 12: Additional appropriations are requested to provide more part-time resources to assist in a project manager role for the implementation of the Hercules Regional Intermodal Transportation Center (RITC) and the Bayfront development. An existing part-time position filled at the Planning Manager level will transition from a 20 hour or less to a 32 hour per week position effective March 5th. This project manager role will support the City Manager, Public Works Director, and Planning Director in the planning and implementation activities for these important and high-profile efforts. This will include the identification of an application for grant funding for the RITC; securing commitments from partner agencies for service; management of future phase RITC design and construction; managing the City's obligations under the Bayfront Development Agreements; and, assisting with the entitlement process for future entitlements for Bayfront phases. The existing part-time position has been funded from a mix of developer reimbursements and funds budgeted in the Planning Department Budget. Developer Reimbursements will continue to a source of funding for a portion of the hours as this project manager role will also support the entitlements for future Bayfront phases. In addition, a portion of the position will be funded from Measure J, Gas Tax, and Sewer funds given those are the primary funding sources for the City's infrastructure obligations for both the RITC and under the Development Agreements. A portion of the costs will also be funded from existing Professional Services budgeted in the City Manager's Office, though the funds will be utilized for part-time staffing instead. The total cost of a 32 hour per week position for the four months remaining in the 2017/18 fiscal is \$50,000 with the Gas Tax, Measure J and Sewer funds needing appropriation.

Items 8 -9: Balancing adjustments needed to reflect grant activities.

Items 10-11: Corrections needed in the Sewer Fund.

Items 13-29: With the approval of the new three way agreement between BART, WestCAT and the City for the operation of the Hercules Transit Center, revenues and expenditures for this facility need to be appropriated in the Facilities Fund and not Redevelopment.

Items 30 – 40: Corrections required for amounts inadvertently not budgeted in the Facilities Fund.

ATTACHMENTS:

1. Budget Resolution
2. Decision Package Status Update

Description: FY 2017-18 mid-year budget review and forecast and appropriation request

Funding Source: Various funding sources

Budget Recap:

Total Estimated cost:	\$	New Revenue:	\$
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$
Council Policy Change: Yes <input type="checkbox"/> No <input type="checkbox"/>			



Legislation Details (With Text)

File #: 18-42 **Version:** 1 **Name:**

Type: Consent **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Minutes
Recommendation: Review and Approve the Finance Commission Minutes from the January 22, 2018 Meeting.

Sponsors:

Indexes:

Code sections:

Attachments: [Finance Commission Minutes 01.22.18](#)

Date	Ver.	Action By	Action	Result
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Minutes

Recommendation: Review and Approve the Finance Commission Minutes from the January 22, 2018 Meeting.



City of Hercules

111 Civic Drive
Hercules, CA 94547

Meeting Minutes

Finance Commission

J. Yamamoto, Chair
Stanley Tom, Vice Chair
Lori Risby, Commissioner
Zania Harris, Commissioner
Aida Torres, Commissioner

Monday, January 22, 2018

7:00 PM

Council Chambers

Special Meeting

I. CALL TO ORDER - ROLL CALL

Meeting was called to order at 7:02 p.m. by Chairperson Tom.

Stanley Tom, Chairperson – Present
J. Yamamoto, Commissioner – Present
Zania Harris, Commissioner – Present
Aida Torres, Commissioner – Present
Lori Risby, Commissioner - Present

II. PLEDGE OF ALLEGIANCE

III. OATHS OF OFFICE AND REORGANIZATION

- 1.Oath of Office – Commissioners Risby, Torres and Yamamoto.
- 2.Commissioner Tom motions to nominate Commissioner Yamamoto for Chairperson.
- 3.Commissioner Yamamoto motions to nominate Commissioner Tom as Vice Chair.

IV. AGENDA ADDITIONS/DELETIONS - NONE

V. PUBLIC COMMUNICATIONS - NONE

VI. DIRECTOR REPORT

Disbursement List is located at <http://www.ci.hercules.ca.us>. Click on Departments and Services. Click on Finance. Click on Disbursement List.

1. Director To discussed that Finance Commission meetings are not to be rescheduled, with the exception of an extraordinary event.
2. Cost Allocation Plan presentation is scheduled for February 15, 2018.
3. Director To updated the Finance Commissioners that the CARF is tentative to be finalized within days and will be presented in the February 26, 2018 regular meeting.

VII. CONSENT CALENDAR

Finance Commission meeting minutes from 11/16/17 approved.

(Motion: Vice Chair Tom, Second: Chair Yamamoto, Pass 5-0 (Ayes: Vice Chair Tom, Chair Yamamoto, Commissioner Harris, Commissioner Torres, and Commissioner Risby).

VIII. DISCUSSION AND/OR ACTION ITEMS

1. The new sub-committee members for Measure B & C are Vice Chair Tom and Commissioner Risby.
2. The new sub-committee members for Parks & Recreation Reporting are Chair Yamamoto and Commissioner Torres.

IX. COMMISSIONER REPORTS AND ANNOUNCEMENTS - NONE

X. FUTURE AGENDA ITEMS

1. Future Agenda Items Work Plan

XI. ADJOURNMENT

Chairperson Tom adjourned the meeting at 8:29pm.

The next Special Meeting of the Commission will be held on Thursday, February 15, 2018 at 7:00 p.m. in the Council Chambers.

Agendas are posted in accordance with Government Code Section 54954.2(a) or Section 54956. Members of the public can view electronic agendas and staff reports from the City's website at www.ci.hercules.ca.us and can receive e-mail notification of agenda postings by signing up to receive an e-notice from the City's website. Agendas and staff reports may also be obtained by contacting the Administrative Services Department at (510) 799-8215.

Posted: February 22, 2018



Legislation Details (With Text)

File #: 18-43 **Version:** 1 **Name:**

Type: Consent **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Minutes
Recommendation: Review and Approve the Finance Commission Minutes from the February 8, 2018 Meeting.

Sponsors:

Indexes:

Code sections:

Attachments: [Finance Commission Minutes 02.08.18](#)

Date	Ver.	Action By	Action	Result
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Minutes

Recommendation: Review and Approve the Finance Commission Minutes from the February 8, 2018 Meeting.



City of Hercules

111 Civic Drive
Hercules, CA 94547

Meeting Minutes

Finance Commission

J. Yamamoto, Chair
Stanley Tom, Vice Chair
Lori Risby, Commissioner
Zania Harris, Commissioner
Aida Torres, Commissioner

Thursday, February 8, 2018

7:00 PM

Council Chambers

Special Meeting

I. CALL TO ORDER - ROLL CALL

Meeting was called to order at 7:00 p.m. by Chairperson Yamamoto.

Y. Yamamoto, Chairperson – Present
Stanley Tom, Vice-Chair – Present
Zania Harris, Commissioner – Not Present
Aida Torres, Commissioner – Present
Lori Risby, Commissioner - Present

II. PLEDGE OF ALLEGIANCE

III. INTRODUCTIONS AND PRESENTATION

1. Courtney Ramos presented the Matrix Group's recommended Full Cost Allocation and OMB complaint Cost Allocation plans for the City of Hercules.
2. The Finance Commission reviewed and provided feedback on the Full Cost Allocation and OMB complaint Cost Allocation plans presented by Courtney Reyes of the Matrix Consulting Group. Ms. Ramos will update her final presentation to the City Council to reflect the Finance Commission recommendations.
3. The Finance Commission recommended adoption of both the Full Cost Allocation complaint Cost Allocation plans by the Matrix Consulting Group (Motion: Vice Chair Tom, Second Commissioner Risby; Pass 4-0-1 (Ayes, Chair Yamamoto, Vice Chair Tom, Commissioner Risby, Commissioner Torres, Commissioner Harris absent))

IV. AGENDA ADDITIONS/DELETIONS - NONE

V. PUBLIC COMMUNICATIONS - NONE

VI. DIRECTOR REPORT

Disbursement List is located at <http://www.ci.hercules.ca.us>. Click on Departments and Services. Click on Finance. Click on Disbursement List.

VII. CONSENT CALENDAR - NONE

VIII. DISCUSSION AND/OR ACTION ITEMS - NONE

IX. COMMISSIONER REPORTS AND ANNOUNCEMENTS - NONE

X. FUTURE AGENDA ITEMS

1. Future Agenda Items Work Plan

XI. ADJOURNMENT

Chairperson Tom adjourned the meeting at 8:50pm.

The next Special Meeting of the Commission will be held on Monday, February 26, 2018 at 7:00 p.m. in the Council Chambers.

Agendas are posted in accordance with Government Code Section 54954.2(a) or Section 54956. Members of the public can view electronic agendas and staff reports from the City's website at www.ci.hercules.ca.us and can receive e-mail notification of agenda postings by signing up to receive an e-notice from the City's website. Agendas and staff reports may also be obtained by contacting the Administrative Services Department at (510) 799-8215.

Posted: February 22, 2018



Legislation Details (With Text)

File #: 18-44 **Version:** 1 **Name:**

Type: Discussion/Action Item **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Parks & Recreation Sub-Committee updates.

Sponsors:

Indexes:

Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
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Parks & Recreation Sub-Committee updates.



Legislation Details (With Text)

File #: 18-45 **Version:** 1 **Name:**

Type: Discussion/Action Item **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Measure B& C Sub-Committee Report.

Sponsors:

Indexes:

Code sections:

Attachments: [Measure B & C Presentation](#)
[Measure B & C Report](#)

Date	Ver.	Action By	Action	Result
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Measure B& C Sub-Committee Report.

CITY OF HERCULES FINANCE COMMISSION MEASURE B AND MEASURE C ANNUAL REPORT

Fiscal Year Ending June 30, 2017

Objectives

Provide annual report for:

Measure	Title	Adopted	Original Measure	Sunset Period
B	Transaction and Use Tax Revenues	Nov. 2015	Measure O (Adopted June 2012)	Indefinite
C	Utility Users Tax Rate Revenues	Nov. 2015	Measure A (Adopted June 2013)	Year 2025

Conclusions

- For Fiscal Year ending June 30, 2017, funds were spent in accordance with the **Measure B**.
- For Fiscal Year ending June 30, 2017, funds were spent in accordance with **Measure C**.

Recommendations

- Retain **Measure B** since the City of Hercules still requires these funds to achieve long term financial stability with adequate financial reserves.
- Retain **Measure C** since the City of Hercules still requires these funds to achieve long term financial stability with adequate financial reserves.
- Recommend that the **Fiscal Neutrality Fund** balance be increased by at least \$400,007 to achieve the goal of having a two month reserve as of June 30, 2017.
- Continue to update the Fiscal Neutrality Fund balance each year as the new Budget is approved in order to maintain the two month reserve going forward.

Termination Clauses

- Finance Commission could recommend or City Council may take own initiative to terminate Measure B or Measure C if they determine that the City has achieved long term financial stability with adequate financial reserves.
- City Council must approve with 2/3 vote

Long Term Financial Stability

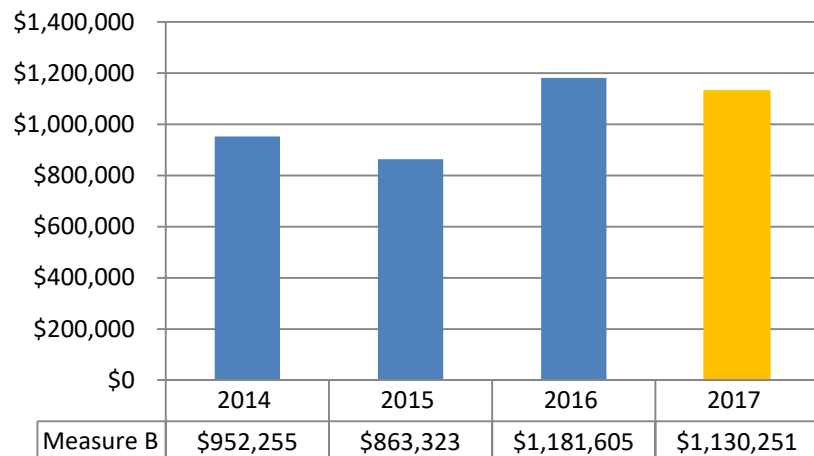
- The Finance Commission recommends determining Long Term Financial Stability by showing that the Fiscal Neutrality Fund has maintained a two month reserve balance in the past five years and is projected to maintain the same in the next five years.
- Based on these criteria, the City has not yet achieved long term financial stability.
 - In Fiscal Year 2017, the City was close but did not meet this goal since the Fiscal Neutrality Fund balance included slightly less than two months of reserves
 - For future years, the Long Term Plan as of August 2017 projected deficits in the General Fund for fiscal years 2018/19, 2019/20, 2021/22, and 2022/23 with Fiscal Neutrality Fund balances less than two months of reserves in each year.

Appendices and Supplemental Data

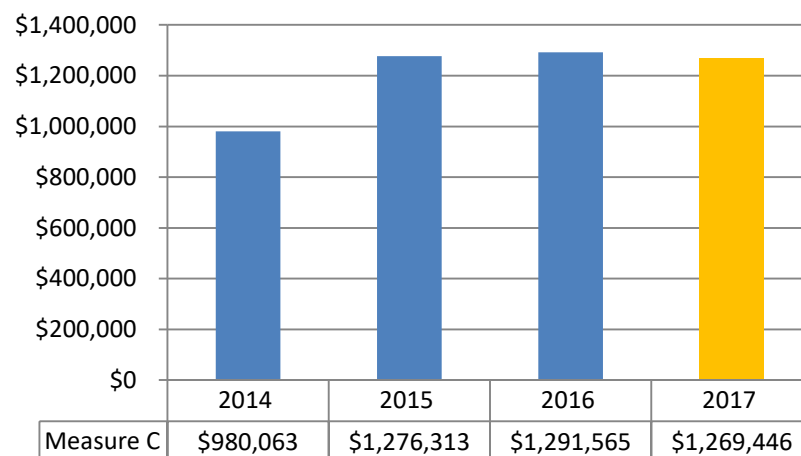
1. Revenue Trends (slide 8)
2. General Fund Revenue Composition (slide 9)
3. General Fund Net Surplus/Deficit (slide 10)
4. Financial Reserve Goals (slide 11)
5. Fiscal Neutrality Fund (slide 12)
6. Long Term Financial Stability (slide 13)
7. Finance Commission (slide 14)

Revenue Trends

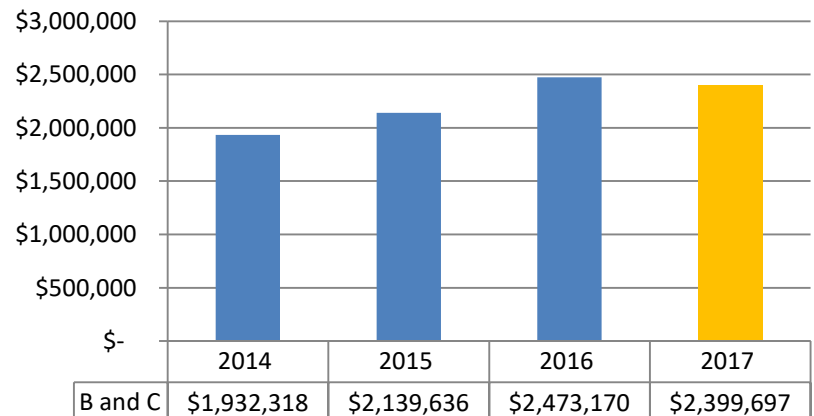
Measure B



Measure C



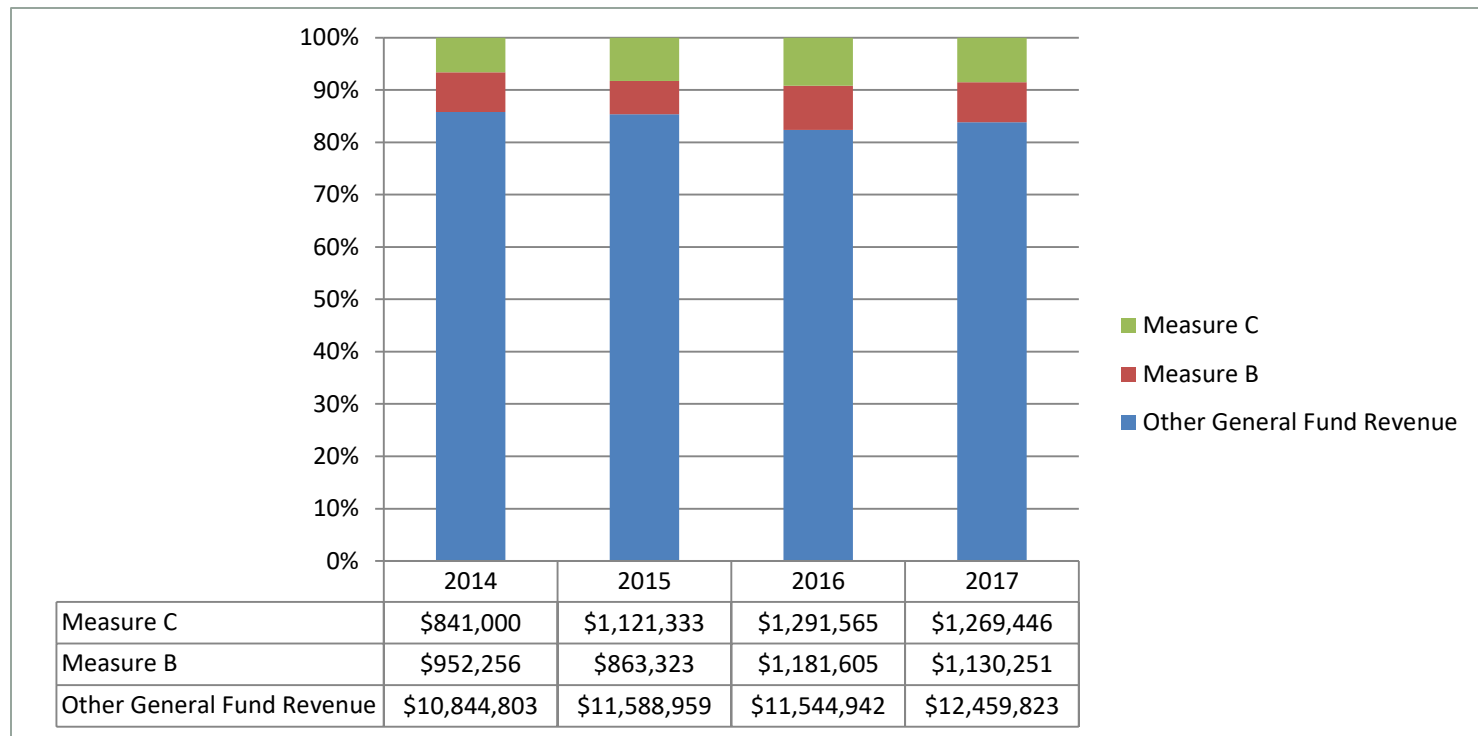
B and C



In Fiscal Year 2017, slight decrease in revenues from Fiscal Year 2016:

- Measure B (-\$43K), (-4.3%)
- Measure C (-\$22K), (-1.7%)
- Measures B & C (-73K), (-3.0%)

General Fund Revenue Composition



In Fiscal Year 2017:

- Measure B contributed \$1,269,446 (or 7.6%) to General Fund Revenue
- Measure C contributed \$1,130,251 (or 8.5%) to General Fund Revenue

General Fund Net Surplus/Deficit

Including Measure B and Measure C Revenue:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund Revenue	\$12,638,059	\$13,573,615	\$14,018,112	\$14,859,520
General Fund Expenses	\$11,200,782	\$10,213,252	\$11,046,540	\$11,784,637
Surplus	\$1,437,277	\$3,360,363	\$2,971,572	\$3,074,883

Excluding Measure B and Measure C Revenue:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund Revenue	\$ 12,638,059	\$ 13,573,615	\$ 14,018,112	\$ 14,859,520
Less: Measure B	\$ (841,000)	\$ (1,121,333)	\$ (1,291,565)	\$ (1,269,446)
Less: Measure C	\$ (952,256)	\$ (863,323)	\$ (1,181,605)	\$ (1,130,251)
Net of Measures B and C	\$ 10,844,803	\$ 11,588,959	\$ 11,544,942	\$ 12,459,823
Total General Fund Expenditures	\$ 11,200,782	\$ 10,213,252	\$ 11,046,540	\$ 11,784,637
Surplus/(Deficit)	\$ (355,979)	\$ 1,375,707	\$ 498,402	\$ 675,186

In FY2017, General Fund had surplus of \$3,074,883. Excluding Measure B and Measure C revenues, surplus was \$675,186.

Financial Reserve Goals

Per City of Hercules Statement of Financial Policies and Principles (adopted December 15, 2015):

“Establish, and then maintain, a “minimum reserve” for economic uncertainties equal to one month’s or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance with a goal of increasing that to two months or 16.66% of expenditures in the future.”

Fiscal Neutrality Fund

Calculation of Financial Goal Reserves:

Final Budgeted Total Expenditures for Fiscal Year Ending June 30, 2017	\$15,703,225 (per FY 2017 Annual Report, Page 76)
One month reserve	\$1,308,079 (8.33% of \$15,703,225)
Goal: two months reserves	\$2,616,157 (16.66% of \$15,703,225)
Less: Current Balance of Fiscal Neutrality Fund as of January 31, 2018	\$2,176,150
Increase Needed to Achieve Two Month Reserve	\$440,007

The City met the one month reserve, but not the two month reserve goal.

Recommend increasing the Fiscal Neutrality Fund balance by at least \$440,007 to achieve two month reserve goal as of June 30, 2017.

Long Term Forecast (August 2017)

Long Term Plan Forecast as of August 2017	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
General Fund Revenue Forecast	\$ 14,671,380	\$ 15,346,957	\$ 16,220,064	\$ 16,678,653	\$ 17,197,186
Operating Expense Forecast	\$ 15,031,591	\$ 15,566,740	\$ 16,120,473	\$ 16,732,299	\$ 17,326,282
Net Surplus (Deficit) Forecast	<u>\$ (360,211)</u>	<u>\$ (219,783)</u>	<u>\$ 99,591</u>	<u>\$ (53,646)</u>	<u>\$ (129,096)</u>
Forecasted Fiscal Neutrality Fund Balance	\$ 1,818,529	\$ 1,598,745	\$ 1,698,336	\$ 1,644,691	\$ 1,515,595
Two Month Reserve (16.66% of Operating Expense Forecast)	\$ 2,504,263	\$ 2,593,419	\$ 2,685,671	\$ 2,787,601	\$ 2,886,559

Based on the Long Term Forecast as of August 2017, the City would not be able to achieve a two month reserve in any year from FY 2018/19 through FY 2022/23.

Finance Commission

Members:

J. Yamamoto, MBA, Dr., Atty., Chair

Stanley Tom, CMA, CPA, PMP, Vice Chair

Zania Harris

Lori Risby, CFP, CPA

Aida Torres, EA

Measure B and Measure C Sub-Committee:

Lori Risby, CFP, CPA

Stanley Tom, CMA, CPA, PMP

**City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017**

Purpose

This is the Annual Report by the Finance Commission as the Oversight Committee for Measure B - Transactions and Use Tax Revenues (originally adopted as Measure O in June 2012) and Measure C - Utility Users Tax Rate Revenues (originally adopted as Measure A in June 2013). This report fulfills the Finance Commission requirements specified in City of Hercules Municipal Code to:

- Provide oversight under Title 8 (Finance Revenue and Taxation), Chapter 9 (Temporary Transaction and Use Tax).
- Provide oversight under Title 8 (Finance Revenue and Taxation), Article 4 (Continuation of Increase to Utility Users Tax Rate).

Conclusions

For Fiscal Year ending June 30, 2017, incremental sales and transaction use tax revenues approved by Hercules voters were spent in accordance with the voter approved Measure O adopted in June 2012 and subsequently extended by the voter approved Measure B adopted November 2015. Henceforth in this document, we will use Measure B to reference these voter approved measures since Measure B has taken effect as of the Fiscal Year ending June 30, 2017.

For Fiscal Year ending June 30, 2017, incremental Utility User Tax funds approved by Hercules voters were spent in accordance with the voter approved Measure A adopted in June 2013 and subsequently extended by the voter approved Measure C adopted November 2015. Henceforth in this document, we will use Measure C to reference these voter approved measures since Measure C has taken effect as of the Fiscal Year ending June 30, 2017.

Recommendations

- Recommend that the incremental sale and transaction use tax provided for in Measure B be retained since the City of Hercules has not yet achieved long term financial stability with adequate financial reserves.
- Recommend that the incremental Utility User tax provided for in Measure C be retained since the City of Hercules has not yet achieved long term financial stability with adequate financial reserves.
- Recommend that the Fiscal Neutrality Fund balance be increased by at least \$400,007 to reach a balance of \$2,616,157 to achieve the goal of having a two month reserve as of June 30, 2017.
- Continue to update the Fiscal Neutrality Fund balance each year as the new Budget is approved in order to maintain the two month reserve going forward.

City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017

Reporting Period and Scope

This annual report covers the Fiscal Year ending June 30, 2017.

This report focuses on the General Fund because this fund provides the funding for the concerns expressed on the Measure B and Measure C ballot measures.

Actions Taken

The Finance Commission provided Oversight for Measure “B” and Measure “C” by the following actions:

1. Met on the dates listed below.
 - a. Meetings in 2016 (7): February 22, March 28, April 25, June 20, July 25, September 26, November 28.
 - b. Meetings in 2017 (11): January 12, February 27, March 27, April 17, May 22, May 31, June 19, July 31, September 14, October 19, November 16
2. Reviewed the Final Budgets, Quarterly Financial Reports and variance analyses for the Fiscal Year ending June 30, 2017.
3. Reviewed periodic Long Term Forecasts and Working Cash Balance reports prepared by City of Hercules Finance staff.
4. Reviewed City of Hercules audited Annual Financial Reports for the fiscal years ending June 30, 2017.
5. Reviewed CliftonLarsonAllen, LLP report on “Agreed-Upon Procedures Measure O - Transactions and Use Tax Revenues, June 30, 2017”.
6. Reviewed CliftonLarsonAllen, LLP report on “Agreed-Upon Procedures Measure A - Utility Users Tax Rate Revenues, June 30, 2017”.
7. Formed a sub-committee to develop this report.

City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017

Long Term Financial Stability and Adequate Financial Reserves

The Finance Commission discussed the definition of long-term financial stability and adequate financial reserves on February 22, 2017, March 27, 2017 and May 22, 2017. The Finance Commission decided to use the criteria provided in the City of Hercules Statement of Financial Principles and Policies adopted by the City Council on December 15, 2015 to define “long term financial stability” and “adequate financial reserves.”

The Finance Commission determined that “long term financial stability” means that the City of Hercules is able to maintain “adequate financial reserves” as defined by the following Statement (from the Statement of Financial Principles and Policies adopted by the City Council on December 15, 2015):

“Establish, and then maintain, a “minimum reserve” for economic uncertainties equal to one month’s or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance with a goal of increasing that to two months or 16.66% of expenditures in the future.”

In addition, to fulfill the “adequate financial reserves” and “long term financial stability” requirements, the Finance Commission determined that the City must be able to maintain two months of reserves for the past five consecutive fiscal years and must also show that it could maintain at least the same reserve balance for the next five years in the Long Term Financial forecast.

City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017

Findings

1. Measure B Transaction and Use Tax Revenue receipts are summarized as follows. Fiscal Year 2014 and Fiscal Year 2015 were based on Gallina, LLP reports on Agreed Upon Procedures – Measure B for the periods July 1, 2012 through June 30, 2015 and the periods July 1, 2016 through June 30, 2017 were based on CliftonLarsonAllen, LLP report on Agreed Upon Procedures – Measure O for the period ending June 30, 2016 and Agreed Upon Procedures- Measure B for the period ending June 30, 2017

Fiscal Year	Actual Received Per General Ledger
Fiscal Year 2014 (ending June 30, 2014)	\$952,255
Fiscal Year 2015 (ending June 30, 2015)	\$863,323
Fiscal Year 2016 (ending June 30, 2016)	\$1,181,605
Fiscal Year 2017 (ending June 30, 2017)	\$1,130,251

2. Transaction and Use Tax revenue received in Fiscal Year 2017 under Measure B has been properly collected and paid into the General Fund as required per Ordinance 470 Section 8.9.12 “Use of Tax Proceeds” which states that “All proceeds of the tax levied and imposed under this Article shall be paid into the general fund for use by the City of Hercules.” This conclusion is based on the Finance Commission’s review of the City’s audited Annual Financial Reports, the Quarterly Financial Statements, and the CliftonLarsonAllen, LLP’s report “Agreed-Upon Procedures Measure B – Transactions and Use Tax Revenues, June 30, 2017”, which states that proceeds of taxes levied and imposed under Measure B were paid into the City’s General Fund for use by the City with no exceptions.
3. Measure C Utility Users Tax (UUT) Rate Revenues are summarized as follows based on Gallina LLP’s reports on Agreed Upon Procedures for Measure A, for the periods July 1, 2013 through June 30, 2015 and the CliftonLarsonAllen, LLP’s report “Agreed-Upon Procedures Measure A – Utility Users Tax Rate Revenues, June 30, 2016” and “Agreed Upon Procedures Measure C- Utility Users Tax Rate Revenues, June 30, 2017”.

Fiscal Year	Actual UUT with Measure C	Actual UUT w/o Measure C	Increase in Revenue due to Measure C
Fiscal Year 2014 (ended June 30, 2014)	\$3,182,013	\$2,201,950	\$980,063
Fiscal Year 2015 (ended June 30, 2015)	\$3,439,914	\$2,163,601	\$1,276,313
Fiscal Year 2016 (ended June 30, 2016)	\$3,515,565	\$2,224,000	\$1,291,565
Fiscal Year 2017 (ended June 30, 2017)	\$3,576,053	\$2,306,607	\$1,269,446

City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017

4. Utility Users Tax revenue received under Measure C has been properly collected and paid into the General Fund per Ordinance 481, Section 8-8.402 "Use of Additional Tax Proceeds" which states that "All proceeds of the tax levied and imposed under this Article shall be paid into the general fund for use by the City of Hercules". This conclusion is based on the Finance Commission's review of the City's audited Annual Financial Report for the Fiscal Year ending June 30, 2016, and CliftonLarsonAllen, LLP's report "Agreed-Upon Procedures Measure C – Utility Users Tax Rate Revenues, June 30, 2017".
5. The General Fund had a surplus in Fiscal Years ending June 30, 2014-June 30, 2017 as shown by the Annual Reports for each respective year.

	<u>Actual FY</u> <u>2014</u>	<u>Actual FY</u> <u>2015</u>	<u>Actual FY</u> <u>2016</u>	<u>Actual FY</u> <u>2017</u>
General Fund Revenue	\$12,638,059	\$13,573,615	\$14,018,112	\$14,859,520
General Fund Expenses	\$11,200,782	\$10,213,252	\$11,046,540	\$11,784,637
General Fund Surplus	<u>\$1,437,277</u>	<u>\$3,360,363</u>	<u>\$2,971,572</u>	<u>\$3,074,883</u>

6. Measure B and Measure C revenues increased revenue to the General Fund starting in Fiscal Year 2014.
 - a. The following is a summary for the fiscal years ending June 30, 2014 through June 30, 2016:

<u>General Fund Revenue Sources</u>	<u>Actual FY 2014</u>	<u>%</u>	<u>Actual FY 2015</u>	<u>%</u>	<u>Actual FY 2016</u>	<u>%</u>
Other General Fund Revenue	\$10,844,803	85.8%	\$11,588,959	85.4%	\$11,544,942	82.4%
Measure B Revenue (Note B)	\$952,256	7.5%	\$863,323	6.4%	\$1,181,605	8.4%
Measure C Revenue (Note C)	\$841,000	6.7%	\$1,121,333	8.3%	\$1,291,565	9.2%
Total General Fund Revenue (Note A)	<u>\$12,638,059</u>	<u>100.0%</u>	<u>\$13,573,615</u>	<u>100.0%</u>	<u>\$14,018,112</u>	<u>100.0%</u>

Note A: Total General Fund Revenue per audited Financial Statements for each year.

Note B: Measure B Transactions and Use Tax Revenues per Gallina (FY14-15) and CliftonLarsonAllen (FY16) agreed upon procedures report for Measure O.

Note C: Measure C Utility Users Tax Rate Revenues per Gallina (FY14-15) and CliftonLarsonAllen (FY16) agreed upon procedures report for Measure A.

- b. The following is a summary for the fiscal year ending June 30, 2017:

<u>General Fund Revenue Sources</u>	<u>Actual FY</u> <u>2017</u>	<u>%</u>
Other General Fund Revenue	\$12,459,823	85.8%
Measure B Revenue (Note B)	\$1,130,251	7.6%
Measure C Revenue (Note C)	\$1,269,446	8.5%
Total General Fund Revenue (Note A)	<u>\$14,859,520</u>	<u>100.0%</u>

Note A: Total General Fund Revenue per audited Financial Statements for each respective year.

Note B: Measure B revenue based on agreed upon procedures report for Measure A or Measure C for each respective year.

Note C: Measure C revenue based on agreed upon procedures report for Measure O or Measure B for each respective year.

**City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017**

7. Without the Measure B or Measure C revenues, the City would have had a deficit in Fiscal Year 2014 and would have had much smaller surpluses for the Fiscal Years 2015 through 2017.
- a. The following is a summary for Fiscal Years ending June 30, 2014 to June 30, 2016:

	<u>Actual FY 2014</u>	<u>Actual FY 2015</u>	<u>Actual FY 2016</u>
Other General Fund Revenue (excluding Measure B and Measure C)	\$10,844,803	\$11,588,959	\$11,544,942
Total General Fund Expenditures	\$11,200,782	\$10,213,252	\$11,046,540
(Deficit)/Surplus without Measure B and Measure C Revenue	<u>\$(355,979)</u>	<u>\$1,375,707</u>	<u>\$498,402</u>

- b. The following is a summary for Fiscal Year ending June 30, 2017:

	<u>Actual FY 2017</u>
Other General Fund Revenue (excluding Measure B and Measure C)	\$12,459,823
Total General Fund Expenses	\$11,784,637
(Deficit)/Surplus without Measure B and Measure C Revenue	<u>\$685,186</u>

8. The Long Term Financial Forecast as of August 2017 projects that the General Fund will have deficits for the Fiscal Years 2018, 2019, 2021, and 2022 and will not be able to meet the two month reserve requirement in any of the forecasted years.

<u>Long Term Plan Forecast as of August 2017</u>	<u>FY 2018/19</u>	<u>FY2019/20</u>	<u>FY 2020/21</u>	<u>FY2021/22</u>	<u>FY2022/23</u>
General Fund Revenue Forecast	\$14,671,380	\$15,346,957	\$16,220,064	\$16,678,653	\$17,197,186
Operating Expense Forecast	\$15,031,591	\$15,566,740	\$16,120,473	\$16,732,299	\$17,326,282
Net Surplus(Deficit) Forecast	<u>(\$360,211)</u>	<u>(\$219,783)</u>	<u>\$99,591</u>	<u>(\$53,646)</u>	<u>(\$129,096)</u>
Fiscal Neutrality Fund Forecast	\$1,818,529	\$1,598,745	\$1,698,336	\$1,644,691	\$1,515,595
Two Month Reserve (16.66% of Expenses) Requirement	\$2,504,263	\$2,593,419	\$2,685,671	\$2,787,601	\$2,886,559

City of Hercules Finance Commission
Measure B and Measure C Annual Report
Fiscal Year Ending June 30, 2017

9. The Annual Financial Report for the Fiscal Year ending June 30, 2017 summarized the objectives of the General Fund.

“General Fund - This fund is used to account for all revenue 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 such as police, planning, engineering, public works, operations and maintenance, and legal and administrative services”.

10. The General Fund provides the funding for the issues expressed in the Measure “O” and Measure “A” ballot language:

- a. **MEASURE O:** "Local Temporary Emergency Funding Measure. To address Hercules' Fiscal Emergency, stabilize city finances, offset budget shortfalls/the impact of State budget cuts on local services, prevent reductions to the number of police officers/crime investigators, protect/maintain crime prevention, childcare, youth sports and recreation programs and other general City services, shall the City of Hercules establish a 1/2 cent sales tax legally ending after 4 years.
- b. **MEASURE A:** “City of Hercules Fiscal Accountability/Services Protection Measure. To restore Hercules to financial stability, enhance fiscal accountability, continue to maintain our own local Police Department, and prevent drastic cuts to neighborhood police officers, youth/senior programs, and other services, shall Hercules modernize its utility users tax with equal treatment of taxpayers regardless of technology, increase the rate by 2% for 5 years, maintain current low-income exemptions, with citizens’ oversight, independent audits, and local control of revenues.”

11. Based on the impartial ballot analysis by the City Attorney, Measure “O” did not limit use of Measure “O” funding to a specific purpose:

“Because Measure O does not limit the use of tax revenue to a specific purpose, the proposed tax is a general tax, requiring a majority vote (approval by more than fifty percent (50%) of City voters voting in the election) for passage. Therefore, the City shall use the funds for a variety of purposes, including but not limited to addressing the City's Fiscal Emergency; increasing police officer staffing, which is below Recommended Safety Levels; maintaining current levels of emergency services; providing additional funding for neighborhood police patrols, emergency response times, crime prevention and investigation resources; earthquake preparedness; after-school programs for children and teens; senior services; and parks.”

City of Hercules Finance Commission
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12. Based on the impartial ballot analysis by the City Attorney, Measure “A” did not limit the Measure “A” funding to a specific purpose:

“Because Measure A does not limit the use of tax revenue to a specific purpose, the City may use the funds for a variety of purposes, including but not limited to maintaining financial stability and accountability; maintaining the Hercules Police Department; maintaining neighborhood police patrols, improving 9-1-1 response times; expanding neighborhood crime prevention programs; attracting business to Hercules; and preventing cuts to street maintenance.”

13. The City Council approved the City of Hercules budget for Fiscal Year 2017. However, the budget for Fiscal Year 2017 did not include any specific priorities for the use of Measure B or Measure C funds. In addition, subsequent to the approval of the annual budgets, as of December 31, 2017, the City Council did not approve any specific priorities for the use of Measure B or Measure C funds.
14. The City of Hercules increased its balance in the Fiscal Neutrality Fund by \$7,007 from June 30, 2016 to June 30, 2017.
- a. This balance as of June 30, 2017 equals 13.85% of the Final Budgeted Total Expenditures for Fiscal Year ending June 30, 2017.
 - b. The Fiscal Neutrality balance as of June 30, 2017 exceeds the “minimum reserve” for economic uncertainties equal to one months or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance” through the Fiscal Neutrality Fund for the Fiscal Year ending June 30, 2017; but is less than the eventual goal of maintaining two months of reserve as per City of Hercules Statement of Financial Policies and Procedures approved on December 15, 2015 (Appendix 5).

Final Budgeted Total Expenditures for Fiscal Year Ending June 30, 2017 (per FY 2017 Annual Report, Page 76):	\$15,703,225
One month reserve (8.33% of Total Budgeted Total Expenditures):	\$ 1,308,079
Goal: two months reserves (16.66% of Total Budgeted Expenditures):	\$ 2,616,157
Economic Uncertainty Reserve Available per Fiscal Neutrality Fund as of 6/30/17:	\$2,176,150

City of Hercules Finance Commission
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Finance Commission Members:

J. Yamamoto, MBA, Dr., Atty., Chair

Stanley Tom, Vice Chair, CMA, CPA, PMP

Zania Harris

Lori Risby, CPA, CFP

Aida Torres, EA

Finance Commission Measure B and Measure C Sub-Committee:

Stanley Tom, CMA, CPA, PMP

Lori Risby, CPA, CFP

Report approved by the Finance Commission on xxxxxxxxxxxx.

City of Hercules Finance Commission
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Appendices

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3	Measure "B" and Measure "C" Background	13
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Appendix 1: Measure “O” Background

On July 24, 2012, Measure O, “Transactions and Use Tax Revenues” was passed by a majority vote of the City of Hercules and the Hercules City Council passed, approved and adopted Ordinance 470 amending the Hercules Municipal Code by establishing a four year temporary transactions and use tax of 0.50% to be administered by the State Board of Equalization.

Per Section 8.9.13 of Ordinance 470:

“A Citizen’s Oversight Committee is hereby established to oversee expenditures of the revenues received by the City from the sales and use taxes imposed pursuant to this chapter, and to ensure that tax revenues are spent by the City in a manner consistent with the voter approved measure adopting this chapter as well as any voter approved or council approved priorities adopted to implement the provisions of this chapter.”

Per Section 8-9.17 paragraph (a) of Ordinance 470:

“The Committee is charged with the following responsibilities:

- (1) Reviewing all appropriations of revenues received by the City from the sales and use taxes imposed pursuant to the provisions of this chapter to determine whether such funds are to be used as provided for in this chapter and the voter approved measure that adopted this chapter;
- (2) Reviewing the audit prepared by an independent auditor retained by the City to perform the City’s Comprehensive Annual Financial Report to determine whether such funds have been spent as provided for in this chapter and the voter approved measure; and
- (3) Prepare and issue the committee’s own annual report settling forth their findings in regard to the foregoing.”

On August 20, 2014, the Measure O Citizen’s Oversight Committee approved the Measure O Annual Report for the Fiscal Year 2013 (July 1, 2012 to June 30, 2013).

City of Hercules Finance Commission
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Appendix 2: Measure “A” Background

On June 4, 2013, Measure A “Utility Users Tax Rate Revenues” was passed by a majority vote of the City of Hercules and the Hercules City Council passed, approved, and adopted Ordinance 475 modernizing Title 8, Chapter 8 of the Hercules Municipal Code with respect to the existing 6% Utility Users Tax, and establishing a five year temporary increase of 2% to the Utility Users Tax. The Ordinance established citizens’ oversight with the existing Citizens Finance Advisory Committee (which became the Citizen’s Finance Commission) appointed by the Hercules City Council.

Per Section 8-8.404 of Ordinance 475, “The Citizens Finance Advisory Committee, which is appointed by the City Council, shall meet at least monthly and review all revenue and expenditures under this Chapter in order to ensure that the funds are spent in accordance with the voter approved measure adopting this Chapter as well as any voter approved or council approved priorities adopted to implement the provisions of this Chapter. The City Manager shall appoint an ex-officio staff person to serve as secretary of the Committee and to ensure that meetings are held in a timely fashion.”

Per Section 8-8.406 of Ordinance 475:

“(a) The Committee is charged with the following responsibilities:

- (1) Reviewing all appropriations of revenues received by the City from the sales and use taxes imposed pursuant to the provisions of this Chapter to determine whether such funds are to be used as provided for in this Chapter and the voter approved measure that adopted this Chapter;
- (2) Reviewing the audit prepared by an independent auditor retained by the City to perform the City’s Comprehensive Annual Financial Report to determine whether such funds have been spent as provided for in this Chapter and the voter approved measure; and
- (3) Prepare and issue the committee’s own annual report settling forth their findings in regard to the foregoing.”

City of Hercules Finance Commission
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Appendix 3: Measure “B” and Measure “C” Background

On July 28, 2015 the Hercules City Council unanimously approved placing the City of Hercules Financial Stability and Essential Services Continuation Measures, on the November 3, 2015 ballot to protect and maintain essential city services and fiscal stability.

On November 3, 2015, Measure B, “Transactions and Use Tax Revenues” was passed by a majority vote of the City of Hercules. Measure B extends indefinitely the Measure “O” half-cent per dollar local sales tax previously scheduled to end in 2016.

Measure B states, “Whereas the tax extension would be in effect until the Finance Commission finds, and the City Council approves by a 2/3 vote, that the City has achieved long term financial stability with adequate financial reserves.”

On November 3, 2015, Measure C “Utility Users Tax Rate Revenues” was passed by a majority vote of the City of Hercules. Measure C extends the Measure “A” 2 percent utility user’s tax that was previously scheduled to sunset in 2018, now scheduled to sunset in 2025.

Measure C states, “**Measure C** would extend the 2013 voter approved two percent (2%) UUT increase. If adopted, Measure C would make the eight percent (8%) total rate effective until January 1, 2025. The City Council could terminate the two percent (2%) increase at any time before January 1, 2025 and reduce the total UUT rate to six percent (76%) either on its own initiative or at the recommendation of the City’s Finance Commission upon a determination that the additional two percent (2%) increase provide for in **Measure C** is no longer necessary because the City has met its goal of achieving long term financial stability with adequate financial reserves.”

City of Hercules Finance Commission
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Appendix 4: Finance Commission Background

On November 23, 2014, the Hercules City Council passed and adopted Ordinance 481 to amend the Hercules Municipal Code as follows:

1. Added Title 2, article 6, Section 202.601 through Section 2-2.609 to create the Finance Commission.
2. Amended Title 8, Chapter 8, Article 4, to provide for the Finance Commission oversight of Measure A, "Utility Users Tax Rate Revenues"
3. Amended Title 8, Chapter 8, Article 9, to provide for the Finance Commission oversight of Measure O, "Transactions and Use Tax Revenues"

Per Section 2.2.609 of Ordinance 481, "The Finance Commission shall be advisory to the City Council with no authority to direct staff and shall have the following duties:

- (a) Quarterly review of City's financial status; review and comment on audit reports; review and comment on the proposed budget; and review and comment on items of extraordinary financial impact.
- (b) Make recommendations to the City Council with respect to budget priorities.
- (c) Review and comment on the City's annual operating and capital improvement budgets
- (d) Advise the City Council on matters of policy and public interest related to the management of the City's finances and budget.
- (e) Serve as the Oversight Committee for Measure "A" including providing an annual report to ensure that Utility User Tax funds are spent in accordance with the Voter Approved Measure adopted in June, 2013.
- (f) Serve as the Oversight Committee for Measure "O", including providing an annual report, to ensure that the Sales Tax revenues approved by Hercules voters are spent in accordance with the Voter Approved Measure adopted in June 2012.
- (g) Take on any additional review and advisory functions assigned by the City Council by duly adopted Resolution."

On November 25, 2014, the Hercules City Council appointed the two members of the Measure O Citizens Oversight Committee and the three members of the Citizens Finance Committee to the Finance Commission.

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Appendix 5: City of Hercules Statement of Financial Policies and Principles

(Adopted December 15, 2015)

Establishing certain generalized principles governing the financial affairs of the City is desirable to guide both the financial management and financial planning for the City. The City of Hercules is accountable to its citizens, employees, and other stakeholders for the use of public funds and the best management of resources. These Financial Principles will provide City staff with guidance in preparing and submitting the annual budget for the City and in the preparation of financial forecasts. The adoption of certain financial policies is necessary and appropriate to implement the financial principles and to help ensure financial sustainability and to improve the City's credit worthiness and bond rating.

Financial Principles

- Adopt a balanced operating budget by June 30th of each year for the following fiscal year without using General Fund undesignated fund balances or reserves. The budget thus adopted shall include expenditures necessary to provide for the well-being and safety of the community subject to available revenues.
- Fees for services shall be updated annually to recover, as much as possible, the cost of providing the services and to allow for the impacts of inflation, with fees not exceeding the cost of providing the service. In some instances, the City Council may elect to not recover the full cost of providing the service and the City Council shall determine the appropriate cost recovery level of individual services.
- Revenues in excess of expenditures at the end of a fiscal year shall be applied on a priority basis to satisfy the general fund reserve requirements, capital projects reserves, capital equipment reserves, and liability reserves before being appropriated for other uses.
- Current year operating expenditures shall be funded by current year operating revenues.
- Manage the City's finances as to ensure repayment of debt and improvement in the City's bond rating in order to minimize future issuance and interest costs to the City.
- Meet all financial reporting requirements in a timely manner and ensure appropriate internal controls are in place to ensure financial accountability.

City of Hercules Finance Commission
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Appendix 5: City of Hercules Statement of Financial Policies and Principles

General City Financial Policies

1. Employees are one of the most important assets of the City and should be compensated at an appropriate level and commensurately with the City's ability to pay.
2. Establish, and then maintain, a "minimum reserve" for economic uncertainties equal to one month's or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance with a goal of increasing that to two months or 16.66% of expenditures in the future.
3. The General fund reserve shall provide for meeting contingency needs, investment earnings, and shall serve as a cash flow reserve.
4. Provide for capital equipment replacement as necessary to achieve greater efficiency and effectiveness in the City's operations.
5. One time revenues shall be utilized for one-time expenditures or to enhance reserve funds as appropriate or necessary.
6. The City shall maintain, replace, and improve its infrastructure and the City shall set aside a reasonable and prudent amount of General Fund monies for capital projects including the repair of various facilities as part of its annual budget process to the greatest extent possible.

Revenue & Expenditure Policies

- Realistic and prudent estimates of revenues shall be used to maintain financial flexibility.
- Revenue raising alternatives shall be explored as necessary and the City shall pursue grants available to local government.
- Programs funded through user fees shall be self-supporting to the greatest extent possible or at a level proscribed by the City Council.
- Full recovery of overhead and internal services from grant and special or enterprise funds shall be pursued to the greatest extent possible and as permitted by the restrictions associated with each fund.

City of Hercules Finance Commission
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Appendix 5: City of Hercules Statement of Financial Policies and Principles

Special Revenue, Enterprise, and Internal Service Fund Policies

- The City shall abide by applicable rules and regulations pertaining to the expenditures of special revenue funds as required by each funding source.
- Enterprise activities shall be programmed to generate sufficient revenues to support the enterprise's operations including overhead and internal services, debt service requirements, and current and future capital needs.
- Special Revenue and Enterprise funds shall adhere to all other applicable fiscal policies of the City.
- Internal Service funds shall be established as appropriate to ensure cost recovery on a fair and equitable basis.
- Transfers to the General fund from other funds for overhead costs shall be reviewed annually and conform to the Federal Office of Management & Budget A-97 Guidelines.

Debt Policies

- Debt shall only be incurred for capital improvement projects and only if the project cannot be funded by recurring or one-time revenues.
- Proceeds from long-term debt shall not be used for current on-going expenditures.
- Short-term borrowing shall not be used for operating expenditures unless it is a Tax & Revenue anticipation Note or other short-term cash flow borrowing and shall be limited to repayment in the same fiscal year.
- The use of the City's General Fund as security for debt issues should be limited to the greatest extent possible to capital projects which serve the general benefit for the City.

City of Hercules Finance Commission
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Appendix 5: City of Hercules Statement of Financial Policies and Principles

Forecasting Policies

- The City shall develop and maintain a five to ten year Financial Forecast which shall be updated two times each year with any unexpected changes in economic conditions or other circumstances prompting more frequent updates.
- The Financial Forecast should recognize the effects of economic cycles and shall differentiate between one-time revenues associated with one time economic activities and revenues resulting from base economic growth.
- Financial Forecasts shall identify the assumptions used in their preparation and the risks associated with those assumptions.
- Revenue and expenditure estimates should be prepared on a realistic basis with a target of +/- 2 percent variance from the estimate for revenues and a +/- 1 percent variance for expenditures.
- On-going revenue increases based upon site specific development shall be incorporated using a realistic estimation of timing and shall not exceed the midpoint of the range of estimated revenues.



Legislation Details (With Text)

File #: 18-46 **Version:** 1 **Name:**

Type: Future Agenda Items **Status:** Agenda Ready

File created: 2/22/2018 **In control:** Finance Commission

On agenda: 2/26/2018 **Final action:**

Title: Future Agenda Items Work Plan.

Sponsors:

Indexes:

Code sections:

Attachments: [Finance Commission Workplan](#)

Date	Ver.	Action By	Action	Result
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Future Agenda Items Work Plan.

FINANCE COMMISSION WORKPLAN

Future Agenda Items Work Plan (Approved September 26, 2016)

These agenda items will be reviewed and updated by the Finance Commission at each meeting:

January 2017

- Review audit reports FY 2016

February 2017

- Sales tax annual oversight report (including auditor's report) FY 2016 Utilities tax annual oversight report (including auditor's report) FY 2016
- Landscape and Lighting Districts FY 2018
- Quarterly review 2Q FY 2017 (completed in February 2017)

March 2017

- Review Financial Policies approved by City Council

April 2017

- Expenditures Budget Plan FY 2018

May 2017

- Quarterly review 3Q FY 2017
- Budget FY 2018
- Capital budget FY 2018-22
- Measure A & O

June 2017

- Diagnostic Tool
- Budget FY 2018
- Capital budget FY 2018-22

July 2017

- None

August 2017

- None

September 2017

- None

October 2017

- Long Term Financial Forecast

November 2017

- Quarterly review 1Q FY 2018
- Presentation from Parks & Recreation Director
- Presentation on updated Long Term Finance Forecast.

December 2017

- None

January 2018

- Election of Chair and Vice Chair
- Appointment of Measure O and Measure B Sub-Committee
- Parks and Recreation Sub-committee update(each month until completed)

February 2018

- Cost Allocation Presentation
- Mid-Year Review
- Review and Completed CAFR
- Measure B&C Report by Sub-Committee.

March 2018

- Review of updated Long Term Financial Plan

Work Plan Items Need to Schedule (approved September 26, 2016)

- Municipal financial health diagnostic tool
- Cost allocation plan
- Website
- Auditor FY 2018 RFP
- Budget software
- Financial reports

Future Agenda Items Not on Work Plan – need staff to add items discussed 1.12.17

- Finance Department staffing (agenda 1.12.17)
- Format Quarterly Reports (agenda 1.12.17)