

Hercules Public Financing Authority

(A Component Unit of the City of Hercules, California)

Hercules, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2020



Hercules Public Financing Authority
(A Component Unit of the City of Hercules, California)
Basic Financial Statements
For the Year Ended June 30, 2020

Table of Contents

	<u>Page</u>
Independent Auditors' Reports:	
Report on the Financial Statements	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Governmental Fund Financial Statements:	
Balance Sheet.....	11
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position.....	12
Statement of Revenues, Expenses, and Changes in Fund Balances	13
Reconciliation of the Governmental Fund Statement of Revenues, Expenses and Changes in Fund Balances to Government-Wide Statement of Net Position	14
Notes to the Basic Financial Statements	19

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Hercules Public Financing Authority
Hercules, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hercules Public Financing Authority (the "Authority"), a component unit of the City of Hercules, California (the "City"), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 of 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 Authority'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 Authority'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 and each major fund of the Authority as of June 30, 2020, and the changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

200 E. Sandpointe Ave., Suite 600, Santa Ana, California 92707

Tel: 949-777-8800 • Fax: 949-777-8850

www.pungroup.com

Emphasis of Matter

As described in Note 1 to the basic financial statements, these financial statements present only the Hercules Public Financing Authority and do not purport to and do not present fairly the financial position of the City as of June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

As described in Note 5 to the basic financial statements, the Fund has outstanding loans of \$6,703,250 owed by the former redevelopment agency (Agency) of the City. The outstanding loans represent approximately 22% of the Fund's assets. A written agreement between the Agency and the City that created and provided loans or other startup funds for the Agency that were entered into within two years of the formation of the Agency are not invalid. The City is currently working with the California 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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Santa Ana, California
December 18, 2020

**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***

Independent Auditors' Report

To the Board of Directors
of the Hercules Public Financing Authority
Hercules, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Hercules Public Financing Authority (the "Authority"), a component unit of the City of Hercules, California (the "City"), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 18, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

200 E. Sandpointe Ave., Suite 600, Santa Ana, California 92707

Tel: 949-777-8800 • Fax: 949-777-8850

www.pungroup.com

To the Board of Directors
of the Hercules Public Financing Authority
Hercules, California
Page 2

Purpose of this Report

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

The PwC Group, LLP

Santa Ana, California
December 18, 2020

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

Hercules Public Financing Authority
Statement of Net Position
June 30, 2020

ASSETS

Cash with fiscal agents	\$ 9,953,420
Lease receivable	13,414,814
Interest receivable	582,182
Advances to Successor Agency	<u>6,703,250</u>
Total assets	<u><u>30,653,666</u></u>

LIABILITIES

Interest payable	557,613
Bonds payable, due within one year	780,000
Bonds payable, due in more than one year	<u>22,588,234</u>
Total liabilities	<u><u>23,925,847</u></u>

NET POSITION

Restricted for debt services	<u>6,727,819</u>
Total Net Position	<u><u>\$ 6,727,819</u></u>

Hercules Public Financing Authority
Statement of Activities
For the Year Ended June 30, 2020

EXPENSES:

Interest and fiscal agent charges	\$ 1,477,066
-----------------------------------	--------------

PROGRAM REVENUES:

Lease revenues	<u>1,384,044</u>
----------------	------------------

(EXPENSES) OVER REVENUES

(93,022)

GENERAL REVENUES

Investment earnings	<u>117,591</u>
---------------------	----------------

CHANGES IN NET POSITION

24,569

NET POSITION:

Beginning of year	<u>6,703,250</u>
-------------------	------------------

End of year	<u><u>\$ 6,727,819</u></u>
-------------	----------------------------

GOVERNMENTAL FUND FINANCIAL STATEMENTS

This page intentionally left blank.

Hercules Public Financing Authority
Balance Sheet
June 30, 2020

	2003B PFA Lease Revenue Bonds	2009 PFA Taxable Lease Revenue Bonds	2010 PFA Wastewater Revenue Bonds	Total
ASSETS				
Cash with fiscal agents	\$ 285,195	\$ 1,994,223	\$ 7,674,002	\$ 9,953,420
Lease receivable	5,419,805	6,279,445	1,715,564	13,414,814
Interest receivable	24,216	365,008	192,958	582,182
Advances to Successor Agency	6,703,250	-	-	6,703,250
Total assets	12,432,466	8,638,676	9,582,524	30,653,666
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	5,444,021	6,644,453	1,908,522	13,996,996
Total deferred inflows of resources	5,444,021	6,644,453	1,908,522	13,996,996
FUND BALANCES				
Restricted for debt services	6,988,445	1,994,223	7,674,002	16,656,670
Total fund balances	\$ 6,988,445	\$ 1,994,223	\$ 7,674,002	\$ 16,656,670

Hercules Public Financing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2020

Total Fund Balances - Governmental Funds	\$ 16,656,670
---	---------------

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

Lease receivables are not available to pay for current period expenditures and, therefore are deferred in the governmental funds.	13,996,996
---	------------

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

Bonds Outstanding	(23,825,000)
Unamortized Discount on Bonds Outstanding	456,766
Accrued Interest on Long-Term Debt	<u>(557,613)</u>

Total Net Position - Governmental Activities	<u><u>\$ 6,727,819</u></u>
---	----------------------------

Hercules Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2020

	2003B PFA Lease Revenue Bonds	2009 PFA Taxable Lease Revenue Bonds	2010 PFA Wastewater Revenue Bonds	Total
REVENUES:				
Lease revenues	\$ 2,735	\$ 23,660	\$ 91,196	\$ 117,591
Use of money and property	566,110	970,721	741,306	2,278,137
Total revenue	<u>568,845</u>	<u>994,381</u>	<u>832,502</u>	<u>2,395,728</u>
EXPENDITURES:				
Debt services:				
Principal	280,000	190,000	275,000	745,000
Interest and fiscal charges	286,010	724,665	465,903	1,476,578
Total expenditures	<u>566,010</u>	<u>914,665</u>	<u>740,903</u>	<u>2,221,578</u>
Changes in fund balances	2,835	79,716	91,599	174,150
FUND BALANCES:				
Beginning of year	6,985,610	1,914,507	7,582,403	16,482,520
End of year	<u>\$ 6,988,445</u>	<u>\$ 1,994,223</u>	<u>\$ 7,674,002</u>	<u>\$ 16,656,670</u>

Hercules Public Financing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2020

Net Change in Fund Balances - Governmental Funds	\$ 174,150
Amounts reported for governmental activities in the statement of activities are different because:	
Lease receivables are reported as financial resources in the fund statements; however these amounts represent the change in the long-term investment in leases to the Hercules Public Financing Authority and decrease net position.	(894,093)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are reported as expenditures in governmental funds. In addition, interest on long-term debt is not accrued in governmental funds.	
Change in Accrued Interest on Long-Term Debt	(488)
Long-term debt proceeds provide current financial resources for governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Payment of debt principal is an expenditure in the governmental funds but repayment reduces long-term liabilities in the statement of net position:	
Principal Repayments on Long-Term Debt	745,000
Change in Net Position - Governmental Activities	<u>\$ 24,569</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

Hercules Public Financing Authority
Index to the Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies	19
A. Financial Reporting Entity	19
B. Basis of Accounting and Measurement Focus	19
C. Cash and Investments	20
D. Long-Term Debt	20
E. Fund Balances	21
F. Net Position	21
G. Spending Policy	21
H. Use of Estimates	22
I. Implementation of New GASB Pronouncements	22
Note 2 – Cash and Investments	22
A. Investments Authorized by Debt Agreement	23
B. Risk Disclosures	23
Note 3 – Lease Receivable	25
Note 4 – Capital Lease – Sales Type	26
Note 5 – Advances to the Former Hercules Redevelopment Agency	26
Note 6 – Long-Term Debt	27
A. 2003B PFA Lease Revenue Bonds	27
B. 2009 PFA Taxable Lease Revenue Bonds	28
C. 2010 PFA Wastewater Revenue Bonds	28
Note 7 – Contingencies	29
A. Lawsuits	29
B. COVID-19	29
Note 8 – Subsequent Event	29
A. Refinanced 2003B Lease Revenue Bonds	29

This page intentionally left blank.

Hercules Public Financing Authority

Notes to the Basic Financial Statements

For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Hercules Public Financing Authority (the “Authority”) have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority’s significant policies:

A. Financial Reporting Entity

The Authority is a joint powers authority organized by the City of Hercules, California (the “City”) and the former Hercules Redevelopment Agency (Agency) on July 24, 2001 under the laws of the State of California. The Authority was organized to provide financing for public capital improvements and working capital for the City and the Agency through lease, acquisition, or construction of such public capital improvements.

Administrative and related normal business expenses incurred in the day-to-day operations of the Authority are provided by the City and are not included in the accompanying basic financial statements. Management believes that such expenses are insignificant to the Authority’s operations.

The funds of the Authority have been included within the scope of the financial statements of the City because the City Council of the City is the governing board and has financial accountability over the operations of the Authority. Only the financial activity of the Authority is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City.

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Government-Wide Financial Statements

The government-wide financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

Governmental Fund Financial Statements

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, current liabilities, and deferred inflows of resources are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. 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.

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences.

The Authority reports the following major Governmental Funds:

2003B PFA Lease Revenue Bonds Debt Service Fund only the debt component of the City fund, accounts for the accumulation of resources used for the payment and principal interest on the bond issued to cover the financing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building.

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

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

C. Cash and Investments

The Authority's cash and investments are held by a fiscal agent for the redemption of bonded debt and maintaining required reserves. Investments have been made only as permitted by specific State Statutes governing their investments or applicable Authority resolution or bond indenture.

D. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond 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.

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Nonspendable fund balances include amounts that cannot be spent because they are not in a spendable form, such as loans receivable or inventory, or because resources legally or contractually must remain intact.

Restricted – Restricted fund balances are the portion of fund balance that have externally enforceable limitations on their usage through legislation or limitations imposed by creditors, grantor, laws and regulations of other governments or enabling legislation.

Committed – Committed fund balances are self-imposed limitations by the highest level of decision-making authority, namely the Board of Directors, prior to the end of the reporting period. The Board adoption of a resolution is required to commit resources or to rescind the commitment.

Assigned – Assigned fund balances are limitations imposed by management based on the intended use of the funds. Modifications or rescissions of the constraints can be removed by the same type of action that limited the use of the funds. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Authority has authorized the Executive Director for that purpose.

Unassigned – Unassigned fund balances represent the residual net resources in excess of the other classifications.

F. Net Position

In the government-wide financial statements, net position is classified as follows:

Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, related debt, and deferred inflows of resources.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

G. Spending Policy

Government-Wide Financial Statements

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the Authority's policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Spending Policy (Continued)

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Authority's policy is to apply restricted fund balances first, then unrestricted fund balances as needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the Authority uses the unrestricted resources in the following order of committed, assigned and unassigned, except for instances wherein an ordinance specifies the fund balance.

H. 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.

I. Implementation of New GASB Pronouncements

GASB Statement No. 95 - In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Application of this statement is effective immediately and did not have a material effect on Authority's basic financial statements for the year ended June 30, 2020.

Note 2 – Cash and Investments

At June 30, 2020, the Authority's cash and investments are held by fiscal agents totaling \$9,953,420. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

A. Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the investment policy of the City. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

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	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 Issued Time Deposits	1 Years	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 Contract	N/A	None	None

B. Risk Disclosures

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 Authority 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 flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments held by bond trustee to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

Investment Type	Total	Maturity 12 Months or Less
Investments with fiscal agents:		
Money Market Mutual Funds	\$ 9,953,420	\$ 9,953,420
Total	\$ 9,953,420	\$ 9,953,420

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

B. Risk Disclosures (Continued)

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 Authority's portfolio, not to exceed three years.

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

Maturity	Percentage of Portfolio
Up to One Year	10% Minimum
One Year to Five Years	60% Maximum
More Than Five Years	30% Maximum

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 of Palm Springs, or debt agreements, and the actual rating as of year-end for each investment type. The U.S. treasury securities are not analyzed since they are not deemed to have credit risk.

Investment Type	Total	Minimum Legal Rating	S&P Rating as of Fiscal Year Ended	
			AAA	Not Rated
Investments with fiscal agents:				
Money Market Mutual Funds	\$ 9,953,420	N/A	\$ 9,953,420	\$ -
Total	\$ 9,953,420		\$ 9,953,420	\$ -

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of the total Authority investment or 10% of its net investment for mutual funds.

Issuer	Type	Amount
U.S. Treasury Obligation	Mutual Funds	\$ 9,953,420

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

B. Risk Disclosures (Continued)

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 deposit 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 deposit 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 market 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.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investments on behalf of the reporting government.

Note 3 – Lease Receivable

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

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

Year Ending June 30,	2013B PFA Lease Revenue Bonds	2009 PFA Taxable Lease Revenue Bonds	2010 PFA Wastewater Reenud Bonds	Total
2021	\$ 564,805	\$ 908,465	\$ 734,175	\$ 2,207,445
2022	565,735	911,140	733,288	2,210,163
2023	565,731	907,371	731,288	2,204,390
2024	564,938	907,159	728,691	2,200,788
2025	563,431	905,296	730,181	2,198,908
2026-2030	2,815,505	4,518,420	3,640,660	10,974,585
2031-2035	2,239,250	4,476,150	3,628,088	10,343,488
2036-2040	-	3,540,880	3,604,375	7,145,255
2041	-	-	717,500	717,500
Total	7,879,395	17,074,881	15,248,246	40,202,522
Less: Amount representing interest	(2,174,395)	(8,489,881)	(5,713,246)	(16,377,522)
Less: Fiscal agent cash	(285,195)	(1,994,223)	(7,674,002)	(9,953,420)
Total principal outstanding	\$ 5,419,805	\$ 6,590,777	\$ 1,860,998	\$ 13,871,580

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 4 – Capital Lease – Sales Type

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 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 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.

Note 5 – Advances to the Former Hercules Redevelopment Agency

The Authority has advanced funds to the former Redevelopment Agency (Agency) of the City. At June 30, 2020, the balance was \$6,703,250. There was no set repayment schedule as of June 30, 2020.

With the dissolution of the Agency on February 1, 2012, there is uncertainty as to whether the Fund will be repaid the balance in the amount of \$6,703,250 loan owed by the Agency and the Authority 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 the Agency and the City that created and provided loans or other startup funds for the Agency that were entered into within two years of the formation of the Agency are not invalid. The City is currently working with the California 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.

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 6 – Long-Term Debt

The following is summary of changes in long-term liabilities for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Publicly Offered:						
2003B PFA Lease Revenue Bonds	\$ 5,985,000	\$ -	\$ (280,000)	\$ 5,705,000	\$ 295,000	\$ 5,410,000
2009 PFA Taxable Lease Revenue Bonds	8,775,000	-	(190,000)	8,585,000	200,000	8,385,000
Less: Discount on issuance	(328,629)	-	17,297	(311,332)	-	(311,332)
2010 PFA Wastewater Revenue Bonds	9,810,000	-	(275,000)	9,535,000	285,000	9,250,000
Less: Discount on issuance	(152,706)	-	7,272	(145,434)	-	(145,434)
Total	<u>\$ 24,088,665</u>	<u>\$ -</u>	<u>\$ (720,431)</u>	<u>\$ 23,368,234</u>	<u>\$ 780,000</u>	<u>\$ 22,588,234</u>

A. 2003B PFA 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, 2020 is \$5,705,000.

The City is obligated to pay only its Base Rental Payments and Additional Payments under the Lease. The obligation of the City to pay Base Rental Payments or Additional Payments does not constitute an obligation of the city for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The annual debt service requirements to maturity for the 2003B Public Financing Authority Lease Revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
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	355,000	208,431	563,431
2026-2030	2,050,000	765,505	2,815,505
2031-2035	2,030,000	209,250	2,239,250
Total	<u>\$ 5,705,000</u>	<u>\$ 2,174,395</u>	<u>\$ 7,879,395</u>

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 6 – Long-Term Debt (Continued)

B. 2009 PFA Taxable Lease Revenue Bonds

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, 2020 is \$8,585,000.

The Bonds constitute limited obligations of the Authority payable solely from Revenues. The Authority has no taxing power. The obligation of the City to make City Advances does not constitute an obligation of the City which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

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

Year Ending June 30,	Principal	Interest	Total
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	275,000	630,296	905,296
2026-2030	1,765,000	2,753,420	4,518,420
2031-2035	2,625,000	1,851,150	4,476,150
2036-2039	3,010,000	530,880	3,540,880
Total	\$ 8,585,000	\$ 8,489,881	\$ 17,074,881

C. 2010 PFA Wastewater Revenue Bonds

The Authority issued revenue bonds, series 2010, dated August 1, 2010, totaling \$11,765,000. The purpose of the bonds was to finance improvements to the City's wastewater system, fund a reserve fund for the bonds, and pay the costs of issuances of the bonds. The interest rates on the bonds range from 2.00% to 5.130%. Principal and interest payment are due annually beginning August 1, 2011, in amounts ranging from \$230,000 to \$700,000. The bonds mature on August 1, 2040. The balance at June 30, 2020 is \$9,535,000.

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. The full faith and credit of the Authority and the Agency and the City, which are parties to the agreement creating the Authority, are not pledged for the payment of the principal of, or interest on, the Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the principal and interest on the Bonds.

Hercules Public Financing Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 6 – Long-Term Debt (Continued)

C. 2010 PFA Wastewater Revenue Bonds (Continued)

The annual debt service requirements to maturity for the 2010 PFA Wastewater Revenue Bonds as of June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total
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	330,000	400,181	730,181
2026-2030	1,885,000	1,755,660	3,640,660
2031-2035	2,385,000	1,243,088	3,628,088
2036-2040	3,035,000	569,375	3,604,375
2041	700,000	17,500	717,500
Total	<u>\$ 9,535,000</u>	<u>\$ 5,713,246</u>	<u>\$ 15,248,246</u>

Note 7 – Contingencies

A. Lawsuits

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

B. COVID-19

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Authority could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the Authority and the duration cannot be estimated at this time.

Note 8 – Subsequent Event

A. Refinanced 2003B Lease Revenue Bonds

On August 1, 2020, the Hercules Public Financing Authority refinanced the proceeds of the Lease Revenue Bonds, Series 2003B, in the aggregate principal amount of \$5,876,843. The interest rates of 2.21% with the final maturity due on December 1, 2033. The debt service payments are scheduled semi-annually at amounts that range from \$106,428 to \$560,249

This page intentionally left blank.