



City of Hercules California

ANNUAL FINANCIAL REPORT
For the fiscal year ending June 30, 2008



CITY OF HERCULES
TABLE OF CONTENTS
For the fiscal year ended June 30, 2008

INTRODUCTORY SECTION

Letter of Transmittal	i
City Officials	v
Organizational Chart	vi

FINANCIAL SECTION

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets	19
Statement of Activities	20

Fund Financial Statements:

Governmental Funds:	23
Balance Sheet	24
Reconciliation of the Governmental Funds – Balance Sheet to the Statement of Net Assets	27
Statement of Revenues, Expenditures, and Changes in Fund Balances	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	30
Proprietary Funds:	31
Statement of Net Assets	32
Statement of Revenues, Expenses, and Change in Net Assets	34
Statement of Cash Flows	35
Fiduciary Funds:	37
Statement of Net Assets	38
Statement of Change in Fiduciary Net Assets	39
Notes to Basic Financial Statements	40

Required Supplementary Information:

Budgetary Principles	69
Budgetary Comparison Schedule – General Fund	70
Budgetary Comparison Schedule – Redevelopment Agency Special Revenue Fund	71

CITY OF HERCULES
TABLE OF CONTENTS
For the fiscal year ended June 30, 2008

FINANCIAL SECTION (Continued)

Other Supplementary Information:

Budgetary Comparison Schedule – Redevelopment Agency Debt Service Fund 73
Budgetary Comparison Schedule – Hercules Public Financing Authority Debt Service Fund 74
Budgetary Comparison Schedule – Redevelopment Agency Capital Projects Fund..... 75

Nonmajor Governmental Funds: 77

 Combining Balance Sheet 80

 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 84

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – AB3229 COPS Program Special Revenue Fund 88

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – Citywide L&L Special Revenue Fund 89

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – LLAD Special Revenue Fund 90

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – Stormwater Assessment Special Revenue Fund..... 91

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – DIF Special Revenue Fund 92

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – Community Development Special Revenue Fund... 93

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – Development Fee Special Revenue Fund..... 94

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – Developer Park Fees Special Revenue Fund..... 95

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – State Gas Tax Special Revenue Fund..... 96

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – Measure C Street Special Revenue Fund... 97

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – STMP Traffic Impact Special Revenue Fund 98

 Schedule of Revenues, Expenditures, and Changes in Fund Balance

 Budget and Actual – SB 1266 Road Improvement Special Revenue Fund 99

CITY OF HERCULES
TABLE OF CONTENTS
For the fiscal year ended June 30, 2008

FINANCIAL SECTION (Continued)

Nonmajor Governmental Funds: (Continued)

Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – State AB-939 Special Revenue Fund	100
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Grant Special Revenue Fund	101
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Fiscal Neutrality Fee Special Revenue Fund	102
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – City Capital Projects Fund	103
Internal Service Funds:	105
Combining Statement of Net Assets	106
Combining Statement of Revenues, Expenses, and Change in Net Assets	107
Combining Statement of Cash Flows	118
Fiduciary Funds:	111
Combining Statement of Assets and Liabilities	112
Combining Statement of Changes in Assets and Liabilities	114
Independent Auditor’s 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	118

STATISTICAL SECTION

Net Assets by Component	121
Changes in Net Assets	122
Governmental Activities Tax Revenues by Source	124
Fund Balances – Governmental Funds	126
Changes in Fund Balances – Governmental Funds	127

CITY OF HERCULES
TABLE OF CONTENTS
For the fiscal year ended June 30, 2008

STATISTICAL SECTION (Continued)

Assessed Value and Estimated Actual Value of Taxable Property	128
Direct and Overlapping Property Tax Rates	129
Principal Property Taxpayers.....	130
Property Tax Levies and Collections	131
Ratios of General Bonded Debt Outstanding.....	132
Ratios of Outstanding Debt by Type	133
Direct and Overlapping Governmental Activities Debt.....	134
Legal Debt Margin Information	135
Revenue Pledged Bonds Information	136
Revenue Pledged Bonds Information – Alfred Nobel Assessment.....	140
Revenue Pledged Bonds Information – John Muir Parkway Assessment	141
Demographic and Economic Statistics.....	142
Principal Employers.....	143
Full-time Equivalent City Governmental Employees by Functions	144
Operation Indicators by Function/Program.....	145
Capital Asset Statistics by Function/Program.....	146

INTRODUCTORY SECTION



January 29, 2009

To the Honorable Mayor and City Council, and Citizens of the City of Hercules:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Hercules for the fiscal year ended June 30, 2008.

This report was prepared under the direction of the City's Finance Department. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with City management. The City has an established set of internal controls that provide for a secure as possible fiscal oversight. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The City of Hercules' financial statements have been audited by Moss, Levy & Hartzheim, a firm of licensed certified public accountants. They concluded, based upon their audit of the City's financial records, that there was a reasonable basis for rendering an unqualified opinion that the City of Hercules' financial statements for the fiscal year ended June 30, 2008 are fairly presented and in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with that document. The MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Hercules is a culturally diverse community of 24,324 residents (1-1-08 California Department of Finance estimated population) situated in west-central Contra Costa County on the east side of San Francisco Bay where State Highway 4 intersects with Highway I-80. The City boundaries encompass just over 20 square miles, approximately 12.5 of which are the waters of San Pablo Bay. The land portion of the City covers approximately 7.6 square miles and runs from its westerly boundary of San Pablo Bay up into the hills of Pinole Ridge. It is bordered by the City of Pinole to the south and the unincorporated community of Rodeo to the north. The City is a "general

law” city and has operated under the Council-Manager form of municipal government since its incorporation on December 15, 1900. The City Council is comprised of five members elected at large to four-year overlapping terms. From among its members, the Council selects the Mayor. The City Manager is appointed by and serves at the pleasure of the City Council. The City Manager is responsible for implementing the policy decisions of the City Council and supervising all operations of the city government.

The City of Hercules provides a number of municipal services, including police protection, electric and sewer utilities, street maintenance, parks and recreations, child day care, senior services, planning, building and safety, and other general government functions.

This CAFR is an all-inclusive fiscal document which reports the fiscal year’s (ending June 30, 2008) financial results of the City of Hercules, of which the Hercules Municipal Utility (HMU) is a part, and two other separate legal entities, namely the Hercules Redevelopment Agency (RDA) and the Hercules Public Financing Authority (PFA). The RDA and the PFA have individual Component Unit financial reports done on them as well. The HMU is not considered a component unit, but the City does a separate financial report for that function as well since the electric utility is a relatively new endeavor for the City.

The City normally uses a one year budget cycle which means that every year the City approves a budget for the next year. The City also approves a new five year capital improvement plan during the budget process, the first year of which is approved with the adoption of the operating budget. The budget process is started six to eight months prior to adoption by the Council providing input on its priorities for the community. Staff then prepares and compiles financial information to support those priorities and the normal day-to-day operations. Council and staff go through a number of proposed budget review sessions prior to the budget’s adoption in June. After adoption, there are periodic reviews that occur, with a mid-year review to determine if any adjustments are necessary. Approximately at mid-year the next year budget process is initiated. Budgets are prepared for all funds of the City.

Prior to 2006-2007 fiscal year budget the City did a two year budget cycle. Because the City was facing a revenue pinch, staff and Council chose to do a one year budget to allow the organization time during the 2006-2007 fiscal year to reevaluate how it is going to do its business and to restructure as appropriate to be able to function within its available resources. In addition, with the continued uncertainty of the future revenue streams of the State budget, the City will continue to prepare a single year budget.

Only the Council has the authority to move money between funds and to approve additions or deletions to the budget. The City Manager has authority to move money within each fund. The Council has to approve any expenditure over \$30,000 by an action item on their normal meeting agenda.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City is part of the greater San Francisco Bay Area. As such, the overall Bay Area economy has pretty much recovered from the dot.com closures of a few years ago, and from the economic aftermath of September 11, 2001 and its impact on the travel/tourism industry. With the City of Hercules being in the northeast sector of the Bay Area and only recently starting to evolve from a bedroom community to a more balanced commercial/industrial/residential community, the City's economy has been relatively stable and has not suffered nearly the down turn that the South Bay Area experienced. The City has experienced tremendous residential growth in the past five years which has helped bolster various revenues that the City depends on. The addition of new commercial businesses has also helped the City's revenue picture. The City's relatively new electric utility is starting to show a positive cash flow and is projected to generate a significant cash flow for the General Fund services of the City in three to four years. If all goes according to plan, the City will probably be built out between a 2012 to 2015 timeframe at which time there should be a reasonably sustainable balance between the commercial/industrial/residential make up of the community. New housing is currently still selling (averaging about \$500,000 per unit), and there are plans on the drawing board for significant new commercial development. There have been a number of new facilities built in the industrial park within the City, and there are still a few lots left in the industrial park of which are slated for development over the next few years.

Utility users tax revenue, the City's largest single revenue source, will continue to increase as the population of the City increases. Sales tax and property tax revenue will also continue to increase as development grows within the City. Most of the new development is occurring in the redevelopment project areas (RDA) of the City, so the RDA generated property taxes will also grow rather quickly. The City is also aggressive on fees for service. With sound financial reserves, the income from investment of those reserves is another major revenue source. The revenues mentioned here are the primary revenue sources for the City. They are all economically sensitive, and can potentially fluctuate with the ups and downs of the local, regional, state and/or national economies.

Long-term financial planning. For a number of years the City has engaged in financial planning for more than the current fiscal year. As a practice, staff prepares a one year operating budget and a five year capital improvement program. The capital improvement program is developed from those master plans that exist for the various types of infrastructure in the City, and from City Council subcommittee meetings where staff receives input from the City Council on its visions for the community and the projects and amenities which are desired to be in the community.

Based on the information provided the City is in the middle development stages of building a train station/ferry terminal/bus terminal multi-modal transportation facility, a low-to-moderate income rental housing project, possible renovation of the historic Clubhouse facility, redeveloping a central location in the community to a regional scale

mixed use Town Center and the addition of new parks to the community according to a comprehensive parks plan.

Cash management policies and practices. The City's investment management plan addresses a wide variety of investment practices, including primary investment objectives, investment authority, allowable investment vehicles, investment maturity terms, eligible financial institutions, capital preservation, and cash flow management. Under the City's investment policy, investments in the City's portfolio are purchased with the intent that they will be held until maturity, and accordingly, investment terms are selected for consistency with the City's cash flow needs. Reports are generated monthly by the Finance Department providing detailed information regarding the city's investments and compliance with City policy. Under the City's investment policies, the City's primary investment objective is to ensure the principal of its capital while striving to achieve a reasonable rate of return.

Risk management. Risk management activities are the coordinated efforts of the City's Risk Benefit Manager. The City is a member of the Municipal Pooling Authority, a joint powers authority insurance group comprised of most cities in Contra Costa County and a few cities from outside the County, which provides coverage for workers' compensation, liability, vehicles, property damage and certain employee benefit insurances. This entity operates in accordance with the joint powers authority agreement between member cities to provide the various insurance coverage programs. Staff of the Authority provides services to the City in the areas of risk identification, evaluation, and treatment; workers compensation and liability claims administration; safety training; and, special events coverage.

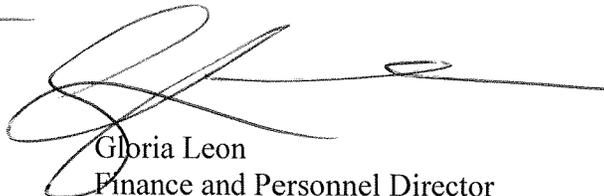
Acknowledgements

The preparation and development of this report would not have been possible without the Department of Finance staff and their efforts, and those staff members in other departments who provided information as requested, all of whom worked in conjunction with the City's independent auditors, to produce this document. We would like to take this opportunity to compliment all those staff members of both the City and our independent auditors who were associated with the preparation of this report. We would also like to thank the City Council for their continued support and interest in planning and conducting their financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Nelson E Oliva
City Manager



Gloria Leon
Finance and Personnel Director

CITY OF HERCULES

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2008

CITY COUNCIL AND ELECTED OFFICIALS

Mayor	Joanne Ward
Vice Mayor	Joe Eddy McDonald
Council Member	Ed Balico
Council Member	Charleen Raines
Council Member	Kris Valstad

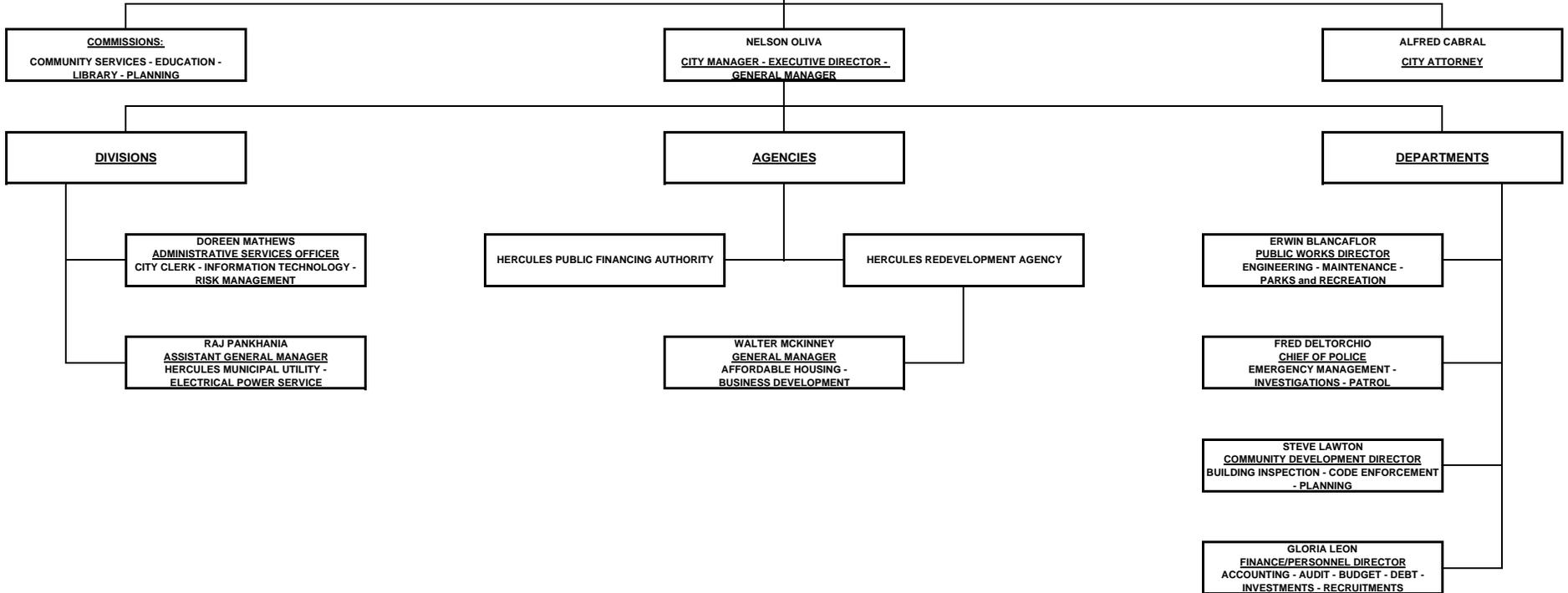
ADMINISTRATIVE PERSONNEL

City Manager	Nelson Oliva
Assistant City Manager	Lisa Hammon
City Attorney	Alfred Cabral
City Clerk	Doreen Mathews
Finance and Personnel Director	Gloria Leon
Chief of Police	Fred Deltorchio
Community Development Director	Steve Lawton
Interim Treasurer	Tim Hansen

**CITY OF HERCULES
MANAGEMENT CHART**

**CITY COUNCIL
REDEVELOPMENT AGENCY BOARD
PUBLIC FINANCING AUTHORITY COMMISSION**

JOANNE WARD, MAYOR
JOE EDDY MCDONALD, VICE-MAYOR
ED BALICO, COUNCIL MEMBER
CHARLEEN RAINES, COUNCIL MEMBER
KRIS VALSTAD, COUNCIL MEMBER



FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules (City), California, as of and for the fiscal year ended June 30, 2008, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. 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* as issued by the Controller 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules, California, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements, the City adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*, effective July 1, 2007.

The accompanying Required Supplementary Information, the Management's Discussion and Analysis, and budgetary comparison schedules for the General Fund and the Redevelopment Agency Special Revenue Fund, are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

In accordance with the *Government Auditing Standards*, we have also issued a report dated January 9, 2009, on our consideration of the City of Hercules' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hercules' basic financial statements. The Introductory Section, Budgetary Comparison Schedules for the Redevelopment Agency Debt Service Fund, Hercules Public Financing Authority Debt Service Fund, and Redevelopment Agency Capital Projects Fund, Combining Financial Statements for the Nonmajor Governmental Funds, Nonmajor Fund Budgetary Comparison Schedules, Internal Service Funds, Fiduciary Funds, and the Statistical Section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Budgetary Comparison Schedules for the Redevelopment Agency Debt Service Fund, Hercules Public Financing Authority Debt Service Fund, and Redevelopment Agency Capital Projects Fund, Combining Financial Statements for the Nonmajor Governmental Funds, Nonmajor Fund Budgetary Comparison Schedules, Internal Service Funds, and Fiduciary Funds have been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section and the information included in the "Statistical Section" have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion thereon.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
January 9, 2009

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

This analysis of the City of Hercules' (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

A. FINANCIAL HIGHLIGHTS

- The assets of the City of Hercules Governmental Activities exceeded its liabilities at the close of the fiscal year by \$115 million. Of this amount \$64.9 million was invested in capital assets net of related debt. There are restricted funds of \$14.6 million for capital projects, debt service and other. The remaining \$35.5 million are unrestricted funds. These amounts include all funds of the City, the Redevelopment Agency and the Public Financing Authority.
- The City's net assets increased by \$ 11.1 million for the year including a prior period adjustment of negative \$.5 million, representing a \$10.7 million increase in Governmental and a \$.4 million increase in Business-Type Activities. The majority of the increase in the Governmental Activities came from the City's cash and investments and the Redevelopment Agency having taxes and assessment revenue more than sufficient to cover the Agency expenses, including debt service and capital outlay. There was a prior period adjustment of (\$248,703) on the Statement of Activities for Governmental Activities for an understatement of loans payable in the amount of (\$340,383), and an overstatement of accumulation depreciation in infrastructure in the amount of \$91,680. A prior period adjustment of \$20,534 was made on the General Fund for an understatement of advances to other funds in the amount of \$270,534 and an understatement of deferred revenue in the amount of (\$250,000). In addition a negative \$270,534 was made on the Statement of Activities for Business-type Activities for an understatement of advances from other funds.
- As of the close of the fiscal year, the City's Governmental funds, including the general, special revenue, debt service, capital projects, redevelopment and public financing funds, reported combined ending fund balances of \$146.4 million, an increase of \$53.1 million in comparison with the prior year, which includes a prior period adjustment of \$20,534. There is a negative \$16.0 million in the Debt Service total unreserved, undesignated fund balance.
- At the end of the current fiscal year, unreserved designated fund balance for the General Fund was \$7.4 million, or 48 percent of total General Fund expenditures/transfers out for the year.
- Total net bonded debt increased by \$87.6 million during the fiscal year. The increase was due primarily to the issuance of the 2007 Housing Tax Allocation Bonds, Series A in the amount of \$13.1 million, 2007 Housing Tax Allocation Bonds, Series B in the amount of \$12.8 million, 2007 Tax Allocation Bonds in the amount of \$60.6 million, and \$2.1 million for the Suntrust Lease. In addition the normal annual principal payments on the 2005 tax allocation bonds for the Redevelopment Agency (RDA), 2003A PFA Lease Revenue Bonds, 2003B PFA Lease Revenue Bonds, H.E.L.P Loan, and other Long-Term Notes were paid.
- During the fiscal year, the Governmental-Wide Financial Statements' total revenues of \$52.7 million exceeded total expenses of \$41.2 million, by \$11.5 million. The expenses are higher (16.4%) than expenses for the prior fiscal year. The expense increases are the result of increased affordable housing programs which include revitalization and beautification, first-time homebuyers and homeownership retention loss programs; increased interest expense and bond issuance costs due to

A. FINANCIAL HIGHLIGHTS, Continued

- the issuance of the 2007 Series A and B Tax Allocation Bonds, 2007 Tax Allocation Bonds and interest payments for the 2005 Tax Allocation Bonds. The electric utility enterprise fund also had an understatement of advances from other funds associated with the Public Financing Authority Lease Revenue Bond which was not reflected in the prior fiscal year financials. The program revenues, which come from charges for services, operating and capital grants and contributions, increased by 8.9% from the previous year. The revenue increases were primarily due to funds received from grants.

B. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements.

Government-Wide Financial Statements

The basic financial statements include the City (primary government) and all legally separate entities (component units) for which the government is financially accountable. The City's component units consist of the following: the City of Hercules Redevelopment Agency (RDA), and the Hercules Public Financing Authority (PFA). These component units are, for practical purposes, departments of the City and have been included in the basic financial statements as an integral part of the primary government using the blended method. However, there are also independent financial reports for each of the component units. The City also has a relatively new electric utility, the Hercules Municipal Utility (HMU); an enterprise fund for which is required, for full financial disclosure reasons, a separate financial report is prepared, although it is not a component unit.

This report also contains other supplementary information in addition to the basic financial statements for further information and analysis.

The Government-Wide Financial Statements present the total financial picture of the City and provide readers with a broad view of the City's finances. These statements present governmental activities and business-type activities separately and include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by the GASB Statement No. 34.

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the City as a whole and about its activities. These statements include *all* assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Government-Wide Financial Statements, Continued

In the Statement of Net Assets and the Statement of Activities and Changes in Net Assets, the City activities are separated as follows:

Governmental Activities—Most of the City's basic services are reported in this category, including Administrative functions, Public Safety, Community Development, Parks and Recreation, and Public Works. Property, utility users and sales taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-Type Activities—The City charges a fee to customers to cover all or most of the costs of certain services it provides. The City's Wastewater Collection and Processing System, and the City's Electric Utility are reported as business-type activities.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the City's major funds—not the City as a whole. Some funds are required to be established by Federal or State law, or by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

The Fund Financial Statements include statements for each of the three categories of activities – governmental, proprietary and fiduciary. The governmental funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the full accrual basis of accounting. The fiduciary activities are agency funds, which only report assets and liabilities and do not have a measurement focus.

Governmental Funds—The Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, Governmental Funds Financial Statements focus on current financial resources, which emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the City's near-term financial requirements.

In order to better understand the City's long-term and short-term requirements, it is useful to compare the City's Governmental Fund Statements with the governmental activities in the Government-Wide Financial Statements. A reconciliation is provided for both the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances to facilitate this comparison.

Based on criteria in GASB No. 34, there are certain funds that are considered 'major funds'. The major governmental funds include the General Fund, the Redevelopment Agency Fund(s) group, and the Public Financing Authority Debt Service Fund, which are reported in detail in the Governmental Fund Financial Statements. All other funds are shown in the aggregate as other non-major funds. Individual fund data for other non-major governmental funds is provided in the form of supplementary information elsewhere in the report.

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued***Fund Financial Statements, Continued***

Proprietary Funds – The City maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses an enterprise fund to account for its Wastewater operation and its Electric Utility operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Vehicle Replacement program, Facility Maintenance program and its Information Technology (IT) Equipment Replacement program. Because these services predominantly benefit the governmental rather than business-type activities, they have been included within governmental activities in the Government-Wide Financial Statements.

Proprietary funds provide the same type of information as the Government-Wide Financial Statements, only in more detail. The Wastewater and the Electric Utility enterprise funds are presented separately in detail. There are no other enterprise funds to aggregate as 'other non-major funds'. The internal service funds (Vehicle Replacement, Facility Maintenance and IT Equipment Replacement) are presented in the proprietary fund financial statements. Individual fund data for the Vehicle Replacement, Facility Maintenance and the IT Equipment Replacement internal service funds are provided in the form of supplementary information elsewhere in the report.

Fiduciary Funds – The City is the trustee, or fiduciary, for certain funds held on behalf of external parties. The City's fiduciary activities are reported in separate Combining Statements of Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the resources of these funds are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Required Supplementary Information

In addition to the basic financial statements, this report also presents certain Required Supplementary Information (RSI) including the City's budgetary comparison schedules for the General Fund and the other major special revenue funds.

Other Supplementary Information

The supplementary schedules are presented immediately following the Required Supplementary Information.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the City's financial position. At the 2007-2008 fiscal year end, net assets of the City were \$122.6 million, which is an increase of \$11 million from the prior year. The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2008 and 2007.

City of Hercules
Condensed Comparative Statements of Net Assets
June 30, 2008 and 2007
(Amounts in Millions)

	Governmental Activities		Business-type Activities		Total		Total % Change
	2008	2007	2008	2007	2008	2007	
Assets:							
Current Assets	\$ 149.8	\$ 101.6	\$ 1.3	\$ 3.8	\$ 151.1	\$ 105.4	43.4 %
Other Assets	21.7	8.0	(8.8)	(7.2)	12.9	0.8	1,512.5 %
Capital Assets, Net	118.1	76.2	17.0	12.6	135.1	88.8	52.1 %
Total Assets	\$ 289.6	\$ 185.8	\$ 9.5	\$ 9.2	\$ 299.1	\$ 195.0	53.4 %
Liabilities:							
Current Liabilities	\$ 18.2	\$ 9.9	\$ 1.8	\$ 1.9	\$ 20.0	\$ 11.8	69.5 %
Other Liabilities	0.2	0.2			0.2	0.2	
Long-term Liabilities	156.2	71.4			156.2	71.4	118.8 %
Total Liabilities	\$ 174.6	\$ 81.5	\$ 1.8	\$ 1.9	\$ 176.4	\$ 83.4	111.5 %
Net Assets:							
Invested in Capital Assets, Net of Related Debt	\$ 64.9	\$ 5.4	\$ 11.7	\$ 12.8	\$ 76.6	\$ 18.2	320.9 %
Restricted	14.6	79.2			14.6	79.2	(81.6)%
Unrestricted	35.5	19.7	(4.0)	(5.5)	31.5	14.2	121.8 %
Total Net Assets	\$ 115.0	\$ 104.3	\$ 7.7	\$ 7.3	\$ 122.7	\$ 111.6	9.9 %

At June 30, 2008, the City's Current Assets and Capital Assets increased significantly over the previous year primarily due to the issuance of the 2007 Housing Tax Allocation Bonds, Series A in the amount of \$13.1 million, 2007 Housing Tax Allocation Bonds, Series B in the amount of \$12.8 million, 2007 Tax Allocation Bonds in the amount of \$60.6 million, and \$2.1 million for the Suntrust Lease. Investment in Capital Assets Net of Related Debt represents 63% of total net assets. This component portrays the total amount of funds required to acquire those assets less any related debt used for such acquisition that is still outstanding. The City uses these capital assets to provide services to its citizens. The capital assets of the City are not sources of income for repayment of debt as most assets are not revenue generating and generally are not liquidated to repay debt. Therefore, debt service payments are funded from other sources available to the City.

A portion of the City's net assets, 12.0% is subject to restrictions imposed by the City or by external parties and their use is determined by those restrictions and agreements. The remainder of net assets, or \$31.5 million, may be used to meet the City's ongoing operations.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued*

Statement of Net Assets, Continued

City of Hercules
Comparative Analysis of Net Assets
June 30, 2008 and 2007
(Amount in Millions)

	2008	2007	Change \$	Change %
Net Assets:				
Investment in Capital Assets, Net of Related Debt	\$ 76.6	\$ 18.2	\$ 58.4	321.3 %
Restricted	14.6	79.2	(64.7)	(81.6)%
Unrestricted	31.5	14.2	17.3	121.8 %
Total Net Assets	\$ 122.6	\$ 111.6	\$ 11.0	9.9 %

The increase of \$58.4 million in the City's Investment in Capital Assets Net of Related Debt was due to the issuance of the 2007 Housing Tax Allocation Bonds, Series A in the amount of \$13.1 million, 2007 Housing Tax Allocation Bonds, Series B in the amount of \$12.8 million, 2007 Tax Allocation Bonds in the amount of \$60.6 million, and \$2.1 million for the Suntrust Lease.

The City's unrestricted net assets increased by \$17.3 million. This increase was primarily due to less projects and programs being restricted for specific use.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2008 and 2007.

City of Hercules
Condensed Comparative Statements of Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007
(Amount in Millions)

	Governmental Activities		Business-type Activities		Total		Total % Change
	2008	2007	2008	2007	2008	2007	
Revenues:							
Program Revenues	\$ 15.5	\$ 11.8	\$ 5.7	\$ 7.2	\$ 21.2	\$ 19.0	11.6 %
General Revenues	31.5	30.7		0.3	31.5	31.0	1.6 %
Total Revenues	\$ 47.0	\$ 42.5	\$ 5.7	\$ 7.5	\$ 52.7	\$ 50.0	5.4 %
Expenses	36.5	29.9	4.7	5.5	41.2	35.4	16.4 %
Increase in Net Assets before Transfers	\$ 10.5	\$ 12.6	\$ 1.1	\$ 2.0	\$ 11.5	\$ 14.6	(21.2)%
Transfers	0.3		(0.3)				
Increase in Net Assets	\$ 10.8	\$ 12.6	\$ 0.7	\$ 2.0	\$ 11.5	\$ 14.6	(21.2)%
Net Assets - Beginning Adjustments	104.3 (0.2)	87.6 4.1	7.3 (0.3)	9.9 (4.6)	111.6 (0.5)	97.5 (0.5)	14.5 %
Net Assets - Ending	<u>\$ 114.9</u>	<u>\$ 104.3</u>	<u>\$ 7.7</u>	<u>\$ 7.3</u>	<u>\$ 122.6</u>	<u>\$ 111.6</u>	9.9 %

Governmental Activities:

The City's governmental activities increased net assets by \$10.6 million, which decreased 36.5% from last year. Key elements of this change were as follows:

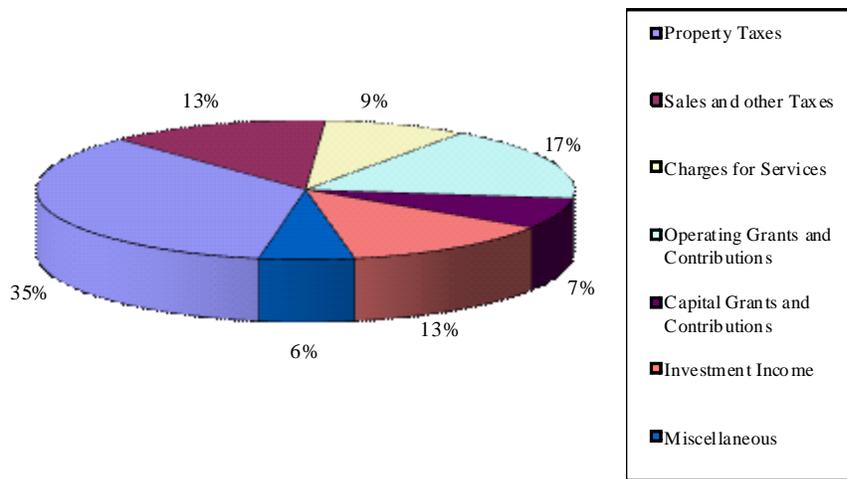
Revenue highlights:

- In the General Revenues category, Property, Sales and Other Tax revenues decreased by \$0.57 million in fiscal year 2007-2008 when compared to fiscal year 2006-2007. Miscellaneous revenues were up by \$0.27 million. Interest earnings were up by \$1.07 million from 2006-2007 and the market value of the portfolio stayed relatively constant for the fiscal year.
- There was an adjustment to net assets from the previous year for \$0.2 million that was to account for understatement of loans payables (\$340,383), and an overstatement of accumulation depreciation in infrastructure in the amount of \$91,680. As a result, total net assets increased by \$10.6 million (\$10.8 million for the current year and negative \$.2 million for the prior year adjustment).

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

- An increase of \$3.7 million in Program Revenues was due to a \$0.3 million drop in charges for services, a \$7.6 million increase in operating contributions and grants, a \$3.6 million decrease in capital contributions and grants.

**Governmental Activities
Revenues by Source
June 30, 2008**



Expense highlights:

Total expenses for governmental activities were \$36.5 million an increase of 22% from the prior fiscal year. The expense increases are the result of increased affordable housing programs which include revitalization and beautification, first-time homebuyers and homeownership retention loss programs; increased interest expense and bond issuance costs due to the issuance of the 2007 Series A and B Tax Allocation Bonds, 2007 Tax Allocation Bonds and interest payments for the 2005 Tax Allocation Bonds. Program revenues offset total expenditures as follows:

- Those who directly benefited from programs contributed \$4.1 million in charges for services, a decrease of \$0.3 million from prior year as a result of a decrease in new home construction.
- The City was able to fund some of its programs through capital grants from other governments and contributions of infrastructure from outside sources for a total amount of \$11.0 million.

The City received operating contributions and grants totaling \$8.1 million which included bond proceeds from the 2005-1 John Muir Assessment Bond to assist in the John Muir Parkway Construction, Bay Area Quality Management District and State of California to assist in the street maintenance program, from the State of California to assist in the construction of the rail station, and mini grants for POST recovery and bullet proof vests all of which was spent in 2007-2008 fiscal year.

CITY OF HERCULES

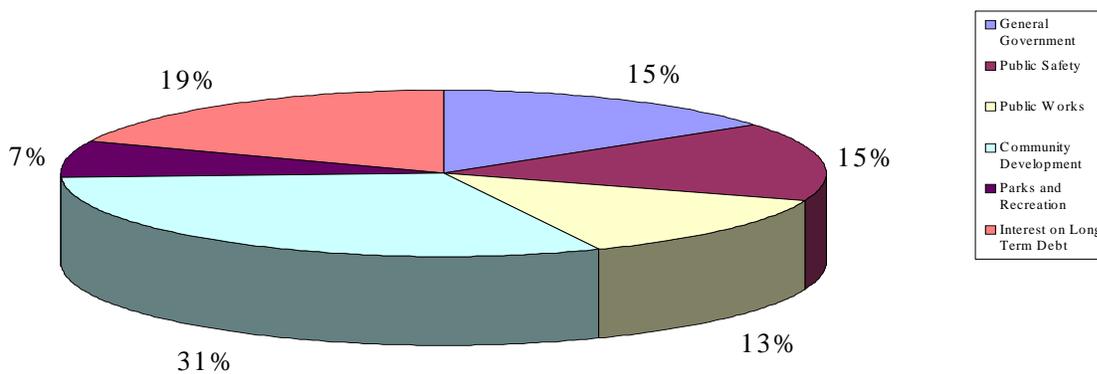
Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

As a result, total expenditures that were funded by tax revenues, investment income and other general revenues amounted to \$36.5 million.

**Governmental Activities
Expenses by Function/Program
June 30, 2008**



Functional expenses for the years ended June 30, 2008 and 2007 were as follows (amount in millions):

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2008	2007	2007-2008	2008	2007	2007-2008
General Government	\$ 5.5	\$ 4.7	17.0 %	\$ 2.5	\$ (1.0)	(350.0) %
Public Safety	5.5	5.6	(1.8) %	5.2	5.1	2.0 %
Public Works	4.8	4.9	(2.0) %	1.1	2.2	(50.0) %
Community Development	11.2	8.2	36.6 %	9.8	6.7	46.3 %
Parks and Recreation	2.7	2.4	12.5 %	(3.3)	0.9	(466.7) %
Interest on Long-Term Debt	6.8	4.1	65.9 %	6.1	4.1	48.8 %
Total	\$ 36.5	\$ 29.9	22.1 %	\$ 21.4	\$ 18.0	18.9 %

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued*

Governmental Activities, Continued

The change in the Total Cost of Services which is defined as total expenses for each function reflected a 22.1% increase over the previous year. The revenues are subtracted from total functional expenses to arrive at the Net Cost of Services which reflects an increase of 18.9% over the previous year. The most significant changes in programmatic total and net cost of services were seen in General Government, Public Works, Parks and Recreation and Community Development.

The Community Development total cost of services increased \$3.00 million as a result of the following projects taken on; John Muir Parkway Construction, Energy Conservation Project throughout the City, Civic Arts, Citywide Park Renovations, and Street Maintenance projects. Interest on Long-Term Debt increased \$2.7 million due to issuance of the 2007 Housing Tax Allocation Bonds, Series A in the amount of \$13.1 million, 2007 Housing Tax Allocation Bonds, Series B in the amount of \$12.8 million, and the 2007 Tax Allocation Bonds in the amount of \$60.6 million and \$2.1 million for the Suntrust Lease.

Business Type Activities

The City's business-type activities increased total net assets by \$0.4 million. Key elements of this increase were as follows:

Revenue Highlights:

- Total revenues in business-type activities decreased by \$1.8 million. This decrease was mainly due to no contributed capital in 2007-2008 as opposed to \$3.1 million contributed in the prior year. However there was a \$1.4 million increase in sewer fees collected, and a \$0.2 million increase in the electric utility fees collected from the prior year.

Expense Highlights:

- Total expenses for the sewer fund were down by \$1.2 million from the prior year as a result of less growth in the community from prior years.
- The expenses for the electric utility were up by \$0.4 million from the prior year again because of the customer base increasing, and therefore operating costs increased proportionately.

Balance Sheet Highlights:

- The \$0.4 million increase in total net assets partially came from operating income in the two enterprises. The sewer fund had an operating income of \$2.2 million, and the electric utility had an income decrease of \$.7 million. The management of the electric utility has implemented plans to reduce the deficit by reducing operating cost and raising customer service rates in the new fiscal year to assist with the income shortfall. The general fund of the City of Hercules will be assisting the electric utility fund for at least another two years. Management will continue to monitor the deficit net assets closely in the future.
- The electric utility had a decrease of \$5.6 million in capital investment, net of related debt which was offset by advances from other funds, primarily the Public Financing Authority's 2003A debt issue.

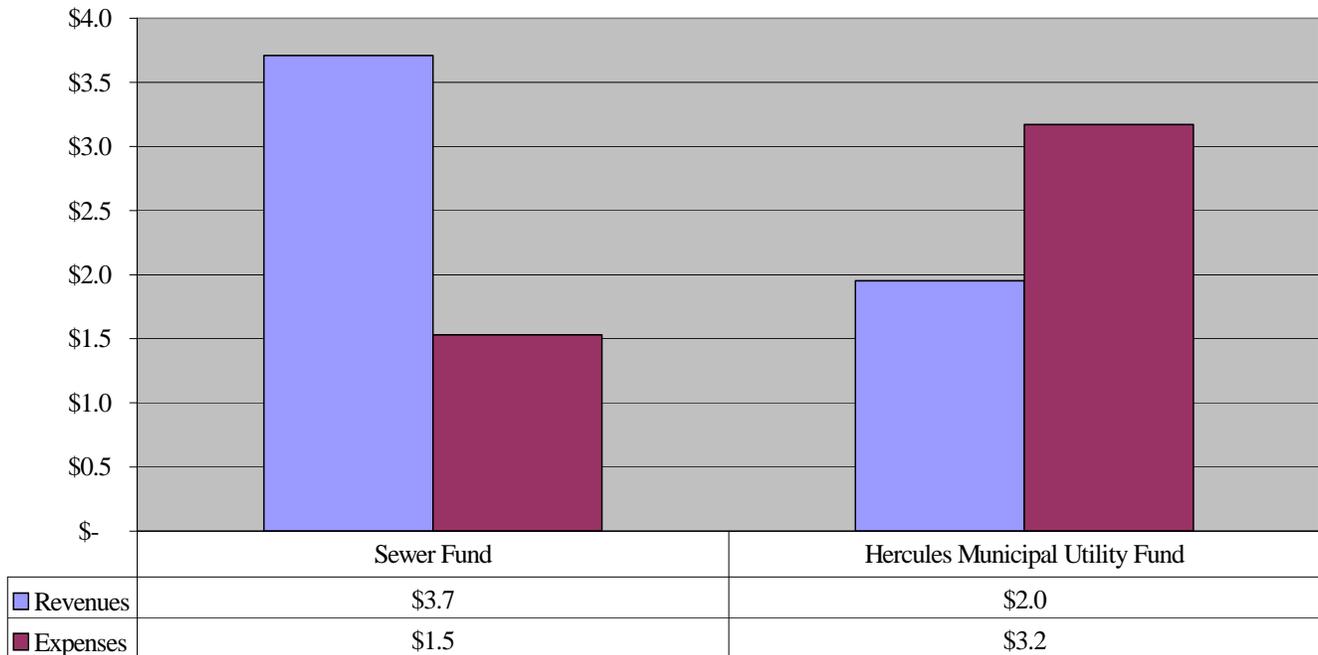
CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business Type Activities, Continued

Business Type Activities Revenues and Expenses June 30, 2008



D. FUND FINANCIAL STATEMENT ANALYSIS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. It should, however, be noted that most of the unreserved amounts have been designated by the City Council for specific uses.

As of the end of fiscal year 2007-2008, the City's governmental funds reported combined ending fund balances of \$146.4 million, an increase of \$53.1 million in comparison with the prior year. Of this amount, \$134.1 million is reserved to indicate that it is not available for appropriation because it had already been committed for various purposes (see Note 1.G. in the Notes to Basic Financial Statements). The net unreserved fund balances amount to \$12.3 million of which \$11.8 million from other governmental special revenue funds and \$7.4 million from the general fund are available for spending at the government's discretion. The net negative \$6.9 million has to do with loans to programs that receive monies in arrears.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

D. FUND FINANCIAL STATEMENT ANALYSIS, Continued

Governmental Funds, Continued

The General Fund is the major operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7.4 million, while total fund balance was \$26.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. At June 30, 2008, unreserved fund balance was 48% of total General Fund expenditures and transfers out, while total fund balance was 173 % of total expenditures and transfers out.

The fund balance of the City's General Fund decreased by \$.6 million in fiscal year 2008, as compared to an increase of \$1.0 million in fiscal year 2007. This decrease is due to \$1.3 million less in resources coming into the fund to cover expenditures and a prior period adjustment of \$.02 million for an understatement of advances to other funds in the amount of \$270,534 and an understatement of deferred revenue in the amount of (\$250,000). Total actual costs were below budgeted amounts; however expenditures were \$1.3 million more than current revenues. Revenues for the year came in less than projected by \$.7 million and expenditures were \$1.1 million less than projected.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Factors concerning these funds have already been addressed in the discussion of Government-wide Financial Analysis of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget a number of times. These budget amendments fall into two categories:

- Amendments and appropriations approved after the beginning of the year to reflect capital and special project carryovers for unspent appropriations of projects that had not been completed in the previous year.
- New appropriations approved by City Council.

With these adjustments, actual expenditures (outflows) for the fiscal year were \$1.1 million less than the amended budget. Resources (inflows) available for appropriations were \$.7 million below budgeted amounts primarily due to slow growth in construction.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

E. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets including Infrastructure

Capital assets including infrastructure assets of the City are those assets that are used in the performance of the City's functions. At June 30, 2008, net capital assets of the governmental activities totaled \$118.1 million and the net capital assets of the business-type activities totaled \$17.0 million, including depreciation on capital assets, which is recognized in the Government-Wide Financial Statements.

The following is a summary of the City's capital assets as of June 30, 2008.

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 21.0	\$ 5.1	\$ 0.2	\$ 0.2	\$ 21.2	\$ 5.3
Land Improvement	4.6	4.6			4.6	4.6
Buildings and Improvements	26.2	12.8	11.3	11.3	37.5	24.1
Machinery and Equipment	3.4	2.8	0.1	0.1	3.5	2.9
Construction in Progress	28.9	18.6	3.5	0.1	32.4	18.7
Infrastructure	75.5	70.8	10.7	9.3	86.2	80.1
Total Capital Assets	159.6	114.7	25.8	21.0	185.4	135.7
Accumulated Depreciation	(41.5)	(38.5)	(8.8)	(8.3)	(50.3)	(46.8)
Net Total Capital Assets	\$ 118.1	\$ 76.2	\$ 17.0	\$ 12.7	\$ 135.1	\$ 88.9

Governmental Activities:

The increase in land of \$15.9 million is the result of the purchase of the Penterra/Poe Property and the Venture Commerce Center Site for future development.

Buildings and Improvements increased by \$13.4 million due to the completion of the library and the teen center.

The increase in construction in progress of \$10.3 million is the result of the John Muir Parkway Construction Phase I, Energy Conservation Program throughout several buildings owned by the City, Civic Arts Project, Frog Pad Park and several citywide park renovations.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, *Continued*

Capital Assets including Infrastructure, Continued

Business-type Activities:

The addition of \$4.3 million in capital assets is attributed to construction in progress for the fourth digester and a sanitary lift station to the existing shared Wastewater Treatment Plant in the sewer enterprise fund.

Long-Term Obligations

As of June 30, 2008, the City had outstanding debt issues as listed below. The City's bonded debt is backed by certain specific revenues or General Fund lease payments and carry respectable ratings. The City's long-term obligations for the fiscal years 2008 and 2007 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue Bonds	\$ 15.2	\$ 15.5	\$ -	\$ -	\$ 15.2	\$ 15.5
Tax Allocation Bonds	141.8	56.9			141.8	56.9
Long-term Notes Payable	3.8	0.9			3.8	0.9
Total Long-Term Obligations	\$ 160.8	\$ 73.3	\$ -	\$ -	\$ 160.8	\$ 73.3

During the 2007-2008 fiscal year the City's Redevelopment Agency issued 2007 Housing Tax Allocation Bonds, Series A in the amount of \$13.1 million, 2007 Housing Tax Allocation Bonds, Series B in the amount of \$12.8 million, and the 2007 Tax Allocation Bonds in the amount of \$60.6 million. The City also issued \$2.1 million for the Suntrust Lease.

In April 2005 the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency) to develop a 50 unit multifamily rental project. The Agency has authorized the making of a loan in the amount of \$1.6 million to the City of Hercules. As of June 30, 2008, \$1.1 million has been provided to the City of Hercules. There is no direct outstanding debt for business-type activities in the City.

CITY OF HERCULES

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

G. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Hercules Finance Department, 111 Civic Drive, Hercules, California 94547.

THIS PAGE IS INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HERCULES
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 33,685,843	\$ 627,951	\$ 34,313,794
Cash and investments with fiscal agent	106,081,135		106,081,135
Accounts receivable	2,873,577	369,248	3,242,825
Interest receivable	465,372		465,372
Grants receivable	2,194,970		2,194,970
Prepaid expenditures	2,817		2,817
Inventory		267,270	267,270
Loans receivable	8,363,974		8,363,974
Land held for resale	4,536,603		4,536,603
Internal balances	8,845,431	(8,845,431)	
Deferred charges - net of accumulated amortization	4,522,051		4,522,051
Intangible asset, net of accumulated amortization		18,000	18,000
Capital assets:			
Nondepreciable:			
Land	21,034,160	150,000	21,184,160
Construction in progress	28,858,060	3,526,713	32,384,773
Depreciable:			
Land improvements, building and improvements, machinery and equipment, and infrastructure	109,625,388	22,117,261	131,742,649
Accumulated depreciation	(41,465,104)	(8,757,123)	(50,222,227)
Total assets	<u>289,624,277</u>	<u>9,473,889</u>	<u>299,098,166</u>
LIABILITIES			
Accounts payable	9,516,524	1,762,302	11,278,826
Accrued wages	388,623	25,443	414,066
Accrued interest payable	2,852,890		2,852,890
Deposits payable	424,781		424,781
Claims and judgments payable	64,979		64,979
Compensated absences, due within one year	390,000	28,116	418,116
Noncurrent liabilities:			
Compensated absences, due in more than one year	168,597		168,597
Due within one year	4,598,578		4,598,578
Due in more than one year	156,242,986		156,242,986
Total liabilities	<u>174,647,958</u>	<u>1,815,861</u>	<u>176,463,819</u>
NET ASSETS			
Invested in capital assets, net of related debt	64,910,899	11,655,093	76,565,992
Restricted for:			
Debt service	1,698,271		1,698,271
Specific projects and programs	12,857,500		12,857,500
Unrestricted	35,509,649	(3,997,065)	31,512,584
Total net assets	<u>\$ 114,976,319</u>	<u>\$ 7,658,028</u>	<u>\$ 122,634,347</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 5,498,329	\$ 324,794	\$ 2,459,928	\$ 223,975
Public safety	5,539,521	295,446	11,276	
Public works	4,751,045	43,436	831,501	3,196,129
Parks and recreation	2,651,586	1,230,799	4,712,466	
Community development	11,243,869	1,494,729		
Interest on long term debt	6,796,215	720,036		
Total governmental activities	36,480,565	4,109,240	8,015,171	3,420,104
Business-type activities:				
Sewer	1,530,858	3,709,926		
Electricity	3,198,259	1,953,079		
Total business-type activities	4,729,117	5,663,005		
Total government	\$ 41,209,682	\$ 9,772,245	\$ 8,015,171	\$ 3,420,104

General Revenues

Taxes:

Secured and unsecured property taxes

Sales and use taxes

Utility user taxes

Other taxes

Unrestricted motor vehicle taxes in-lieu

Use of money and property

Miscellaneous revenue

Transfers

Total general revenues and transfers

Change in net assets

Net Assets, July 1, 2007

Prior period adjustments

Net Assets, July 1, 2007, restated

Net assets, June 30, 2008

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Change in Net Assets

<u>Net Governmental Activities</u>	<u>Net Business-type Activities</u>	<u>Total</u>
\$ (2,489,632)	\$ -	\$ (2,489,632)
(5,232,799)		(5,232,799)
(679,979)		(679,979)
3,291,679		3,291,679
(9,749,140)		(9,749,140)
(6,076,179)		(6,076,179)
<u>(20,936,050)</u>		<u>(20,936,050)</u>
	2,179,068	2,179,068
	(1,245,180)	(1,245,180)
	<u>933,888</u>	<u>933,888</u>
<u>(20,936,050)</u>	<u>933,888</u>	<u>(20,002,162)</u>
16,640,658		16,640,658
1,927,217		1,927,217
1,802,766		1,802,766
703,353		703,353
1,957,208		1,957,208
6,046,175	6,008	6,052,183
2,452,593		2,452,593
286,249	(286,249)	
<u>31,816,219</u>	<u>(280,241)</u>	<u>31,535,978</u>
<u>10,880,169</u>	<u>653,647</u>	<u>11,533,816</u>
104,324,319	7,274,915	111,599,234
(228,169)	(270,534)	(498,703)
<u>104,096,150</u>	<u>7,004,381</u>	<u>111,100,531</u>
<u>\$ 114,976,319</u>	<u>\$ 7,658,028</u>	<u>\$ 122,634,347</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund – This fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as police, planning, engineering, public works, operations and maintenance, and legal and administrative services.

Redevelopment Agency Special Revenue Fund – This fund is used to account for the operating costs of the Redevelopment Agency and for the tax increment monies to be expended for low and moderate income housing purposes.

Redevelopment Agency Debt Service Fund – This fund is used to account for the accumulation of resources used for the payment of principal and interest on the Redevelopment Agency tax allocation bonds and notes payable.

Hercules Public Financing Authority Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, principal and interest on the Lease Revenue Bonds, Series 2003A issued to cover capital costs for the Hercules Municipal Utility and principal and interest on the Lease Revenue Bonds, Series 2003B issued to cover the refinancing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building.

Redevelopment Agency Capital Projects Fund – This fund is used to account for major capital projects undertaken by the Redevelopment Agency.

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

CITY OF HERCULES
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	General Fund	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund
ASSETS			
Cash and investments	\$ 12,948,501	\$ 5,599,945	\$ -
Cash and investments with fiscal agent			103,476,862
Accounts receivable	761,268	50	1,858
Interest receivable	147,383	316,955	
Grants receivable			
Prepaid expenditures	2,817		
Due from other funds	1,044,047	1,353,087	823,593
Loans receivable	250,000	8,813,974	
Land held for resale		674,563	
Advances to other funds	18,336,986		
Total assets	\$ 33,491,002	\$ 16,758,574	\$ 104,302,313
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 373,153	\$ 311,536	\$ 6,039,561
Accrued wages	348,244	8,862	
Deposits payable	424,781		
Claims and judgments payable	64,979		
Deferred revenue	250,000	9,130,929	
Due to other funds			3,335,997
Advances from other funds	5,529,960		9,441,967
Total liabilities	6,991,117	9,451,327	18,817,525
Fund Balances:			
Reserved:			
Debt service			
Capital projects			101,531,008
Advances to other funds	18,336,986		
Prepaid expenditures	2,817		
Petty cash	2,455		
Land held for resale		674,563	
Future commitments	792,986		
Low and moderate income housing		1,250,867	
Unreserved, designated:			
Future projects	7,364,641		
Unreserved, undesignated			
Reported in:			
Special Revenue Funds		5,381,817	
Capital Projects Fund			
Debt Service Fund			(16,046,220)
Total fund balances	26,499,885	7,307,247	85,484,788
Total liabilities and fund balances	\$ 33,491,002	\$ 16,758,574	\$ 104,302,313

The notes to the financial statements are an integral part of this statement.

Hercules Public Financing Authority Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total
\$ 230,590	\$ -	\$ 13,192,903	\$ 31,971,939
1,724,716		879,557	106,081,135
	4,161	2,106,240	2,873,577
		1,034	465,372
		2,194,970	2,194,970
			2,817
	4,533,670	1,261,116	9,015,513
			9,063,974
	3,862,040		4,536,603
5,399,759		130,202	23,866,947
<u>\$ 7,355,065</u>	<u>\$ 8,399,871</u>	<u>\$ 19,766,022</u>	<u>\$ 190,072,847</u>
\$ 2,250	\$ 1,136,651	\$ 1,561,179	\$ 9,424,330
		18,055	375,161
			424,781
			64,979
			9,380,929
49,589	2,176,680	3,502,836	9,065,102
			14,971,927
<u>51,839</u>	<u>3,313,331</u>	<u>5,082,070</u>	<u>43,707,209</u>
1,903,467		218,567	2,122,034
			101,531,008
5,399,759		130,202	23,866,947
			2,817
			2,455
	3,862,040		4,536,603
		7,417	800,403
			1,250,867
		11,755,742	19,120,383
		2,572,024	7,953,841
	1,224,500		1,224,500
			(16,046,220)
<u>7,303,226</u>	<u>5,086,540</u>	<u>14,683,952</u>	<u>146,365,638</u>
<u>\$ 7,355,065</u>	<u>\$ 8,399,871</u>	<u>\$ 19,766,022</u>	<u>\$ 190,072,847</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

CITY OF HERCULES
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2008

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 146,365,638

In the governmental funds balance sheet, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$ 157,198,863	
Accumulated depreciation	<u>(40,091,028)</u>	
Net		117,107,835

In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. (2,852,890)

In governmental funds balance sheet, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt.

Issuance costs	4,796,068	
Accumulated amortization	<u>(274,017)</u>	
Net		4,522,051

Internal service funds are used by management to charge the costs of certain activities, such as replacement and maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 2,531,046

Long-term liabilities: In the governmental funds balance sheet, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

2005 Tax Allocation Bonds	(53,640,000)	
Premium on 2005 Tax Allocation Bonds	(1,958,372)	
Deferred loss on refunding for the 2005 Tax Allocation Bonds	262,045	
2007 Housing Tax Allocation Bonds, Series A	(13,130,000)	
2007 Housing Tax Allocation Bonds, Series B	(12,760,000)	
Premium on 2007 Housing Tax Allocation Bonds, Series B	(78,660)	
2007 Tax Allocation Bonds	(60,555,000)	
2003A PFA Lease Revenue Bonds	(6,760,000)	
2003B PFA Lease Revenue Bonds	(8,440,000)	
Long-term Notes Payable	(500,193)	
H.E.L.P Loan	(1,146,707)	
Suntrust Lease	(2,134,677)	
Compensated Absences Payable	<u>(536,726)</u>	
Total		(161,378,290)

In the governmental funds balance sheet, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue.

Loans receivable	\$ 9,380,929	
Allowance for uncollectible loan	<u>(700,000)</u>	<u>8,680,929</u>

TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES \$ 114,976,319

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2008

	General Fund	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund
Revenues:			
Taxes and assessments	\$ 5,414,588	\$ 13,473,319	\$ -
Licenses and permits	337,291		
Fines and forfeitures	134,502		
Use of money and property	1,805,821	(85,246)	3,238,518
Intergovernmental revenues	1,991,472		
Program income		30,748	
Charges for services	2,044,478	309,858	
Lease revenue			
Other revenues	2,199,002	253,539	
Total revenues	<u>13,927,154</u>	<u>13,982,218</u>	<u>3,238,518</u>
Expenditures:			
Current:			
General government	4,373,374		
Public safety	5,255,248		
Streets and public works	371,196		
Parks and recreation	2,424,980		
Community development	1,664,024	8,146,887	3,034,223
Lease expense	1,132,585		
Capital outlay	16,593	33,505	
Debt service:			
Principal			1,453,933
Interest and fiscal agent fees			4,247,546
Bond issuance costs			3,105,728
Total expenditures	<u>15,238,000</u>	<u>8,180,392</u>	<u>11,841,430</u>
Excess of revenues over (under) expenditures	<u>(1,310,846)</u>	<u>5,801,826</u>	<u>(8,602,912)</u>
Other Financing Sources (Uses):			
Proceeds from issuance of long-term debt			86,445,000
Original issue premium from issuance of long-term debt			81,806
Transfers in	709,518	3,279,876	7,322,048
Transfers out	(42,000)	(7,182,539)	(35,464,048)
Total other financing sources (uses)	<u>667,518</u>	<u>(3,902,663)</u>	<u>58,384,806</u>
Net changes in fund balances	<u>(643,328)</u>	<u>1,899,163</u>	<u>49,781,894</u>
Fund balances - July 1, 2007	27,122,679	5,408,084	35,702,894
Prior period adjustments	20,534		
Fund balances - July 1, 2007, restated	<u>27,143,213</u>	<u>5,408,084</u>	<u>35,702,894</u>
Fund balances - June 30, 2008	<u>\$ 26,499,885</u>	<u>\$ 7,307,247</u>	<u>\$ 85,484,788</u>

The notes to the financial statements are an integral part of this statement.

Hercules Public Financing Authority Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Totals
\$ -	\$ -	\$ 1,862,512	\$ 20,750,419
			337,291
			134,502
821,048		906,105	6,686,246
		8,404,483	10,395,955
			30,748
		251,833	2,606,169
310,000			310,000
		52	2,452,593
<u>1,131,048</u>	<u></u>	<u>11,424,985</u>	<u>43,703,923</u>
			4,373,374
			5,255,248
		2,188,590	2,559,786
			2,424,980
		11,734	12,856,868
			1,132,585
	31,218,618	10,061,966	41,330,682
310,000		50,861	1,814,794
720,037		52,788	5,020,371
			3,105,728
<u>1,030,037</u>	<u>31,218,618</u>	<u>12,365,939</u>	<u>79,874,416</u>
<u>101,011</u>	<u>(31,218,618)</u>	<u>(940,954)</u>	<u>(36,170,493)</u>
		2,591,862	89,036,862
			81,806
	33,864,086	6,238,005	51,413,533
	(1,064,214)	(7,490,840)	(51,243,641)
	<u>32,799,872</u>	<u>1,339,027</u>	<u>89,288,560</u>
101,011	1,581,254	398,073	53,118,067
7,202,215	3,505,286	14,285,879	93,227,037
			20,534
<u>7,202,215</u>	<u>3,505,286</u>	<u>14,285,879</u>	<u>93,247,571</u>
<u>\$ 7,303,226</u>	<u>\$ 5,086,540</u>	<u>\$ 14,683,952</u>	<u>\$ 146,365,638</u>

CITY OF HERCULES
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ 53,118,067

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are, therefore, added back to fund balances	41,208,812
Depreciation expense not reported in governmental funds	(2,788,270)
Contributed capital not reported in governmental funds	3,196,129

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but in the statement of net assets the repayment reduces long-term liabilities.

Proceeds from issuance of long-term debt	(89,036,862)
Repayment of debt principal is added back to fund balances	1,814,794
Costs of issuance from issuance of long-term debt	3,105,728
Amortization expense of costs of issuance not reported in governmental funds	(123,532)
Original issue premium from issuance of long-term debt	(81,806)
Amortization of premium and deferred loss on refunding	65,973

The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable	(1,718,285)
Compensated absences	(64,229)

Certain revenues are offset by deferred revenue in the governmental funds because they are not available to pay for current period expenditures. This amount represents the amount by which prior year deferred revenue exceeded current year includes the \$700,000 allowance for uncollectible loan. 2,177,421

Dispositions of capital assets result in no gain or loss on the governmental funds statements. However, on the statement of activities, gains and losses on sales and dispositions are reported. (34,429)

Internal service funds are used by management to charge the costs of certain activities, such as replacement and maintenance, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities. 40,658

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 10,880,169

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sewer Fund – This fund accounts for wastewater treatment to the cities of Hercules and Pinole and for the maintenance of the City’s sewer lines and related facilities. It is a self-supporting activity which provides services on a user charge basis to residences and businesses.

Hercules Municipal Utilities Fund – This fund accounts for the operations of the City’s electric utility that provides electrical power to areas of new development within Hercules’ city limits.

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2008

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities - Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 627,951	\$ -	\$ 627,951	\$ 1,713,904
Accounts receivable - net	12,482	356,766	369,248	
Due from other funds		49,589	49,589	
Inventory		267,270	267,270	
Total Current Assets	640,433	673,625	1,314,058	1,713,904
Noncurrent Assets:				
Intangible asset, net of accumulated amortization		18,000	18,000	
Capital Assets:				
Nondepreciable:				
Land	150,000		150,000	
Construction in progress	3,505,543	21,170	3,526,713	
Total Nondepreciable Capital Assets	3,655,543	21,170	3,676,713	
Depreciable:				
Buildings and improvements	11,278,754		11,278,754	
Infrastructure	1,997,911	8,753,804	10,751,715	
Machinery and equipment	46,673	40,119	86,792	2,318,745
Total Depreciable Capital Assets	13,323,338	8,793,923	22,117,261	2,318,745
Less Accumulated Depreciation	(8,209,514)	(547,609)	(8,757,123)	(1,374,076)
Net Depreciable Capital Assets	5,113,824	8,246,314	13,360,138	944,669
Net Capital Assets	8,769,367	8,267,484	17,036,851	944,669
Total Noncurrent Assets	8,769,367	8,285,484	17,054,851	944,669
Total Assets	\$ 9,409,800	\$ 8,959,109	\$ 18,368,909	\$ 2,658,573

(continued)

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (Continued)
June 30, 2008

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities- Internal Service Funds
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 638,505	\$ 1,123,797	\$ 1,762,302	\$ 92,194
Accrued wages	4,199	21,244	25,443	13,462
Total Current Liabilities	<u>642,704</u>	<u>1,145,041</u>	<u>1,787,745</u>	<u>105,656</u>
Noncurrent Liabilities:				
Advances from other funds		8,895,020	8,895,020	
Compensated absences	8,735	19,381	28,116	21,871
Total Noncurrent Liabilities	<u>8,735</u>	<u>8,914,401</u>	<u>8,923,136</u>	<u>21,871</u>
Total Liabilities	<u>651,439</u>	<u>10,059,442</u>	<u>10,710,881</u>	<u>127,527</u>
NET ASSETS				
Invested in capital assets, net of related debt	8,769,367	2,885,726	11,655,093	944,669
Unrestricted	(11,006)	(3,986,059)	(3,997,065)	1,586,377
Total Net Assets (Deficit)	<u>\$ 8,758,361</u>	<u>\$ (1,100,333)</u>	<u>\$ 7,658,028</u>	<u>\$ 2,531,046</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2008

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities- Internal Service Funds
Operating Revenues:				
Sales and charges for services	\$ 3,697,437	\$ 1,950,453	\$ 5,647,890	\$ 449,943
Other operating revenue	12,489	2,626	15,115	
Total Operating Revenues	3,709,926	1,953,079	5,663,005	449,943
Operating Expenses:				
Contractual services	343,709	36,389	380,098	
Maintenance and operation	679,353	65,625	744,978	
Purchase of electricity		1,504,481	1,504,481	
Administration	252,782	701,923	954,705	437,430
Depreciation and amortization	255,014	325,886	580,900	290,441
Total Operating Expenses	1,530,858	2,634,304	4,165,162	727,871
Operating Income (Loss)	2,179,068	(681,225)	1,497,843	(277,928)
Non-Operating Revenues (Expenses):				
Interest income	6,008		6,008	81,206
Interest expense		(234,342)	(234,342)	
Gain (loss) on sale of capital assets		(5,120)	(5,120)	(2,952)
Fees and taxes		(324,493)	(324,493)	
Total Non-Operating Revenue(Expenses)	6,008	(563,955)	(557,947)	78,254
Income (Loss) Before Transfers	2,185,076	(1,245,180)	939,896	(199,674)
Transfers:				
Transfers in				304,870
Transfers out		(286,249)	(286,249)	(188,513)
Total change in net assets before capital contributions	2,185,076	(1,531,429)	653,647	(83,317)
Capital contributions				123,975
Change in Net Assets	2,185,076	(1,531,429)	653,647	40,658
Net Assets, July 1, 2007	6,573,285	701,630	7,274,915	2,490,388
Prior period adjustment		(270,534)	(270,534)	
Net Assets, July 1, 2007, restated	6,573,285	431,096	7,004,381	2,490,388
Net Assets, June 30, 2008	<u>\$ 8,758,361</u>	<u>\$ (1,100,333)</u>	<u>\$ 7,658,028</u>	<u>\$ 2,531,046</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from customers	\$ 3,697,444	\$ 1,807,384	\$ 5,504,828	\$ 449,943
Payments to suppliers and users	(1,334,612)	(360,053)	(1,694,665)	(36,239)
Payments to employees	(223,742)	(639,585)	(863,327)	(356,013)
Net Cash Provided (Used) by Operating Activities	<u>2,139,090</u>	<u>807,746</u>	<u>2,946,836</u>	<u>57,691</u>
Cash Flow from Non-Capital Financing Activities:				
Fees and taxes		(324,493)	(324,493)	
Transfers in				304,870
Transfers out		(286,249)	(286,249)	(188,513)
Net Cash Provided (Used) by Non-Capital Financing Activities		<u>(610,742)</u>	<u>(610,742)</u>	<u>116,357</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(4,792,806)	(90,160)	(4,882,966)	(477,845)
Capital contributions				123,975
Interest paid on debt		(234,342)	(234,342)	
Advances from the City of Hercules		127,498	127,498	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,792,806)</u>	<u>(197,004)</u>	<u>(4,989,810)</u>	<u>(353,870)</u>
Cash Flows from Investing Activities:				
Interest received	6,008		6,008	81,206
Net Cash Provided by Investing Activities	<u>6,008</u>		<u>6,008</u>	<u>81,206</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,647,708)		(2,647,708)	(98,616)
Cash and Cash Equivalents, July 1, 2007	<u>3,275,659</u>		<u>3,275,659</u>	<u>1,812,520</u>
Cash and Cash Equivalents, June 30, 2008	<u>\$ 627,951</u>	<u>\$ -</u>	<u>\$ 627,951</u>	<u>\$ 1,713,904</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets				
Cash and investments	<u>\$ 627,951</u>	<u>\$ -</u>	<u>\$ 627,951</u>	<u>\$ 1,713,904</u>
Total Cash and Investments	<u>\$ 627,951</u>	<u>\$ -</u>	<u>\$ 627,951</u>	<u>\$ 1,713,904</u>

The notes to the financial statements are an integral part of this statement.

(continued)

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2008

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities- Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 2,179,068	\$ (681,225)	\$ 1,497,843	\$ (277,928)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and amortization	255,014	325,886	580,900	290,441
(Increase) Decrease in Operating Assets:				
Accounts receivable	(12,482)	(43,254)	(55,736)	
Inventory		(65,584)	(65,584)	
Due from other funds		30,890	30,890	
Increase (Decrease) in Operating Liabilities:				
Accounts payable	(287,528)	303,075	15,547	31,061
Accrued wages	1,707	2,679	4,386	2,324
Deposits payable		(102,441)	(102,441)	
Compensated absences	3,311	(1,050)	2,261	11,793
Advances from other funds		1,038,770	1,038,770	
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,139,090</u>	<u>\$ 807,746</u>	<u>\$ 2,946,836</u>	<u>\$ 57,691</u>

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND FINANCIAL STATEMENTS

Pension Trust Fund is used to account for funds set aside by the City each year to pre-fund future medical expenses for retired police officers.

Agency Funds are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments, and/or other funds.

CITY OF HERCULES
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2008

	Pension Trust Fund	Total Agency Funds	Total
ASSETS			
Cash and investments	\$ 207,075	\$ 8,059,494	\$ 8,266,569
Cash and investments with fiscal agent		5,244,970	5,244,970
Accounts receivable		607,927	607,927
Prepaid expenses		883	883
Total Assets	207,075	13,913,274	14,120,349
LIABILITIES			
Liabilities:			
Accounts payable		2,427,917	2,427,917
Compensated absences		7,224	7,224
Deposits payable		11,478,133	11,478,133
Total Liabilities		13,913,274	13,913,274
NET ASSETS			
Unrestricted	207,075		207,075
Total Net Assets	\$ 207,075	\$ -	\$ 207,075

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Fiscal Year Ended June 30, 2008

	Pension Trust Fund
Additions:	
Investment revenue	\$ 11,731
Contribution from general fund	<u>25,000</u>
Total additions	<u>36,731</u>
Deductions:	
Employee benefits	<u>3,671</u>
Total deductions	<u>3,671</u>
Change in net assets	33,060
Net Assets - July 1, 2007	<u>174,015</u>
Net Assets - June 30, 2008	<u><u>\$ 207,075</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hercules (City) was incorporated under the General Laws of the State of California and enjoys all the rights and privileges pertaining to such "General Law" cities. The City uses the City Council/Manager form of government. The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

The following is a brief review of the component units included in the accompanying basic financial statements of the City.

Hercules Redevelopment Agency

The Hercules Redevelopment Agency (Agency) was established in 1983. It is responsible for the rehabilitation and economic revitalization of certain areas within the City.

Hercules Public Financing Authority

The Hercules Public Financing Authority (Authority) was established July 24, 2001, by and between the City and the Agency, pursuant to the State of California Government Code. The purpose of the Authority is to finance the acquisition, construction and improvement of public capital improvements, working capital requirements or insurance programs.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14 as amended by GASB Statement No. 39. The City is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The Agency and the Authority have been accounted for as "blended" component units of the City. Despite being legally separate, the entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City.

Separate detailed financial statements are available for the above component units from the City's Finance Department.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized and operated on the basis of funds, each of which is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Government-wide Financial Statements

The Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental and Business-type Activities for the City accompanied by a total column. Fiduciary Activities of the City are not included in these statements.

The basic financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories:

- > Charges for services
- > Operating grants and contributions
- > Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- > Advances to/from other funds
- > Transfers in/out
- > Due to/from

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide financial statements. The City has presented all major funds that met the qualifications for major fund reporting.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The following are the description of the major funds:

General Fund accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as police, planning, engineering, public works, operations and maintenance, and legal and administrative services.

Redevelopment Agency Special Revenue Fund accounts for the operating costs of the Redevelopment Agency and for the tax increment monies to be expended for low and moderate income housing purposes.

Redevelopment Agency Debt Service Fund accounts for the accumulation of resources used for the payment of principal and interest on the Redevelopment Agency tax allocation bonds and notes payable.

Hercules Public Financing Authority Debt Service Fund accounts for the accumulation of resources for, and the payment of, principal and interest on the Lease Revenue Bonds, Series 2003A issued to cover capital costs for the Hercules Municipal Utility and principal and interest on the Lease Revenue Bonds, Series 2003B issued to cover the financing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building.

Redevelopment Agency Capital Projects Fund accounts for major capital projects undertaken by the Redevelopment Agency.

All Governmental Funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

Reconciliations of the Governmental Fund Financial Statements to the Government-wide Financial Statements are provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows for each proprietary fund. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-wide Financial Statements.

Sewer 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.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

Hercules Municipal Utilities Fund accounts for the operations of the City's electric utility that provides electrical power to areas of new development within Hercules' city limits.

Internal Service Funds accounts for activities related to vehicle replacement, IT equipment replacement, and facilities maintenance.

All proprietary fund types are accounted for on an "economic resources" measurement focus and accrual basis of accounting. Accordingly, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the funds. All other revenues are reported as 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.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units. When these assets are held under the terms of a formal trust agreement, a pension trust fund is used. The City's fiduciary funds represent agency funds and Pension trust funds and are accounted for using the "economic resources" measurement focus. The Pension trust funds are used to account for resources legally held in trust for special purposes. The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Pension trust funds are accounted for using the accrual basis of accounting.

C. Cash and Investments

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB Statement No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas: Interest Rate Risk, Credit Risk, Custodial Credit Risk, and Concentrations of Credit Risk.

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

The City has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are not readily available. Interest earned on investments is allocated using the Local Agency Investment Fund (LAIF) factor to selected funds by the City.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Cash and Investments, Continued

The City participates in an investment pool LAIF, which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying basic financial statements.

D. Capital Assets

Capital assets including infrastructure capital assets were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

General Capital Assets	\$ 2,500
Infrastructure Capital Assets	\$ 5,000

Depreciation is recorded on a straight-line method (with half-year convention applied to the first year of acquisition) over the useful lives of the assets as follows:

Buildings and improvements	15 – 50 years
Land and improvements	20 years
Machinery and equipment	5 – 20 years
Infrastructure	15 – 50 years

The Governmental Accounting Standards Board (GASB) Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure capital assets into its Basic Financial Statements.

The City defines infrastructure assets as the basic physical assets that allow the City to function. The assets include:

- Street system
- Site amenities such as parking and landscaped areas used by the City in the conduct of its business.

Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signals), and land. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Capital Assets, Continued

The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date was computed on a straight-line method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

Interest accrued during capital assets construction, if any, is capitalized for the business-type activities and proprietary funds as part of the asset cost.

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Capital assets acquired or constructed for proprietary funds are capitalized in their respective individual funds.

E. Long-Term Obligations

In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

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.

F. Compensated Absences

Compensated absences are comprised of unpaid vacation and compensated time off. The City accrues the costs of these absences when they are earned. For governmental funds, compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements. For proprietary funds, current and non-current liabilities for compensated absences are recorded as expenses in both the Government-wide Financial Statements and the Fund Financial Statements.

G. Net Assets

In the Government-wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted for Debt Service represents amounts accumulated in accordance with a bond indenture or similar covenant.

Restricted for Special Projects and Programs represents funds designated for the completion of future projects.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets” as defined above.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Net Assets, Continued

In the Fund Financial Statements, reservations of fund balances of governmental funds and net assets of proprietary funds are created to either satisfy legal covenants, including state laws, that require a portion of the fund balance be segregated or identify the portion of the fund balance not available for future expenditures.

Reserved for Debt Service represents funds which legally may only be used for debt service payments.

Reserved for Advances to Other Funds represents funds that are to be received from other funds on a long-term basis.

Reserved for Prepaid Expenditures and Petty Cash is provided to indicate that petty cash and prepaid costs are not “available” as a resource to meet expenditures of the current year.

Reserved for Future Commitments represents funds that are reserved for future miscellaneous commitments.

Reserved for Low and Moderate Income Housing represents funds reserved for low and moderate income housing.

Reserved for Land Held for Resale represents amounts provided to indicate that land held for resale is not “available” as a resource to meet expenditures of the current year.

H. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City’s policy is to apply restricted net assets first.

I. Property Taxes, Tax Increment and Special Assessment Revenue

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Costa levies, bills and collects property taxes and special assessments for the City and remits the full assessment regardless of the amounts received under a Teeter plan arrangement.

	<u>Secured Property Tax</u>	<u>Unsecured Property Tax</u>
Lien Date	January 1 preceding fiscal year	January 1 preceding fiscal year
Due Date	November 1 & February 1	August 31
Delinquent Date	December 10 & April 10	September 1

J. 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.

K. New Accounting Pronouncements

The City implemented the requirements of GASB Statements No. 48 and No. 50 during the fiscal year ended June 30, 2008.

GASB Statement No. 48

This statement is effective for periods beginning after December 15, 2006 and establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition,

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Pronouncements, Continued

GASB Statement No. 48, Continued

this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. Implementation of GASB Statement No. 48 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2008.

GASB Statement No. 50

For the fiscal year ended June 30, 2008, the City implemented GASB Statement No. 50, "Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27". The statement is effective for periods beginning after June 15, 2007. This statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pension plans.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool for all funds. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled.

Statement of Net Assets:		
Cash and investments	\$	34,313,794
Cash and investments with fiscal agents		106,081,135
Statement of Fiduciary Net Assets:		
Cash and investments		8,266,569
Cash and investments with fiscal agents		5,244,970
Total		\$ 153,906,468

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$	2,455
Deposits with financial institutions		467,174
Investments		153,436,839
Total		\$ 153,906,468

Investments Authorized by the California Government code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City of Hercules by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS, Continued

Investments Authorized by the California Government code and the City's Investment Policy, Continued

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 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 Deposit	5 years	30%	\$100,000
Non-negotiable Time Certificates of Deposit	5 years	30%	\$100,000
Federally insured Time Deposits	1 year	20%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	15%
Mutual Funds	N/A	20%	None
Money Market Funds	N/A	None	None
Insured or Passbook Savings Accounts	N/A	None	\$100,000

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 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 Deposit	5 years	30%	\$100,000
Non-negotiable Time Certificates of Deposit	5 years	30%	\$100,000
Federally insured Time Deposits	1 year	20%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	15%
Mutual Funds	N/A	20%	None
Money Market Funds	N/A	None	None
Insured or Passbook Savings Accounts	N/A	None	\$100,000
Guaranteed Investment Contracts	N/A	None	None

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
State Investment Pool	\$ 13,665,950	\$ 13,665,950	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	1,367,841	198,972	976,989			191,880	
U.S. Agency Securities	26,104,417	17,518		1,002,180	1,993,750	20,378,690	2,712,279
Money Market Funds	4,656	4,656					
Medium-Term Notes	967,870				967,870		
Held by debt trustees:							
Money Market Funds	97,224,684	97,224,684					
Guaranteed Investment Contracts	12,391,868		3,797,404	6,700,000			1,894,464
State Investment Pool	1,709,553	1,709,553					
	<u>\$ 153,436,839</u>	<u>\$ 112,821,333</u>	<u>\$ 4,774,393</u>	<u>\$ 7,702,180</u>	<u>\$ 2,961,620</u>	<u>\$ 20,570,570</u>	<u>\$ 4,606,743</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio, not to exceed three years.

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

<u>Maturity</u>	<u>% of Portfolio</u>
Up to one year	10% (Minimum)
one year to five years	60% (Maximum)
more than five years	30% (Maximum)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Credit Risk, Continued

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 13,665,950	N/A	\$ -	\$ -	\$ -	\$ -	\$ 13,665,950
Certificates of Deposit	1,367,841	N/A					1,367,841
U.S. Agency Securities	26,104,417			26,104,417			
Money Market Fund	4,656			4,656			
Medium Term Notes	967,870			967,870			
Held by debt trustees:							
Money Market Funds	97,224,684	N/A		97,224,684			
Guaranteed Investment Contracts	12,391,868	N/A					12,391,868
State Investment Pool	1,709,553	N/A					1,709,553
Total	\$ 153,436,839		\$ -	\$ 124,301,627	\$ -	\$ -	\$ 29,135,212

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are 5 investments that represent more than 5% of total City investments (Federated Home Loan Bank, American Beacon Inc. Money Market Funds, PSA Master Guaranteed Investment Contracts, and Federal Home Loan Bank/Mortgage Corp.).

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, governmental activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.) are as follows:

\$94,778,711 of cash and investments (including amounts held by bond trustees) reported in the Redevelopment Agency Debt Service Fund (a major fund of the City) are held in the form of money market funds issued by American Beacon Inc.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, \$2,869,022 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

The City's investments are carried at fair value as required by accounting principles generally accepted in the United States of America. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end, and it includes the effects of these adjustments in investment income for that fiscal year.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS, Continued

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The LAIF fair value factor of 0.999950219 was used to calculate the fair value of the investments in LAIF. The fair value factor was applied to selected funds by the City.

3. LOANS RECEIVABLE

Loans Receivable

Loans receivable at June 30, 2008, consisted of the following:

Bridge Housing Corporation	\$	1,716,555
Eden Housing		700,000
Radston's Office Plus		250,000
First Time Homebuyers		2,302,080
Affordable Housing		2,746,220
Business Development Loans		1,401,859
Home Emergency Loans		14,215
Employee Loans		250,000
Subtotal		9,380,929
Less: Reported as interest receivable		316,955
Allowance for uncollectible loan		700,000
Total	\$	8,363,974

A. Bridge Housing Corporation

The Agency loaned the Bridge Housing Corporation (Corporation) \$1,400,000 to finance construction of a sixty unit senior citizen housing development next to City Hall. On September 8, 1998, the Agency approved an addition to the loan of \$114,600 for a total of \$1,514,600. On January 1, 1999, the loan began to accrue interest at the rate of 3.5% per year and is repayable in 2041, subject to certain conditions. The construction was completed in September 1999. On March 2, 2000, the Corporation repaid \$115,000 to the Agency. As of June 30, 2008, the Corporation's loan balance was \$1,716,555, which includes \$316,955 of interest presented as interest receivable.

B. Eden Housing Loan

On July 1, 2002, the Agency loaned Eden Housing, Inc. \$700,000 to assist in the development of low and moderate income housing for senior citizens. The loan does not bear interest. The repayment of the loan is only due and payable if a default has been declared by the Agency and the borrower fails to cure the default. Upon expiration of the 55-year Regulatory Agreement, the loan will be forgiven and the promissory note will be cancelled by the Agency. The balance outstanding as of June 30, 2008 was \$700,000. An allowance of \$700,000 has been established for this loan, due to its terms.

C. Radston's Office Plus

On December 5, 2000, the Agency entered into a promissory note agreement with the Radston's Office Plus (Payors) in the amount of \$250,000 with interest at 5% per annum. All principal and interest are deferred until December 5, 2010. Commencing on December 5, 2010, the Payors shall pay a lump-sum cash amount of \$125,000 which represents all deferred and unpaid interest only. The principal balance of \$250,000 will be fully amortized and paid over the next ten years at \$2,652 per month, principal and interest, commencing on December 5, 2010. The loan is secured by a Deed of Trust on real property. As of June 30, 2008, the outstanding balance of the loan was \$250,000.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

3. LOANS RECEIVABLE, Continued

D. First Time Homebuyers

The Agency has provided various loan programs for First Time Homebuyers. In general, they provide secondary financing for low and moderate buyers in the City of Hercules and have deferred payments in order to allow the buyer to maximize their purchasing capacity with a repayment period of 20 years and an interest rate of 3% per annum after the first 10 years. The balance outstanding as of June 30, 2008 was \$2,302,080.

E. Affordable Housing Loans

The Agency has provided various loan programs for Affordable Housing assistance.

The Below Market Rate Program provides secondary financing for low to moderate income individuals who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area with no interest rate and a repayment period of 20 years. This is available to City employees as well.

The Rehabilitation and Beautification Program provides financial assistance to rehabilitate properties without such assistance. Borrowers, who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area, are eligible for the program with a repayment period of 20 years and an interest rate of 3% per annum after the first 10 years.

The balance outstanding as of June 30, 2008 was \$2,746,220.

F. Employee Loan

The City loaned \$250,000 to the City Manager for the purchase of a residence within the City of Hercules. The loan is to be repaid from the proceeds of the sale of the house with no interest when the contract between the City and the City Manager is terminated. The balance outstanding as of June 30, 2008 was \$250,000.

G. Home Emergency Loans

On September 19, 2002, the Agency entered into several home emergency loans in various amounts with interest at 5% per annum. The principal amount of the loan including interest is to be due and payable in one lump sum if the owners cease to occupy the property or upon any transfer, refinance, sale, or conveyance of all or a part of the property. The balance outstanding as of June 30, 2008 was \$14,215.

H. Business Development Loans

The City and Agency established the Business Development Loan Program (BDLP) to provide low cost financial assistance to businesses within the City of Hercules. The BDLP offers a secured loan of up to \$75,000, of a term not greater than 20 years and a simple interest rate of 3% per annum. All applicants are evaluated and prioritized according to established program criteria and if funded are subject to various terms and conditions and fees. These fees will be deducted from the final loan award by the escrow administrator at the time of funding. The balance outstanding as of June 30, 2008 was \$1,401,859.

4. DEFERRED REVENUE

Fund Financial Statements

At June 30, 2008, the following deferred revenues were recorded in the Governmental Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Bridge Housing Corporation	\$	1,716,555
Eden Housing		700,000
Radston's Office Plus		250,000
First Time Homebuyers		2,302,080
Affordable Housing		2,746,220
Business Development Loans		1,401,859
Home Emergency Loans		14,215
Employee Loans		250,000
		250,000
Total	\$	9,380,929

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

5. CAPITAL ASSETS

At June 30, 2008, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 21,034,160	\$ 150,000	\$ 21,184,160
Construction in progress	28,858,060	3,526,713	32,384,773
Total nondepreciable assets	49,892,220	3,676,713	53,568,933
Depreciable Assets:			
Land improvements	4,622,611		4,622,611
Building and improvements	26,182,755	11,278,754	37,461,509
Machinery and equipment	3,354,309	86,792	3,441,101
Infrastructure	75,465,713	10,751,715	86,217,428
Total depreciable assets	109,625,388	22,117,261	131,742,649
Less accumulated depreciation	(41,465,104)	(8,757,123)	(50,222,227)
Total depreciable assets, net	68,160,284	13,360,138	81,520,422
Total capital assets, net	\$ 118,052,504	\$ 17,036,851	\$ 135,089,355

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

	Balance July 1, 2007	Prior Period Adjustments	Additions	Deletions	Transfers	Balance June 30, 2008
Governmental Activities						
Nondepreciable capital assets:						
Land	\$ 5,120,204	\$ -	\$ 15,913,956	\$ -	\$ -	\$ 21,034,160
Construction in progress	18,583,969		22,348,725	(34,429)	(12,040,205)	28,858,060
Total nondepreciable capital assets	23,704,173		38,262,681	(34,429)	(12,040,205)	49,892,220
Depreciable capital assets:						
Land improvements	4,620,342		2,269			4,622,611
Buildings and improvements	12,756,236		1,427,779		11,998,740	26,182,755
Machinery and equipment	2,841,013		524,304	(15,740)	4,732	3,354,309
Infrastructure	70,763,227		4,665,753		36,733	75,465,713
Total depreciable capital assets	90,980,818		6,620,105	(15,740)	12,040,205	109,625,388
Accumulated depreciation:						
Land improvements	(1,717,021)		(339,255)			(2,056,276)
Buildings and improvements	(4,369,982)		(284,599)			(4,654,581)
Machinery and equipment	(1,800,907)		(376,931)	12,788		(2,165,050)
Infrastructure	(30,602,951)	91,680	(2,077,926)			(32,589,197)
Total accumulated depreciation	(38,490,861)	91,680	(3,078,711)	12,788		(41,465,104)
Net depreciable capital assets	52,489,957	91,680	3,541,394	(2,952)	12,040,205	68,160,284
Net capital assets	\$ 76,194,130	\$ 91,680	\$ 41,804,075	\$ (37,381)	\$ -	\$ 118,052,504

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

5. CAPITAL ASSETS, Continued

Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental Activities:

General government	\$ 123,638
Public safety	251,515
Public works	2,183,552
Parks and recreation	216,972
Community development	<u>303,034</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 3,078,711</u>

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
<u>Business-type Activities</u>					
<u>Sewer</u>					
Nondepreciable capital assets:					
Land	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Construction in progress	24,500	3,481,043			3,505,543
Total nondepreciable capital assets	<u>174,500</u>	<u>3,481,043</u>			<u>3,655,543</u>
Depreciable capital assets:					
Buildings and improvements	11,278,754				11,278,754
Machinery and equipment	46,673				46,673
Infrastructure	686,148	1,311,763			1,997,911
Total depreciable capital assets	<u>12,011,575</u>	<u>1,311,763</u>			<u>13,323,338</u>
Less accumulated depreciation	<u>(7,954,500)</u>	<u>(255,014)</u>			<u>(8,209,514)</u>
Net depreciable capital assets	<u>4,057,075</u>	<u>1,056,749</u>			<u>5,113,824</u>
Net capital assets	<u>\$ 4,231,575</u>	<u>\$ 4,537,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,769,367</u>
<u>Hercules Municipal Utility</u>					
Nondepreciable capital assets:					
Construction in progress	\$ 105,395	\$ 13,538	\$ (5,120)	\$ (92,643)	\$ 21,170
Total nondepreciable capital assets	<u>105,395</u>	<u>13,538</u>	<u>(5,120)</u>	<u>(92,643)</u>	<u>21,170</u>
Depreciable capital assets:					
Machinery and equipment	40,119				40,119
Infrastructure	8,584,539	76,622		92,643	8,753,804
Total depreciable capital assets	<u>8,624,658</u>	<u>76,622</u>		<u>92,643</u>	<u>8,793,923</u>
Less accumulated depreciation	<u>(343,381)</u>	<u>(204,228)</u>			<u>(547,609)</u>
Net depreciable capital assets	<u>8,281,277</u>	<u>(127,606)</u>		<u>92,643</u>	<u>8,246,314</u>
Net capital assets	<u>\$ 8,386,672</u>	<u>\$ (114,068)</u>	<u>\$ (5,120)</u>	<u>\$ -</u>	<u>\$ 8,267,484</u>

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

5. CAPITAL ASSETS, Continued

Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Business-Type Activities:

Sewer	\$ 255,014
Hercules Municipal Utility	204,228
	\$ 459,242
Total Depreciation Expense-Business-type Activities	\$ 459,242

6. COMPENSATED ABSENCES

Compensated absences are comprised of unpaid vacation and compensated time off. The City accrues the cost of these absences when they are earned. The City expects the liability for compensated absences to be utilized and records this liability in the Government-Wide Financial Statements. The City liquidates the majority of governmental activities portion of the liability in the general fund.

	July 1, 2007 Balance	Additions	Reductions	June 30, 2008 Balance	Due Within One Year
Governmental Activities	\$ 482,575	\$ 446,208	\$ (370,186)	\$ 558,597	\$ 390,000
Business-type Activities	25,855	37,518	(35,257)	28,116	28,116
	\$ 508,430	\$ 483,726	\$ (405,443)	\$ 586,713	\$ 418,116

7. LONG-TERM OBLIGATIONS

Long-term liability activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Prior Period Adjustment	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:						
2005 Tax Allocation Bonds	\$ 55,050,000	\$ -	\$ -	\$ (1,410,000)	\$ 53,640,000	\$ 1,460,000
Premium on 2005 Tax Allocation Bonds	2,030,904			(72,532)	1,958,372	72,532
Deferred loss on refunding for the 2005 Tax Allocation Bonds	(271,750)			9,705	(262,045)	(9,705)
2007 Housing Tax Allocation Bonds, Series A			13,130,000		13,130,000	220,000
2007 Housing Tax Allocation Bonds, Series B			12,760,000		12,760,000	235,000
Premium on 2007 Housing Tax Allocation Bonds, Series B			81,806	(3,146)	78,660	3,146
2007 Tax Allocation Bonds			60,555,000		60,555,000	2,145,000
2003A PFA Lease Revenue Bonds	6,885,000			(125,000)	6,760,000	130,000
2003B PFA Lease Revenue Bonds	8,625,000			(185,000)	8,440,000	190,000
Long-term Notes Payable	544,126			(43,933)	500,193	47,245
H.E.L.P Loan	400,000	340,383	406,324		1,146,707	
Suntrust Lease			2,185,538	(50,861)	2,134,677	105,360
	\$ 73,263,280	\$ 340,383	\$ 89,118,668	\$ (1,880,767)	\$ 160,841,564	\$ 4,598,578

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

7. LONG-TERM OBLIGATIONS, Continued

2005 Tax Allocation Bonds

On August 5, 2005, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, Series 2005, in the amount of \$56,260,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area and refund the Agency's Subordinate Tax Allocation Bonds, Series 2001. The Bonds mature annually each August 1 from 2006 to 2035, in amounts ranging from \$740,000 to \$2,960,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semiannually on February 1 and August 1. The Bonds maturing on or after August 1, 2016, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2015, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2008 is \$53,640,000.

Future debt service requirements on the 2005 Tax Allocation bonds are:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 1,460,000	\$ 2,508,270	\$ 3,968,270
2010	1,520,000	2,450,645	3,970,645
2011	1,575,000	2,390,335	3,965,335
2012	1,640,000	2,327,265	3,967,265
2013	1,705,000	2,264,855	3,969,855
2014-2018	9,655,000	10,111,600	19,766,600
2019-2023	8,705,000	7,804,727	16,509,727
2024-2028	10,075,000	5,585,750	15,660,750
2029-2033	12,830,000	3,613,769	16,443,769
2034-2036	4,475,000	335,456	4,810,456
Subtotal	53,640,000	39,392,672	93,032,672
Plus Premium	1,958,372		1,958,372
Total	\$ 55,598,372	\$ 39,392,672	\$ 94,991,044

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferred loss on refunding of debt which is reported as part of long-term debt. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest. The total amount of the deferred loss was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year 2007-2008 was \$9,705, and the accumulated amortization at June 30, 2008 was \$29,115.

2007 Housing Tax Allocation Bonds Series A and B

On July 26, 2007, the Redevelopment Agency issued Hercules Merged Project Area Housing Tax Allocation Bonds, 2007 Series A, in the amount of \$13,130,000 and 2007 Series B, in the amount of \$12,760,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2033, in amounts ranging from \$220,000 to \$950,000 and bear interest at rates ranging from 3.50% to 6.125%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2017, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2008 for 2007 Series A and Series B are \$13,130,000 and \$12,760,000 respectively.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

7. LONG-TERM OBLIGATIONS, Continued

The annual debt service requirements to maturity at June 30, 2008 of the 2007 Series A were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 220,000	\$ 780,319	\$ 1,000,319
2010	240,000	767,669	1,007,669
2011	255,000	754,056	1,009,056
2012	270,000	739,619	1,009,619
2013	285,000	724,356	1,009,356
2014-2018	1,675,000	3,354,451	5,029,451
2019-2023	2,230,000	2,786,319	5,016,319
2024-2028	2,985,000	2,000,578	4,985,578
2029-2033	4,015,000	936,359	4,951,359
2034	955,000	29,247	984,247
Total	<u>\$ 13,130,000</u>	<u>\$ 12,872,973</u>	<u>\$ 26,002,973</u>

The annual debt service requirements to maturity at June 30, 2008 of the 2007 Series B, were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 235,000	\$ 584,099	\$ 819,099
2010	250,000	574,986	824,986
2011	260,000	564,786	824,786
2012	315,000	553,241	868,241
2013	325,000	540,351	865,351
2014-2018	1,835,000	2,485,089	4,320,089
2019-2023	2,260,000	2,048,436	4,308,436
2024-2028	2,840,000	1,449,040	4,289,040
2029-2033	3,610,000	665,121	4,275,121
2034	830,000	20,606	850,606
Subtotal	12,760,000	9,485,755	22,245,755
Plus Premium	1,958,372		1,958,372
Total	<u>\$ 14,718,372</u>	<u>\$ 9,485,755</u>	<u>\$ 24,204,127</u>

2007 Tax Allocation Bonds Series A

On December 20, 2007, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, 2007 Series A, in the amount of \$60,555,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2033, in amounts ranging from \$260,000 to \$3,315,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after February 1, 2018, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2008 is \$60,555,000

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

7. LONG-TERM OBLIGATIONS, Continued

2007 Tax Allocation Bonds Series A, Continued

The annual debt service requirements to maturity at June 30, 2008, were as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 2,145,000	\$ 2,788,709	\$ 4,933,709
2010	1,130,000	2,723,209	3,853,209
2011	1,185,000	2,670,984	3,855,984
2012	1,240,000	2,610,359	3,850,359
2013	1,300,000	2,546,859	3,846,859
2014-2018	3,605,000	11,972,340	15,577,340
2019-2023	4,685,000	11,315,388	16,000,388
2024-2028	6,165,000	9,969,319	16,134,319
2029-2033	6,925,000	8,436,041	15,361,041
2034-2038	17,055,000	5,788,259	22,843,259
2039-2043	15,120,000	1,895,650	17,015,650
Total	<u>\$ 60,555,000</u>	<u>\$ 62,717,117</u>	<u>\$ 123,272,117</u>

2003A Public Financing Authority Lease Revenue Bonds

The Public Financing Authority issued lease revenue bonds, series 2003A, dated June 4, 2003, totaling \$7,000,000. The purpose of the bonds was to provide funds for the acquisition, construction and installation of various improvements located within the City. The interest rate on the bonds is at a weekly rate, designated and determined from time to time. The interest is payable on the first business day of each month, commencing July 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by base rental payments of the facility lease. Principal is due annually beginning on December 1, 2006, in amounts ranging from \$115,000 to \$455,000. The bonds mature on December 1, 2033. The balance at June 30, 2008 is \$6,760,000.

Future debt service requirements on the 2003A Public Financing Authority Lease Revenue bonds are:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 130,000	\$ 270,525	\$ 400,525
2010	135,000	265,077	400,077
2011	145,000	259,800	404,800
2012	150,000	254,000	404,000
2013	160,000	248,115	408,115
2014-2018	925,000	1,137,891	2,062,891
2019-2023	1,185,000	932,804	2,117,804
2024-2028	1,525,000	670,005	2,195,005
2029-2033	1,950,000	333,023	2,283,023
2034	455,000	18,192	473,192
Total	<u>\$ 6,760,000</u>	<u>\$ 4,389,432</u>	<u>\$ 11,149,432</u>

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

7. LONG-TERM OBLIGATIONS, Continued

2003B Public Financing Authority Lease Revenue Bonds

The Public Financing Authority issued lease revenue bonds, series 2003B, dated October 15, 2003, totaling \$9,150,000. The purpose of the bonds was to refinance the 1994 Refunding Certificates of Participation and to finance a portion of the construction for a public library. The interest rate on the bonds ranges from 2.00% to 5.00%. The interest is payable on 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, 2008 is \$8,440,000.

Future debt service requirements on the 2003B Public Financing Authority Lease Revenue bonds are:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 190,000	\$ 381,635	\$ 571,635
2010	195,000	376,579	571,579
2011	200,000	370,798	570,798
2012	205,000	364,110	569,110
2013	210,000	356,585	566,585
2014-2018	1,185,000	1,647,889	2,832,889
2019-2023	1,480,000	1,347,201	2,827,201
2024-2028	1,865,000	951,906	2,816,906
2029-2033	2,365,000	442,588	2,807,588
2034	545,000	13,625	558,625
Total	<u>\$ 8,440,000</u>	<u>\$ 6,252,916</u>	<u>\$ 14,692,916</u>

H.E.L.P. Loan Payable

In April 2005 the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency), a public instrumentality and political subdivision of the State of California to develop a 50-unit multifamily rental project that is a component to a mixed-used development, also consisting of 26,825 square feet of ground-floor commercial space. The Agency has authorized the making of a loan in the amount of \$1,600,000 known as the Housing Enabled by Local Partnerships (HELP) to the City of Hercules for the purpose of assisting in operating a local housing program. Under the terms of this agreement the City of Hercules agrees to reimburse the Agency \$1,600,000, 10 years from April 11, 2005 at a 3% simple per annum interest. Interest is to be charged only on funds disbursed. As of June 30, 2008, only \$1,146,707 has been provided to the City.

Long-term Notes Payable

In 1987, the Redevelopment Agency entered into Owner Participation Agreements with certain property owners in the Redevelopment Area. Under the terms of these agreements, the Agency signed notes under which it promised to reimburse the owners by the year 2016 for incremental assessments levied on their properties, up to the cost of constructing public improvements. Payment on these notes is contingent on the property taxes and special assessments levied on these owners.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

7. LONG-TERM OBLIGATIONS, Continued

Long-term Notes Payable, Continued

As of June 30, 2008, the City's long-term notes payables were as follows.

East Group	\$	188,316
Bio Rad Laboratories		311,877
Total		\$ 500,193

The annual debt service requirements to maturity for the East Group Notes Payable as of June 30, 2008 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 17,712	\$ 14,467	\$ 32,179
2010	19,092	13,094	32,186
2011	20,601	11,614	32,215
2012	22,112	10,018	32,130
2013	23,887	8,304	32,191
2014-2016	84,912	13,234	98,146
Total	\$ 188,316	\$ 70,731	\$ 259,047

The annual debt service requirements to maturity for the Bio Rad Laboratories Notes Payable as of June 30, 2008 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 29,533	\$ 24,122	\$ 53,655
2010	31,384	21,833	53,217
2011	34,351	19,366	53,717
2012	36,871	16,704	53,575
2013	39,830	13,847	53,677
2014-2016	139,908	22,066	161,974
Total	\$ 311,877	\$ 117,938	\$ 429,815

SunTrust Lease

On September 27, 2007, the City entered into master lease agreements with SunTrust Leasing Corporation in order to provide funds for the financing of the EMS Project performed by Siemens Building Technologies in the amount of \$2,185,538. Payments are due semiannually on September 27 and March 27, at an interest rate of 4.73%. The Master Lease Agreement matures on September 27, 2017. As of June 30, 2008, the outstanding balance of the master lease agreement is \$2,134,677.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

7. LONG-TERM OBLIGATIONS, Continued

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2008 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$ 105,360	\$ 99,739	\$ 205,099
2010	110,402	94,696	205,098
2011	115,686	89,413	205,099
2012	121,223	83,876	205,099
2013	127,024	78,074	205,098
2014-2018	732,343	293,150	1,025,493
2019-2023	822,639	100,306	922,945
Total	<u>\$ 2,134,677</u>	<u>\$ 839,254</u>	<u>\$ 2,973,931</u>

Defeased Debt – 2001 Tax Allocation Bonds

The Agency issued 2005 Tax Allocation Bonds to refund the 2001 Tax Allocation Bonds. The Agency issued subordinate tax allocation bonds, series 2001, dated September 4, 2001, totaling \$6,500,000. The purpose of the bonds was to provide funds to finance certain redevelopment activities within, and of benefit to, the Hercules Merged Project Area. The interest rate on the bonds ranges from 4.50% to 6.40%. The interest is payable on each March 1 and September 1 commencing March 1, 2002. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by a pledge of tax revenues in the Merged Project Area. Principal is due annually beginning on September 1, 2005, in amounts ranging from \$215,000 to \$575,000. The economic effect of refunding the bonds was a gain of \$293,279. The outstanding balance as of June 30, 2008 was \$5,340,000. The liability for these bonds has been removed from the City's books and records, as they are considered defeased.

8. NON-CITY OBLIGATIONS

The District Bonds are not general obligations of the City nor any other political subdivision and the full faith and credit of the City is not pledged for repayment thereof. Since these debts do not constitute an obligation of the City and the City is not obligated to make payment beyond the available bond reserves, these bonds have not been reflected in the long-term debt in the accompanying financial statements.

Description	Original Issuance	Balance as of June 30, 2008
Reassessment District 2001-01 (Alfred Nobel)	\$ 9,700,030	\$ 6,155,000
Reassessment District 2005-1 (John Muir Parkway)	6,550,345	6,360,000

9. RISK MANAGEMENT

General Liability Insurance

Coverage is maintained with the Municipal Pooling Authority (MPA) with coverage limits of \$10,000,000 per occurrence. The City maintains a deductible of \$5,000 per occurrence.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

9. RISK MANAGEMENT, Continued

Workers' Compensation

The City has coverage limits for the following without a deductible:

MPA	\$0 to \$500,000
CSAC-EIA	\$500,000 to \$5,000,000
American Reinsurance, Renaissance Re, Da Vinci Re	\$5,000,000 to \$145,000,000

As of June 30, 2008, the City's estimated claims liabilities were as follows.

General Liability	\$ 59,153
Workers Compensation	5,826
Total	<u>\$ 64,979</u>

Changes in the claims liabilities for the fiscal years ended June 30, 2006, 2007, and 2008, are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2005-2006	\$ 9,653	\$ 506,885	\$ (496,940)	\$ 19,598
2006-2007	19,598	501,120	(470,052)	50,666
2007-2008	50,666	477,513	(463,200)	64,979

Miscellaneous Coverages

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

<u>Coverage Type</u>	<u>Deductibles</u>	<u>Coverage Limits</u>
Auto - Physical damage:		
Police Vehicles	\$ 3,000	\$ 250,000
All Other Vehicles	2,000	250,000
All Risk Fire & Property	5,000	500,000,000
Boiler & Machinery	5,000	100,000,000

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

The City's deposits with the MPA are in accordance with formulas established by the MPA. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements can be obtained from the Municipal Pooling Authority, 1911 San Miguel Drive, #200, Walnut Creek, California 94596.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

10. INTERFUND TRANSACTIONS

A. Long-Term Advances

At June 30, 2008, the City had the following long-term advances:

	<u>Interfund Receivables</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 18,336,986	\$ 5,529,960
Hercules Public Financing Authority Debt Service Fund	5,399,759	
Redevelopment Agency Debt Service Fund		9,441,967
Major Proprietary Fund:		
Hercules Municipal Utility Fund		8,895,020
Nonmajor Governmental Fund:		
Community Development Special Revenue Fund	130,202	
	<u>\$ 23,866,947</u>	<u>\$ 23,866,947</u>

Advances to the General fund were to provide for child care loans, capital projects to other funds, property acquisition, upgrades for the wastewater treatment plant and Hercules Municipal Utility operations.

Advances to the Hercules Public Financing Authority from the General Fund were to provide funding for the Hercules Municipal Utility's operations.

Advances to the Redevelopment Agency from the General Fund were to purchase buildings, construction of City Hall, Refugio Creek Realignment Project and acquisition of property for future development.

Advances from the Non-Major Funds were to provide for a child care loan for infrastructure.

B. Due To/From Other Funds

Due to/from other funds as of June 30, 2008 were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 1,044,047	\$ -
Redevelopment Agency Special Revenue Fund	1,353,087	
Redevelopment Agency Debt Service Fund	823,593	3,335,997
Hercules Public Financing Authority Debt Service Fund		49,589
Redevelopment Agency Capital Projects Fund	4,533,670	2,176,680
Major Proprietary Fund:		
Hercules Municipal Utility Fund	49,589	
Nonmajor Governmental Funds:		
Community Development Special Revenue Fund	40,000	
SB 1266 Road Improvement Special Revenue Fund		400,000
Grant Special Revenue Fund		1,796,765
City Capital Project Fund	1,221,116	644,047
SunTrust Lease Debt Service Fund		662,024
	<u>\$ 9,065,102</u>	<u>\$ 9,065,102</u>

The due to/from other funds are to provide cash flow for the funds with negative cash.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

10. INTERFUND TRANSACTIONS, Continued

C. Transfers

Transfers for the fiscal year ended June 30, 2008 were as follows:

	<u>Interfund Transfers in</u>	<u>Interfund Transfers out</u>
Major Funds:		
General Fund	\$ 709,518	\$ 42,000
Redevelopment Agency Special Revenue Fund	3,279,876	7,182,539
Redevelopment Agency Debt Service Fund	7,322,048	35,464,048
Redevelopment Agency Capital Projects Fund	33,864,086	1,064,214
Major Proprietary Funds:		
Hercules Municipal Utility Fund		286,249
Nonmajor Governmental Funds:		
AB 3229 COPS Program Special Revenue Fund		104,490
DIF Special Revenue Fund	81,949	1,431,357
Community Development Special Revenue Fund	241,955	190,809
Developer Park Fees Special Revenue Fund		6,870
State Gas Tax Special Revenue Fund	611,646	139,979
Measure C Street Special Revenue Fund	41,096	80,000
Grant Special Revenue Fund	240,621	3,322,383
Fiscal Neutrality Fee Special Revenue Fund		50,000
Fire Equipment Special Revenue Fund		78
City Capital Project Fund	5,020,738	165,556
SunTrust Lease Debt Service Fund		1,999,318
Internal Service Funds:		
Vehicle Replacement Fund	79,416	
IT Equipment Replacement Fund	170,127	68,015
Facility Maintenance Fund	55,327	120,498
	<u>\$ 51,718,403</u>	<u>\$ 51,718,403</u>

The transfers are to reimburse a fund that has made an expenditure on behalf of another fund.

11. PUBLIC EMPLOYEE RETIREMENT SYSTEM

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS); a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy - Active plan members are required by state statute to contribute 7% for Miscellaneous and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, which amounted to \$515,883 for the fiscal year ended June 30, 2008. The City employer is required to contribute for fiscal year 2007-2008 at an actuarially determined rate of 11.526% of annual covered payroll for miscellaneous employees and 29.725% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

11. PUBLIC EMPLOYEE RETIREMENT SYSTEM, Continued

Annual Pension Cost — For fiscal year 2007-2008, the City’s annual pension cost of \$1,352,244 for PERS was equal to the City’s required and actual contribution. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2008, was 29 years for miscellaneous and 28 years for safety employees for the prior and current service unfunded liability.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 1,029,639	100%	\$ -
June 30, 2007	1,341,288	100%	-
June 30, 2008	1,352,244	100%	-

12. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City’s insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Commitments

Hercules LLC — An agreement with Hercules LLC was established with the Agency to assist with development of a 206 acre mixed-use project consisting of 880 residential units, 6 acres of commercial, residential or mixed-use projects, and open space and park uses. Project Tax Increment is defined to include all increases in value over the base year amount of \$7,654,000, less statutory payments to affected taxing entities. The agreement states that the Agency shall pay the developer the first 75% of the unrestricted portion (net of affordable housing set aside and required payments to affected taxing entities), and the first 90% of the housing portion (affordable housing set aside) of the project tax increment funds for properties located within the project site. The financing term for these payments is for 45 years from the adoption date of Ordinance No. 351 or April 13, 1999.

Pro Media — To assist with development of a 57,600 square foot and a 27,000 square foot building at the Project Site, the Agency entered into an agreement with Pro Media Corporation. The Agreement provides for the owner to expend at least \$4 million in hard construction costs. The Agreement provides for the Agency to pay the owner 60% of the Project Tax Increment as defined above over the financing term. The financing term commences on the date any increased property tax assessment first becomes effective on the project site from any improvements, and ends on the earliest of the following: (i) fifteen years from the commencement of the financing term, (ii) termination of the agreement, (iii) expiration of the Redevelopment Plan or (iv) the remaining life of the Agency.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

13. JOINT POWERS AGREEMENTS

The City is a member of the joint powers agencies described below. Each of these agencies is governed by a Board, which controls their operation, including selection of management and approval of operating budgets, independent of influence by member municipalities beyond their representation on the Board.

A. *West Contra Costa Transportation Advisory Committee (WCCTAC)*

WCCTAC was established in 1990 to develop regional strategies and meet regional requirements established by Measure "C" and to cooperatively address West Contra Costa County transportation issues.

The City's payments to WCCTAC are in accordance with a formula under which each member Agency pays a proportionate share of the expenditures based on the number of voting members representing each agency. Audited financial statements can be obtained from the WCCTAC, One Alvarado Square, San Pablo, California 94806. The City has one voting member on the WCCTAC and pays 10% of expenditures, which amounted to \$42,772 for fiscal year 2007-2008.

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

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

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

C. *Pinole/Hercules Wastewater Treatment Plant*

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

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

14. EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

Major Governmental Funds:	Excess Expenditures
Redevelopment Agency Special Revenue Fund	\$ 1,278,554
Redevelopment Agency Debt Service Fund	3,470,371
Hercules Public Financing Authority Debt Service Fund	124,247
Nonmajor Governmental Funds:	
State Gas Tax Special Revenue Fund	210,883
City Capital Projects Fund	849,764
SunTrust Lease Debt Service Fund	103,649

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2008

15. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of (\$248,703) was made on the Statement of Activities for Governmental Activities for an understatement of loans payable in the amount of (\$340,383) and an overstatement of accumulation depreciation in infrastructure in the amount of \$91,680. A prior period adjustment of \$20,534 was made on the General Fund for an understatement of advances to other funds in the amount of \$270,534 and an understatement of deferred revenue in the amount of (\$250,000).

A prior period adjustment of (\$270,534) was made on the Statement of Activities for Business-type Activities for an understatement of advances from other funds.

16. DEFICIT NET ASSETS

At June 30, 2008, the Statement of Net Assets of Hercules Municipal Utility Fund has a deficit net assets balance of \$1,100,333. This deficit net assets is caused in part by an operating loss of \$681,225, a non-operating loss of \$563,955, and a transfer out to the City of \$286,249 during the current fiscal year. The management of the Hercules Municipal Utility Fund has implemented plans to reduce the deficit by reducing operating cost and raising customer service rates in the new fiscal year to assist with the income shortfall. The general fund of the City of Hercules will be assisting the Hercules Municipal Utility Fund for at least another two years. Management will monitor the deficit net assets closely in the future.

17. SUBSEQUENT EVENTS

On August 14, 2008, the Agency entered into a lease and purchase option agreement with Bio-Rad Laboratories, Inc. for the Venture Commerce Center. The Venture Commerce project comprises five separate buildings totaling 96,847 square feet and 319 parking spaces at 203-295 Linus Pauling. It was purchased by the Hercules Redevelopment Agency because the buildings were empty, no suitable tenants appeared to be available and there was a substantial likelihood that vacant commercial buildings of this magnitude would cause blight to occur in the North Shore Business Park in general and the project in particular. After the purchase was concluded, the project was conveyed to the City which negotiated a successful 30 year lease agreement with Bio-Rad Laboratories, Inc. The lease allows Bio-Rad to purchase the project under specified conditions. The lease will produce a positive financial return to the City whether or not Bio-Rad exercises its purchase option. It also avoided the undesirable prospect of blight in the City's most desirable business center.

18. RELATED PARTY TRANSACTIONS

During the reporting period, the City paid a total of \$595,101 to NEO Consulting Inc. for consulting services in relation to the affordable housing program. As of June 30, 2008, NEO Consulting's two shareholders were two adult children of the current City Manager, who each held 50% of the shares of Neo Consulting's stock. The City has contracted with NEO Consulting since July, 2005.

THIS PAGE IS INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

City of Hercules
Required Supplementary Information
For the fiscal year ended June 30, 2008

1. BUDGETARY PRINCIPLES

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution before July 1.
4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device. Commitments for material and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are encumbered at year-end lapse, then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance. The Fire Equipment Special Revenue Fund, Regional Water Quality Special Revenue Fund, and SunTrust Lease Debt Service Fund do not have adopted budgets.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2008, based on the calculations by City Management, proceeds of taxes did not exceed the appropriations limit.
7. Budget revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. The City Manager must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications, with approval of the Finance Director.
8. Certain appropriations carry over and are rebudgeted for the coming year.
9. Budget appropriations for the various governmental funds become effective July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level.

CITY OF HERCULES
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and assessments	\$ 5,731,204	\$ 5,731,204	\$ 5,414,588	\$ (316,616)
Licenses and permits	657,602	677,602	337,291	(340,311)
Fines and forfeitures	265,000	265,000	134,502	(130,498)
Use of money and property	2,254,969	2,254,969	1,805,821	(449,148)
Intergovernmental revenues	1,943,725	1,943,725	1,991,472	47,747
Charges for services	2,167,420	2,167,420	2,044,478	(122,942)
Other revenues	1,623,090	1,623,090	2,199,002	575,912
Total revenues	14,643,010	14,663,010	13,927,154	(735,856)
Expenditures:				
Current:				
General government	4,338,976	4,875,435	4,373,374	502,061
Public safety	5,380,015	5,635,875	5,255,248	380,627
Streets and public works	374,210	380,184	371,196	8,988
Parks and recreation	2,722,607	2,731,472	2,424,980	306,492
Community development	1,575,810	1,775,396	1,664,024	111,372
Lease expense	894,290	894,290	1,132,585	(238,295)
Capital outlay	2,300	2,300	16,593	(14,293)
Total expenditures	15,288,208	16,294,952	15,238,000	1,056,952
Excess of revenues over (under) expenditures	(645,198)	(1,631,942)	(1,310,846)	321,096
Other Financing Sources (Uses):				
Transfers in	663,430	663,430	709,518	46,088
Transfers out	(42,000)	(2,237,604)	(42,000)	2,195,604
Total other financing sources (uses)	621,430	(1,574,174)	667,518	2,241,692
Net changes in fund balances	(23,768)	(3,206,116)	(643,328)	2,562,788
Fund balance - July 1, 2007	27,122,679	27,122,679	27,122,679	
Prior period adjustments			20,534	20,534
Fund balance - July 1, 2007, restated	27,122,679	27,122,679	27,143,213	20,534
Fund balance - June 30, 2008	\$ 27,098,911	\$ 23,916,563	\$ 26,499,885	\$ 2,583,322

CITY OF HERCULES
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes and assessments	\$ 11,856,049	\$ 11,856,049	\$ 13,473,319	\$ 1,617,270
Use of money and property	75,000	75,000	(85,246)	(160,246)
Program income			30,748	30,748
Charges for services	15,013,240	15,013,240	309,858	(14,703,382)
Other revenues			253,539	253,539
	<u>26,944,289</u>	<u>26,944,289</u>	<u>13,982,218</u>	<u>(12,962,071)</u>
Total revenues				
Expenditures:				
Current:				
Community development	4,194,552	6,521,838	8,146,887	(1,625,049)
Capital outlay		30,000	33,505	(3,505)
Debt service:				
Interest and fiscal agent fees	350,000	350,000		350,000
	<u>4,544,552</u>	<u>6,901,838</u>	<u>8,180,392</u>	<u>(1,278,554)</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>22,399,737</u>	<u>20,042,451</u>	<u>5,801,826</u>	<u>(14,240,625)</u>
Other Financing Sources (Uses):				
Proceeds from issuance of long-term debt	67,565	67,565		(67,565)
Transfers in			3,279,876	3,279,876
Transfers out	(13,359,829)	(20,508,184)	(7,182,539)	13,325,645
	<u>(13,292,264)</u>	<u>(20,440,619)</u>	<u>(3,902,663)</u>	<u>16,537,956</u>
Total other financing sources (uses)				
Net changes in fund balances	9,107,473	(398,168)	1,899,163	2,297,331
Fund balance - July 1, 2007	<u>5,408,084</u>	<u>5,408,084</u>	<u>5,408,084</u>	
Fund balance - June 30, 2008	<u>\$ 14,515,557</u>	<u>\$ 5,009,916</u>	<u>\$ 7,307,247</u>	<u>\$ 2,297,331</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

OTHER SUPPLEMENTAL INFORMATION

CITY OF HERCULES
REDEVELOPMENT AGENCY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Use of money and property	\$ 2,000,000	\$ 2,000,000	\$ 3,238,518	\$ 1,238,518
Total revenues	<u>2,000,000</u>	<u>2,000,000</u>	<u>3,238,518</u>	<u>1,238,518</u>
Expenditures:				
Current:				
Community development	3,431,295	3,431,295	3,034,223	397,072
Debt service:				
Principal	1,455,000	1,455,000	1,453,933	1,067
Interest and fiscal agent fees	3,484,764	3,484,764	4,247,546	(762,782)
Bond issuance costs			<u>3,105,728</u>	<u>(3,105,728)</u>
Total expenditures	<u>8,371,059</u>	<u>8,371,059</u>	<u>11,841,430</u>	<u>(3,470,371)</u>
Excess of revenues over (under) expenditures	<u>(6,371,059)</u>	<u>(6,371,059)</u>	<u>(8,602,912)</u>	<u>(2,231,853)</u>
Other Financing Sources (Uses):				
Proceeds from issuance of long-term debt			86,445,000	86,445,000
Original issue premium from issuance of long-term debt			81,806	81,806
Transfers in	4,359,829	4,359,829	7,322,048	2,962,219
Transfers out	<u>(19,405,000)</u>	<u>(19,405,000)</u>	<u>(35,464,048)</u>	<u>(16,059,048)</u>
Total other financing sources (uses)	<u>(15,045,171)</u>	<u>(15,045,171)</u>	<u>58,384,806</u>	<u>73,429,977</u>
Net changes in fund balances	(21,416,230)	(21,416,230)	49,781,894	71,198,124
Fund balance - July 1, 2007	<u>35,702,894</u>	<u>35,702,894</u>	<u>35,702,894</u>	
Fund balance - June 30, 2008	<u>\$ 14,286,664</u>	<u>\$ 14,286,664</u>	<u>\$ 85,484,788</u>	<u>\$ 71,198,124</u>

CITY OF HERCULES
HERCULES PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Fines and forfeitures	\$ 645,790	\$ 645,790	\$ 821,048	\$ 175,258
Lease revenue	310,000	310,000	310,000	
Total revenues	<u>955,790</u>	<u>955,790</u>	<u>1,131,048</u>	<u>175,258</u>
Expenditures:				
Debt service:				
Principal	310,000	310,000	310,000	
Interest and fiscal agent fees	595,790	595,790	720,037	(124,247)
Total expenditures	<u>905,790</u>	<u>905,790</u>	<u>1,030,037</u>	<u>(124,247)</u>
Excess of revenues over (under) expenditures	<u>50,000</u>	<u>50,000</u>	<u>101,011</u>	<u>51,011</u>
Other Financing Sources (Uses):				
Transfers out	<u>(2,319,967)</u>	<u>(2,385,617)</u>	<u></u>	<u>2,385,617</u>
Total other financing sources (uses)	<u>(2,319,967)</u>	<u>(2,385,617)</u>	<u></u>	<u>2,385,617</u>
Net changes in fund balances	(2,269,967)	(2,335,617)	101,011	2,436,628
Fund balance - July 1, 2007	<u>7,202,215</u>	<u>7,202,215</u>	<u>7,202,215</u>	
Fund balance - June 30, 2008	<u>\$ 4,932,248</u>	<u>\$ 4,866,598</u>	<u>\$ 7,303,226</u>	<u>\$ 2,436,628</u>

CITY OF HERCULES
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenditures:				
Capital outlay	\$ 36,255,000	\$ 59,466,679	\$ 31,218,618	\$ 28,248,061
Total expenditures	<u>36,255,000</u>	<u>59,466,679</u>	<u>31,218,618</u>	<u>28,248,061</u>
Excess of revenues over (under) expenditures	<u>(36,255,000)</u>	<u>(59,466,679)</u>	<u>(31,218,618)</u>	<u>28,248,061</u>
Other Financing Sources (Uses):				
Transfers in	36,255,000	43,509,721	33,864,086	(9,645,635)
Transfers out			<u>(1,064,214)</u>	<u>(1,064,214)</u>
Total other financing sources (uses)	<u>36,255,000</u>	<u>43,509,721</u>	<u>32,799,872</u>	<u>(10,709,849)</u>
Net changes in fund balances		(15,956,958)	1,581,254	17,538,212
Fund balance - July 1, 2007	<u>3,505,286</u>	<u>3,505,286</u>	<u>3,505,286</u>	
Fund balance - June 30, 2008	<u>\$ 3,505,286</u>	<u>\$ (12,451,672)</u>	<u>\$ 5,086,540</u>	<u>\$ 17,538,212</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS

AB 3229 COPS Program Fund – This fund accounts for revenue received from the State for its Citizen Option for Public Safety (COPS) Program to fund police officer positions.

Citywide L&L Fund – This fund accounts for city-wide assessment revenues and service expenditures for ten lighting and landscaping districts.

LLAD Fund – This fund accounts for assessment revenues and service expenditures for Victoria by the Bay, Hercules Village, Baywood, and Bayside lighting and landscaping districts.

Stormwater Assessment Fund – This fund accounts for assessments received from residents and expenditures associated with the Stormwater Control project.

DIF Fund – This includes monies that account for 5 (five) developer impact fees (DIF), General Public Facilities, Police Facilities, Traffic Facilities and two Parks and Recreation Facilities.

Community Development Fund – This fund accounts for property development tax revenue collected per residential unit to finance acquisition, construction and furnishing of public buildings, parks and recreational facilities.

Development Fee Fund – This fund accounts for revenue received from developers as required by tentative map, development agreement or other conditions for specific capital projects traffic mitigation or growth impact mitigation.

Developer Park Fees Fund – This fund accounts for revenue received from developers as required by tentative map, development agreement or other conditions for specific park related projects.

State Gas Tax Fund – This fund accounts for revenue apportioned to the City from State-collected gasoline taxes primarily on the basis of population, to be expended for construction and maintenance of City streets.

Measure “C” Street Fund – This fund accounts for revenue allocated by the Contra Costa County Transportation Authority to the City from the State collected sales tax to be expended for growth management planning and local street maintenance and improvement.

STMP Traffic Impact Fund – This fund accounts for revenue collected by the City for Contra Costa Transportation Authority/West Contra Costa Transportation Advisory Committee to fund regional and sub regional transportation projects.

SB 1266 Road Improvement Fund – This fund accounts for revenues apportioned to the City from State-collected gasoline taxes primarily on the basis of population, to be expended for local street and road repair.

State AB-939 Fund – This fund accounts for costs expended by the City to comply with State Assembly Bill Number 939 mandates to reduce solid waste disposal through recycling. These costs are recovered by the AB 939 surcharge added to garbage collection.

Grant Fund – This fund accounts for grants received from other government and private sources to be used to cover expenditures for providing public services and improving public safety.

THIS PAGE IS INTENTIONALLY LEFT BLANK

NON-MAJOR GOVERNMENTAL FUNDS, Continued

Fiscal Neutrality Fee Fund – This fund accounts for project-specific impact fees in residential units to fully mitigate any adverse fiscal impacts to the City’s General Fund resulting from the projects.

Fire Equipment Fund – This fund accounts for monies generated specifically to accommodate growth in the City and is passed on to the Rodeo-Hercules Fire Protection District, per the City’s arrangement with the District to provide fire protection services. The monies are to be used specifically for the purchase of fire equipment and an additional fire station.

Regional Water Quality Fund – This fund accounts for monies held for the Regional Water Quality Control board to be used to increase awareness and appreciation of water related resources through education, investigation and restoration.

City Capital Project Fund – This fund accounts for the costs of construction of various capital projects authorized by the Council.

SunTrust Lease Debt Service Fund – This fund accounts for the financing of certain equipment to be acquired by the SunTrust Leasing Corporation and leased to the City of Hercules toward the acquisition of the equipment and the City of Hercules shall make rental payments under the terms and conditions of the lease.

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2008

	Special Revenue Funds			
	AB 3229 COPS Program Fund	Citywide L&L Fund	LLAD Fund	Stormwater Assessment Fund
Assets				
Cash and investments	\$ -	\$ 113,430	\$ 932,781	\$ 150,916
Cash and investments with fiscal agent				
Accounts receivable				6,417
Interest receivable				
Grants receivable				
Due from other funds				
Advances to other funds				
Total assets	\$ -	\$ 113,430	\$ 932,781	\$ 157,333
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 63,168	\$ 44,197	\$ 4,400
Accrued wages		7,002	7,215	3,838
Due to other funds				
Total liabilities		70,170	51,412	8,238
Fund Balances:				
Reserved:				
Debt service				
Advances to other funds				
Future commitments				3,975
Unreserved, designated:				
Future projects		43,260	881,369	145,120
Unreserved, undesignated				
Reported in:				
Special Revenue Funds				
Total fund balances		43,260	881,369	149,095
Total liabilities and fund balances	\$ -	\$ 113,430	\$ 932,781	\$ 157,333

Special Revenue Funds

DIF Fund	Community Development Fund	Development Fee Fund	Developer Park Fees Fund	State Gas Tax Fund	Measure C Street Fund
\$ 5,120,993	\$ 691,867	\$ 2,154,743	\$ -	\$ 355,756	\$ 714,319
	188			145,097	
	40,000				
	130,202				
<u>\$ 5,120,993</u>	<u>\$ 862,257</u>	<u>\$ 2,154,743</u>	<u>\$ -</u>	<u>\$ 500,853</u>	<u>\$ 714,319</u>
\$ 35	\$ 12,034	\$ -	\$ -	\$ 83,229	\$ 916
<u>35</u>	<u>12,034</u>			<u>83,229</u>	<u>916</u>
	130,202				
5,120,958	720,021	2,154,743		417,624	713,403
<u>5,120,958</u>	<u>850,223</u>	<u>2,154,743</u>		<u>417,624</u>	<u>713,403</u>
<u>\$ 5,120,993</u>	<u>\$ 862,257</u>	<u>\$ 2,154,743</u>	<u>\$ -</u>	<u>\$ 500,853</u>	<u>\$ 714,319</u>

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
June 30, 2008

	Special Revenue Funds			
	STMP Traffic Impact Fund	SB 1266 Road Improvement Fund	State AB-939 Fund	Grant Fund
Assets				
Cash and investments	\$ 95,062	\$ -	\$ 81,320	\$ 260,693
Cash and investments with fiscal agent				
Accounts receivable				
Interest receivable				
Grants receivable		400,000		1,794,970
Due from other funds				
Advances to other funds				
Total assets	\$ 95,062	\$ 400,000	\$ 81,320	\$ 2,055,663
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,478	\$ -	\$ 71,319	\$ -
Accrued wages				
Due to other funds		400,000		1,796,765
Total liabilities	1,478	400,000	71,319	1,796,765
Fund Balances:				
Reserved:				
Debt service				
Advances to other funds				
Future commitments				3,442
Unreserved, designated:				
Future projects			10,001	255,456
Unreserved, undesignated				
Reported in:				
Special Revenue Funds	93,584			
Total fund balances	93,584		10,001	258,898
Total liabilities and fund balances	\$ 95,062	\$ 400,000	\$ 81,320	\$ 2,055,663

Special Revenue Funds			Capital Project Fund	Debt Service Fund	
Fiscal Neutrality Fee Fund	Fire Equipment Fund	Regional Water Quality Fund	City Capital Projects Fund	SunTrust Lease Debt Service Fund	Totals
\$ 2,478,440	\$ -	\$ 42,583	\$ -	\$ -	\$ 13,192,903
				879,557	879,557
			1,954,538		2,106,240
				1,034	1,034
			1,221,116		2,194,970
					1,261,116
					130,202
<u>\$ 2,478,440</u>	<u>\$ -</u>	<u>\$ 42,583</u>	<u>\$ 3,175,654</u>	<u>\$ 880,591</u>	<u>\$ 19,766,022</u>
\$ -	\$ -	\$ -	\$ 1,280,403	\$ -	\$ 1,561,179
			644,047	662,024	18,055
					3,502,836
			1,924,450	662,024	5,082,070
				218,567	218,567
					130,202
					7,417
		42,583	1,251,204		11,755,742
2,478,440					2,572,024
2,478,440		42,583	1,251,204	218,567	14,683,952
<u>\$ 2,478,440</u>	<u>\$ -</u>	<u>\$ 42,583</u>	<u>\$ 3,175,654</u>	<u>\$ 880,591</u>	<u>\$ 19,766,022</u>

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2008

	Special Revenue Funds			
	AB 3229 COPS Program Fund	Citywide L&L Fund	LLAD Fund	Stormwater Assessment Fund
Revenues:				
Taxes and assessments	\$ -	\$ 856,169	\$ 689,180	\$ 317,163
Use of money and property	447	(16,397)	36,337	7,121
Intergovernmental revenues	100,000			
Charges for services				
Other revenues		29	22	
Total revenues	<u>100,447</u>	<u>839,801</u>	<u>725,539</u>	<u>324,284</u>
Expenditures:				
Current:				
Streets and public works		974,091	754,759	368,749
Community development				
Capital outlay		2,269		
Debt service:				
Principal				
Interest and fiscal agent fees				
Total expenditures		<u>976,360</u>	<u>754,759</u>	<u>368,749</u>
Excess of revenues over (under) expenditures	<u>100,447</u>	<u>(136,559)</u>	<u>(29,220)</u>	<u>(44,465)</u>
Other Financing Sources (Uses):				
Proceeds from issuance of long-term debt				
Transfers in				
Transfers out	<u>(104,490)</u>			
Total other financing sources (uses)	<u>(104,490)</u>			
Net changes in fund balances	(4,043)	(136,559)	(29,220)	(44,465)
Fund balances - July 1, 2007	<u>4,043</u>	<u>179,819</u>	<u>910,589</u>	<u>193,560</u>
Fund balances - June 30, 2008	<u>\$ -</u>	<u>\$ 43,260</u>	<u>\$ 881,369</u>	<u>\$ 149,095</u>

Special Revenue Funds

DIF Fund	Community Development Fund	Development Fee Fund	Developer Park Fees Fund	State Gas Tax Fund	Measure C Street Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
341,386	38,193	131,550	3,381	6,557	28,627
208,397	19,236			431,501	304,685
					1
549,783	57,429	131,550	3,381	438,058	333,313
				90,991	
11,734					
76,273	105,968			981,416	52,379
88,007	105,968			1,072,407	52,379
461,776	(48,539)	131,550	3,381	(634,349)	280,934
81,949	241,955			611,646	41,096
(1,431,357)	(190,809)		(6,870)	(139,979)	(80,000)
(1,349,408)	51,146		(6,870)	471,667	(38,904)
(887,632)	2,607	131,550	(3,489)	(162,682)	242,030
6,008,590	847,616	2,023,193	3,489	580,306	471,373
<u>\$ 5,120,958</u>	<u>\$ 850,223</u>	<u>\$ 2,154,743</u>	<u>\$ -</u>	<u>\$ 417,624</u>	<u>\$ 713,403</u>

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2008

	Special Revenue Funds			
	STMP Traffic Impact Fund	SB 1266 Road Improvement Fund	State AB-939 Fund	Grant Fund
Revenues:				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Use of money and property	5,742		4,874	28,720
Intergovernmental revenues		400,000		2,459,928
Charges for services	24,200			
Other revenues				
Total revenues	<u>29,942</u>	<u>400,000</u>	<u>4,874</u>	<u>2,488,648</u>
Expenditures:				
Current:				
Streets and public works				
Community development				
Capital outlay	24,200	400,000		
Debt service:				
Principal				
Interest and fiscal agent fees				
Total expenditures	<u>24,200</u>	<u>400,000</u>		
Excess of revenues over (under) expenditures	<u>5,742</u>		<u>4,874</u>	<u>2,488,648</u>
Other Financing Sources (Uses):				
Proceeds from issuance of long-term debt				406,324
Transfers in				240,621
Transfers out				<u>(3,322,383)</u>
Total other financing sources (uses)				<u>(2,675,438)</u>
Net changes in fund balances	5,742		4,874	(186,790)
Fund balances - July 1, 2007	<u>87,842</u>		<u>5,127</u>	<u>445,688</u>
Fund balances - June 30, 2008	<u>\$ 93,584</u>	<u>\$ -</u>	<u>\$ 10,001</u>	<u>\$ 258,898</u>

Special Revenue Funds			Capital Project Fund	Debt Service Fund	
Fiscal Neutrality Fee Fund	Fire Equipment Fund	Regional Water Quality Fund	City Capital Projects Fund	Suntrust Lease Debt Service Fund	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,862,512
150,998		2,566	7	135,996	906,105
			4,708,369		8,404,483
					251,833
					52
150,998		2,566	4,708,376	135,996	11,424,985
					2,188,590
					11,734
			8,419,461		10,061,966
				50,861	50,861
				52,788	52,788
			8,419,461	103,649	12,365,939
150,998		2,566	(3,711,085)	32,347	(940,954)
				2,185,538	2,591,862
(50,000)	(78)		5,020,738		6,238,005
			(165,556)	(1,999,318)	(7,490,840)
(50,000)	(78)		4,855,182	186,220	1,339,027
100,998	(78)	2,566	1,144,097	218,567	398,073
2,377,442	78	40,017	107,107		14,285,879
\$ 2,478,440	\$ -	\$ 42,583	\$ 1,251,204	\$ 218,567	\$ 14,683,952

CITY OF HERCULES
AB 3229 COPS PROGRAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 447	\$ 447
Intergovernmental revenues	100,000	100,000	
Total revenues	100,000	100,447	447
Other Financing Sources (Uses):			
Transfers out	(100,000)	(104,490)	(4,490)
Total other financing sources (uses)	(100,000)	(104,490)	(4,490)
Net changes in fund balance		(4,043)	(4,043)
Fund balance - July 1, 2007	4,043	4,043	
Fund balance - June 30, 2008	\$ 4,043	\$ -	\$ (4,043)

CITY OF HERCULES
CITYWIDE L&L SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes and assessments	\$ 999,909	\$ 856,169	\$ (143,740)
Use of money and property	3,000	(16,397)	(19,397)
Other revenues		29	29
Total revenues	<u>1,002,909</u>	<u>839,801</u>	<u>(163,108)</u>
Expenditures:			
Current:			
Streets and public works	960,205	974,091	(13,886)
Capital outlay	<u>50,000</u>	<u>2,269</u>	<u>47,731</u>
Total expenditures	<u>1,010,205</u>	<u>976,360</u>	<u>33,845</u>
Excess of revenues over (under) expenditures	<u>(7,296)</u>	<u>(136,559)</u>	<u>(129,263)</u>
Other Financing Sources (Uses):			
Transfers out	<u>(26,000)</u>		<u>26,000</u>
Total other financing sources (uses)	<u>(26,000)</u>		<u>26,000</u>
Net changes in fund balance	(33,296)	(136,559)	(103,263)
Fund balance - July 1, 2007	<u>179,819</u>	<u>179,819</u>	
Fund balance - June 30, 2008	<u>\$ 146,523</u>	<u>\$ 43,260</u>	<u>\$ (103,263)</u>

CITY OF HERCULES
LLAD SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes and assessments	\$ 710,488	\$ 689,180	\$ (21,308)
Use of money and property	7,150	36,337	29,187
Other revenues		22	22
Total revenues	717,638	725,539	7,901
Expenditures:			
Current:			
Streets and public works	881,335	754,759	126,576
Total expenditures	881,335	754,759	126,576
Excess of revenues over (under) expenditures	(163,697)	(29,220)	134,477
Net changes in fund balance	(163,697)	(29,220)	134,477
Fund balance - July 1, 2007	910,589	910,589	
Fund balance - June 30, 2008	\$ 746,892	\$ 881,369	\$ 134,477

CITY OF HERCULES
STORMWATER ASSESSMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes and assessments	\$ 294,000	\$ 317,163	\$ 23,163
Use of money and property	4,500	7,121	2,621
Total revenues	298,500	324,284	25,784
Expenditures:			
Current:			
Streets and public works	363,243	368,749	(5,506)
Capital outlay	18,000		18,000
Total expenditures	381,243	368,749	12,494
Net changes in fund balance	(82,743)	(44,465)	38,278
Fund balance - July 1, 2007	193,560	193,560	
Fund balance - June 30, 2008	<u>\$ 110,817</u>	<u>\$ 149,095</u>	<u>\$ 38,278</u>

CITY OF HERCULES
DIF SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 120,700	\$ 341,386	\$ 220,686
Charges for services	2,305,330	208,397	(2,096,933)
Total revenues	<u>2,426,030</u>	<u>549,783</u>	<u>(1,876,247)</u>
Expenditures:			
Current:			
Community development	139,473	11,734	127,739
Capital outlay	73,500	76,273	(2,773)
Total expenditures	<u>212,973</u>	<u>88,007</u>	<u>124,966</u>
Excess of revenues over (under) expenditures	<u>2,213,057</u>	<u>461,776</u>	<u>(1,751,281)</u>
Other Financing Sources (Uses):			
Transfers in		81,949	81,949
Transfers out	(1,109,144)	(1,431,357)	(322,213)
Total other financing sources (uses)	<u>(1,109,144)</u>	<u>(1,349,408)</u>	<u>(240,264)</u>
Net changes in fund balance	1,103,913	(887,632)	(1,991,545)
Fund balance - July 1, 2007	<u>6,008,590</u>	<u>6,008,590</u>	
Fund balance - June 30, 2008	<u>\$ 7,112,503</u>	<u>\$ 5,120,958</u>	<u>\$ (1,991,545)</u>

CITY OF HERCULES
COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 13,000	\$ 38,193	\$ 25,193
Charges for services	238,500	19,236	(219,264)
Total revenues	251,500	57,429	(194,071)
Expenditures:			
Capital outlay	114,261	105,968	8,293
Total expenditures	114,261	105,968	8,293
Excess of revenues over (under) expenditures	137,239	(48,539)	(185,778)
Other Financing Sources (Uses):			
Transfers in		241,955	241,955
Transfers out	(362,440)	(190,809)	171,631
Total other financing sources (uses)	(362,440)	51,146	413,586
Net changes in fund balance	(225,201)	2,607	227,808
Fund balance - July 1, 2007	847,616	847,616	
Fund balance - June 30, 2008	\$ 622,415	\$ 850,223	\$ 227,808

CITY OF HERCULES
DEVELOPMENT FEE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 38,000	\$ 131,550	\$ 93,550
Charges for services	3,750		(3,750)
Total revenues	41,750	131,550	89,800
Other Financing Sources (Uses):			
Transfers out	(700,000)		700,000
Total other financing sources (uses)	(700,000)		700,000
Net changes in fund balance	(658,250)	131,550	789,800
Fund balance - July 1, 2007	2,023,193	2,023,193	
Fund balance - June 30, 2008	\$ 1,364,943	\$ 2,154,743	\$ 789,800

CITY OF HERCULES
DEVELOPER PARK FEES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 6,500	\$ 3,381	\$ (3,119)
Total revenues	<u>6,500</u>	<u>3,381</u>	<u>(3,119)</u>
Other Financing Sources (Uses):			
Transfers out		(6,870)	(6,870)
Total other financing sources (uses)		<u>(6,870)</u>	<u>(6,870)</u>
Net changes in fund balance	6,500	(3,489)	(9,989)
Fund balance - July 1, 2007	<u>3,489</u>	<u>3,489</u>	
Fund balance - June 30, 2008	<u>\$ 9,989</u>	<u>\$ -</u>	<u>\$ (9,989)</u>

CITY OF HERCULES
STATE GAS TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 13,000	\$ 6,557	\$ (6,443)
Intergovernmental revenues	539,061	431,501	(107,560)
Charges for services	500		(500)
Total revenues	<u>552,561</u>	<u>438,058</u>	<u>(114,503)</u>
Expenditures:			
Current:			
Streets and public works	81,000	90,991	(9,991)
Capital outlay	<u>780,524</u>	<u>981,416</u>	<u>(200,892)</u>
Total expenditures	<u>861,524</u>	<u>1,072,407</u>	<u>(210,883)</u>
Excess of revenues over (under) expenditures	<u>(308,963)</u>	<u>(634,349)</u>	<u>(325,386)</u>
Other Financing Sources (Uses):			
Transfers in	611,646	611,646	
Transfers out	<u>(145,500)</u>	<u>(139,979)</u>	<u>5,521</u>
Total other financing sources (uses)	<u>466,146</u>	<u>471,667</u>	<u>5,521</u>
Net changes in fund balance	157,183	(162,682)	(319,865)
Fund balance - July 1, 2007	<u>580,306</u>	<u>580,306</u>	
Fund balance - June 30, 2008	<u>\$ 737,489</u>	<u>\$ 417,624</u>	<u>\$ (319,865)</u>

CITY OF HERCULES
MEASURE C STREET SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 9,000	\$ 28,627	\$ 19,627
Intergovernmental revenues	300,000	304,685	4,685
Other revenues	1	1	1
Total revenues	309,000	333,313	24,313
Expenditures:			
Capital outlay	262,207	52,379	209,828
Total expenditures	262,207	52,379	209,828
Excess of revenues over (under) expenditures	46,793	280,934	234,141
Other Financing Sources (Uses):			
Transfers in		41,096	41,096
Transfers out	(80,000)	(80,000)	
Total other financing sources (uses)	(80,000)	(38,904)	41,096
Net changes in fund balance	(33,207)	242,030	275,237
Fund balance - July 1, 2007	471,373	471,373	
Fund balance - June 30, 2008	\$ 438,166	\$ 713,403	\$ 275,237

CITY OF HERCULES
STMP TRAFFIC IMPACT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 2,300	\$ 5,742	\$ 3,442
Charges for services	596,114	24,200	(571,914)
Total revenues	598,414	29,942	(568,472)
Expenditures:			
Capital outlay	598,114	24,200	573,914
Total expenditures	598,114	24,200	573,914
Net changes in fund balance	300	5,742	5,442
Fund balance - July 1, 2007	87,842	87,842	
Fund balance - June 30, 2008	\$ 88,142	\$ 93,584	\$ 5,442

CITY OF HERCULES
SB 1266 ROAD IMPROVEMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenues	\$ 757,235	\$ 400,000	\$ (357,235)
Total revenues	<u>757,235</u>	<u>400,000</u>	<u>(357,235)</u>
Expenditures:			
Capital outlay	<u>400,000</u>	<u>400,000</u>	
Total expenditures	<u>400,000</u>	<u>400,000</u>	
Excess of revenues over (under) expenditures	<u>357,235</u>		<u>(357,235)</u>
Net changes in fund balance	357,235		(357,235)
Fund balance - July 1, 2007			
Fund balance - June 30, 2008	<u>\$ 357,235</u>	<u>\$ -</u>	<u>\$ (357,235)</u>

CITY OF HERCULES
STATE AB-939 SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 1,000	\$ 4,874	\$ 3,874
Total revenues	1,000	4,874	3,874
Net changes in fund balance	1,000	4,874	3,874
Fund balance - July 1, 2007	5,127	5,127	
Fund balance - June 30, 2008	\$ 6,127	\$ 10,001	\$ 3,874

CITY OF HERCULES
GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 28,720	\$ 28,720
Intergovernmental revenues	8,582,163	2,459,928	(6,122,235)
Total revenues	<u>8,582,163</u>	<u>2,488,648</u>	<u>(6,093,515)</u>
Other Financing Sources (Uses):			
Proceeds from issuance of long-term debt		406,324	406,324
Transfers in		240,621	240,621
Transfers out	(8,901,646)	(3,322,383)	5,579,263
Total other financing sources (uses)	<u>(8,901,646)</u>	<u>(2,675,438)</u>	<u>6,226,208</u>
Net changes in fund balance	(319,483)	(186,790)	132,693
Fund balance - July 1, 2007	<u>445,688</u>	<u>445,688</u>	
Fund balance - June 30, 2008	<u>\$ 126,205</u>	<u>\$ 258,898</u>	<u>\$ 132,693</u>

CITY OF HERCULES
FISCAL NEUTRALITY FEE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 42,000	\$ 150,998	\$ 108,998
Charges for services	12,000		(12,000)
Total revenues	<u>54,000</u>	<u>150,998</u>	<u>96,998</u>
Other Financing Sources (Uses):			
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	
Net changes in fund balance	4,000	100,998	96,998
Fund balance - July 1, 2007	<u>2,377,442</u>	<u>2,377,442</u>	
Fund balance - June 30, 2008	<u><u>\$ 2,381,442</u></u>	<u><u>\$ 2,478,440</u></u>	<u><u>\$ 96,998</u></u>

CITY OF HERCULES
CITY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 7	\$ 7
Intergovernmental revenues	6,700,000	4,708,369	(1,991,631)
Total revenues	6,700,000	4,708,376	(1,991,624)
Expenditures:			
Capital outlay	7,569,697	8,419,461	(849,764)
Total expenditures	7,569,697	8,419,461	(849,764)
Excess of revenues over (under) expenditures	(869,697)	(3,711,085)	(2,841,388)
Other Financing Sources (Uses):			
Transfers in	11,034,082	5,020,738	(6,013,344)
Transfers out		(165,556)	(165,556)
Total other financing sources (uses)	11,034,082	4,855,182	(6,178,900)
Net changes in fund balance	10,164,385	1,144,097	(9,020,288)
Fund balance - July 1, 2007	107,107	107,107	
Fund balance - June 30, 2008	\$ 10,271,492	\$ 1,251,204	\$ (9,020,288)

THIS PAGE IS INTENTIONALLY LEFT BLANK

INTERNAL SERVICE FUNDS

Vehicle Replacement Fund – This fund accumulates funds for the replacement of vehicles used by City Departments. The source of revenues for this fund is rental fee charges to the various user departments.

IT Equipment Replacement Fund – This fund accumulates funds for the replacement and maintenance of Information Technology equipment in other departments of the City on a cost reimbursement basis.

Facility Maintenance Fund – This fund accumulates funds for the maintenance of facilities used by City Departments.

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2008

	Vehicle Replacement Fund	IT Equipment Replacement Fund	Facility Maintenance Fund	Total
ASSETS				
Current Assets:				
Cash and investments	\$ 1,462,876	\$ 201,374	\$ 49,654	\$ 1,713,904
Total current assets	1,462,876	201,374	49,654	1,713,904
Capital Assets:				
Depreciable:				
Machinery and equipment	1,774,690	544,055		2,318,745
Total depreciable capital assets	1,774,690	544,055		2,318,745
Less accumulated depreciation	(1,160,841)	(213,235)		(1,374,076)
Net depreciable capital assets	613,849	330,820		944,669
Net capital assets	613,849	330,820		944,669
Total noncurrent assets	613,849	330,820		944,669
Total assets	2,076,725	532,194	49,654	2,658,573
LIABILITIES				
Current Liabilities:				
Accounts payable	7,000	50,159	35,035	92,194
Accrued wages		7,612	5,850	13,462
Total current liabilities	7,000	57,771	40,885	105,656
Noncurrent Liabilities:				
Compensated absences		11,341	10,530	21,871
Total liabilities	7,000	69,112	51,415	127,527
NET ASSETS				
Invested in capital assets, net of related debt	613,849	330,820		944,669
Unrestricted	1,455,876	132,262	(1,761)	1,586,377
Total net assets	\$ 2,069,725	\$ 463,082	\$ (1,761)	\$ 2,531,046

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2008

	Vehicle Replacement Fund	IT Equipment Replacement Fund	Facility Maintenance Fund	Totals
Revenues:				
Charges for services	\$ 214,035	\$ 235,908	\$ -	\$ 449,943
Total revenues	214,035	235,908		449,943
Expenses:				
Administration		388,435	48,995	437,430
Depreciation	220,114	70,327		290,441
Total expenses	220,114	458,762	48,995	727,871
Operating Income (Loss)	(6,079)	(222,854)	(48,995)	(277,928)
Non-operating revenues (expenses):				
Gain (loss) on sale of capital assets	(2,952)			(2,952)
Interest income	81,206			81,206
Total non-operating revenues (expenses)	78,254			78,254
Income (Loss) before transfers	72,175	(222,854)	(48,995)	(199,674)
Transfers:				
Transfers in	79,416	170,127	55,327	304,870
Transfers out		(68,015)	(120,498)	(188,513)
Total change in net assets before capital contributions	151,591	(120,742)	(114,166)	(83,317)
Capital contributions	123,975			123,975
Change in net assets	275,566	(120,742)	(114,166)	40,658
Net Assets, July 1, 2007	1,794,159	583,824	112,405	2,490,388
Net Assets, June 30, 2008	<u>\$ 2,069,725</u>	<u>\$ 463,082</u>	<u>\$ (1,761)</u>	<u>\$ 2,531,046</u>

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

	Vehicle Replacement Fund	IT Equipment Replacement Fund	Facility Maintenance Fund	Totals
Cash Flows from Operating Activities:				
Receipts from customers	\$ 214,035	\$ 235,908	\$ -	\$ 449,943
Payment to suppliers and users	(508)	(136,259)	100,528	(36,239)
Payment to employees		(201,789)	(154,224)	(356,013)
Net Cash Provided (Used) by Operating Activities	213,527	(102,140)	(53,696)	57,691
Cash flows from Non-Capital Financing Activities:				
Transfers in	79,416	170,127	55,327	304,870
Transfers out		(68,015)	(120,498)	(188,513)
Net Cash Provided (Used) by Non-Capital Financing Activities	79,416	102,112	(65,171)	116,357
Cash flows from Capital and Related Financing Activities:				
Contributed capital	123,975			123,975
Purchases of capital assets	(243,075)	(234,770)		(477,845)
Net Cash Provided (Used) by Capital and Related Financing Activities	(119,100)	(234,770)		(353,870)
Cash flows from Investing Activities:				
Interest received	81,206			81,206
Net Cash Provided by Investing Activities	81,206			81,206
Net Increase (Decrease) in Cash and Cash Equivalents	255,049	(234,798)	(118,867)	(98,616)
Cash and Cash Equivalents, July 1, 2007	1,207,827	436,172	168,521	1,812,520
Cash and Cash Equivalents, June 30, 2008	<u>\$ 1,462,876</u>	<u>\$ 201,374</u>	<u>\$ 49,654</u>	<u>\$ 1,713,904</u>
Reconciliation of Cash and Cash Equivalents to Combining Statement of Net Assets				
Cash and investments	<u>\$ 1,462,876</u>	<u>\$ 201,374</u>	<u>\$ 49,654</u>	<u>\$ 1,713,904</u>
Total Cash and Investments	<u>\$ 1,462,876</u>	<u>\$ 201,374</u>	<u>\$ 49,654</u>	<u>\$ 1,713,904</u>

(Continued)

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2008

	<u>Vehicle Replacement Fund</u>	<u>IT Equipment Replacement Fund</u>	<u>Facility Maintenance Fund</u>	<u>Totals</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (6,079)	\$ (222,854)	\$ (48,995)	\$ (277,928)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	220,114	70,327		290,441
Increase (Decrease) in Operating Liabilities:				
Accounts payable	(508)	41,435	(9,866)	31,061
Accrued wages		681	1,643	2,324
Compensated absences		8,271	3,522	11,793
Net Cash Provided (Used) by Operating Activities	<u>\$ 213,527</u>	<u>\$ (102,140)</u>	<u>\$ (53,696)</u>	<u>\$ 57,691</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

FIDUCIARY FUNDS

Agency Funds:

Westcat Transit Fund – This fund accounts for monies held on deposit for the West Contra Costa Transit Authority.

West Contra Costa Integrated Waste Management Authority Fund – This fund accounts for monies held on deposit for the West Contra Costa Integrated Waste Management Authority.

Reassessment District 91-1 Debt Service Fund – This fund accounts for the tax revenues received, and the debt service payments made, to retire bonds on behalf of the members of the District. These bonds were issued to refinance the 83-1 improvement bonds, which were originally issued to finance the Hercules-Pinole wastewater Treatment Plant expansion.

Reassessment District 05-1 Debt Service Fund – This fund accounts for the tax revenues received, and the debt service payments made, to retire bonds on behalf of the members of the District. These bonds were issued upon and secured by the unpaid special assessments levied on parcels within the District.

A. Nobel Reassessment Debt Service Fund – This fund accounts for the tax revenues received, and the debt service payments made, to retire bonds on behalf of the members of the District. These bonds were issued to refinance the 85-1 improvement bonds and 89-1 refunding bonds.

Taylor Woodrow Maintenance LMOD Fund – This fund accounts for assessment revenues and service expenditures for the Taylor Woodrow lighting and landscaping district.

Hercules Community Library Fund – This fund accounts for donations made for the new Hercules Community Library.

Hercules Golf Club Fund – This fund accounts for monies held on deposit for the Hercules Golf Club.

Pinole/Hercules Wastewater Treatment Plant – This fund is for the establishment and operation for the retention of Wastewater Consultants and Specialists to study various options regarding the future use and operation of the Pinole/Hercules Wastewater Treatment Plant.

CITY OF HERCULES
AGENCY FUNDS
COMBINING BALANCE SHEET
June 30, 2008

	Westcat Transit	West Contra Costa Integrated Waste Management Authority	Reassessment District 91-1	Reassessment District 05-1
Assets				
Cash and investments	\$ -	\$ 6,820,572	\$ 339,540	\$ -
Cash and investments with fiscal agent				4,296,227
Accounts receivable		607,827		
Prepaid expense		883		
Total Assets	\$ -	\$ 7,429,282	\$ 339,540	\$ 4,296,227
Liabilities				
Accounts payable	\$ 3,533	\$ 64,544	\$ 339,540	\$ 2,019,881
Compensated absences		7,224		
Deposits payable	(3,533)	7,357,514		2,276,346
Total Liabilities	\$ -	\$ 7,429,282	\$ 339,540	\$ 4,296,227

A. Nobel Reassessment District	Taylor Woodrow Maintenance LMOD	Hercules Community Library	Hercules Golf Club	Pinole/Hercules Wastewater Treatment Plant	Totals
\$ 795,716 948,743	\$ 57,831	\$ 3,305	\$ 22,948	\$ 19,582	\$ 8,059,494 5,244,970 607,927 883
<u>\$ 1,744,459</u>	<u>\$ 57,831</u>	<u>\$ 3,305</u>	<u>\$ 23,048</u>	<u>\$ 19,582</u>	<u>\$ 13,913,274</u>
\$ -	\$ -	\$ 419	\$ -	\$ -	\$ 2,427,917 7,224
<u>1,744,459</u>	<u>57,831</u>	<u>2,886</u>	<u>23,048</u>	<u>19,582</u>	<u>11,478,133</u>
<u>\$ 1,744,459</u>	<u>\$ 57,831</u>	<u>\$ 3,305</u>	<u>\$ 23,048</u>	<u>\$ 19,582</u>	<u>\$ 13,913,274</u>

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
WESTCAT TRANSIT				
ASSETS				
Cash and investments	\$ (3,533)	\$ 3,533	\$ -	\$ -
Total Assets	<u>\$ (3,533)</u>	<u>\$ 3,533</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ -	\$ 3,533	\$ -	\$ 3,533
Deposits payable	<u>(3,533)</u>			<u>(3,533)</u>
Total Liabilities	<u>\$ (3,533)</u>	<u>\$ 3,533</u>	<u>\$ -</u>	<u>\$ -</u>
WEST CONTRA COSTA INTEGRATED WASTE MANAGEMENT AUTHORITY				
ASSETS				
Cash and investments	\$ 6,839,518	\$ -	\$ (18,946)	\$ 6,820,572
Accounts receivable	503,671	915,603	(811,447)	607,827
Prepaid expense	<u>22,398</u>		<u>(21,515)</u>	<u>883</u>
Total Assets	<u>\$ 7,365,587</u>	<u>\$ 915,603</u>	<u>\$ (851,908)</u>	<u>\$ 7,429,282</u>
LIABILITIES				
Accounts payable	\$ 913,436	\$ -	\$ (848,892)	\$ 64,544
Compensated absences	10,240		(3,016)	7,224
Deposits payable	<u>6,441,911</u>	<u>915,603</u>		<u>7,357,514</u>
Total Liabilities	<u>\$ 7,365,587</u>	<u>\$ 915,603</u>	<u>\$ (851,908)</u>	<u>\$ 7,429,282</u>
REASSESSMENT DISTRICT 91-1				
ASSETS				
Cash and investments	\$ 319,084	\$ 20,456	\$ -	\$ 339,540
Total Assets	<u>\$ 319,084</u>	<u>\$ 20,456</u>	<u>\$ -</u>	<u>\$ 339,540</u>
LIABILITIES				
Accounts payable	\$ 319,084	\$ 20,456	\$ -	\$ 339,540
Total Liabilities	<u>\$ 319,084</u>	<u>\$ 20,456</u>	<u>\$ -</u>	<u>\$ 339,540</u>

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2008
(Continued)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
REASSESSMENT DISTRICT 05-1				
ASSETS				
Cash and investments	\$ 360,382	\$ -	\$ (360,382)	\$ -
Cash and investments with fiscal agent	6,581,819	1,895,430	(4,181,022)	4,296,227
Total Assets	<u>\$ 6,942,201</u>	<u>\$ 1,895,430</u>	<u>\$ (4,541,404)</u>	<u>\$ 4,296,227</u>
LIABILITIES				
Accounts Payable	\$ 124,451	\$ 1,895,430	\$ -	\$ 2,019,881
Deposits payable	6,817,750		(4,541,404)	2,276,346
Total Liabilities	<u>\$ 6,942,201</u>	<u>\$ 1,895,430</u>	<u>\$ (4,541,404)</u>	<u>\$ 4,296,227</u>
A. NOBEL REASSESSMENT DISTRICT				
ASSETS				
Cash and investments	\$ 1,179,875	\$ -	\$ (384,159)	\$ 795,716
Cash and investments with fiscal agent	917,382	31,361		948,743
Total Assets	<u>\$ 2,097,257</u>	<u>\$ 31,361</u>	<u>\$ (384,159)</u>	<u>\$ 1,744,459</u>
LIABILITIES				
Deposits payable	\$ 2,097,257	\$ 31,361	\$ (384,159)	\$ 1,744,459
Total Liabilities	<u>\$ 2,097,257</u>	<u>\$ 31,361</u>	<u>\$ (384,159)</u>	<u>\$ 1,744,459</u>
TAYLOR WOODROW MAINTENANCE LMOD				
ASSETS				
Cash and investments	\$ 54,346	\$ 3,485	\$ -	\$ 57,831
Total Assets	<u>\$ 54,346</u>	<u>\$ 3,485</u>	<u>\$ -</u>	<u>\$ 57,831</u>
LIABILITIES				
Deposits payable	\$ 54,346	\$ 3,485	\$ -	\$ 57,831
Total Liabilities	<u>\$ 54,346</u>	<u>\$ 3,485</u>	<u>\$ -</u>	<u>\$ 57,831</u>

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2008
(Continued)

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
HERCULES COMMUNITY LIBRARY				
ASSETS				
Cash and investments	\$ 336,887	\$ 419	\$ (334,001)	\$ 3,305
Total Assets	<u>\$ 336,887</u>	<u>\$ 419</u>	<u>\$ (334,001)</u>	<u>\$ 3,305</u>
LIABILITIES				
Accounts payable	\$ -	\$ 419	\$ -	\$ 419
Deposits payable	336,887		(334,001)	2,886
Total Liabilities	<u>\$ 336,887</u>	<u>\$ 419</u>	<u>\$ (334,001)</u>	<u>\$ 3,305</u>
HERCULES GOLF CLUB				
ASSETS				
Cash and investments	\$ 16,268	\$ 8,587	\$ (1,907)	\$ 22,948
Accounts receivable		100		100
Total Assets	<u>\$ 16,268</u>	<u>\$ 8,687</u>	<u>\$ (1,907)</u>	<u>\$ 23,048</u>
LIABILITIES				
Accounts payable	\$ 1,907	\$ -	\$ (1,907)	\$ -
Deposits payable	14,361	8,687		23,048
Total Liabilities	<u>\$ 16,268</u>	<u>\$ 8,687</u>	<u>\$ (1,907)</u>	<u>\$ 23,048</u>
PINOLE/HERCULES WASTEWATER TREATMENT PLANT				
ASSETS				
Cash and investments	\$ -	\$ 19,582	\$ -	\$ 19,582
Total Assets	<u>\$ -</u>	<u>\$ 19,582</u>	<u>\$ -</u>	<u>\$ 19,582</u>
LIABILITIES				
Deposits payable	\$ -	\$ 19,582	\$ -	\$ 19,582
Total Liabilities	<u>\$ -</u>	<u>\$ 19,582</u>	<u>\$ -</u>	<u>\$ 19,582</u>

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2008
(Continued)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
TOTAL AGENCY FUNDS				
ASSETS				
Cash and investments	\$ 9,102,827	\$ 56,062	\$ (1,099,395)	\$ 8,059,494
Cash and investments with fiscal agent	7,499,201	1,926,791	(4,181,022)	5,244,970
Accounts receivable	503,671	915,703	(811,447)	607,927
Prepaid expense	22,398		(21,515)	883
	<u>17,128,097</u>	<u>2,898,556</u>	<u>(6,113,379)</u>	<u>13,913,274</u>
Total Assets	<u>\$ 17,128,097</u>	<u>\$ 2,898,556</u>	<u>\$ (6,113,379)</u>	<u>\$ 13,913,274</u>
LIABILITIES				
Accounts payable	\$ 1,358,878	\$ 1,919,838	\$ (850,799)	\$ 2,427,917
Compensated absences	10,240		(3,016)	7,224
Deposits payable	15,758,979	978,718	(5,259,564)	11,478,133
	<u>17,128,097</u>	<u>2,898,556</u>	<u>(6,113,379)</u>	<u>13,913,274</u>
Total Liabilities	<u>\$ 17,128,097</u>	<u>\$ 2,898,556</u>	<u>\$ (6,113,379)</u>	<u>\$ 13,913,274</u>



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

**INDEPENDENT AUDITOR'S 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**

The Honorable Members of the City Council of the
City of Hercules
Hercules, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hercules, California, as of and for the fiscal year ended June 30, 2008, which collectively comprise the City of Hercules' basic financial statements, and have issued our report thereon dated January 9, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hercules' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hercules' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hercules' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hercules' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hercules' financial statements that is more than inconsequential will not be prevented or detected by the City of Hercules' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Hercules' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Hercules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

We noted certain other matters that we reported to management of the City of Hercules in a separate letter dated January 9, 2009.

This report is intended solely for the information and use of management, others within the organization, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
January 9, 2009

THIS PAGE IS INTENTIONALLY LEFT BLANK

STATISTICAL SECTION

City of Hercules
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 12,171	\$ 8,579	\$ 25,731	\$ (11,063)	\$ 5,415	\$ 64,911
Restricted	12,858	18,255	37,692	61,752	79,222	14,555
Unrestricted	29,652	31,913	13,589	36,881	19,688	35,510
Total Governmental Activities	\$ 54,681	\$ 58,747	\$ 77,012	\$ 87,570	\$ 104,325	\$ 114,976
Business-type activities						
Invested in capital assets, net of related debt	\$ 2,924	\$ 4,762	\$ 5,780	\$ 8,009	\$ 12,758	\$ 11,655
Restricted	6	236	236	236		
Unrestricted	1,412	75	1,486	1,692	(5,483)	(3,997)
Total Business-type activities	\$ 4,342	\$ 5,073	\$ 7,503	\$ 9,937	\$ 7,275	\$ 7,658
Primary government						
Invested in capital assets, net of related debt	\$ 15,095	\$ 13,341	\$ 31,511	\$ (3,054)	\$ 18,173	\$ 76,566
Restricted	12,864	18,491	37,928	61,988	79,222	14,555
Unrestricted	31,064	31,988	15,076	38,573	14,205	31,513
Total primary government	\$ 59,023	\$ 63,820	\$ 84,515	\$ 97,507	\$ 111,600	\$ 122,634

Source: CAFR 2003, 2004, 2005, 2006, 2007, 2008

City of Hercules
Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Expenses	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental Activities:						
General government	\$ 5,281	\$ 6,203	\$ 8,392	\$ 4,104	\$ 4,732	\$ 5,498
Public safety	3,502	3,583	3,897	4,664	5,628	5,540
Public works	4,256	3,261	7,452	4,204	4,861	4,751
Community development	2,803	1,288	2,138	10,623	8,163	11,244
Parks and recreation	1,806	1,735	2,156	2,243	2,382	2,652
Interest on long-term debt	1,424	1,472	2,447	3,510	4,114	6,796
Total governmental activities expense	<u>19,072</u>	<u>17,542</u>	<u>26,482</u>	<u>29,348</u>	<u>29,880</u>	<u>36,481</u>
Business-type activities						
Sewer	2,369	1,845	1,836	2,112	2,657	1,531
Hercules Municipal Utility Fund	492	974	1,486	2,320	2,801	3,198
Total business-type activities expense	<u>2,861</u>	<u>2,819</u>	<u>3,322</u>	<u>4,432</u>	<u>5,458</u>	<u>4,729</u>
Total primary government expenses	<u>\$21,933</u>	<u>\$20,361</u>	<u>\$29,804</u>	<u>\$ 33,780</u>	<u>\$ 35,338</u>	<u>\$ 41,210</u>
Program Revenues						
Governmental activities:						
Charges for services						
General government	\$ 201	\$ 254	\$ 559	\$ 175	\$ 1,081	\$ 325
Community development	8,009	6,301	4,904	3,791	1,450	1,495
Parks and recreation	1,219	1,013	1,307	1,425	1,468	1,231
Other activities	154	547	323	240	433	1,058
Operating grants and contributions	1,063	503	1,307	32	434	7,584
Capital grants and contributions	1	47	15,111	6,416	6,983	3,420
Total governmental activities program revenues	<u>10,647</u>	<u>8,665</u>	<u>23,511</u>	<u>12,079</u>	<u>11,849</u>	<u>15,113</u>
Business-type activities:						
Charges for services						
Sewer	3,070	2,461	2,762	3,163	2,326	3,710
Hercules Municipal Utility Fund	69	546	1,415	1,701	1,727	1,953
Capital grants and contributions	671		838		3,116	
Total business-type activities program revenues	<u>3,810</u>	<u>3,007</u>	<u>5,015</u>	<u>4,864</u>	<u>7,169</u>	<u>5,663</u>
Total primary government program revenues	<u>\$14,457</u>	<u>\$11,672</u>	<u>\$28,526</u>	<u>\$ 16,943</u>	<u>\$ 19,018</u>	<u>\$ 20,776</u>

Source: CAFR 2003, 2004, 2005, 2006, 2007, 2008

City of Hercules
Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)
(Continued)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Net (expense)/revenue:						
Governmental activities	\$ (8,425)	\$ (8,877)	\$ (2,971)	\$ (17,269)	\$ (18,031)	\$ (21,368)
Business-type activities	949	188	1,693	432	1,711	934
Total primary government net expense	<u>\$ (7,476)</u>	<u>\$ (8,689)</u>	<u>\$ (1,278)</u>	<u>\$ (16,837)</u>	<u>\$ (16,320)</u>	<u>\$ (20,434)</u>
General Revenue and Other Changes in Net Assets						
Governmental activities:						
Property taxes	\$ 5,396	\$ 9,130	\$ 12,144	\$ 13,478	\$ 16,777	\$ 16,641
Sales and other taxes	3,912	4,780	6,020	6,856	6,746	6,822
Investment earnings	2,333	(199)	2,638	3,439	5,259	6,046
Miscellaneous	100	(225)	1,889	3,855	2,198	2,453
Loss on sale of assets			(717)	(9)	(14)	
Transfers	100	(543)	(738)	(2,003)	41	286
Total Governmental activities	<u>11,841</u>	<u>12,943</u>	<u>21,236</u>	<u>25,616</u>	<u>31,007</u>	<u>32,248</u>
Business-type activities						
Investment earnings						6
Transfers	(100)	543	738	2,003	(41)	(286)
Total business-type activities	<u>(100)</u>	<u>543</u>	<u>738</u>	<u>2,003</u>	<u>(41)</u>	<u>(280)</u>
Total primary government	<u>\$ 11,741</u>	<u>\$ 13,486</u>	<u>\$ 21,974</u>	<u>\$ 27,619</u>	<u>\$ 30,966</u>	<u>\$ 31,968</u>
Change in Net Assets						
Governmental activities	\$ 3,416	\$ 4,066	\$ 18,265	\$ 8,347	\$ 12,976	\$ 10,880
Business-type activities	849	731	2,431	2,435	1,670	654
Total primary government	<u>\$ 4,265</u>	<u>\$ 4,797</u>	<u>\$ 20,696</u>	<u>\$ 10,782</u>	<u>\$ 14,646</u>	<u>\$ 11,534</u>

Source: CAFR 2003, 2004, 2005, 2006, 2007, 2008

City of Hercules
Governmental Activities Tax Revenues by Source
Last Six Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Property Tax	Utility Users Tax	Sales Tax	Gas Tax	Franchise Tax	Transfer Tax
2003	\$ 5,387	\$ 1,120	\$ 1,078	\$ 423	\$ 308	\$ 198
2004	7,256	1,254	1,023	392	353	368
2005	13,134	1,431	1,271	420	383	279
2006	13,478	1,789	1,669	690	479	295
2007	16,777	1,824	1,821	441	496	131
2008	16,641	1,803	1,927	432	472	73

¹ Gas tax and Transportation tax shown in CAFR as intergovernmental, and Business License Tax as Licenses and Permits.

Source: City of Hercules (10 years information not available)

Transportation Tax	Business License Tax	Total
\$ 283	\$ 140	\$ 8,937 ¹
265	139	11,050
259	138	17,315
1,765	168	20,333
1,884	152	23,526
1,957	158	23,463

City of Hercules
Fund Balances of Governmental Funds
Last Six Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Fund						
Reserved	\$ 12,783	\$ 14,724	\$ 14,548	\$ 14,262	\$ 17,518	\$ 19,135
Unreserved	12,377	9,784	12,190	11,810	9,604	7,365
Total General Fund	<u>25,160</u>	<u>24,508</u>	<u>26,738</u>	<u>26,072</u>	<u>27,122</u>	<u>26,500</u>
All other governmental funds						
Reserved	9,484	26,518	28,183	63,618	52,375	114,978
Unreserved, reported in:						
Designated, future projects						11,756
Special revenue funds	3,468	5,118	2,449	6,608	13,979	7,954
Debt service funds	6,391				107	1,224
Redevelopment Agency	(4,481)	(8,738)	(10,393)	(4,807)	(357)	(16,046)
Total all other governmental funds	<u>\$ 14,862</u>	<u>\$ 22,898</u>	<u>\$ 20,239</u>	<u>\$ 65,419</u>	<u>\$ 66,104</u>	<u>\$119,866</u>

Source: CAFR 2003, 2004, 2005, 2006, 2007, 2008 (10 years information not available)

City of Hercules
Changes in Fund Balances of Governmental Funds
Last Six Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Revenues						
Taxes	\$ 9,308	\$ 11,050	\$ 16,303	\$ 18,550	\$ 20,880	\$ 20,750
Intergovernmental	1,141	1,570	3,264	3,084	7,440	10,396
Licenses and permits	2,536	1,876	1,086	753	509	337
Fines and forfeitures	53	57	57	64	168	135
Use of money and property	2,333	443	2,685	3,439	4,931	6,686
Program Income					4	31
Charges for services	6,917	6,430	5,407	4,665	2,696	2,606
Lease income	480	315	532	920	1,022	310
Other revenues	100	1,107	1,650	1,355	2,198	2,453
Total Revenues	22,868	22,848	30,984	32,829	39,847	43,704
Expenditures						
General government	5,108	5,798	8,176	3,792	3,528	4,373
Public safety	3,326	3,536	3,809	4,654	5,594	5,255
Public works	1,648	1,896	1,553	2,266	2,746	2,560
Community development	1,127	1,288	1,155	10,637	9,424	12,857
Parks and recreation	1,637	1,564	1,944	2,116	2,228	2,425
Capital outlay	3,535	3,170	5,469	9,568	12,568	41,331
Lease expense	480	315	532	920	1,022	1,133
Debt service						
Principal	679	4,370	4,287	438	1,546	1,815
Interest	1,675	1,381	2,256	3,120	4,099	5,020
Bond issuance cost		706		1,079		3,106
Total Expenditures	19,215	24,024	29,181	38,591	42,754	79,874
Excess of revenues over (under) expenditures	3,653	(1,176)	1,803	(5,761)	(2,907)	(36,170)
Other financing sources (uses)						
Premium from Issuance				2,176		82
Refunding Payment to escrow				(6,351)		
Capital Contributions to HMU	(671)					
Proceeds from long-term debt	7,000	9,150		56,260	400	89,037
Transfers in	1,084	5,105	4,418	20,258	23,575	51,414
Transfers out	(1,110)	(5,694)	(6,648)	(22,328)	(24,129)	(51,244)
Total other financing sources (uses)	6,303	8,561	(2,230)	50,015	(155)	89,289
Net change in fund balances	\$ 9,956	\$ 7,385	\$ (427)	\$ 44,253	\$ (3,061)	\$ 53,118
Debt as a percentage of noncapital expenditures	15.01%	30.96%	27.59%	15.98%	18.70%	25.79%

Source: CAFR 2003, 2004, 2005, 2006, 2007, 2008 (10 years information not available)

City of Hercules
Assessed Value and Estimated Actual Value of Taxable Property
Last Six Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30	Real Property	Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
2003	\$ 1,722,513	\$ 32,630	\$ 57,703	\$ 1,697,440	1.202
2004	1,970,445	30,814	59,112	1,942,147	1.243
2005	2,410,917	29,865	65,569	2,375,213	1.245
2006	2,821,941	35,128	82,382	2,774,687	1.234
2007	3,187,086	39,352	83,861	3,142,577	1.236
2008	3,428,954	38,806	85,254	3,382,506	1.209

Note: Property in the City is reassessed each year. Property is assessed at actual value. Therefore, the assessed values are equal to the actual value.

Source: Stephen J. Ybarra, Auditor of the County of Contra Costa (10 years information not available)

**City of Hercules
Property Tax Rates
Direct and Overlapping¹ Governments
Last Six Fiscal Years**

Fiscal Year	Basic Countywide Tax	Town of Hercules	Bart	East Bay Regional Park	Martinez USD	West Contra Costa USD	John Swett School	Community College
2003	1.0000	0.0170	0.0000	0.0065	0.0901	0.0526	0.0319	0.0040
2004	1.0000	-	0.0000	0.0057	0.1000	0.1064	0.0275	0.0038
2005	1.0000	-	0.0000	0.0057	0.0923	0.1153	0.0273	0.0042
2006	1.0000	-	0.0048	0.0057	0.0904	0.1041	0.0246	0.0047
2007	1.0000	-	0.0050	0.0085	0.0794	0.1143	0.0244	0.0043
2008	1.0000	-	0.0076	0.0080	0.0557	0.1035	0.0229	0.0108

(10 years information not available)

City of Hercules
Principal Property Taxpayers
June 30, 2008
(amounts expressed in thousands)

<u>Taxpayer</u>	<u>2008</u>			<u>2007</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>% of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>% of Total Taxable Assessed Value</u>
Bio-Rad Laboratories	\$ 121,563	1	3.59%	\$ 111,349	1	3.54%
HD Development of Maryland	16,672	2	0.49%	16,542	3	0.53%
Rago Development Corporation	14,071	3	0.42%	8,604	7	0.27%
Santa Clara Vly Housing Group	13,719	4	0.41%	13,450	4	0.43%
Walmart Stores Inc	12,938	5	0.38%	12,684	5	0.40%
Tulloch Brian	8,019	6	0.24%	7,862	8	0.25%
Three Trees Holdings LLC	8,000	7	0.24%	11,236	6	0.36%
LB/VCC Hercules II LLC	7,951	8	0.24%	-		
Besphil & Co Ltd	7,863	9	0.23%	7,708	9	0.25%
Lewis - Hercules LLC	7,736	10	0.23%	7,584	10	0.24%
Eden Victoria LP			0.00%	18,004	2	0.57%
All others	<u>3,163,974</u>		<u>93.54%</u>	<u>2,927,554</u>		<u>93.16%</u>
Total	<u>\$ 3,382,506</u>		<u>100.00%</u>	<u>\$ 3,142,577</u>		<u>100.00%</u>

Source: Contra Costa County Assessors Office (10 years information not available)

City of Hercules
Property Tax Levies and Collections
Last Six Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy ¹		Collections in Subsequent Years ¹	Total Collections to Date	
		Amount	Percentage		Amount	Percentage
2003	5,387	5,387	100%	n/a	5,387	100%
2004	7,256	7,256	100%	n/a	7,256	100%
2005	13,134	13,134	100%	n/a	13,134	100%
2006	13,478	13,478	100%	n/a	13,478	100%
2007	16,777	16,777	100%	n/a	16,777	100%
2008	16,641	16,641	100%	n/a	16,641	100%

¹ Teeter Plan

Source: City of Hercules (10 years information not available)

City of hercules
Ratios of General Bonded Debt Outstanding
Last Three Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
----------------	--------------------------------	--	-------	--	---------------

The City of Hercules has no debt of this type, so this schedule is not required.

City of Hercules
Ratios of Outstanding Debt by Type
Last Three Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Capital Leases	Sewer Bonds	General Obligation Bonds	Capital Leases			

The City of Hercules has no debt of this type, so this schedule is not required.

City of Hercules
Direct and Overlapping Governmental Activities Debt
As of June 30, 2008
(amounts expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping Tax and Assessment Debt:			
Bay Area Rapid Transit District	467,320	0.513%	2,397
Contra Costa Community College District	184,890	1.592%	2,943
John Swett Unified School District	9,585	9.426%	903
West Contra Costa Unified School District	527,016	9.930%	52,333
West Contra Costa Healthcare Parcel Tax Obligations	24,620	10.124%	2,493
East Bay Regional Park District	149,445	1.467%	2,192
California Statewide Comm Development Authority 1915 Act Bonds	1,252	0.746%	9
City of Hercules 1915 Act Bonds	12,515	100.000%	12,515
Total Gross Overlapping Tax and Assessment Debt	1,376,643		75,785
Less East Bay Municipal Utility District (100% self-supporting)			16
Total Net Overlapping Tax and Assessment Debt	1,376,643		75,769
Direct and Overlapping General Fund Debt:			
Contra Costa County General Fund Obligations	361,925	1.588%	5,747
Contra Costa County Pension Obligations	492,985	1.588%	7,829
Contra Costa County Board of Education Certificates of Participation	470	1.588%	7
Contra Costa Community College District Certificates of participation	1,100	1.520%	17
West Contra Costa Unified School District Certificates of Participation	24,755	9.930%	2,458
City of Hercules General Fund Obligations	15,200	100.000%	15,200
Total Direct and Overlapping General Fund Debt	896,435		31,258
Gross Combined Total Debt	2,273,078		107,043 ²
Net Combined Total Debt	2,273,078		107,027

1 Percentage of overlapping agency's assessed valuation located within boundaries of the City.

2 Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt	2.14%
Total Net Overlapping Tax and Assessment Debt	2.14%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$15,510,000)	0.72%
Gross Combined Total Debt	4.91%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

City of Hercules
Legal Debt Margin Information
Last Three Fiscal Years
(amounts expressed in thousands)

	Fiscal Year		
	2006	2007	2008
Debt Limit	\$ 428,560	\$ 483,966	\$ 483,966
Total net debt applicable to limit			
Legal debt margin	428,560	483,966	483,966
Total net debt applicable to the limit as a percentage of debt limit			
Legal Debt Margin Calculation for Fiscal Year 2008:			
Assessed value ¹	\$ 3,142,577		
Add back: exempt real property ¹	83,861		
Total assessed value ¹	3,226,438		
Debt limit (15% of total assessed value)	483,966		
Debt applicable to limit:			
General obligation bonds			
Less: Amount set aside for repayment of general obligation debt			
Total net debt applicable to limit			
Legal debt margin	\$ 483,966		

Note: Under state finance law, the City of Hercules' outstanding debt should not exceed 15 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

¹Source: Stephen J. Ybarra, Auditor-Controller, Contra Costa County (10 years information not available)

City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

2007 Tax Allocation bonds

Fiscal Year	Special	Less:	Net	Debt Service		<u>Coverage</u>
	Assessment <u>Collections</u>	Operating <u>Expenses</u>	Available <u>Revenue</u>	<u>Principal</u>	<u>Interest</u>	
1999	\$ -	\$ -	\$ -	\$ -	\$ -	-
2000						
2001						
2002						
2003						
2004						
2005						
2006						
2007						
2008		2,165,646	(2,165,646)		322,489	(6.72)

City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

2007 Housing Tax Allocation Bonds, Series B

Fiscal Year	Special	Less:	Net	Debt Service		<u>Coverage</u>
	<u>Assessment</u> <u>Collections</u>	<u>Operating</u> <u>Expenses</u>	<u>Available</u> <u>Revenue</u>	<u>Principal</u>	<u>Interest</u>	
1999	\$ -	\$ -	\$ -	\$ -	\$ -	-
2000						
2001						
2002						
2003						
2004						
2005						
2006						
2007						
2008		243,707	(243,707)		302,275	(0.81)

City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

2007 Housing Tax Allocation Bonds, Series A

Fiscal Year	Special	Less:	Net	Debt Service		Coverage
	Assessment Collections	Operating Expenses	Available Revenue	Principal	Interest	
1999	\$ -	\$ -	\$ -	\$ -	\$ -	-
2000						
2001						
2002						
2003						
2004						
2005						
2006						
2007						
2008		632,322	(632,322)		404,106	(1.56)

City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

2005 Tax Allocation Bonds

Fiscal Year	Special	Less:	Net	Debt Service		Coverage
	Assessment Collections	Operating Expenses	Available Revenue	Principal	Interest	
1999	\$ -	\$ -	\$ -	\$ -	\$ -	-
2000						
2001						
2002						
2003						
2004						
2005						
2006		16,136	(16,136)		1,246,114	(0.01)
2007		16,051	(16,051)	1,210,000	2,614,630	(0.01)
2008		10,190	(10,190)	1,410,000	2,563,413	(0.01)

City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

Alfred Nobel Assessment

Fiscal Year	Special	Less:	Net	Debt Service		Coverage
	Assessment Collections	Operating Expenses	Available Revenue	Principal	Interest	
1999	\$ 1,125,671	\$ 1,404	\$ 1,124,267	\$ 295,000	\$ 871,447	0.96
2000	1,128,217	12,945	1,115,272	315,000	849,598	0.96
2001	1,551,641	2,135	1,549,506	340,000	825,848	1.33
2002	998,946	7,630	991,316	10,635,000	1,107,784	0.08
2003	958,201	4,996	953,205	435,000	545,675	0.97
2004	1,057,076	4,193	1,052,883	465,000	519,403	1.07
2005	1,009,553	32,463	977,090	490,000	493,385	0.99
2006	993,642	11,523	982,119	625,000	466,281	0.90
2007	941,081	8,659	932,422	730,000	432,513	0.80
2008	916,397	18,847	897,550	910,000	382,600	0.69

City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

John Muir Parkway Assessment

Fiscal Year	Special	Less:	Net	Debt Service		Coverage
	Assessment Collections	Operating Expenses	Available Revenue	Principal	Interest	
1999	\$ -	\$ -	\$ -	\$ -	\$ -	-
2000						
2001						
2002						
2003						
2004						
2005						
2006	434,616	7,172	427,444		186,313	2.29
2007	465,924	8,109	457,815	75,345	310,835	1.19
2008	(30)	7,690	(7,720)	115,000	307,894	(0.02)

**City of Hercules
Demographic and Economic Statistics
Last Six Fiscal Years**

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Labor Force	Unemployment Rate
2003	20,489	43,954	43,957	11,100	4.4%
2004	21,814	n/a	n/a	11,100	4.0%
2005	23,360	n/a	n/a	11,300	3.3%
2006	23,834	n/a	n/a	11,200	2.9%
2007	23,975	n/a	n/a	11,600	3.1%
2008	24,324	n/a	n/a	11,600	4.1%

- Notes:
- ¹ Annual Average. Source is EDD
 - ² At June 30
 - ³ Information for Contra Costa County - City information not available.
Source is California Statistical Abstract.
 - ⁴ Information will be provided for these years in later reports. Source: California Statistical Abstract
 - ⁵ Source: California Department of Finance
 - ⁶ At July 20, 2007

Source: Population = California Dept of Finance; Personal Income, Per Capita Income, Labor Force, and Unemployment Rate = California EDD

**City of Hercules
Principal Employers
Current Year and Prior Year**

Employer	2008			2007		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Bio-Rad	1700	1	51.10%	1184	1	39.37%
Mechanics Bank	250	2	7.51%	250	2	8.31%
Contra Costa County	180	3	5.41%	146	4	4.86%
Hercules Middle/High School	150	4	4.51%	140	5	4.66%
Home Depot	124	5	3.73%	150	3	4.99%
A&B Diecast	100	6	3.01%	81	7	2.69%
Albertsons/Sav-On	85	7	2.55%	95	6	3.16%
Benda Tool & Model Works	85	7	2.55%			
Northview Pacific Laboratories	76	8	2.28%	60	8	2.00%
Histopathology Reference Lab	48	9	1.44%	30	16	1.00%
PTRL West Inc	45	10	1.35%	40	10	1.33%
Franklin Canyon Golf Course	40	11	1.20%	40	9	1.33%
B&C Janitorial Service	40	11	1.20%			
McDonald's	40	11	1.20%			
Big Lots	38	12	1.14%	39	11	1.30%
Ohlone Elementary School	36	13	1.08%	33	14	1.10%
Pro Media	35	14	1.05%	36	12	1.20%
	<u>3072</u>		<u>92.34%</u>	<u>2324</u>		<u>77.29%</u>

Source: Reference USA and California Employment Development Department (10 years information not available)

City of Hercules
Full-Time Equivalent City Government Employees by Function
Last Three Fiscal Years

Function	<u>2006</u>	<u>2007</u>	<u>2008</u>
General government	22	23	26
Police	26	32	31
Public works	22	14	16
Community development	9	9	8
Parks and recreation	54	54	38
Hercules Municipal Utility	<u>5</u>	<u>5</u>	<u>5</u>
Total	<u><u>138</u></u>	<u><u>137</u></u>	<u><u>124</u></u>

Source: City of Hercules Payroll Records (10 years information not available)

City of Hercules
Operating Indicators by Function
Last Three Fiscal Years

Function	<u>2006</u>	<u>2007</u>	<u>2008</u>
Public Safety			
Part 1 crimes ¹	625	602	647
Total Incidents	19,536	26,078	22,369
Police reports	3,116	3,333	2,881
Public Works			
Street resurfacing (miles)	10	3	4
Street lights repaired	75	25	10
Potholes filled (sq. ft.)	100	50	75
Community Development			
Public improvements ² (\$000)	16,200	16,200	9,500
Total permit valuation (\$000)	61,550	25,225	10,248
Tax increment generated ⁴ (\$000)	8,917	11,443	11,501
% Change in Sales Tax Receipts	31.29%	9.06%	5.82%
Parks and Recreation			
Community Events (July 4th, Cultural Festival, etc.) (Attendance)	11,000	13,500	13,000
Sports Programs (e.g. basketball, softball)	5,923	6,050	5,689
Child Care programs (Enrollment)	300	338	373
Day/Summer Camps (Enrollment)	1,621	1,434	1,550
Teen/Youth Council (Enrollment)	98	88	108
Aquatic programs (Enrollment/attendance)	9,304	8,966	14,399
Senior Center (Enrollment/attendance)	36,000	49,575	51,400

Notes: Indicators are not available for the general government function.

¹Part 1 Crimes are the following as reported to DOJ:
homicide, rape, robbery, burglary, assault, theft, auto theft,

²Measures public construction/improvement within the city.

⁴Measures redevelopment activity within the city.

⁵"Triple-Flip" allowed State to temporarily borrow one-quarter of local government sales tax in 2004.

City of Hercules
Capital Asset Statistics by Function
Last Three Fiscal Years

Function	<u>2006</u>	<u>2007</u>	<u>2008</u>
Public Safety			
Police			
Stations	1	1	1
Patrol units	18	18	18
Public Works			
Streets (miles)	57	57	57
Streetlights	1800	1800	1800
Traffic Lights	12	12	12
Sanitary Sewers (miles)	58	58	58
Parks and Recreation			
Parks acreage	104.5	104.5	106.5
Parks	9	9	11
Swimming pools	1	1	1

Note: No capital asset indicators are available for the general government or community development functions.