Hercules Wastewater Fund

(An Enterprise Fund of the City of Hercules, California)

Hercules, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2020

THE PUN GROUP
ACCOUNTANTS & ADVISORS

Hercules Wastewater Fund
(An Enterprise Fund of the City of Hercules, California)
Basic Financial Statements
For the Year Ended June 30, 2020

Table of Contents

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Hercules Wastewater Fund (the "Fund"), an enterprise fund of the City of Hercules, California (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund'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 an opinion 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 Fund'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 Fund'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2020, and the changes in financial position and cash flows, 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 Wastewater Fund 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 $10,587,627 owed by the former redevelopment agency (Agency) of the City. The outstanding loans represent approximately 13% of the Fund's assets. A written agreement between the Agency and the City that created and provided these 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

Accounting principles generally accepted in the United States of America require that the Schedules of Proportionate Share of Net Pension Liability, the Schedules of Contributions – Pensions, the Schedule of Proportionate Share of Net Other Postemployment Benefits Liability (Asset) - PEHMCA, and the Schedule of Proportionate Share of Net Other Postemployment Benefits Liability - SOMAR 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.

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

The Pun Group, LLP

Santa Ana, California
December 18, 2020

This page intentionally left blank.

THE PUN GROUP
ACCOUNTANTS & ADVISORS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hercules Wastewater Fund (the "Fund"), an enterprise fund 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 Fund'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 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Fund 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

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 Pun Group, LLP

Santa Ana, California
December 18, 2020

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

Hercules Wastewater Fund
Statement of Net Position
June 30, 2020

ASSETS		
Current assets:		
Cash and investments	$	23,937,404
Cash and investments with fiscal agent		7,674,002
Total current assets		31,611,406
Noncurrent assets:		
Advances to Private Purpose Trust Fund (Note 5)		10,587,627
Net OPEB assets (PEHMCA)		11,718
Capital assets:		
Nondepreciable		191,700
Depreciable, net		39,850,888
Total noncurrent assets		50,641,933
Total assets		82,253,339
DEFERRED OUTFLOWS OF RESOURCES		
Pensions-related deferred outflows of resources		193,603
OPEB-related deferred outflows of resources (PEHMCA)		16,117
OPEB-related deferred outflows of resources (SOMAR)		17,844
Total deferred outflows of resources		227,564
LIABILITIES		
Current liabilities:		
Accounts payable		2,802,480
Retentions payable		1,159,221
Salaries and benefits payable		24,824
Accrued interest payable		192,958
Long-term debt - due within one year		1,433,675
Total current liabilities		5,613,158
Noncurrent liabilities:		
Long-term debt - due in more than one year		33,459,837
Net pension liability		694,727
Net OPEB liability (SOMAR)		99,901
Total noncurrent liabilities		34,254,465
Total liabilities		39,867,623
DEFERRED INFLOWS OF RESOURCES		
Pensions-related deferred outflows of resources		34,750
OPEB-related deferred outflows of resources (PEHMCA)		73,037
Total deferred inflows of resources		107,787
NET POSITION		
Net investment in capital assets		5,149,076
Restricted for debt services		7,674,002
Unrestricted		29,682,415
Total net position	$	42,505,493

See accompanying Notes to the Basic Financial Statements.

Hercules Wastewater Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

OPERATING REVENUES:	
Charges for services	$ 5,719,257
Total operating revenues	5,719,257
OPERATING EXPENSES:	
Salaries and benefits	655,363
Services and supplies	2,803,653
Depreciation	668,202
Total operating expenses	4,127,218
Operating income	1,592,039
NONOPERATING REVENUES (EXPENSES):	
Interest income	501,741
Interest (expense)	(465,902)
Total nonoperating revenues (expenses), net	35,839
CHANGES IN NET POSITION	1,627,878
NET POSITION:	
Beginning of year	40,877,615
End of year	$ 42,505,493

See accompanying Notes to the Basic Financial Statements.

Hercules Wastewater Fund
Statement of Cash Flows
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	$	5,719,257
Cash paid to suppliers for goods and services		(2,086,155)
Cash paid to employees for services		(599,359)
Net cash provided by operating activities		3,033,743
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt		3,152,095
Payments related to the acquisition of capital assets		(2,919,559)
Principal repayments related to capital purposes		(275,000)
Interest repayments related to capital purposes		(458,630)
Net cash (used in) capital and related financing activities		(501,094)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received		501,741
Net cash provided by investing activities		501,741
NET CHANGES IN CASH AND CASH EQUIVALENTS		3,034,390
CASH AND CASH EQUIVALENTS:		
Beginning of year		28,577,016
End of year	$	31,611,406
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:		
Cash and investments	$	23,937,404
Cash and investments with fiscal agent		7,674,002
Total cash and cash equivalents	$	31,611,406
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	1,592,039
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		668,202
(Increase) Decrease in Assets and Deferred Outflows		
Pensions-related deferred outflows		(63,489)
OPEB-related deferred outflows		(15,898)
Increase (Decrease) in Liabilities and Deferred Inflows		
Accounts payable		717,498
Salaries and benefits payable		3,353
Net pension liability		57,727
Pensions-related deferred inflows		(24,900)
Net OPEB liability		21,709
OPEB-related deferred inflows		70,845
Compensated absences		6,657
Total adjustments		1,441,704
Net cash provided by operating activities	$	3,033,743

See accompanying Notes to the Basic Financial Statements.

This page intentionally left blank.

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Hercules Wastewater Fund ("Fund"), an enterprise fund of the City of Hercules, California (the "City"), 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 City's significant policies relating to the Fund:

A. Reporting Entities

The Hercules Wastewater Fund is an enterprise fund of the City's financial statements. 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.

These financial statements present only the Wastewater Fund 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.

B. Measurement Focus and Basis of Accounting

Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Proprietary funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total 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. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating 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.

C. Cash and Investments

All cash and investments of the Fund are held in the City's investment pool. These cash pools have the general characteristics of a demand deposit account, therefore, all cash and investments in the Fund are considered cash and cash equivalents for statement of cash flows purposes.

Investments are stated at fair value (quoted market price or best available estimate thereof).

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Cash and Investments with Fiscal Agents

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

E. Revenues

Wastewater revenues (wastewater disposal services) are recorded as billed to customers on a cyclical basis. All wastewater customers are billed annually by the Contra Costa County Treasurer-Tax Collector Office.

F. Capital Assets

Capital assets are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are valued at their estimated acquisition value on the date donated. City policy has set the capitalization threshold for reporting capital assets with an initial, individual cost of more than $2,500 for general capital assets and $5,000 for infrastructure capital assets, and an estimated useful life of one year or more.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives used for depreciation purposes are as follows:

Wastewater structure	30 Years
Machinery and equipment	5-20 Years
Infrastructure	15-50 Years

G. Accounts Payable

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

H. Long-Term Debt

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.

I. Compensated Absences

City employees have vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the City to pay all accumulated vacation pay and all or a portion of sick pay when an employee retires or terminates. Compensated absences are expensed in the period they are earned, and the unpaid liability is recorded as a long-term liability.

Note 1 – Summary of Significant Accounting Policies (Continued)

J. Pensions

For purposes of measuring the aggregate net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 7). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS	
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 - June 30, 2019

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Pension benefits are expensed to the various funds in the period they are earned, and the unpaid liability is recorded as a long-term liability.

K. Other Postemployment Benefits ("OPEB")

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the plan (Note 8). For this purpose, the OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The following timeframes are used for OPEB reporting:

OPEB	
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 - June 30, 2020

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over 5 years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Net Position

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.

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

M. 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.

N. 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 City's Wastewater financial statements for the fiscal year ended June 30, 2020.

Note 2 – Cash and Investments

Cash and investments at June 30, 2020 consisted of the following:

Cash and investments pooled with City	$	23,937,404
Cash and investments with fiscal agents		7,674,002
Total	$	31,611,406

Note 2 – Cash and Investments (Continued)

A. Cash and Investments Pooled with City

The Fund pools its cash and investments with the City in order to achieve a higher return on investment. Certain funds which are held and invested by independent outside custodians through contractual agreements, are not pooled. Interest earned on investments is allocated using the LAIF factor and average quarterly balances. Required disclosure information regarding investments and other deposit, and related risk disclosures can be found in the City's financial statements. The City's financial statements may be obtained by contacting the City's Finance Department's office at 111 Civic Drive, Hercules, California.

At June 30, 2020, the Fund has deposited $23,937,404 in the City's investment pool. Investments held in the City's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

B. Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized by the City's investment policy and the California Government Code. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address 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 Issued 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

*The table is based on state law requirements or investment policy requirements, whichever is more restrictive.

Note 2 – Cash and Investments (Continued)

C. 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

D. Fair Value Measurement

At June 30, 2020, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within the fair value hierarchy in which the fair value measurements fall at June 30, 2020:

Investment Type	Uncategorized	Total
Cash and investments pooled with City	$ 23,937,404	$ 23,937,404
Investments with fiscal agents:		
Money Market Mutual Funds	7,674,002	7,674,002
Total	$ 31,611,406	$ 31,611,406

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures

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 is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund 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 Fund'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 Fund's investments by maturity:

Investment Type	Total	Maturity 12 Months or Less
Cash and investments pooled with City	$ 23,937,404	$ 23,937,404
Investments with fiscal agents:		
Money Market Mutual Funds	7,674,002	7,674,002
Total	$ 31,611,406	$ 31,611,406

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.

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

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures (Continued)

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

Investment Type	Total	Minimum Legal Rating	S&P Rating as of Fiscal Year Ended AAA	Not Rated
Cash and investments pooled with City	$ 23,937,404	N/A	$ -	$ 23,937,404
Investments with fiscal agents:				
Money Market Mutual Funds	7,674,002	N/A	7,674,002	-
Total	$ 31,611,406		$ 7,674,002	$ 23,937,404

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Fund has 100% of its cash and investments pooled with the City.

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 provision for deposits as disclosed in Note 2A.

Note 3 – Capital Assets

Summary of changes in capital assets for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Reclassification/ Transfers	Balance June 30, 2020
Nondepreciable assets:				
Land	$ 191,700	$ -	$ -	$ 191,700
Construtio in progress	25,198,496	-	(25,198,496)	-
Total nondepreciable assets	25,390,196	-	(25,198,496)	191,700
Depreciable assets:				
Structures and improvements	11,335,199	2,919,559	24,070,513	38,325,271
Machinery and equipment	250,345	-	-	250,345
Infrastructure	13,729,500	-	1,127,983	14,857,483
Subtotal	25,315,044	2,919,559	25,198,496	53,433,099
Less: accumulated depreciation:				
Structures and improvements	(10,556,851)	(162,018)	-	(10,718,869)
Machinery and equipment	(180,449)	(16,905)	-	(197,354)
Infrastructure	(2,176,709)	(489,279)	-	(2,665,988)
Subtotal	(12,914,009)	(668,202)	-	(13,582,211)
Total depreciable assets, net	12,401,035	2,251,357	25,198,496	39,850,888
Total capital assets, net	$ 37,791,231	$ 2,251,357	$ -	$ 40,042,588

Depreciation expense in the amount of $668,202 was charged to the Fund for the year ended June 30, 2020.

Note 4 – Long-Term Debt

Summary of changes in long-term debt for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Publicly Offered:						
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)
Publicly Owned Treatement Works						
Construction Loan	22,305,600	3,152,095	-	25,457,695	1,102,424	24,355,271
Compensated Absences	39,595	33,327	(26,671)	46,251	46,251	-
Total	$ 32,002,489	$ 3,185,422	$ (294,399)	$ 34,893,512	$ 1,433,675	$ 33,459,837

A. 2010 PFA 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 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.

Note 4 – Long-Term Debt (Continued)

A. 2010 PFA Wastewater Revenue Bonds (Continued)

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.

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	$ 9,535,000	$ 5,713,246	$ 15,248,246

B. Publicly Owned Treatment Work Construction Loan

In June 2016, the City 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 are 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 $25,457,695 of the loan principal including construction loan interest as of June 30, 2020.

The annual debt service requirements to maturity for the Publicly Owned Treatment Works Construction Loan as of June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 1,102,423	$ 408,414	$ 1,510,837
2022	1,096,780	414,057	1,510,837
2023	1,115,425	395,412	1,510,837
2024	1,134,388	376,450	1,510,838
2025	1,153,672	357,165	1,510,837
2026-2030	6,069,301	1,484,886	7,554,187
2031-2035	6,603,033	951,153	7,554,186
2036-2040	7,182,672	370,486	7,553,158
Total	$ 25,457,694	$ 4,758,023	$ 30,215,717

Note 5 – Advances to the Former Hercules Redevelopment Agency

The Fund has advanced funds to the former Redevelopment Agency (Agency) of the City. At June 30, 2020, the balance was $10,587,627. 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 $10,587,627 loan owed by 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 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.

Note 6 – Risk Management

The Fund is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Fund participates in the City's insurance programs to insure against these losses.

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.

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

Miscellaneous Coverages

The MPA provides additional coverage for the following risks incurred by the City:

	Deductibles	Coverage Limits
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.

Note 6 – Risk Management (Continued)

Miscellaneous Coverages (Continued)

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.

Note 7 – Public Employee 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 Miscellaneous 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.

The Plans' provisions and benefits in effect at June 30, 2020, are summarized below:

	Miscellaneous	Miscellaneous Tier 2
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 % of eligible compensation	1.426 - 2.148%	1.0 - 2.5%
Required employee contribution rate	7.0%	6.25%
Required employer contribution rate	9.680%	6.985%

***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. In addition, effective October 21, 2018, employees pay an additional 3% applied to the Employer CalPERS Contribution Rate.

The City contributed $95,532 towards the Fund's share of the Miscellaneous Pension Plan during the year ended June 30, 2020.

Note 7 – Public Employee Retirement System (Continued)

B. Net Pension Liability

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

		Plan Total Pension Liability		Plan Fiduciary Net Position		Net Pension Liability/(Asset)
Miscellaneous						
Balance at: 6/30/18 (Valuation date)	$	2,570,007	$	1,933,007	$	637,000
Balance at: 6/30/19 (Measurement date)		2,786,680		2,091,953		694,727
Net changes during 2018-2019	$	216,673	$	158,946	$	57,727

The Fund's proportionate share of the City's net pension liability for the retirement plans is measured as the proportionate share of the net pension liability. The net pension liability of the retirement plans is measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The Fund's proportion of the net pension liability was based on a projection of the Fund's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Fund's proportionate share of the net pension liability as of the June 30, 2018 measurement date (June 30, 2019 reporting date) and 2019 measurement date (June 30, 2020 reporting date) was as follows:

	Fund's Proportion to City's Share Pool
Proportion - June 30, 2019	9.52731%
Proportion - June 30, 2020	9.71077%
Change - Increase/(Decrease)	0.18346%

For the year ended June 30, 2020, the Fund recognized pension expense of $(30,662). At June 30, 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan				
		Deferred Outflows of Resources		Deferred Inflows of Resources
Contribution made after the measurement date	$	95,532	$	-
Difference between expected and actual experience		56,299		(4,714)
Changes of assumptions		41,772		(14,808)
Net difference between projected and actual earnings on pension plan investments		-		(15,228)
Total	$	193,603	$	(34,750)

Note 7 – Public Employee Retirement System (Continued)

B. Net Pension Liability (Continued)

$95,532 was reported as deferred outflows of resources related to pensions resulting from Fund's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30	Miscellaneous Plan	
2020	$	58,761
2021		(5,242)
2022		7,308
2023		2,494
2024		-
Thereafter		-
Total	$	63,321

Actuarial Assumptions

The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	3.3% to 14.2% depending on age, service, and type of employment
Investment Rate of Return	7.3755%
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.5% thereafter.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2014. Further details of the Experience Study can be found on the CalPERS website.

Note 7 – Public Employee Retirement System (Continued)

B. Net Pension Liability (Continued)

Discount Rate

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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 geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 [1]	Real Return Years 11 + [2]
Global equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

[1] An expected inflation of 2.0% was used for this period.

[2] An expected inflation of 2.92% was used for this period.

The discount rate used to measure the total pension liability was 7.15% for the plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 Section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.00% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference was deemed immaterial to the Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan.

Note 7 – Public Employee Retirement System (Continued)

B. Net Pension Liability (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Fund's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the Fund'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:

	Plan's Net Pension Liability		
	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous	$ 1,050,218	$ 694,727	$ 326,602

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the CalPERS Pension Plans

At June 30, 2020, the Fund had no outstanding amounts owed to the CalPERS pension plans for contributions for the year ended June 30, 2020.

Note 8 – Other Postemployment Benefits ("OPEB")

A. Retiree Healthcare Plan (PEHMCA)

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.

Note 8 – Other Postemployment Benefits ("OPEB") (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

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 benefits is determined under the "Equal Contribution Method" under PEHMCA under which the City's nominal contribution to PEMHCA is the same for active employees and retirees ($136/month for 2019 and $139/month for 2020).

Proportionate share of the City's postemployment benefits liabilities and related deferred outflows and inflows have been allocated to the Fund.

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, 2020 were $11,571.

Actuarial Assumptions

The net OPEB liability of the Plan was determined using an actuarial valuation as of July 1, 2019 using the following actuarial assumptions:

Discount Rate	5.40%
Inflation	2.25%
Aggregate payroll increases	2.75%
Expected long-term investment rate of return	n/a
Mortality, Termination, and Disability	CalPERS 1997-2014
Mortality Improvement Scale	RP-2014 Employee and Healthy Annuitant Mortality Tables for males and females.
Healthcare Trend Rate	4%

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.

Discount Rate

The discount rate used to measure the total Plan's OPEB liability was 5.4%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the City plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 8 – Other Postemployment Benefits ("OPEB") (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

Discount Rate (Continued)

The expected long-term rate of return on OPEB plan investments of 5.4%, 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 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	New Strategic Allocation	Long-Term Expected Real Rate of Return
All Domestic Equities	30.00%	7.50%
All Fixed Income	65.00%	4.50%
Short-Term Gov't Fixed	5.00%	3.25%
	100.00%	

Proportionate Share of Net OPEB Liability and OPEB Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability (asset) over the measurement period:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at: 6/30/18 (Valuation date)	$ 193,241	$ 126,767	$ 66,474
Balance at: 6/30/19 (Measurement date)	169,423	181,141	(11,718)
Net changes during 2018-2019	$ 23,818	$ (54,374)	$ 78,192

The Fund's proportionate share of the City's net OPEB liability (asset) for the OPEB plan is measured as the proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) of the OPEB plans is measured as of June 30, 2019, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The Fund's proportion of the net OPEB liability (asset) was based on a projection of the Fund's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined. The Fund's proportionate share of the net OPEB liability as of the June 30, 2018 measurement date (June 30, 2019 reporting date) and 2019 measurement date (June 30, 2020 reporting date) was as follows:

	Fund's Proportion to City's Share Pool
Proportion - June 30, 2019	5.16416%
Proportion - June 30, 2020	6.79809%
Change - Increase/(Decrease)	1.63393%

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the Plan, as well as what the City’s net OPEB liability (asset) would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

Net OPEB Liability (Asset)		
Discount Rate - 1% (3.4%)	Current Discount Rate (5.4%)	Discount Rate + 1% (5.4%)
$ 10,996	$ (11,718)	$ (30,557)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability (asset) of the Plan, as well as what the Plan’s net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that 1% lower or 1% higher than the current healthcare cost trend rate:

Net OPEB Liability (Asset)		
Healthcare Cost Trend Rates 3%	Healthcare Cost Trend Rates 4%	Healthcare Cost Trend Rates 5%
$ (34,435)	$ (11,718)	$ 15,769

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

For the year ended June 30, 2020, the Fund recognized OPEB expense of $10,556 for the Plan. 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, 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,485	$ (58,717)
Changes of assumptions	12,975	(14,320)
Net difference between projected and actual earning on OPEB plan investments	1,657	-
Total	$ 16,117	$ (73,037)

Note 8 – Other Postemployment Benefits ("OPEB") (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

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

Measurement Period Ending June 30		Deferred Outflows/ (Inflows) of Resources
2020	$	(2,959)
2021		(2,959)
2022		(2,978)
2023		(3,518)
2024		(6,919)
Thereafter		(37,587)
Total	$	(56,920)

B. Retiree Cash Benefit Plan (SOMAR Plan)

Plan Description

The City provide an optional monetary allowance with an annual three (3%) adjustment each year to Public Safety and Executive employees who retire as regulated by the Public Employee's Retirement System. To be eligible for the optional monies, an employee must retire as follows:

1. Service Retirement: Employees who have served the City for at least ten (10) consecutive years immediately prior to retirement and are at least fifty (50) years old when they separate service from the City.

2. Disability Retirement: Employees who retire with a disability retirement are not required to be a certain age, but must have at least twenty (20) years of service with the City.

Employees must have the minimum amount of sick leave on the books, as outlined in the chart below. If an employee has below the amount of sick leave required for their years of service, then they will only be eligible for the percentage paid equivalent to the amount of sick leave they do have on the books.

Years of Service	Sick Leave Balance	% of Optional Money Available
10	480	50
11	528	55
12	576	60
13	624	65
14	672	70
15	720	75
16	768	80
17	846	85
18	864	90
19	912	95
20-24	960	100
25	No Minimum amount required	100

Note 8 – Other Postemployment Benefits ("OPEB") (Continued)

B. Retiree Cash Benefit Plan (SOMAR Plan) (Continued)

Employees must retire within one hundred twenty (120) days. In addition, employees who separate service but do not retire as a PERS annuitant, shall not be eligible under for SOMAR benefits.

The City will pay a portion of the optional money to a retiree until the retiree reaches age sixty-five (65), upon which they are required to enroll in Medicare. At that time, the optional money will drop to an amount equivalent to the Kaiser Supplemental to Medicare rate through PERS.

The SOMAR benefit is expected to last into perpetuity. Payment are made on a bi-annual basis.

Benefits Provided

The SOMAR plan's provisions and benefits in effect at June 30, 2020, are summarized below:

	Executives
Duration of benefits	Lifetime
Required service	50% at 10 years grading to 100% at 20 years
Minimum age	Retirement
Amount	$263 per month pre-65; based on Kaiser premium post-65

Contributions

For the year ended June 30, 2020, the Fund contributions recognized as part of OPEB expense for the SOMAR plan were $2,182.

Actuarial Assumptions

The net pension liability of the SOMAR Plan was determined using an actuarial valuation as of July 1, 2019 using the following actuarial assumptions:

Cost method	Entry age normal
Discount Rate	2.20%
Inflation	2.75%
Aggregate payroll increases	2.75%
Mortality, retirement, and turnover	2017 CalPERS tables
Mortality Improvement Scale	RP-2014 Employee and Healthy Annuitant Mortality Tables for males and females.

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

B. Retiree Cash Benefit Plan (SOMAR Plan) (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability for the SOMAR plan was 2.2%. This discount rate estimates investment earnings for assets earmarked to cover retiree cash benefit liabilities. Since the SOMAR plan is an unfunded plan, the discount rate is based on an index of 20-year General Obligation municipal bonds.

Proportionate Share of Net OPEB Liability and OPEB Expense

The Fund proportionate share of the net OPEB liability as of June 30, 2019, measurement date, is as follows:

Plan's Proportion to Total Pool at June 30, 2019	Proportionate Share of Net OPEB Liability
5.357%	$ 99,901

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

The following presents the net pension liability of the SOMAR Plan, as well as what the SOMAR Plan’s net pension liability (asset) would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

SOMAR Plan's Total OPEB Liability		
Discount Rate - 1% (1.2%)	Current Discount Rate (2.2%)	Discount Rate + 1% (3.2%)
$ 118,690	$ 99,901	$ 84,165

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Relate to Pension

For the year ended June 30, 2020, the City recognized pension expense of $9,739 for the SOMAR plan. OPEB expense represents the change in the net pension 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, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the SOMAR plan:

	SOMAR Plan	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of assumptions	$ 17,844	$ -
Total	$ 17,844	$ -

Note 8 – Other Postemployment Benefits ("OPEB") (Continued)

B. Retiree Cash Benefit Plan (SOMAR Plan) (Continued)

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

Measurement Period Ending June 30	SOMAR Plan Deferred Outflows/ (Inflows) of Resources	
2020	$	1,785
2021		1,785
2022		1,785
2023		1,785
2024		1,785
Thereafter		8,919
Total	$	17,844

Payable to the OPEB Plan

At June 30, 2020, the Fund had no outstanding amounts owed to the SOMAR OPEB plan for contributions for the year ended June 30, 2020.

Note 9 – Contingencies

A. Lawsuits

The Fund is not involved in any matters of litigation that have arisen in the normal course of conducting business. Additionally, management believes that the City'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 Fund 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 Fund and the duration cannot be estimated at this time.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

This page intentionally left blank.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net Pension Liability
For the Year Ended June 30, 2020

Last Ten Fiscal Years [1]

California Public Employees' Retirement System (CalPERS)

	Miscellaneous Plans					
Measurement Date:	**June 30, 2019[1]**	**June 30, 2018[1]**	**June 30, 2017[1]**	**June 30, 2016[1]**	**June 30, 2015[1]**	**June 30, 2014[1]**
Proportion of the Net Pension Liability	9.71%	9.53%	9.53%	0.17%	0.18%	0.19%
Proportionate Share of the Net Pension Liability	$ 694,727	$ 637,000	$ 659,623	$ 562,902	$ 481,238	$ 462,583
Covered-Employee Payroll	$ 378,662	$ 352,136	$ 258,966	$ 251,715	$ 265,380	$ 319,046
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	183.47%	180.90%	254.71%	223.63%	181.34%	144.99%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.07%	77.69%	75.39%	75.87%	78.32%	78.10%

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the Pension Plan
For the Year Ended June 30, 2020

Last Ten Fiscal Years [1]

California Public Employees' Retirement System (CalPERS)

	Miscellaneous Plans					
Fiscal Year:	**2019-20[1]**	**2018-19[1]**	**2017-18[1]**	**2016-17[1]**	**2015-16[1]**	**2014-15[1]**
Actuarially Determined Contribution[2]	$ 95,532	$ 91,514	$ 63,159	$ 52,105	$ 52,884	$ 34,760
Contribution in Relation to the Actuarially Determined Contribution[2]	(95,532)	(91,514)	(63,159)	(52,105)	(52,884)	(34,760)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll[3]	$ 378,662	$ 352,136	$ 258,966	$ 251,715	$ 265,380	$ 319,046
Contributions as a Percentage of Covered-Employee Payroll	25.23%	25.99%	24.39%	20.70%	19.93%	10.89%

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of the Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net OPEB Liability (Asset) (PEHMCA)
For the Year Ended June 30, 2020

Last Ten Fiscal Years [1]

Measurement Date:	**June 30, 2019[1]**	**June 30, 2018[1]**	**June 30, 2017[1]**
Proportion of the Net OPEB Liability (Asset)	6.80%	5.16%	5.19%
Proportionate Share of the Net OPEB Liability (Asset)	$ (11,718)	$ 66,474	$ 75,521
Covered-Employee Payroll	$ 378,662	$ 352,136	$ 258,966
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll	-3.09%	18.88%	29.16%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	106.92%	65.60%	59.11%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the OPEB Plan (PEHMCA)
For the Year Ended June 30, 2020

Last Ten Fiscal Years [1]

Fiscal Year:	**2019-20[2]**	**2018-19**	**2017-18**
Actuarially Determined Contribution	$ 11,571	$ 18,642	$ 10,641
Contribution in Relation to the Actuarially Determined Contribution	(11,571)	(18,642)	(10,641)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 378,662	$ 352,136	$ 258,966
Contributions as a Percentage of Covered-Employee Payroll	3.06%	5.29%	4.11%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

[2] Effective for the year ended June 30, 2020, PEHMCA Plan is valued separately.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net OPEB Liability (Asset) (SOMAR)
For the Year Ended June 30, 2020

Last Ten Fiscal Years [1]

Measurement Date:	**June 30, 2020**[1 2]
Proportion of the Net OPEB Liability (Asset)	6.80%
Proportionate Share of the Net OPEB Liability (Asset)	$ (11,718)
Covered-Employee Payroll	$ 378,662
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll	-3.09%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.00%

[1] Historical information is presented only for periods for which GASB 75 is applicable.

[2] SOMAR Plan is now valued separately from PEHMCA Plan effective June 30, 2020.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the OPEB Plan (SOMAR)
For the Year Ended June 30, 2020

Last Ten Fiscal Years [1]

Fiscal Year:	**2019-20[2]**
Actuarially Determined Contribution	$ 2,182
Contribution in Relation to the Actuarially Determined Contribution	(2,182)
Contribution Deficiency (Excess)	$ -
Covered-Employee Payroll	$ 378,662
Contributions as a Percentage of Covered-Employee Payroll	0.58%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

[2] Effective for the year ended June 30, 2020, SOMAR Plan is valued separately.