

# CITY OF HERCULES

Presentation to the City Council  
For the Fiscal Year Ended June 30, 2023

March 12, 2024



# CONTENTS

- Scope of Work
- Required Communications (AU-C 260)
- Overview of the Financial Statements and Financial Indicators
- Key Pensions and Other Postemployment Benefits Information
- Financial Audit Results

# SCOPE OF WORK

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

# OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

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

# Required Communications (AU-C 260)

# Required Communications (AU-C 260)

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

# Required Communications (AU-C 260)

- **Sensitive Disclosures**
  - Note 1 - Summary of Significant Accounting Policies
  - Note 4 – Leases Receivable
  - Note 8 – Retirement Plans
  - Note 10 – Other Postemployment Benefits
  - Note 12 – Commitments and Contingencies
  - Note 14 – Stewardship, Compliance, and Accountability
- **Misstatements**
  - There were no material uncorrected misstatement.

# Required Communications (AU-C 260)

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

# OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL INDICATORS

**City of Hercules**  
**Government-Wide Statement of Net Position**  
**June 30, 2023**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>	\$ 134,581,000	\$ 67,550,000	\$ 202,131,000
<b>Deferred Outflows of Resources</b>	9,151,000	515,000	9,666,000
<b>Liabilities</b>	46,900,000	32,402,000	79,302,000
<b>Deferred Inflows of Resources</b>	13,687,000	261,000	13,948,000
<b>Net Position:</b>			
Net investment in capital assets	60,790,000	19,603,000	80,393,000
Restricted	10,730,000	-	10,730,000
Unrestricted	11,625,000	15,799,000	27,424,000
<b>Total Net Position</b>	<b>\$ 83,145,000</b>	<b>\$ 35,402,000</b>	<b>\$ 118,547,000</b>

# City of Hercules

## Government-Wide Statement of Activities

### For the Year Ended June 30, 2023

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Program Revenues:</b>			
Charges for Services	\$ 3,025,000	\$ 5,923,000	\$ 8,948,000
Operating Grants and Contributions	8,895,000	-	8,895,000
Capital Grants and Contributions	68,000	-	68,000
<b>Total Program Revenues</b>	<b>11,988,000</b>	<b>5,923,000</b>	<b>17,911,000</b>
<b>Expenses</b>	<b>24,600,000</b>	<b>5,086,000</b>	<b>29,686,000</b>
<b>Net Cost of Services</b>	<b>(12,612,000)</b>	<b>837,000</b>	<b>(11,775,000)</b>
<b>General Revenues (Loss)</b>	<b>17,783,000</b>	<b>294,000</b>	<b>18,077,000</b>
<b>Changes in Net Position</b>	<b>\$ 5,171,000</b>	<b>\$ 1,131,000</b>	<b>\$ 6,302,000</b>

**City of Hercules**  
**Governmental Activities**  
**Cost of Services to Tax Revenues**  
**For the Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>	<u>Change</u>
<b>Cost of Services</b>	<u>\$ 12,612,000</u>	<u>\$ 4,722,000</u>	<u>\$ 7,890,000</u>
<b>Tax Revenues</b>	<u>13,465,000</u>	<u>14,092,000</u>	<u>(627,000)</u>
<b>Ratio</b>	<u>94%</u>	<u>34%</u>	<u>60%</u>

**City of Hercules  
General Fund Summary  
Fund Balance  
June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>	<u>Change</u>
<b>Fund Balance:</b>			
Nonspendable	\$ 10,000	\$ 11,000	\$ (1,000)
Restricted	2,142,000	2,054,000	88,000
Committed	8,000,000	-	8,000,000
Assigned	6,197,000	6,022,000	175,000
Unassigned	17,529,000	22,927,000	(5,398,000)
<b>Total Fund Balance</b>	<u><u>\$ 33,878,000</u></u>	<u><u>\$ 31,014,000</u></u>	<u><u>\$ 2,864,000</u></u>

**City of Hercules**  
**General Fund Summary**  
**Revenues, Expenditures and Changes in Fund Balance**  
**For the Years Ended June 30, 2023 and 2022**

	<u><b>2023</b></u>	<u><b>2022</b></u>	<u><b>Change</b></u>
<b>Revenues</b>	\$ 19,495,000	\$ 27,042,000	\$ (7,547,000)
<b>Expenditures</b>	<u>(17,657,000)</u>	<u>(16,109,000)</u>	<u>(1,548,000)</u>
<b>Revenues over Expenditures</b>	1,838,000	10,933,000	(9,095,000)
<b>Other Financing Sources</b>	<u>1,026,000</u>	<u>1,910,000</u>	<u>(884,000)</u>
<b>Speical item</b>	<u>-</u>	<u>(27,787,637)</u>	<u>27,787,637</u>
<b>Change in Fund Balance</b>	<u><u>\$ 2,864,000</u></u>	<u><u>\$ (14,944,637)</u></u>	<u><u>\$ (9,979,000)</u></u>

**City of Hercules**  
**General Fund**  
**Unassigned Fund Balance to Annual Expenditures**  
**For the Years Ended June 30, 2023 and 2022**

	<b><u>2023</u></b>	<b><u>2022</u></b>	<b><u>Change</u></b>
<b>Unassigned Fund Balance</b>	<b><u>\$ 17,529,000</u></b>	<b><u>\$ 22,927,000</u></b>	<b><u>\$ (5,398,000)</u></b>
<b>Annual Expenditures</b>	<b><u>17,657,000</u></b>	<b><u>16,109,000</u></b>	<b><u>1,548,000</u></b>
<b>Ratio</b>	<b><u>99%</u></b>	<b><u>142%</u></b>	<b><u>-43%</u></b>
<b>Committed/Assigned/Unassigned Fund Balance</b>	<b><u>\$ 33,868,000</u></b>	<b><u>\$ 28,949,000</u></b>	<b><u>\$ 4,919,000</u></b>
<b>Ratio</b>	<b><u>192%</u></b>	<b><u>180%</u></b>	<b><u>12%</u></b>

# KEY PENSION AND OPEB INFORMATION

# Net Pension Liability – Misc. Plan

	2023	2022
Plan Total Pension Liability	\$ 33,376,000	\$ 31,470,000
Plan Fiduciary Net Position	(24,408,000)	(26,956,000)
Net Pension Liability	<u>\$ 8,968,000</u>	<u>\$ 4,514,000</u>
Funding Ratio	<u>73%</u>	<u>86%</u>
Contribution Made During the Fiscal Year	<u>\$ 863,000</u>	<u>\$ 961,000</u>

# Net Pension Liability – Safety Plan

	2023	2022
Plan Total Pension Liability	\$ 43,442,000	\$ 38,998,000
Plan Fiduciary Net Position	(32,655,000)	(33,620,000)
Net Pension Liability	<u>\$ 10,787,000</u>	<u>\$ 5,378,000</u>
Funding Ratio	<u>75%</u>	<u>86%</u>
Contribution Made During the Fiscal Year	<u>\$ 1,240,000</u>	<u>\$ 1,127,000</u>

# Net OPEB Liability – PEHMCA PLAN

	2023	2022
Plan Total OPEB Liability	\$ 2,442,000	\$ 2,545,000
Plan Fiduciary Net Position	(2,668,000)	(2,559,000)
Net OPEB Asset	<u>\$ (226,000)</u>	<u>\$ (14,000)</u>
Funding Ratio	<u>109%</u>	<u>101%</u>
Contribution Made During the Fiscal Year	<u>\$ 110,000</u>	<u>\$ 144,000</u>

# Net OPEB Liability – SOMAR PLAN

	2023	2022
Plan Total OPEB Liability	\$ 1,883,000	\$ 1,341,000
Plan Fiduciary Net Position	-	-
Net OPEB Liability	<u>\$ 1,883,000</u>	<u>\$ 1,341,000</u>
Funding Ratio	<u>0%</u>	<u>0%</u>
Contribution Made During the Fiscal Year	<u>\$ 44,000</u>	<u>\$ 44,000</u>

# FINANCIAL AUDIT RESULTS

# AUDIT RESULTS

- **Financial Statements**
  - **Unmodified Opinion**
    - Financial Statements are fairly presented in all material respects
    - Significant accounting policies have been consistently applied
    - Estimates are reasonable
    - Disclosures are properly reflected in the financial statements
  - **Agreed Upon Procedures – GANN, Measure B, and Measure N**
    - No exceptions were noted
  - **Other Results**
    - No disagreements with management
    - No material weaknesses in internal controls over financial reporting were reported
    - No accounting issues



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