

**CITY OF HERCULES,
CALIFORNIA**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019



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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, 2019, 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 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, 2019, 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 Fund and Wastewater Fund have outstanding loans of \$27.8 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 58 percent of the City's General Fund's assets and 14 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.

Other Matters

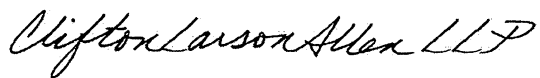
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the City's proportionate share of the net pension liability and schedule of contributions, other postemployment benefits (OPEB) plan schedule of changes in the City's net OPEB liability and related ratios, 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 December 5, 2019 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
December 5, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019. 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 \$164,715,108 (*net position*). Net position of \$29,078,056 are restricted for specific purposes (*restricted net position*), and \$85,467,595 represents net investment in capital assets. Unrestricted net position was \$50,169,457. The government's total net position, as adjusted, increased by \$3,172,247 in comparison with the prior year.
- The City's net investment in capital assets decreased by \$ 1,409,385.
- The City's governmental funds reported combined fund balances of \$66,598,207, an increase of \$3,188,717 in comparison with the prior year, as adjusted. The unassigned portion of those fund balances was \$9,800,494.

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, 2019

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, 2019

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 \$164,715,108 at the close of the most recent fiscal year. Of these combined net position 52% reflects the City's investment in capital assets, net of related debt. Another 18% 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, 2019**

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 82,011,210	\$ 78,111,421	\$ 39,164,644	\$ 37,325,341	\$ 121,175,854	\$ 115,436,762
Capital Assets	80,525,448	81,477,062	37,791,231	31,804,242	118,316,679	113,281,304
Total Assets	162,536,658	159,588,483	76,955,875	69,129,583	239,492,533	228,718,066
Deferred Outflows of Resources						
Deferred Outflows - OPEB	329,100	355,786	18,063	19,573	347,163	375,359
Pensions	3,959,142	5,412,566	114,886	207,735	4,074,028	5,620,301
Total Deferred Outflows of Resources	4,288,242	5,768,352	132,949	227,308	4,421,191	5,995,660
Current Liabilities	6,250,639	5,319,455	3,773,227	4,177,025	10,023,866	9,496,480
Long-Term Liabilities	36,344,879	37,376,844	32,391,368	25,550,660	68,736,247	62,927,504
Total Liabilities	42,595,518	42,696,299	36,164,595	29,727,685	78,760,113	72,423,984
Deferred Inflows of Resources						
Deferred Inflows - OPEB	38,752	1,317	2,192	73	40,944	1,390
Pensions	353,137	689,563	44,422	55,928	397,559	745,491
Total Deferred Inflows of Resources	391,889	690,880	46,614	56,001	438,503	746,881
Net Investment in Capital Assets	76,082,830	76,304,118	9,384,765	10,572,862	85,467,595	86,876,980
Restricted	21,495,653	21,086,055	7,582,403	-	29,078,056	21,086,055
Unrestricted	26,259,010	24,579,483	23,910,447	29,000,343	50,169,457	53,579,826
Total Net Position	<u>\$ 123,837,493</u>	<u>\$ 121,969,656</u>	<u>\$ 40,877,615</u>	<u>\$ 39,573,205</u>	<u>\$ 164,715,108</u>	<u>\$ 161,542,861</u>

A significant portion of the City's net position, \$85,467,595, 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, \$29,078,056, 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 \$50,169,457. 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.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

The City's net position, as adjusted, increased by \$3,172,247 during the current fiscal year. The increase in net position is primarily attributed to the increase in sales tax revenues, residual tax increment from the former Redevelopment Agency as well as miscellaneous receipts.

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Activities	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Fees, Fines and						
Charges for Services	\$ 8,583,603	\$ 9,994,571	\$ 6,003,202	\$ 6,145,215	\$ 14,586,805	\$ 16,139,786
Operating Grants/						
Contributions	1,655,727	1,594,492	-	-	1,655,727	1,594,492
Capital Grants/						
Contributions	282,721	1,251,174	-	-	282,721	1,251,174
General Revenues:						
Property Taxes	1,378,493	1,376,354	-	-	1,378,493	1,376,354
Sales Taxes	3,988,702	3,206,095	-	-	3,988,702	3,206,095
Franchise Taxes	852,751	862,946	-	-	852,751	862,946
Other Taxes	4,506,706	3,906,865	-	-	4,506,706	3,906,865
Motor Vehicle Taxes						
In-Lieu	1,990,306	1,911,327	-	-	1,990,306	1,911,327
Interest and Investment						
Income	1,588,558	1,334,955	482,095	200,280	2,070,653	1,535,235
Miscellaneous	368,411	1,189,560	162,872	-	531,283	1,189,560
Total Revenues	25,195,978	26,628,339	6,648,169	6,345,495	31,844,147	32,973,834
Expenses						
General Government	5,094,236	4,105,705	-	-	5,094,236	4,105,705
Public Safety	7,055,390	7,034,658	-	-	7,055,390	7,034,658
Streets and Public Works	6,727,710	6,894,640	-	-	6,727,710	6,894,640
Parks and Recreation	2,564,008	2,657,763	-	-	2,564,008	2,657,763
Community Development	630,341	491,562	-	-	630,341	491,562
Interest and Long-Term						
Debt	1,256,456	1,141,982	-	-	1,256,456	1,141,982
Wastewater Utility	-	-	5,343,759	3,750,261	5,343,759	3,750,261
Total Expenses	23,328,141	22,326,310	5,343,759	3,750,261	28,671,900	26,076,571
Increase (Decrease) in Net Position	1,867,837	4,302,029	1,304,410	2,595,234	3,172,247	6,897,263
Net Position - Beginning, as Restated	121,969,656	117,667,627	39,573,205	36,977,971	161,542,861	154,645,598
Net Position - Ending	\$ 123,837,493	\$ 121,969,656	\$ 40,877,615	\$ 39,573,205	\$ 164,715,108	\$ 161,542,861

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019, the City's governmental funds reported combined fund balances of \$66,598,207. Of these combined fund balances, \$9,800,494 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, 2019, unassigned fund balance was \$10,027,085, while total fund balance was \$45,367,548. 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 68% of total General Fund expenditures, while the total fund balance represents 210% of total General Fund expenditures.

Total governmental funds Fund Balance increased by \$3,188,717 in the current year. The major governmental funds had changes in fund balance as follows:

The General Fund increased by \$1,051,716, Hercules Debt Service Fund increased by \$415,827, Measure "C" Fund decreased by \$99,927, State Gas Tax Fund decreased \$570,024, and City Capital Projects Fund increased by \$2,118,116. The nonmajor (other) governmental funds increased by \$273,009.

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

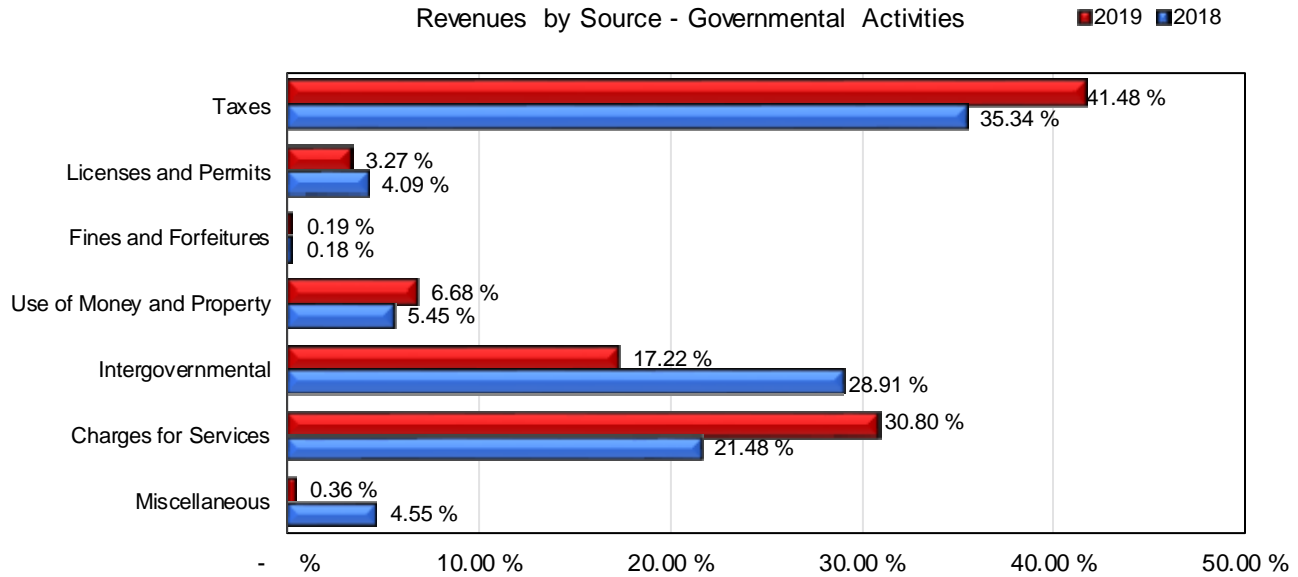
Revenues Classified by Source
Governmental Funds

	2019		2018		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Taxes	\$ 10,726,652	41.48 %	\$ 9,352,260	35.34 %	\$ 1,374,392	14.70 %
Licenses and Permits	844,806	3.27	1,081,912	4.09	(237,106)	(21.92)
Fines and Forfeitures	50,058	0.19	48,579	0.18	1,479	3.04
Use of Money and Property	1,728,361	6.68	1,443,270	5.45	285,091	19.75
Intergovernmental	4,455,255	17.22	7,650,796	28.91	(3,195,541)	(41.77)
Charges for Services	7,964,546	30.80	5,684,127	21.48	2,280,419	40.12
Miscellaneous	92,602	0.36	1,204,989	4.55	(1,112,387)	(92.32)
Total Revenue by Source	<u>\$ 25,862,280</u>	100.00	<u>\$ 26,465,933</u>	100.00	<u>\$ (603,653)</u>	(2.28)

Intergovernmental revenues decreased by \$3,195,541 as a result of lower revenues received from the grants due to the completion and winding down of the existing capital projects.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

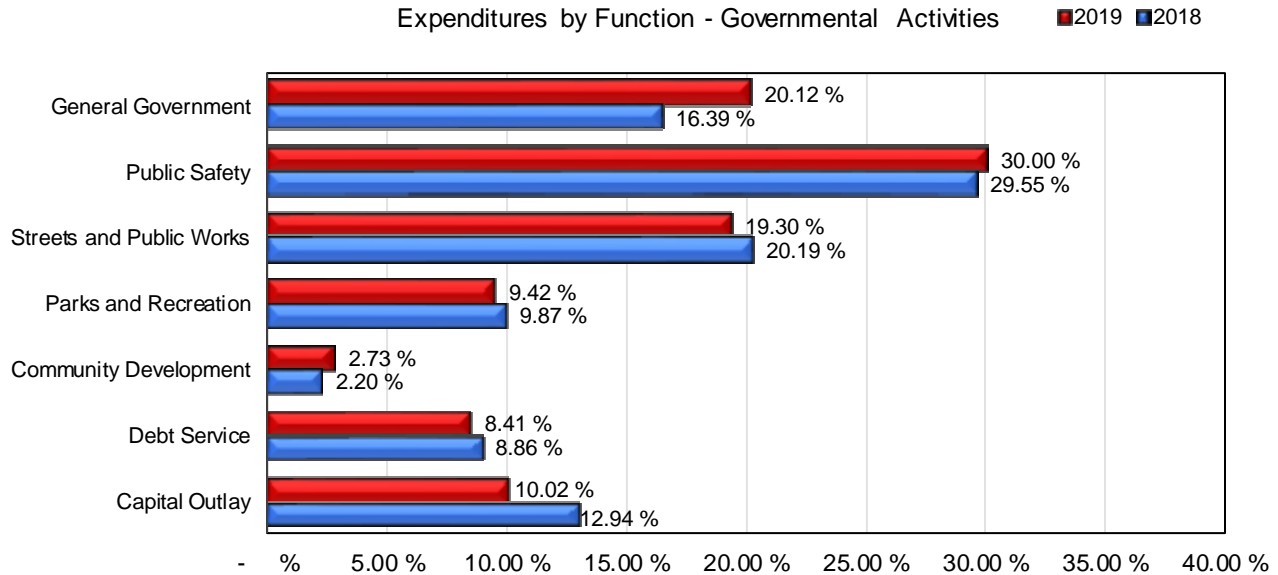


The following table presents expenditures by function compared to prior year amounts.

Expenditures Classified by Function Governmental Funds						
	2019		2018		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General Government	\$ 4,542,651	20.12 %	\$ 3,492,082	16.39 %	\$ 1,050,569	30.08 %
Public Safety	6,776,245	30.00	6,295,019	29.55	481,226	7.64
Streets and Public Works	4,357,212	19.30	4,300,078	20.19	57,134	1.33
Parks and Recreation	2,128,110	9.42	2,101,369	9.87	26,741	1.27
Community Development	616,899	2.73	468,011	2.20	148,888	31.81
Debt Service	1,898,891	8.41	1,887,968	8.86	10,923	0.58
Capital Outlay	2,261,555	10.02	2,757,245	12.94	(495,690)	(17.98)
Total by Function	<u>\$ 22,581,563</u>	100.00	<u>\$ 21,301,772</u>	100.00	<u>\$ 1,279,791</u>	6.01

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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 \$9,834,765. Restricted for Debt Service was \$7,582,403. Unrestricted net position at fiscal year-end was \$23,910,447.

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 \$2,006,566 and include \$667,112 invested in capital assets. The net position of the internal service funds increased by \$281,576 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, 2019, amounted to \$118,316,679 (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, 2019

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	
	2019	2018	2019	2018	2019	2018
Land	\$ 4,781,589	\$ 4,781,589	\$ 191,700	\$ 191,700	\$ 4,973,289	\$ 4,973,289
Construction in Progress	10,115,631	10,971,120	25,198,496	18,710,813	35,314,127	29,681,933
Land Improvements	11,720,361	11,720,361	-	-	11,720,361	11,720,361
Buildings & Improvements	26,886,670	26,344,899	11,335,199	11,335,199	38,221,869	37,680,098
Equipment	4,763,790	4,605,234	250,345	250,345	5,014,135	4,855,579
Infrastructure	101,115,641	98,223,334	13,729,500	13,729,500	114,845,141	111,952,834
Total	159,383,682	156,646,537	50,705,240	44,217,557	210,088,922	200,864,094
Accumulated Depreciation	(78,858,234)	(75,169,475)	(12,914,009)	(12,413,315)	(91,772,243)	(87,582,790)
Net Capital Assets	<u>\$ 80,525,448</u>	<u>\$ 81,477,062</u>	<u>\$ 37,791,231</u>	<u>\$ 31,804,242</u>	<u>\$ 118,316,679</u>	<u>\$ 113,281,304</u>

Additional information regarding capital assets is presented in note 5.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total outstanding long-term obligations of \$53,477,037. Of this amount, \$14,760,000 comprised of 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	
	2019	2018	2019	2018	2019	2018
Bonds Payable	\$ 14,760,000	\$ 15,205,000	\$ 9,810,000	\$ 10,075,000	\$ 24,570,000	\$ 25,280,000
Unamortized Discount/						
Refunding	(328,629)	(345,926)	(152,706)	(159,978)	(481,335)	(505,904)
Lease Payable	654,485	822,638	-	-	654,485	822,638
Loans Payable	5,350,000	5,350,000	22,305,600	15,165,494	27,655,600	20,515,494
Compensated absences	493,170	486,734	39,595	38,793	532,765	525,527
Self-insurance liability	545,522	232,391	-	-	545,522	232,391
Total	21,474,548	21,750,837	32,002,489	25,119,309	53,477,037	46,870,146
Less Current Portion	(1,122,802)	(1,077,013)	(314,595)	(303,793)	(1,437,397)	(1,380,806)
Net Long-Term Obligations	<u>\$ 20,351,746</u>	<u>\$ 20,673,824</u>	<u>\$ 31,687,894</u>	<u>\$ 24,815,516</u>	<u>\$ 52,039,640</u>	<u>\$ 45,489,340</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 6.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

HIGHLIGHTS

The 2018/19 Fiscal Year results document the City's continued commitment to fiscal sustainability. Enhanced financial planning tools and a commitment to ensuring that operating expenses are matched by on-going operating revenues is essential to this strategy. One-time funds continue to be invested in one-time types of uses like capital projects and topping up of reserves and designated funds like the IRS Section 115 Pension Trust. Increasingly, Hercules, and all cities, are being saddled with additional mandates by the State of California and its regulatory agencies, and these often have direct and indirect fiscal ramifications. In addition, lingering redevelopment dissolution issues have the potential to negatively impact Hercules, though the City Council and staff are actively working to mitigate this possibility. In the meantime, we remain committed to being fiscally prudent and to building capacity to weather economic downturns or other possible negative turn of events.

A focus on enhancing the City's tax base through new revenue generating development continues. A new commercial center on Willow Avenue was approved which will feature an auto service park and self-storage; approvals included a Development Agreement which will provide the City with up to an estimated \$200,000 annually from the self-storage component. An application for the development of the Sycamore Crossing project was recently approved which will include a retail center and the City's first hotel, plus a residential component. A Zoning Consistency determination was made for the possible re-use of the Franklin Canyon Golf Course for a high-end recreational vehicle park which would generate transient occupancy taxes, together with a club house, 9-hole golf course, and other amenities pending an application submittal and approval by the City. Building permits for the new Safeway and related retail at San Pablo and Sycamore were issued and construction commenced.

The second phase of the Bayfront development on Blocks Q & R commenced construction with 235 residential units (which includes 15 affordable units) and the review of construction drawings on the third phase on Blocks M, P & O with a total of 476 units (which includes 25 affordable units) is underway. The Muir Pointe subdivision is nearing completion, which will also add two new City parks to the community. The City also approved the participation by a new owner of the existing Willow Glen Apartment complex in a State Bond Program which will result in this market rate complex becoming an affordable community.

Updated Traffic Impact Fees were approved based on the recently completed General Plan Circulation Element update, providing resources to address needed circulation and transportation related improvements.

Investment in capital projects and facilities continues to be a priority. The City completed the repaving of the Refugio Valley Trail in Refugio Valley Park to just past Partridge; the Duck Pond Park enhancements were completed; a contract was awarded for Hercules Avenue Traffic Calming; the Community Center roof was replaced; enhancements were made to our Childcare program sites; and, other upgrades were completed to the Foxboro, Ohlone, and Samara Terrace Community Rooms with an eye to enhancing their usability to make them more desirable for facility rentals. A Citywide Sewer System Cleaning and Inspection program was also completed. In addition, the FY 2019/20 Budget approved in June 2019, included the establishment of separate Capital Projects Fund to provide a focus on capital projects and to better account for these often multi-year projects.

**CITY OF HERCULES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

The financial health of the Citywide Landscape & Lighting Assessment District Zones continues to be a focus. With increased assessments rejected again in Zones 1, 3 & 4, 6, and 7, service reductions were enacted by the City Council in Zones 1, 3 & 4, and 6, during the early part of the 2018/19 fiscal year. Later in the 2018/19 fiscal year, based in part upon the positive response to the Pilot Streetlight Replacement Project which was completed, the City also opted to once again request that property owners approve a more focused assessment increase in Zone 1 (Hercules by the Bay) and Zone 7 (Refugio Heights). Fortunately, this next round of balloting resulted in approval of increased assessments and the failing hollow-core wooden streetlights will be replaced by new metal energy efficient LED fixtures.

With the joint Pinole-Hercules Wastewater Treat Plant upgrade nearing completion, the City has turned its attention to other elements of the Wastewater operation and funding. A contract for the design of the replacement of the Sewer Truck Main Line was awarded and is underway. A comprehensive review of the long-term needs of the Wastewater Fund has also been initiated and will launch off the fiscal impacts from the upgraded plant operation and debt service costs.

From an operational perspective, ensuring Police staffing including the two additional officers approved for 2018/19 through use of an on-going over hire program is minimizing impacts from vacancies. The City also retained a Fiscal Advisor to review opportunities to refinance existing debt. Additional contributions were made to the IRS Section 115 Pension Trust and to the OPEB Trust. A comprehensive update of the City's Purchasing Guidelines was also completed. This ability to focus some attention on system improvements and operational enhancements is due to more stable financial situation of the City and the elimination over time of a back-log of more pressing matters has freed up limited staff capacity.

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, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments	\$ 25,544,972	\$ 20,994,614	\$ 46,539,586
Cash with Fiscal Agent	3,846,763	7,582,403	11,429,166
Accounts Receivable	1,933,986	-	1,933,986
Prepaid Expenses	7,204	-	7,204
Inventories	11,013	-	11,013
Loans Receivable	1,607,976	-	1,607,976
Lease Receivable	9,150,894	-	9,150,894
Due from Private Purpose Trust Fund	39,908,402	10,587,627	50,496,029
Capital Assets:			
Nondepreciable	14,897,220	25,390,196	40,287,416
Depreciable, Net of Accumulated Depreciation	65,628,228	12,401,035	78,029,263
Total Assets	162,536,658	76,955,875	239,492,533
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - OPEB	329,100	18,063	347,163
Deferred Outflows - Pension	3,959,142	114,886	4,074,028
Total Deferred Outflows of Resources	4,288,242	132,949	4,421,191
LIABILITIES			
Accounts Payable	1,845,630	2,161,186	4,006,816
Due to Private Purpose Trust Fund	322,055	-	322,055
Retentions Payable	-	1,083,017	1,083,017
Accrued Wages	325,772	21,471	347,243
Accrued Interest Payable	912,469	192,958	1,105,427
Deposits with Others	1,176,389	-	1,176,389
Claims and Judgments Payable	545,522	-	545,522
Noncurrent Liabilities:			
Due Within One Year	1,122,802	314,595	1,437,397
Due in More Than One Year	19,806,224	31,687,894	51,494,118
OPEB Liability	1,220,744	66,474	1,287,218
Net Pension Liability	15,317,911	637,000	15,954,911
Total Liabilities	42,595,518	36,164,595	78,760,113
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - OPEB	38,752	2,192	40,944
Deferred Inflows - Pension	353,137	44,422	397,559
Total Deferred Inflows of Resources	391,889	46,614	438,503
NET POSITION			
Net Investment in Capital Assets	76,082,830	9,384,765	85,467,595
Restricted for:			
Public Safety	1,036,138	-	1,036,138
Streets and Roads	4,026,996	-	4,026,996
Development	7,740,348	-	7,740,348
Debt Service	8,692,171	7,582,403	16,274,574
Unrestricted	26,259,010	23,910,447	50,169,457
Total Net Position	\$ 123,837,493	\$ 40,877,615	\$ 164,715,108

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 5,094,236	\$ 1,809,965	\$ 6,372	\$ -
Public Safety	7,055,390	656,156	226,667	-
Streets and Public Works	6,727,710	2,728,151	1,422,688	282,721
Parks and Recreation	2,564,008	1,731,066	-	-
Community Development	630,341	1,658,265	-	-
Interest on Long-Term Debt	1,256,456	-	-	-
Total Governmental Activities	23,328,141	8,583,603	1,655,727	282,721
Business-Type Activities:				
Wastewater	5,343,759	6,003,202	-	-
Total Business-Type Activities	5,343,759	6,003,202	-	-
Total City	\$ 28,671,900	\$ 14,586,805	\$ 1,655,727	\$ 282,721

GENERAL REVENUES AND TRANSFERS

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

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
\$ (3,277,899)	\$ -	\$ (3,277,899)
(6,172,567)	-	(6,172,567)
(2,294,150)	-	(2,294,150)
(832,942)	-	(832,942)
1,027,924	-	1,027,924
(1,256,456)	-	(1,256,456)
(12,806,090)	-	(12,806,090)
-	659,443	659,443
-	659,443	659,443
(12,806,090)	659,443	(12,146,647)
1,378,493	-	1,378,493
3,988,702	-	3,988,702
852,751	-	852,751
4,506,706	-	4,506,706
1,990,306	-	1,990,306
1,588,558	482,095	2,070,653
368,411	162,872	531,283
14,673,927	644,967	15,318,894
1,867,837	1,304,410	3,172,247
121,969,656	39,573,205	161,542,861
<u>\$ 123,837,493</u>	<u>\$ 40,877,615</u>	<u>\$ 164,715,108</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 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, 2019**

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
ASSETS			
Cash and Investments	\$ 15,259,595	\$ -	\$ 680,712
Cash and Investments with Fiscal Agent	1,649,896	2,196,867	-
Accounts Receivable	1,214,863	-	-
Due from other governments	-	-	-
Prepays	7,204	-	-
Due from Other Funds	213,188	-	-
Inventories	-	-	-
Loans Receivable	1,607,976	-	-
Lease Receivable	-	9,150,894	-
Due from Private Purpose Trust Fund	27,787,637	6,703,250	-
	<u>\$ 47,740,359</u>	<u>\$ 18,051,011</u>	<u>\$ 680,712</u>
LIABILITIES			
Accounts Payable	\$ 379,442	-	\$ 63,381
Accrued Wages	271,458	-	7,449
Deposits Payable	1,176,389	-	-
Claims and Judgments Payable	545,522	-	-
Due to Other Funds	-	-	-
Amounts due to Private Purpose Trust Fund	-	-	-
Total Liabilities	<u>2,372,811</u>	<u>-</u>	<u>70,830</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	-	9,150,894	-
FUND BALANCES			
Nonspendable	29,402,817	-	-
Restricted	-	8,900,117	609,882
Assigned	5,937,646	-	-
Unassigned	10,027,085	-	-
Total Fund Balances	<u>45,367,548</u>	<u>8,900,117</u>	<u>609,882</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 47,740,359</u>	<u>\$ 18,051,011</u>	<u>\$ 680,712</u>

See accompanying Notes to Basic Financial Statements.

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ 645,709	\$ 885,246	\$ 6,126,801	\$ 23,598,063
-	-	-	3,846,763
-	499,657	158,466	1,872,986
-	-	-	-
-	-	-	7,204
-	-	-	213,188
11,013	-	-	11,013
-	-	-	1,607,976
-	-	-	9,150,894
-	-	5,417,515	39,908,402
<u>\$ 656,722</u>	<u>\$ 1,384,903</u>	<u>\$ 11,702,782</u>	<u>\$ 80,216,489</u>
\$ 9,976	\$ 96,888	\$ 1,099,181	\$ 1,648,868
7,423	-	28,687	315,017
-	-	-	1,176,389
-	-	-	545,522
-	-	213,188	213,188
-	322,055	-	322,055
<u>17,399</u>	<u>418,943</u>	<u>1,341,056</u>	<u>4,221,039</u>
-	246,349	-	9,397,243
11,013	-	-	29,413,830
628,310	719,611	10,588,317	21,446,237
-	-	-	5,937,646
-	-	(226,591)	9,800,494
<u>639,323</u>	<u>719,611</u>	<u>10,361,726</u>	<u>66,598,207</u>
<u>\$ 656,722</u>	<u>\$ 1,384,903</u>	<u>\$ 11,702,782</u>	<u>\$ 80,216,489</u>



CITY OF HERCULES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION — GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

Fund Balance - Total Governmental Funds (Pages 17 and 18)	\$ 66,598,207
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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.	79,858,336
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Deferred outflows of resources related to pension reported in statement of net position	3,865,132
Deferred outflows of resources related to OPEB reported in statement of net position	314,771

Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	9,397,243
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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.	2,006,566
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Deferred inflows of resources related to pension reported in statement of net position	(323,962)
Deferred inflows of resources related to OPEB reported in statement of net position	(36,575)

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	(912,469)
Revenue Bonds Payable	(14,431,371)
Notes Payable	(5,350,000)
Capital Leases Payable	(654,485)
Compensated Absences	(466,640)
OPEB Liability	(1,168,675)
Net Pension Liability	<u>(14,858,585)</u>

Net Position of Governmental Activities (Page 14)	<u><u>\$ 123,837,493</u></u>
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CITY OF HERCULES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General Fund	Hercules Debt Service Fund	State Gas Tax Fund
REVENUES			
Taxes And Assessments	\$ 10,680,733	\$ -	\$ -
Licenses And Permits	671,108	-	-
Fines And Forfeitures	50,058	-	-
Use Of Money And Property	687,466	926,802	17,143
Intergovernmental	2,074,598	-	977,200
Charges For Services	3,306,997	-	-
Other Revenues	92,602	-	-
Total Revenues	<u>17,563,562</u>	<u>926,802</u>	<u>994,343</u>
EXPENDITURES			
Current:			
General Government	4,542,651	-	-
Public Safety	6,776,245	-	-
Streets And Public Works	351,829	-	602,531
Parks And Recreation	2,128,110	-	-
Community Development	616,899	-	-
Capital Outlay	-	-	778,252
Debt Service:			
Principal	-	613,153	-
Interest And Fiscal Agent Fees	200,000	1,085,738	-
Total Expenditures	<u>14,615,734</u>	<u>1,698,891</u>	<u>1,380,783</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,947,828	(772,089)	(386,440)
OTHER FINANCING SOURCES (USES)			
Transfers In	243,334	1,187,916	-
Transfers Out	(2,139,446)	-	(183,584)
Total Other Financing Sources (Uses)	<u>(1,896,112)</u>	<u>1,187,916</u>	<u>(183,584)</u>
NET CHANGES IN FUND BALANCES	1,051,716	415,827	(570,024)
Fund Balances - Beginning of Year	<u>44,315,832</u>	<u>8,484,290</u>	<u>1,179,906</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 45,367,548</u></u>	<u><u>\$ 8,900,117</u></u>	<u><u>\$ 609,882</u></u>

See accompanying Notes to Basic Financial Statements.

Measure "C" Street Fund	City Capital Projects Fund	Other Governmental Funds	Total
\$ -	\$ 45,919	\$ -	\$ 10,726,652
-	-	173,698	844,806
-	-	-	50,058
12,470	596	83,884	1,728,361
445,488	809,222	148,747	4,455,255
-	1,049,428	3,608,121	7,964,546
-	-	-	92,602
<u>457,958</u>	<u>1,905,165</u>	<u>4,014,450</u>	<u>25,862,280</u>
-	-	-	4,542,651
-	-	-	6,776,245
557,885	-	2,844,967	4,357,212
-	-	-	2,128,110
-	-	-	616,899
-	644,988	838,315	2,261,555
-	-	-	613,153
-	-	-	1,285,738
<u>557,885</u>	<u>644,988</u>	<u>3,683,282</u>	<u>22,581,563</u>
(99,927)	1,260,177	331,168	3,280,717
-	857,939	221,905	2,511,094
-	-	(280,064)	(2,603,094)
-	857,939	(58,159)	(92,000)
(99,927)	2,118,116	273,009	3,188,717
<u>739,250</u>	<u>(1,398,505)</u>	<u>10,088,717</u>	<u>63,409,490</u>
<u>\$ 639,323</u>	<u>\$ 719,611</u>	<u>\$ 10,361,726</u>	<u>\$ 66,598,207</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, 2019

Net Change to Fund Balance - Total Governmental Funds
(Pages 20 and 21) \$ 3,188,717

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	\$ 2,605,619	
Related Capital Assets Adjustments		
Less: Current Year Depreciation	(3,400,541)	(794,922)

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	(667,479)
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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	613,153	
Amortization of Bond Premiums and Discounts	(17,297)	595,856

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	(13,667)
Change in Net Pension Liability and Related Deferred Inflows/Outflows	(841,811)
Change in Other Postemployment Benefits Liability and Related Deferred Inflows/Outflows	
Change in Postemployment Benefits	90,284
Change in Accrued Interest Payable	29,283

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.

Change in Net Position of Governmental Activities (Pages 15 and 16)	\$ 1,867,837
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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, 2019

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
ASSETS		
Current Assets:		
Cash and Investments	\$ 20,994,614	\$ 1,946,909
Cash with Fiscal Agent	7,582,403	-
Accounts receivable	-	61,000
Total Current Assets	<u>28,577,017</u>	<u>2,007,909</u>
Noncurrent Assets:		
Amounts due from Private Purpose Trust Fund	10,587,627	-
Capital Assets:		
Nondepreciable :		
Land	191,700	-
Construction in Progress	25,198,496	-
Total Nondepreciable Capital Assets	<u>25,390,196</u>	<u>-</u>
Depreciable:		
Buildings and Improvements	11,335,199	-
Infrastructure	13,729,500	-
Machinery and Equipment	250,345	3,629,803
Total Depreciable Capital Assets	<u>25,315,044</u>	<u>3,629,803</u>
Less Accumulated Depreciation	<u>(12,914,009)</u>	<u>(2,962,691)</u>
Net Depreciable Capital Assets	<u>12,401,035</u>	<u>667,112</u>
Net Capital Assets	<u>37,791,231</u>	<u>667,112</u>
Total Noncurrent Assets	<u>48,378,858</u>	<u>667,112</u>
Total Assets	76,955,875	2,675,021
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - OPEB	18,063	14,329
Deferred Outflows - Pension	114,886	94,010
Total Deferred Outflows of Resources	<u>132,949</u>	<u>108,339</u>

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUNDS
JUNE 30, 2019

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,161,186	\$ 196,762
Retentions Payable	1,083,017	-
Salaries and Benefits Payable	21,471	10,755
Accrued Interest Payable	192,958	-
Compensated Absences	39,595	26,530
Long Term Debt, Due Within One Year	275,000	-
Total Current Liabilities	<u>3,773,227</u>	<u>234,047</u>
Noncurrent Liabilities:		
Net Pension Liability	637,000	459,326
Net Other Postemployment Benefits Liability	66,474	52,069
Long Term Debt, Due in More than One Year	31,687,894	-
Total Noncurrent Liabilities	<u>32,391,368</u>	<u>511,395</u>
Total Liabilities	36,164,595	745,442
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - OPEB	2,192	2,177
Deferred Inflows - Pension	44,422	29,175
Total Deferred Inflows of Resources	<u>46,614</u>	<u>31,352</u>
NET POSITION		
Net Investment in Capital Assets	9,384,765	667,112
Restricted for Debt Service	7,582,403	-
Unrestricted	23,910,447	1,339,454
Total Net Position	<u>\$ 40,877,615</u>	<u>\$ 2,006,566</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, 2019

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
OPERATING REVENUES		
Sales and Charges for Services	\$ 6,003,202	\$ 1,856,548
Other Operating Revenue	162,872	4,483
Total Operating Revenues	<u>6,166,074</u>	<u>1,861,031</u>
OPERATING EXPENSES		
Salaries and Benefits	610,403	386,237
Services and Supplies	3,443,333	998,175
Depreciation	500,694	288,218
Total Operating Expenses	<u>4,554,430</u>	<u>1,672,630</u>
OPERATING INCOME (LOSS)	1,611,644	188,401
NONOPERATING REVENUE (EXPENSES)		
Interest Income	482,095	1,175
Interest Expense	(789,329)	-
Total Nonoperating Revenue (Expenses)	<u>(307,234)</u>	<u>1,175</u>
Income (Loss) Before Transfers	1,304,410	189,576
Transfers in	<u>-</u>	<u>92,000</u>
CHANGE IN NET POSITION	1,304,410	281,576
Net Position - Beginning of Year, Restated	<u>39,573,205</u>	<u>1,724,990</u>
NET POSITION - END OF YEAR	<u><u>\$ 40,877,615</u></u>	<u><u>\$ 2,006,566</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Wastewater Fund	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customers	\$ 6,303,317	\$ -
Cash Receipts from Internal Fund Services Provided	-	1,861,031
Cash Paid to Suppliers for Goods and Services	(3,611,862)	(1,008,192)
Cash Paid to Employees for Services	(554,460)	(363,381)
Net Cash Provided (Used) by Operating Activities	<u>2,136,995</u>	<u>489,458</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances from other funds	-	(108,821)
Transfers from other funds	-	92,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>(16,821)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Debt	7,140,106	-
Payments Related to the Acquisition of Capital Assets	(6,487,683)	(131,526)
Principal Repayments Related to Capital Purposes	(265,000)	-
Interest Repayments Related to Capital Purposes	(1,029,967)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(642,544)</u>	<u>(131,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	482,095	1,175
Net Cash Provided (Used) by Investing Activities	<u>482,095</u>	<u>1,175</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,976,546	342,286
Cash and Cash Equivalents - Beginning of Year	<u>26,600,471</u>	<u>1,604,623</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 28,577,017</u></u>	<u><u>\$ 1,946,909</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FUND NET POSITION		
Cash and Investments	\$ 20,994,614	\$ 1,946,909
Cash with Fiscal Agent	<u>7,582,403</u>	<u>-</u>
Total Cash and Cash Equivalents	<u><u>\$ 28,577,017</u></u>	<u><u>\$ 1,946,909</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF HERCULES
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Wastewater Fund	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 1,611,644	\$ 188,401
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	500,694	288,218
(Increase) Decrease in Assets and Deferred Outflows:		
Due from other Governments	137,243	-
Increase (Decrease) in Liabilities:		
Accounts and Retentions Payable	(168,529)	(10,017)
Accrued Salaries and Benefits	1,839	(2,749)
Net Pension Liability	(22,623)	(14,740)
Net Pension Liability and Related Deferred Inflows	(11,506)	60,491
Net Pension Liability and Related Deferred Outflows	92,849	(7,497)
Net OPEB Liability	(9,047)	(9,047)
Net OPEB Liability and Related Deferred Inflows	2,119	2,119
Net OPEB Liability and Related Deferred Outflows	1,510	1,510
Compensated Absences	802	(7,231)
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,136,995</u>	<u>\$ 489,458</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, 2019

	Sucessor Agency Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Investments	\$ 822,461	\$ 347,116
Cash and Investments with Fiscal Agent	16,335,534	353,432
Accounts Receivable	357,032	-
Amounts due from City of Hercules	322,055	-
Loans Receivable	9,253,793	-
Land Held for Resale	4,898,570	-
Capital Assets:		
Depreciable	3,752,407	-
Nondepreciable	28,192,474	-
Total Assets	<u>63,934,326</u>	<u>700,548</u>
DEFERRED OUTFLOWS		
Deferred Loss on Refunding	155,290	
LIABILITIES		
Accounts Payable	15,468,820	-
Unearned Revenue	20,916	
Amounts due to City of Hercules	50,496,029	-
Agency Obligations	-	700,548
Long-Term Debt:		
Due Within One Year	3,722,070	-
Due in More than One Year	98,999,574	-
Total Liabilities	<u>168,707,409</u>	<u>\$ 700,548</u>
NET POSITION		
Held in Trust for Others	<u>(104,617,793)</u>	
Total Net Position	<u><u>\$ (104,617,793)</u></u>	

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019

	Private Purpose Trust Fund
ADDITIONS	
Taxes and Assessments	\$ 6,859,296
Investment Income	731,230
Other Revenue	<u>127,602</u>
Total Additions	<u>7,718,128</u>
DEDUCTIONS	
Community Development	1,342,492
Depreciation	310,158
Debt Service	<u>5,070,828</u>
Total Deductions	<u>6,723,478</u>
CHANGE IN NET POSITION	994,650
Net Position - Beginning of Year	<u>(105,612,443)</u>
NET POSITION - END OF YEAR	<u><u>\$(104,617,793)</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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 units 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 by GASB Statement No. 39. 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, 2019

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, 2019

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, 2019

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

Fiduciary fund financial statements include a statement of net position. 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 City maintains eight fiduciary funds —Westcat Transit 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, 2019

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, 2019

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 acquisition 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.

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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 and other postemployment benefits.

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 and other postemployment benefits. 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, 2019

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.

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, 2019, 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.

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 and unassigned fund balances, as they are needed.

**CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

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.

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	\$ 46,539,586
Cash and Investments with Fiscal Agents	11,429,166

Statement of Fiduciary Net Position:

Cash and Investments	1,169,577
Cash and Investments with Fiscal Agents	<u>16,688,966</u>

Total	<u><u>\$ 75,827,295</u></u>
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CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

Cash and investments as of June 30, 2019 consist of the following:

Deposits with Financial Institutions	\$ 8,518,771
Investments	67,308,524
Total	<u>\$ 75,827,295</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.

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
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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 %	\$ 39,190,379	\$ 39,190,379	\$ -	\$ -	\$ -	\$ -	\$ -
Held by Debt Trustees:								
Money Market Funds	-	28,118,145	28,118,145	-	-	-	-	-
Total		<u>\$ 67,308,524</u>	<u>\$ 67,308,524</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
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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	\$ 39,190,379			\$ -	\$ 39,190,379
Held by Debt Trustees:					
Money Market Funds	28,118,145	N/A	N/A	28,118,145	-
Total	<u>\$ 67,308,524</u>			<u>\$ 28,118,145</u>	<u>\$ 39,190,379</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 the investment in the State Investment Pool) that represents 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
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As of June 30, 2019, \$5,906,634 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

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, 2019, the City of Hercules' investments were all measured at amortized cost.

**CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 LOANS RECEIVABLE

Loans Receivable – Governmental Activities

Loans receivable at June 30, 2019, consisted of the following:

Bio-Rad Loan	\$ 1,607,976
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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, 2019 was \$1,609,976.

Loans Receivable – Fiduciary-type Activities

Loans receivable at June 30, 2019, consisted of the following

Business Development Loans	\$ 1,381,197
Bridge Housing Corporation	2,075,873
Home Emergency Loan	9,867
First Time Homebuyers	1,850,542
Homeowner Retention/Loss Mitigation	2,502,032
Revitalization and Beautification	259,629
Other Assistance Programs	1,174,653
	<u>\$ 9,253,793</u>

Amounts shown above are net of an allowance for uncollectible accounts of \$700,000 for Housing Program Loans.

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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>
2020	\$ 895,970
2021	902,222
2022	908,474
2023	914,726
2024	920,978
2025-2029	4,704,270
2030-2034	4,913,870
2035-2039	4,162,070
Subtotal	18,322,580
Less: Unearned Income	(9,171,684)
Net Investment in Lease Receivable	<u>\$ 9,150,896</u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 CAPITAL ASSETS

At June 30, 2019, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 4,781,589	\$ 191,700	\$ 4,973,289
Construction in Progress	10,115,631	25,198,496	35,314,127
Total Nondepreciable Assets	<u>14,897,220</u>	<u>25,390,196</u>	<u>40,287,416</u>
Depreciable Assets:			
Land Improvements	11,720,361	-	11,720,361
Buildings and Improvements	26,886,670	11,335,199	38,221,869
Machinery and Equipment	4,763,790	250,345	5,014,135
Infrastructure	101,115,641	13,729,500	114,845,141
Total Depreciable Assets	<u>144,486,462</u>	<u>25,315,044</u>	<u>169,801,506</u>
Less: Accumulated Depreciation	<u>(78,858,234)</u>	<u>(12,914,009)</u>	<u>(91,772,243)</u>
Total Depreciable Assets, Net	<u>65,628,228</u>	<u>12,401,035</u>	<u>78,029,263</u>
Total Capital Assets, Net	<u><u>\$ 80,525,448</u></u>	<u><u>\$ 37,791,231</u></u>	<u><u>\$ 118,316,679</u></u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

Governmental Activities	Balance July 1, 2018	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2019
Nondepreciable Assets:					
Land	\$ 4,781,589	\$ -	\$ -	\$ -	\$ 4,781,589
Construction in Progress	10,971,120	744,922	-	(1,600,411)	10,115,631
Total Nondepreciable Capital Assets	15,752,709	744,922	-	(1,600,411)	14,897,220
Depreciable Assets:					
Land Improvements	11,720,361	-	-	-	11,720,361
Buildings and Improvements	26,344,899	541,771	-	-	26,886,670
Machinery and Equipment	4,605,234	158,556	-	-	4,763,790
Infrastructure	98,223,334	1,291,896	-	1,600,411	101,115,641
Total Depreciable Capital Assets	140,893,828	1,992,223	-	1,600,411	144,486,462
Accumulated Depreciation:					
Land Improvements	(8,142,668)	(503,584)	-	-	(8,646,252)
Buildings and Improvements	(10,238,578)	(779,705)	-	-	(11,018,283)
Machinery and Equipment	(3,745,930)	(298,156)	-	-	(4,044,086)
Infrastructure	(53,042,299)	(2,107,314)	-	-	(55,149,613)
Total Accumulated Depreciation	(75,169,475)	(3,688,759)	-	-	(78,858,234)
Net Depreciable Capital Assets	65,724,353	(1,696,536)	-	1,600,411	65,628,228
Net Capital Assets	\$ 81,477,062	\$ (951,614)	\$ -	\$ -	\$ 80,525,448

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	\$ 479,813
Public Safety	36,160
Public Works	2,447,266
Parks and Recreation	437,302
Capital Assets Held by Internal Services are Charged to the Various Functions Based on Usage of the Assets	288,218
Total Depreciation Expense - Governmental Activities	<u>\$ 3,688,759</u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

Business-Type Activities	Balance July 1, 2018	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2019
Nondepreciable					
Capital Assets:					
Land	\$ 191,700	\$ -	\$ -	\$ -	\$ 191,700
Construction in Progress	18,710,813	6,487,683	-	-	25,198,496
Total Nondepreciable Capital Assets	18,902,513	6,487,683	-	-	25,390,196
Depreciable Capital Assets:					
Buildings and Improvements	11,335,199	-	-	-	11,335,199
Machinery and Equipment	250,345	-	-	-	250,345
Infrastructure	13,729,500	-	-	-	13,729,500
Total Depreciable Capital Assets	25,315,044	-	-	-	25,315,044
Accumulated Depreciation:					
Buildings and Improvements	(10,242,974)	(313,877)	-	-	(10,556,851)
Machinery and Equipment	(163,405)	(17,044)	-	-	(180,449)
Infrastructure	(2,006,936)	(169,773)	-	-	(2,176,709)
Less: Accumulated Depreciation	(12,413,315)	(500,694)	-	-	(12,914,009)
Total Depreciable Capital Assets, Net	12,901,729	(500,694)	-	-	12,401,035
Net Capital Assets	<u>\$ 31,804,242</u>	<u>\$ 5,986,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,791,231</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>\$ 500,694</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 500,694</u></u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019
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	(2,944,457)	(99,437)	-	(3,043,894)
Machinery and Equipment	(52,290)	(5,810)	-	(58,100)
Infrastructure	(2,255,633)	(204,911)	-	(2,460,544)
Total Accumulated Depreciation	(5,263,759)	(310,158)	-	(5,573,917)
Net Depreciable Capital Assets	4,062,565	(310,158)	-	3,752,407
Net Capital Assets	\$ 32,255,039	\$ (310,158)	\$ -	\$ 31,944,881

NOTE 6 LONG-TERM OBLIGATIONS

Governmental activities long-term liability activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Amounts Due Within One Year
Governmental Activities					
2003B PFA Lease Revenue Bonds	\$ 6,255,000	\$ -	\$ (270,000)	\$ 5,985,000	\$ 280,000
2009 PFA Taxable Lease Revenue Bonds	8,950,000	-	(175,000)	8,775,000	190,000
Discount on Issuance	(345,926)	-	17,297	(328,629)	-
H.E.L.P. Loan	1,600,000	-	-	1,600,000	100,000
R.D.L.P. Loan	3,750,000	-	-	3,750,000	-
SunTrust Lease	822,638	-	(168,153)	654,485	176,201
Compensated Absences	486,734	369,357	(362,921)	493,170	376,601
Total Long-Term Obligations	\$ 21,518,446	\$ 369,357	\$ (958,777)	\$ 20,929,026	\$ 1,122,802

**CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2019 is \$5,985,000.

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>
2020	\$ 280,000	\$ 283,590	\$ 563,590
2021	295,000	269,805	564,805
2022	310,000	255,735	565,735
2023	325,000	240,731	565,731
2024	340,000	224,938	564,938
2025-2029	1,955,000	861,181	2,816,181
2030-2034	2,480,000	322,000	2,802,000
Total	<u>\$ 5,985,000</u>	<u>\$ 2,457,980</u>	<u>\$ 8,442,980</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, 2019 is \$8,775,000.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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>
2020	\$ 190,000	\$ 723,365	\$ 913,365
2021	200,000	708,465	908,465
2022	220,000	691,140	911,140
2023	235,000	672,371	907,371
2024	255,000	652,159	907,159
2025-2029	1,630,000	2,893,463	4,523,463
2030-2034	2,420,000	2,062,733	4,482,733
2035-2039	3,625,000	809,550	4,434,550
Subtotal	8,775,000	9,213,246	17,988,246
Less: Discount	(328,629)	-	(328,629)
Total	<u>\$ 8,446,371</u>	<u>\$ 9,213,246</u>	<u>\$ 17,659,617</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, 2019 is \$1,600,000.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 100,000	\$ -	\$ 100,000
2021	100,000	-	100,000
2022	100,000	-	100,000
2023	100,000	-	100,000
2024	100,000	-	100,000
2025-2027	1,100,000	271,967	1,371,967
Total	<u>\$ 1,600,000</u>	<u>\$ 271,967</u>	<u>\$ 1,871,967</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 2013, the City and Agency amended the agreement to extend the due date of the loan and

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 is \$3,750,000.

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 100,000	\$ 100,000
2021	55,358	44,642	100,000
2022	100,000	-	100,000
2023	100,000	-	100,000
2024	100,000	-	100,000
2024-2027	3,394,642	1,126,079	4,520,721
Total	<u>\$ 3,750,000</u>	<u>\$ 1,270,721</u>	<u>\$ 5,020,721</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 \$2,185,538. 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 costs of these assets is \$2,358,636 and the net book value at June 30, 2018 is \$654,485.

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2019 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 654,485</u>	<u>\$ 63,361</u>	<u>\$ 717,846</u>

Business-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2019, was as follows:

<u>Business-Type Activities</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>	<u>Amounts Due Within One Year</u>
2010 PFA Wastewater					
Revenue Bonds	\$ 10,075,000	\$ -	\$ (265,000)	\$ 9,810,000	\$ 275,000
Discount on Issuance	(159,978)	-	7,272	(152,706)	-
Publicly Owned Treatment					
Works Construction Loan	15,165,494	7,140,106	-	22,305,600	-
Compensated Absences	38,793	30,862	(30,060)	39,595	39,595
Total Long-Term					
Obligations	<u>\$ 25,119,309</u>	<u>\$ 7,170,968</u>	<u>\$ (287,788)</u>	<u>\$ 32,002,489</u>	<u>\$ 314,595</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 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

CITY OF HERCULES
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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, 2019 is \$9,810,000.

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>
2020	\$ 275,000	\$ 458,631	\$ 733,631
2021	285,000	449,175	734,175
2022	295,000	438,288	733,288
2023	305,000	426,288	731,288
2024	315,000	413,691	728,691
2025-2029	1,805,000	1,841,178	3,646,178
2030-2034	2,270,000	1,357,875	3,627,875
2035-2039	2,890,000	717,500	3,607,500
2040	1,370,000	69,250	1,439,250
Subtotal	9,810,000	6,171,876	15,981,876
Less: Discount	(152,706)	-	(152,706)
Total	<u>\$ 9,657,294</u>	<u>\$ 6,171,876</u>	<u>\$ 15,829,170</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 are 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, and is contingent on the total drawdowns at project completion. The loan matures on August 31, 2038. The City has drawn down \$22,305,600 of the loan principal including construction loan interest as of June 30, 2019.

Future debt service requirements on the Construction Loan are:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ -	\$ -
2021	945,769	379,195	1,324,964
2022	961,847	363,117	1,324,964
2023	978,199	346,767	1,324,966
2024	994,828	330,136	1,324,964
2025-2029	5,233,646	1,391,177	6,624,823
2029-2034	5,693,889	930,932	6,624,821
2035-2039	6,194,607	430,214	6,624,821
2040	1,302,815	22,148	1,324,963
Total	<u>\$ 22,305,600</u>	<u>\$ 4,193,686</u>	<u>\$ 26,499,286</u>

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Fiduciary-Type Activities

Long-term liability activity for the fiscal year ended June 30, 2019, was as follows:

	Balance			Balance	Amounts
Fiduciary-Type Activities	July 1, 2018	Additions	Deletions	June 30, 2019	Due Within One Year
2005 Tax Allocation Bonds	\$ 36,085,000	\$ -	\$ (2,220,000)	\$ 33,865,000	\$ 1,510,000
Premium on Issuance	1,233,052	-	(72,532)	1,160,520	-
Loss on Refunding	(164,995)	-	9,705	(155,290)	-
2007A Housing Tax Allocation Bonds	10,185,000	-	(395,000)	9,790,000	420,000
2007B Housing Tax Allocation Bonds	8,190,000	-	(355,000)	7,835,000	370,000
Premium on Issuance	47,200	-	(3,146)	44,054	-
2007 RDA Tax Allocation Bonds	49,950,000	-	(270,000)	49,680,000	1,075,000
Long-Term Note Payable	347,070	-	-	347,070	347,070
Total Long-Term Obligations	<u>\$ 105,872,327</u>	<u>\$ -</u>	<u>\$ (3,305,973)</u>	<u>\$ 102,566,354</u>	<u>\$ 3,722,070</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, 2019 is \$33,865,000.

CITY OF HERCULES
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The annual debt service requirements to maturity at June 30, 2019, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,735,000	1,400,356	3,135,356
2024	1,825,000	1,312,069	3,137,069
2025-2029	10,575,000	5,073,644	15,648,644
2030-2034	13,465,000	2,106,213	15,571,213
2035	1,515,000	75,238	1,590,238
Subtotal	33,865,000	14,646,713	48,511,713
Plus: Premium on Issuance	1,160,520	-	1,160,520
Total	<u>\$ 35,025,520</u>	<u>\$ 14,646,713</u>	<u>\$ 49,672,233</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 2018-2019 was \$9,705, and the accumulated amortization at June 30, 2019 was \$164,995.

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, 2019 for 2007 Series A and Series B are \$9,790,000 and \$7,835,000, respectively. The annual debt service requirements to maturity at June 30, 2019 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>
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	500,000	502,244	1,002,244
2024	530,000	471,013	1,001,013
2025-2029	3,165,000	1,812,234	4,977,234
2029-2033	4,260,000	682,938	4,942,938
Total	<u>\$ 9,790,000</u>	<u>\$ 5,143,311</u>	<u>\$ 14,933,311</u>

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<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 370,000	\$ 371,513	\$ 741,513
2021	385,000	354,988	739,988
2022	405,000	337,213	742,213
2023	420,000	318,650	738,650
2024	-	309,200	309,200
2025-2029	2,435,000	1,363,375	3,798,375
2029-2033	3,820,000	587,925	4,407,925
Subtotal	7,835,000	3,642,864	11,477,864
Plus: Premium	44,054	-	44,054
Total	<u>\$ 7,879,054</u>	<u>\$ 3,642,864</u>	<u>\$ 11,521,918</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, 2019 is \$49,680,000.

The annual debt service requirements to maturity at June 30, 2019, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,140,000	2,170,794	3,310,794
2024	1,170,000	2,113,044	3,283,044
2025-2029	6,315,000	9,672,099	15,987,099
2029-2034	10,975,000	9,469,296	20,444,296
2035-2039	17,310,000	4,132,019	21,442,019
2040-2042	9,495,000	702,813	10,197,813
Total	<u>\$ 49,680,000</u>	<u>\$ 35,064,827</u>	<u>\$ 84,744,827</u>

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019, 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, 2019</u>
Reassessment District 2005-1 (John Muir Parkway)	\$ 6,550,345	\$ 3,295,000

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.

CITY OF HERCULES
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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, 2019, the City's estimated claims liabilities were as follows.

General Liability	\$ 530,142
Workers' Compensation	15,380
Total	<u><u>\$ 545,522</u></u>

Changes in the claims liabilities for the fiscal years ended June 30, 2019, 2018 and 2017 are as follows:

<u>Fiscal Year</u>	Balances - Beginning of Fiscal Year	Claims and Changes in Estimates	Claims Payments	Balances - End of Fiscal Year
2016-2017	126,364	794,000	(751,193)	169,171
2017-2018	169,171	1,051,975	(988,755)	232,391
2018-2019	232,391	1,037,099	(723,968)	545,522

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, 2019 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	\$ 27,787,637	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,787,637
Long-term receivable	1,607,976	-	-	-	-	-	1,607,976
Prepays and Inventory	7,204	-	-	-	-	-	7,204
	-	-	-	11,013	-	-	11,013
Total Nonspendable	29,402,817	-	-	11,013	-	-	29,413,830
Restricted For:							
Streets and Roads	-	-	609,882	628,310	-	1,926,915	3,165,107
Public Safety	-	-	-	-	-	921,054	921,054
Development	-	-	-	-	-	7,740,348	7,740,348
Capital Projects	-	-	-	-	719,611	-	719,611
Debt Service	-	8,900,117	-	-	-	-	8,900,117
Total Restricted	-	8,900,117	609,882	628,310	719,611	10,588,317	21,446,237
Assigned For:							
Economic Uncertainty	5,937,646	-	-	-	-	-	5,937,646
Total Assigned	5,937,646	-	-	-	-	-	5,937,646
Unassigned	10,027,085	-	-	-	-	(226,591)	9,800,494
Total Fund Balance	\$ 45,367,548	\$ 8,900,117	\$ 609,882	\$ 639,323	\$ 719,611	\$ 10,361,726	\$ 66,598,207

NOTE 10 INTERFUND TRANSACTIONS

Due To/From Other Funds

Due to/from other funds as of June 30, 2019 were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 213,188
Private Purpose Trust Fund	City Capital Projects Fund	322,055
Total		\$ 535,243

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.

Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Private Purpose Trust Fund	\$ 27,787,637
Nonmajor Governmental Funds	Private Purpose Trust Fund	5,417,515
Wastewater Fund	Private Purpose Trust Fund	10,587,627
Debt Service	Private Purpose Trust Fund	6,703,250
Total		\$ 50,496,029

Additional information relating to the above advances is located at Note 17. Amounts are not expected to be repaid within the next year.

CITY OF HERCULES
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Transfers

Transfer From	Transfer To	Amount	Description
General Fund	Debt Service Fund	\$ 1,187,916	Debt Service
	Capital Projects Fund	788,143	Capital Projects
	Nonmajor Governmental Funds	71,387	
	Internal Service Funds	92,000	
Gas Tax	Capital Projects Fund	69,796	Capital Projects
Gas Tax	Nonmajor Governmental Funds	113,788	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	36,730	
Nonmajor Governmental Funds	General Fund	243,334	COPS Program
Total		<u>\$ 2,603,094</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, 2019, 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	3.0% @ 55	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	55	57
Monthly Benefits, as a Percent of Eligible Compensation	3.0%	3.00%	2.70%
Required Employee Contribution Rates	9.0%	9.0%	11.5%
Required Employer Contribution Rates	20.556%	18.677%	13.141%

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 \$770,639 and \$1,080,225 towards its Miscellaneous and Safety pension plans during the year ended June 30, 2019.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
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For the year ended June 30, 2019, 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	\$ 1,686,292	\$ 580,428	\$ 1,105,864
Internal Service Funds	<u>44,893</u>	<u>44,893</u>	<u>-</u>
Total Governmental Activities	1,731,185	625,321	1,105,864
Business-Type Activities:			
Sewer Fund	<u>91,098</u>	<u>91,098</u>	<u>-</u>
Total	<u>\$ 1,822,283</u>	<u>\$ 716,419</u>	<u>\$ 1,105,864</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, 2018, 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, 2017 rolled forward to June 30, 2018 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, 2017 and 2018 was as follows:

	<u>Plan's Proportion to Total Pool at June 30, 2017</u>	<u>Plan's Proportion to Total Pool at June 30, 2018</u>	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	0.17481 %	0.15970 %	\$ 6,686,045
Safety	0.15603	0.14303	<u>9,268,866</u>
Total			<u>\$ 15,954,911</u>

CITY OF HERCULES
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For the year ended June 30, 2019, the City recognized pension expense of \$2,789,649. At June 30, 2019, 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	\$ 1,850,864	\$ -
Change of Assumptions	1,735,174	323,684
Differences Between Expected and Actual Experience	419,947	73,875
Change in Proportion	-	-
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	-	-
Net Differences Between Projected and Actual Earnings on Plan Investments	68,043	-
Total	<u>\$ 4,074,028</u>	<u>\$ 397,559</u>

The City reported \$1,850,864 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 the measurement year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in the measurement year as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2020	\$ 1,505,178
2021	884,949
2022	(440,185)
2023	(124,337)
Total	<u>\$ 1,825,605</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 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, 2017	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017
Measurement Date	June 30, 2018	June 30, 2018	June 30, 2018	June 30, 2018	June 30, 2018	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method			Entry-Age Normal Cost Method		
Actuarial Assumptions:						
Discount Rate	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%
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
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The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 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 as of June 30, 2017 was 7.15 percent for each Plan. This differs from the discount rate used as of June 30, 2016, which was 7.65 percent, due to a decrease in the long term expected rate of return.

The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods adopted by the Board in 2013 were used.

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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the pension plan

Change of Assumptions and Methods In December 2016, the CalPERS Board approved lowering the discount rate from 7.50 percent to 7.00 percent, which is to be phased –in over a three –year period. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

CITY OF HERCULES
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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	50.00 %	4.80 %	5.98 %
Fixed Income	28.00	1.00	2.62
Inflation Assets	-	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Assets	13.00	3.75	4.93
Liquidity	1.00	-	(0.92)
Total	100.00 %		

(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 6.15%	Current Rate 7.15%	1% Increase 8.15%
Miscellaneous	\$ 10,739,641	\$ 6,686,045	\$ 3,339,865
Safety	14,071,484	9,268,866	5,333,980
Total	\$ 24,811,125	\$ 15,954,911	\$ 8,673,845

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
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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.

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%.

NOTE 13 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description and Administration

The City Retiree Healthcare Plan (Plan) is a single-employer benefit healthcare plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents. The Plan does not issue a financial report.

The City has prefunded a portion of its OPEB benefits in a Public Agency Retirement Services (PARS) trust. The PARS Trust is a tax qualified irrevocable trusts, organized under Internal Revenue Code (IRC) Section 115, established to pre-fund OPEB as described in GASB Statement 75. PARS issues annual audited financial statements for each participating agency of the Trust. PARS is considered an agency agent multiple-employer plan, required to provide financial statements and required supplementary information (Schedule of Changes in Fiduciary Net Position by Plan) that are prepared in conformance with GASB statement 75.

These reports may be obtained by writing the plan at the following address: PARS 4350 Von Karman Ave., Suite 100, Newport Beach, CA 92660-2043.

Employees become eligible to retire and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of service. The City contribution towards retiree health

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benefits is determined under the "Equal Contribution Method" under PEMHCA, under which the City's nominal contribution to PEMHCA is the same for active employees and retirees (\$128/month for 2017 and \$133/month for 2018, and scheduled to be indexed by medical inflation for years after 2018).

Members of the Hercules Police Officers' Association and Executive Management retirees may receive supplement benefits under a sick-leave conversion plan called "Supplemental Optional Monies Allowance for Retirees", or "SOMAR". In order to be eligible the employee must have served the City for at least 10 consecutive years prior to retirement and be at least age 50 when they separate from service, or retire with a disability retirement and have at least 20 years of service with the City.

The SOMAR benefit percentage is based on the lesser of actual years of service, or an equivalent based on sick-leave hours divided by 48, with a minimum percentage of 50% after 10 years and a maximum percentage of 100% after 20 years. The percentage is applied to a stated dollar amount prior to age 65 and the Kaiser Senior Advantage retiree-only premium after age 65, offset by the PEMHCA minimum, described above. The monthly dollar amounts under SOMAR are \$324.95 for 2017 and \$334.70 for 2018 (Police), \$244.48 for 2017 and \$251.81 for 2018 (Executive Management), and are contractually indexed each year by 3%.

Contributions

The contributions are based on pay-go for premiums and contributions to the PARS OPEB trust. The pay-go amount is the actual amount of retiree premiums. Total contributions (pay-go and trust contributions for the year ended June 30, 2018 were \$361,275.

Actuarial Assumptions.

The Net OPEB Liability was determined using an actuarial valuation as of July 1, 2017, using the following actuarial assumptions:

Inflation	2.25%
Salary increases	3.00% , average, including inflation
Discount rate	5.00%, net of investment expense, including inflation
Healthcare cost trend rates	8.00% for 2017-18, decreasing to 5.00% for 2020-21 and after
Retirees' share of costs	The City makes the statutory minimum contribution under PEMHCA, as well as the supplemental benefits based on a sick-leave conversion formula to retired Police and Executive Management.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

The expected long-term rate of return on OPEB plan investments of 6.53%, gross of expenses, was determined by Highmark Capital Management using a building-block method in which best-estimate ranges of expected future real rates of return, net of inflation, are developed for each major asset class. These ranges are combined to produce the long-

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
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term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Employees Covered by Benefit Terms

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	20
Active employees	67
Total	<u>87</u>

Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability as of June 30, 2018.

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at 6/30/18	3,561,218	2,105,130	1,456,088
Changes for the year:			-
Service Cost	127,197	-	127,197
Interest on total OPEB liability	180,251	-	180,251
Difference between expected and actual experience	40,091	-	40,091
Changes of assumptions	-	-	-
Contributions - employer	-	361,275	(361,275)
Net investment income - projected	-	105,256	(105,256)
Difference between projected and actual investment income	-	49,878	(49,878)
Benefit payments, including refunds of employee contributions	(166,793)	(166,793)	-
Net changes	<u>180,746</u>	<u>349,616</u>	<u>(168,870)</u>
Balance at 6/30/19	<u>\$ 3,741,964</u>	<u>\$ 2,454,746</u>	<u>\$ 1,287,218</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City net OPEB 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 discount rate.

	<u>1% Decrease (4.00%)</u>	<u>Current Rate (5.00%)</u>	<u>1% Increase (6.00%)</u>
Net OPEB Liability	\$ 1,850,259	\$ 1,287,218	\$ 833,831

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The following presents the net OPEB liability of the City, as well as what the City net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	<u>1% Decrease (7.00% decreasing to 4%)</u>	<u>Current Rate (8.00% decreasing to 5%)</u>	<u>1% Increase (9.00% decreasing to 6%)</u>
Net OPEB Liability	\$ 875,143	\$ 1,287,218	\$ 1,814,580

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$260,155. OPEB expense represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, and actuarial assumptions or method. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 34,364	\$ -
Changes in assumptions	312,799	-
Net difference between projected and actual earnings on OPEB plan investments	-	40,944
	<u>\$ 347,163</u>	<u>\$ 40,944</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020	68,287	10,324
2021	68,287	10,324
2022	68,287	10,324
2023	68,287	9,972
2024	68,287	-
2026	5,728	-

**CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

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 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

**CITY OF HERCULES
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JUNE 30, 2019**

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.

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 annual expenditures.

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.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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.

NOTE 16 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances/Net Position

As of June 30, 2019, the following funds had a deficit fund balance/net position:

	<u>Balances</u>
Nonmajor Governmental Funds:	
Stormwater Assessment Special Revenue Fund	\$ 111,507
Internal Service Fund:	
Facility Maintenance	49,360
Fiduciary Fund:	
Private Purpose Trust Fund	104,617,793

Private Purpose Trust Fund negative net position of \$104,617,793 will be financed through future revenues. The Stormwater Assessment Special Revenue Fund negative fund balance of \$111,507 will be financed through future revenues. Facility Maintenance Fund negative fund balance of \$49,360 will be financed through future internal charges for service.

CITY OF HERCULES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 17 FINANCIAL CONDITION

Of the \$47.7 million reported as assets in the General Fund, 58.2% 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.

A recap of the amounts due from the Private Purpose Trust Fund and the total assets of the receivable fund at June 30, 2019 is below:

	Total Assets	Amounts Due from Private Purpose Trust Fund	Percentage of Assets Representing Amounts Due to the City
General Fund	\$ 47,740,359	\$ 27,787,637	58.2 %
Hercules Debt Service Fund	18,051,011	6,703,250	37.1
Nonmajor Governmental Funds:			
Developer Impact Fees	7,367,688	5,254,315	71.3
Community Development	431,402	163,200	37.8
Wastewater Fund	76,955,875	10,587,627	13.8
Total	<u>\$ 150,546,335</u>	<u>\$ 50,496,029</u>	33.5

With the dissolution of the redevelopment agency on February 1, 2012 there is uncertainty as to whether the City's General Fund will be repaid the accumulated \$27.8 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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**CITY OF HERCULES
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

**OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB)- SCHEDULE OF CHANGES IN THE NET
OPEB LIABILITY AND RELATED RATIOS**

Last 10 Fiscal Years*

	FY 2018	FY 2019
Total OPEB liability		
Service Cost	\$ 99,270	\$ 127,197
Interest	179,763	180,251
Differences between expected and actual experience	437,919	40,091
Benefit payments	(105,034)	(166,793)
Net change in total OPEB liability	611,918	180,746
Total OPEB liability - beginning	2,949,300	3,561,218
Total OPEB liability - ending (a)	<u>\$ 3,561,218</u>	<u>\$ 3,741,964</u>
 Plan fiduciary net position		
Contributions - employer	\$ 205,034	\$ 361,275
Net investment income	123,771	155,134
Benefit payments	(105,034)	(166,793)
Net change in plan fiduciary net position	223,771	349,616
Plan fiduciary net position - beginning	1,881,359	2,105,130
Plan fiduciary net position - ending (b)	<u>\$ 2,105,130</u>	<u>\$ 2,454,746</u>
 City's net OPEB liability - ending (a) - (b)	<u>\$ 1,456,088</u>	<u>\$ 1,287,218</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	59.11%	65.60%
 Covered employee payroll	\$ 10,035,146	\$ 10,336,200
 City's net OPEB liability as a percentage of covered-employee payroll	14.51%	12.45%
 Measurement date	6/30/2018	6/30/2019

* Additional years will be presented as they become available

**CITY OF HERCULES
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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

* Last 10 Fiscal Years

	Miscellaneous Plans				
	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Net Pension Liability	\$ 6,686,045	\$ 6,891,269	\$ 6,031,627	\$ 4,815,777	\$ 4,699,656
Proportionate Share of the Net Pension Liability	0.16%	0.17%	0.17%	0.18%	0.19%
Covered Payroll	\$ 2,773,422	\$ 2,705,492	\$ 2,697,183	\$ 2,655,670	\$ 3,241,378
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	241.08%	254.71%	223.63%	181.34%	144.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.69%	75.39%	75.87%	78.32%	78.10%
	Safety Plans				
	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Net Pension Liability	\$ 9,268,866	\$ 9,323,198	\$ 8,509,821	\$ 7,337,854	\$ 6,858,740
Proportionate Share of the Net Pension Liability	0.14%	0.16%	0.16%	0.18%	0.18%
Covered Payroll	\$ 2,964,704	\$ 2,259,824	\$ 2,220,165	\$ 2,118,549	\$ 1,942,665
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	312.64%	412.56%	383.30%	346.36%	353.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.39%	71.74%	72.69%	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, 2019**

SCHEDULE OF CONTRIBUTIONS

* Last 10 Fiscal Years

	Miscellaneous Plans Reporting Date (Measurement Date)				
	June 30, 2019 (June 30, 2018)	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Contractually Required Contribution (Actuarially Determined)	770,639	659,810	\$ 558,315	\$ 529,212	\$ 353,148
Contributions Related to the Actuarially Determined Contribution	770,639	659,810	558,315	529,212	353,148
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,773,422	\$ 2,705,492	\$ 2,697,183	\$ 2,655,670	\$ 3,241,378
Contributions as a Percentage of Covered Payroll	27.79%	24.39%	20.70%	22.86%	10.89%

	Safety Plans Reporting Date (Measurement Date)				
	June 30, 2019 (June 30, 2018)	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Contractually Required Contribution (Actuarially Determined)	1,080,225	1,033,755	\$ 1,203,357	\$ 1,024,115	\$ 798,844
Contributions Related to the Actuarially Determined Contribution	1,080,225	1,033,755	1,203,357	1,024,115	798,844
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,964,704	\$ 2,259,824	\$ 2,220,165	\$ 2,118,549	\$ 1,942,665
Contributions as a Percentage of Covered Payroll	36.44%	45.74%	54.20%	47.51%	41.12%

* Additional years will be presented as they become available.

Notes to Schedule

Valuation Date:

6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method
Amortization Method
Asset Valuation Method

Entry Age Normal
For details, see June 30, 2016 Funding Valuation Report.
Actuarial value of assets. For details, see June 30, 2016 Funding Valuation Report.
2.75%
Varies by Entry Age and Service
7.50% Net of Pension Plan Investment and Administrative Expense; includes Inflation.

Inflation
Salary Increases
Investment Rate of Return

Retirement Age

The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
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.

Mortality

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 9,295,713	\$ 9,560,713	\$ 10,680,733	\$ 1,120,020
Licenses and Permits	408,525	408,525	671,108	262,583
Fines, Forfeits and Penalties	35,000	35,000	50,058	15,058
Revenue from Use of Money and Property	339,010	339,010	687,466	348,456
Aid from Other Governments	1,866,203	1,866,203	2,074,598	208,395
Charges for Services	2,080,560	2,123,060	3,306,997	1,183,937
Miscellaneous Revenue	956,915	956,914	92,602	(864,312)
Total Revenues	14,981,926	15,289,425	17,563,562	2,274,137
EXPENDITURES				
Current:				
General Government:				
City Council	342,343	342,343	318,091	24,252
City Manager	376,599	396,580	326,051	70,529
Legal Services	350,000	350,000	394,865	(44,865)
City Clerk Management Services	451,426	451,426	468,218	(16,792)
Risk Management	868,415	868,415	1,152,866	(284,451)
Recruitment	268,341	268,341	243,190	25,151
Finance/Operations	1,312,294	1,312,294	985,522	326,772
Miscellaneous	331,954	363,535	653,848	(290,313)
Total General Government	4,301,372	4,352,934	4,542,651	(189,717)
Public Safety:				
Police Administration	3,097,698	3,097,617	2,773,728	323,889
Police Patrol	3,975,111	3,875,111	4,002,517	(127,406)
Total Public Safety	7,072,809	6,972,728	6,776,245	196,483
Streets and Public Works:				
Street Facilities	601,821	612,518	289,479	323,039
Engineering	83,128	83,128	62,350	20,778
Total Streets and Public Works	684,949	695,646	351,829	343,817
Parks and Recreation:				
Library	134,822	134,822	42,817	92,005
Administration	17,652	17,652	22,982	(5,330)
Facility Rental	192,670	192,670	152,973	39,697
Day Camp	143,928	143,928	150,398	(6,470)
Child Care	687,234	687,234	639,955	47,279
Recreation Classes	147,484	147,484	91,201	56,283
Senior Citizens	93,470	93,470	72,336	21,134
Tiny Tots	274,532	274,532	287,437	(12,905)
Swim Center	297,688	297,688	349,968	(52,280)
Sports Program	126,996	126,996	111,822	15,174
Teen Program	20,666	20,666	17,568	3,098
Youth and Teen Resource Center	177,157	177,157	188,653	(11,496)
Total Parks and Recreation	2,314,299	2,314,299	2,128,110	186,189

CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	<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	\$ 510,342	\$ 565,067	\$ 469,433	\$ 95,634
Building Inspection	211,360	240,488	147,466	93,022
Total Community Development	<u>721,702</u>	<u>805,555</u>	<u>616,899</u>	<u>188,656</u>
Interest	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total Expenditures	<u>15,295,131</u>	<u>15,341,162</u>	<u>14,615,734</u>	<u>725,428</u>
EXCESS OF REVENUES OVER EXPENDITURES	(313,205)	(51,737)	2,947,828	2,999,565
OTHER FINANCING SOURCES (USES)				
Transfers In	110,000	110,000	243,334	133,334
Transfers Out	<u>(245,070)</u>	<u>(245,070)</u>	<u>(2,139,446)</u>	<u>(1,894,376)</u>
Total Other Financing Sources (Uses)	<u>(135,070)</u>	<u>(135,070)</u>	<u>(1,896,112)</u>	<u>(1,761,042)</u>
NET CHANGE IN FUND BALANCES	(448,275)	(186,807)	1,051,716	1,238,523
Fund Balances - Beginning of Year			<u>44,315,832</u>	
FUND BALANCES - END OF YEAR			<u>\$ 45,367,548</u>	

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE
STATE GAS TAX SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental Revenues	\$ 978,187	\$ 978,187	\$ 977,200	\$ (987)
Use Of Money And Property	6,300	6,300	17,143	10,843
Total Revenues	984,487	984,487	994,343	9,856
EXPENDITURES				
Current:				
Streets and Public Works	560,695	689,989	602,531	87,458
Capital Outlay	1,002,500	1,152,500	778,252	374,248
Total Expenditures	1,563,195	1,842,489	1,380,783	461,706
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(578,708)	(858,002)	(386,440)	471,562
OTHER FINANCING SOURCES (USES)				
Transfer Out	(113,788)	(113,788)	(183,584)	(69,796)
Total Other Financing Sources (Uses)	(113,788)	(113,788)	(183,584)	(69,796)
NET CHANGE IN FUND BALANCES	<u>(692,496)</u>	<u>(971,790)</u>	(570,024)	<u>401,766</u>
Fund Balance - Beginning of Year			1,179,906	
FUND BALANCE - END OF YEAR			<u>\$ 609,882</u>	

**CITY OF HERCULES
BUDGETARY COMPARISON SCHEDULE
MEASURE "C" STREET FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
REVENUES				
Intergovernmental Revenues	\$ 378,114	\$ 378,114	\$ 445,488	\$ 67,374
Use of Money and Property	1,870	1,870	12,470	10,600
Total Revenues	<u>379,984</u>	<u>379,984</u>	<u>457,958</u>	<u>77,974</u>
EXPENDITURES				
Current:				
Streets and Public Works	<u>608,209</u>	<u>812,035</u>	<u>557,885</u>	<u>254,150</u>
Total Expenditures	<u>608,209</u>	<u>812,035</u>	<u>557,885</u>	<u>254,150</u>
NET CHANGE IN FUND BALANCES	<u>(228,225)</u>	<u>(432,051)</u>	(99,927)	<u>332,124</u>
Fund Balance - Beginning of Year			<u>739,250</u>	
FUND BALANCE - END OF YEAR			<u>\$ 639,323</u>	

CITY OF HERCULES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

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, 2019, 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.



**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
City of Hercules
Hercules, California

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The City of Hercules's basic financial statements, and have issued our report thereon dated December 5, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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
City of Hercules
Hercules, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Roseville, California
December 5, 2019