

City of Hercules

Hercules, California

Comprehensive Annual Financial Report

For the year ended June 30, 2005

C&L
Caporicci & Larson
Certified Public Accountants

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City of Hercules
Basic Financial Statements
For the year ended June 30, 2005

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CITY OF HERCULES

111 CIVIC DRIVE, HERCULES, CA 94547

PHONE: 510 • 799 • 8200

February 14, 2006

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, 2005.

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 an as 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 Caporicci & Larsen, 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, 2005 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 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 23,360 residents (1-1-05 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 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, 2005) 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 also 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 uses a two year budget cycle which means that every two years the City approves two fiscal years of budget at one time. The City also approves a new five year capital improvement plan during the budget process. The budget process is started six to eight months prior to adoption by the Council providing input on its priorities for the community for the ensuing two years. 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. Prior to the beginning of the second year of the two year budget cycle a review of the numbers for the second year is performed to determine whether further adjustments are necessary for that year. Approximately mid-year of the second year the next two year budget process is initiated. Budgets are prepared for all funds of the City. 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 \$10,000 by an action item on their 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 San Francisco Bay Area. As such, the overall Bay Area economy is slowly recovering from the dot.com closures and the economic aftermath of September 11, 2001 which had a chilling effect on the travel industry. The travel industry seems to be back in full swing, however. 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 stayed relatively stable and did not suffer nearly the down turn that the South Bay Area experienced. The City has experienced tremendous residential growth in the past few 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 2010 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 selling as fast as it can be built (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 that park that 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 the City. Most of the new development is happening in the redevelopment project areas of the City, so the RDA generated property taxes are growing tremendously fast. 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 federal 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 two year operating budgets and five year capital improvement programs. The capital improvement program is developed from those master plans that exist for the various types of infrastructure in the city, and from Council work sessions where staff receives input from the Council on its visions for the community and the projects and amenities that they desire to have in the community.

Based on this information the City is in the construction phase of building a new library (the City's first and only), is in the middle development stages of building a train station/ferry terminal/bus terminal multi-modal transportation facility, will be building a low-to-moderate income rental housing facility, will possibly be renovating the historic Clubhouse facility, will be redeveloping a central location in the community to a regional scale mixed use new Town Center and will be adding new parks to the community according to a comprehensive parks plan.

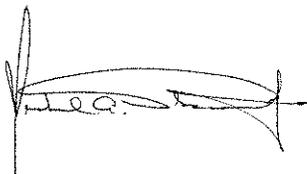
Cash management policies and practices. The City's investment management plan addresses a wide variety of investment practices, including primary investment objectives, investment authority, allowable investment vehicles, investment maturity terms, eligible financial institutions, capital preservation, 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 effort of all city staff. 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,



Michael A. Sakamoto
City Manager



Tim Hansen
Interim Finance Director/Treasurer

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CITY OF HERCULES

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2005

CITY COUNCIL AND ELECTED OFFICIALS

Frank Batara
Trevor Evans-Young
Ed Balico
Charleen Raines
Joanne Ward

Mayor
Vice Mayor
Council Member
Council Member
Council Member

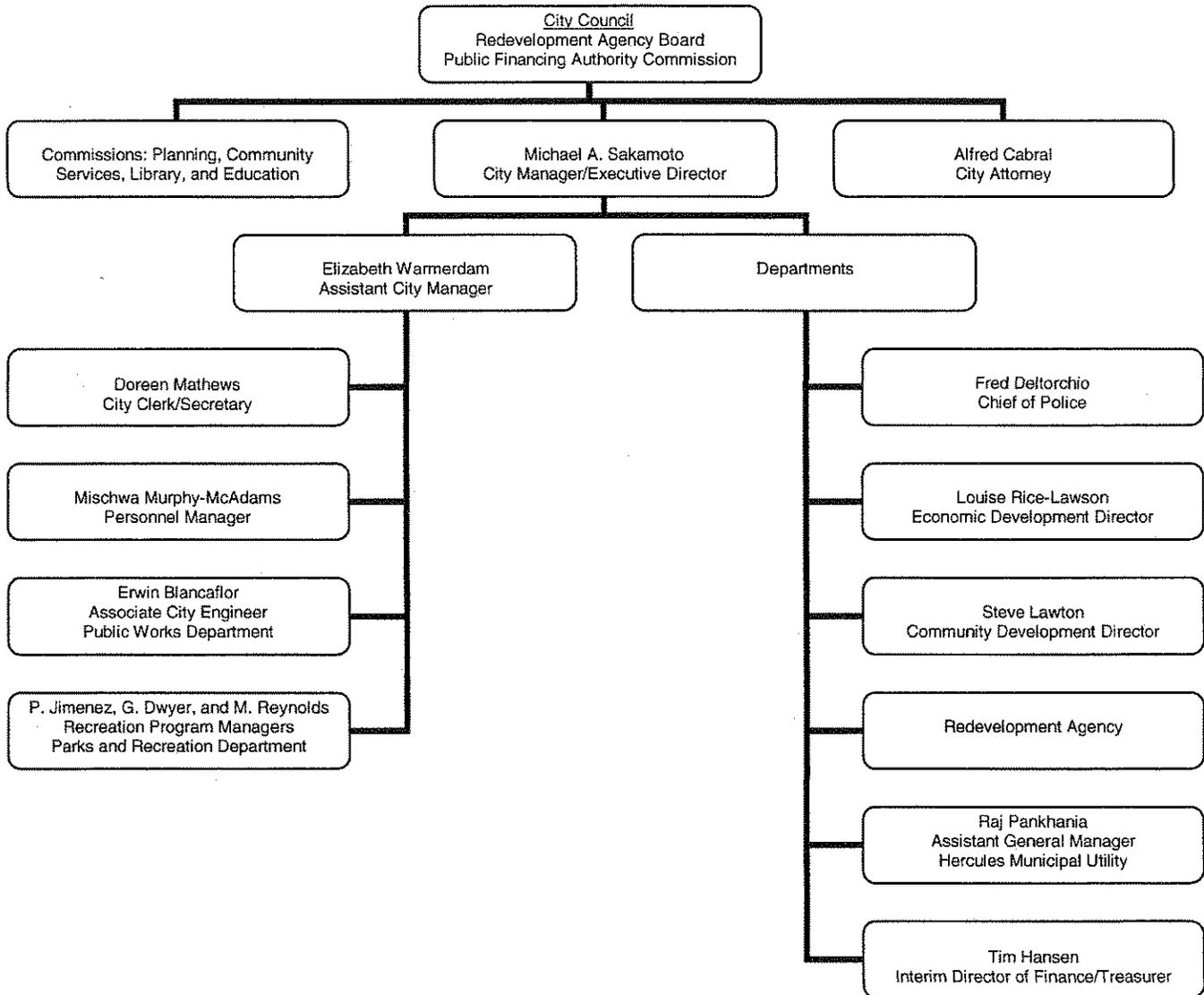
ADMINISTRATIVE PERSONNEL

Michael A. Sakamoto
Elizabeth Warmerdam
Alfred Cabral
Doreen Mathews
Steve Lawton
Louise Rice-Lawson
Tim Hansen

City Manager
Assistant City Manager
City Attorney
Chief of Police
Community Development Director
Economic Development Director
Interim Finance Director/Treasurer

CITY OF HERCULES

Organization Chart Fiscal Year 2004-2005



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hercules, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the City adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures (Amendment of GASB Statement No. 3)* and No. 44, *Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1)*.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part 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 inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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Sacramento

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Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

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

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carson

Oakland, California
December 22, 2005

CITY OF HERCULES

Management's Discussion and Analysis**Fiscal Year Ended June 30, 2005**

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, 2005. 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 \$77.0 million (Net Assets). Of this amount \$25.7 million was invested in capital assets, net of related debt. There are restricted funds of \$37.7 million for capital projects, debt service and other. The remaining \$13.6 million are unrestricted funds. These amounts include all funds of the City, the Redevelopment Agency and the Public Financing Authority.
- The City's total net assets increased by \$20.7 million; representing an \$18.3 million increase in Governmental and a \$2.4 million increase in Business-Type Activities. The majority of the increase in the Governmental Activities came from the City's investment in capital assets net of related debt.
- 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 \$47 million, a decrease of \$4 million in comparison with the prior year. There is no net Unreserved, Undesignated Fund Balance available for spending at the government's discretion on operating activities and capital projects because of the expected and normal large (\$10.4 million) deficit unreserved/undesignated fund balance of the Redevelopment Agency (RDA).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$12.2 million, or 110 percent of total General Fund expenditures for the year. This amount includes \$5.1 million for long term investments, and \$7.2 million for future projects.
- Total net bonded debt decreased by \$4.3 million during the fiscal year. The decrease was due to the retirement of \$3.8 million in tax allocation bonds for the Redevelopment Agency (RDA) with the remaining \$5 million reduction being the result of normal annual principal payments on outstanding debt issues.
- During the fiscal year, the Governmental-Wide Financial Statements' total revenues of \$50.5 million exceeded total expenses of \$29.8 million, by \$20.7 million. The expenses are significantly higher (almost 50%) than expenses for the prior fiscal year. The expenditures increases are the result of associated costs for the Redevelopment Agency Fund and the Affordable Housing Program which include ERAF payments, administrative charges, consulting services, first time homebuyer program and inclusionary housing program. The revenues more than doubled from the previous year. The revenue increases are coming from property taxes to the Redevelopment Agency and sales tax to the City which is the result of the significant amount of construction that has been occurring in the City. In addition due to reporting purposes as prescribed by the Governmental Accounting Standards Board Statement No. 33 (GASB 33) and amended by Statement No. 36 accounting and financial reporting for non-exchange transactions required contributed capital to be reported.

CITY OF HERCULES

Management's Discussion and Analysis *Fiscal Year Ended June 30, 2005*

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 (enterprise fund) for which, for full financial disclosure reasons, it does a separate financial report, 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 Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB 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.

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.

CITY OF HERCULES

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2005

B. OVERVIEW OF FINANCIAL STATEMENTS, *Continued*

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 activities 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 34, there are certain funds that are considered 'major funds'. The major governmental funds include the General Fund, the Redevelopment Agency Special Revenue 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.

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 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.

CITY OF HERCULES

**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005**

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

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 and IT Equipment Replacement) are presented in the proprietary fund financial statements. Individual fund data for the Vehicle Replacement 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, and information concerning the progress in funding its obligation to provide pension benefits to its employees.

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, 2005****C. GOVERNMENT-WIDE FINANCIAL ANALYSIS****Statement of Net Assets**

Net assets are a good indicator of the City's financial position. At the 2004-2005 fiscal year end, net assets of the City were \$84.5 million, which is an increase of \$20.7 million from the prior year. The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2004 and 2005.

City of Hercules
Condensed Comparative Statements of Net Assets
June 30, 2005 and 2004
(Amounts in Millions)

	Governmental Activities		Business-type Activities		Total		Total % Change
	2005	2004	2005	2004	2005	2004	
Assets:							
Current Assets	\$53.3	\$ 51.3	\$2.4	\$1.1	\$55.7	\$52.4	6.4 %
Other Assets	3.4	2.9	-	-	3.4	2.9	17.5 %
Capital Assets, Net	48.6	35.7	5.8	4.8	54.4	40.5	34.3 %
Total Assets	105.3	89.9	8.2	5.9	113.5	95.8	18.5 %
Liabilities:							
Current Liabilities	\$5.6	\$4.2	\$0.7	\$0.8	\$6.3	\$5.0	26.2 %
Other Liabilities	0.3	0.4	-	-	0.3	0.4	(34.1)%
Long-term Liabilities	22.4	26.6	-	-	22.4	26.6	(15.6)%
Total Liabilities	28.3	31.2	0.7	0.8	29.0	32.0	(9.3)%
Net Assets:							
Invested in Capital Assets, Net of Related Debt	\$ 25.7	\$ 8.6	\$ 5.8	\$ 4.8	31.5	\$ 13.4	135.2 %
Restricted	37.7	18.2	0.2	0.2	37.9	18.4	106.1 %
Unrestricted	13.6	31.9	1.5	0.1	15.1	32.0	(52.9)%
Total Net Assets	\$ 77.0	\$ 58.7	\$ 7.5	\$ 5.1	\$ 84.5	\$ 63.8	32.5 %

At June 30, 2005, the City's investment in capital assets net of related debt represents 37.3% of 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 (44.9%) 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 \$15.1 million, may be used to meet the City's ongoing operations.

For the years ended June 30, 2005 and 2004, the City reported positive balances in all three categories of net assets for governmental activities and business-type activities

CITY OF HERCULES

*Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005*

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Net Assets, Continued

City of Hercules
Comparative Analysis of Net Assets
June 30, 2005 and 2004
(Amount in Millions)

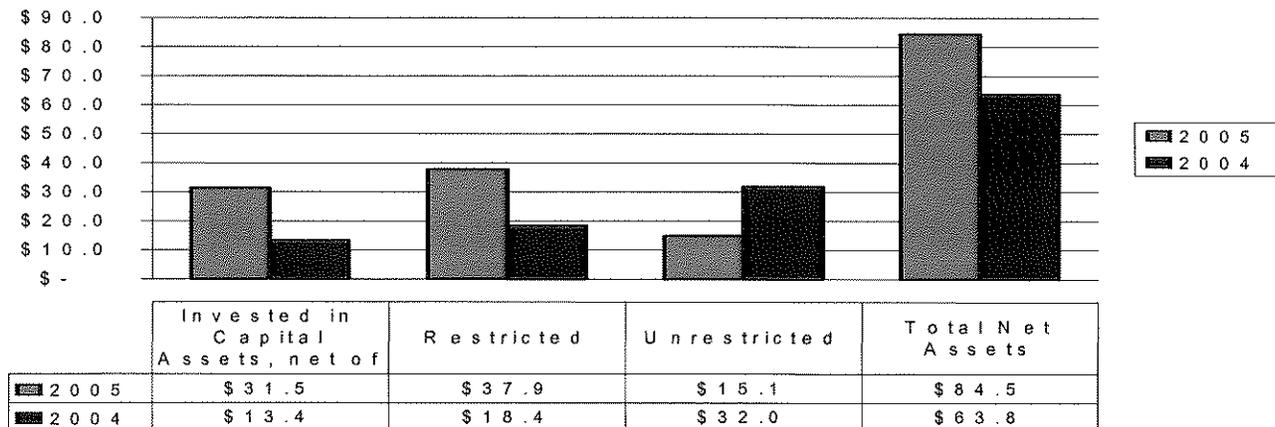
	2005	2004	Change \$	Change %
	<u>2005</u>	<u>2004</u>	<u>\$</u>	<u>%</u>
Net Assets:				
Investment in Capital Assets, Net of Related Debt	\$ 31.5	\$ 13.4	\$ 18.1	135.2 %
Restricted	37.9	18.4	19.5	106.1 %
Unrestricted	15.1	32.0	(16.9)	(52.9)%
Total Net Assets	<u>\$ 84.5</u>	<u>\$ 63.8</u>	<u>\$ 20.7</u>	<u>32.5 %</u>

The increase of \$18.1 million in the City's Investment in Capital Assets Net of Related Debt was due to the routine acquisition of capital assets, no new debt issued and \$ 3.8 million for the retirement of the 1994 Tax Allocation Bonds and \$.5 million for repayment of the related debt.

There was an increase in restricted net assets of \$19.5 million primarily due to proceeds of long-term debt restricted for acquisition of capital assets and specific projects and programs.

The City's unrestricted net assets decreased by \$16.9 million. This decrease was primarily due to more projects and programs restricted for specific use.

The following chart shows the comparison of the three components of net assets for fiscal years 2005 and 2004.



CITY OF HERCULES**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005****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, 2005 and 2004.

City of Hercules
Condensed Comparative Statements of Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004
(Amount in Millions)

	Governmental Activities		Business-type Activities		Total		Total % Change
	2005	2004	2005	2004	2005	2004	
Revenues:							
Program Revenues	\$ 23.5	\$ 8.7	\$ 5.0	\$ 3.0	28.5	\$ 11.7	143.8 %
General Revenues	22.0	13.4	-	-	22.0	13.4	64.0 %
Total Revenues	45.5	22.1	5.0	3.0	50.5	25.1	101.2 %
Expenses	26.5	17.5	3.3	2.8	29.8	20.3	46.8 %
Increase in Net Assets before Transfers	19.0	4.6	1.7	0.2	20.7	4.8	331.1 %
Transfers	(0.7)	(0.6)	0.7	0.6	-	-	-
Increase in Net Assets	18.3	4.0	2.4	0.8	20.7	4.8	331.1 %
Net Assets - Beginning	58.7	54.7	5.1	4.3	63.8	54.8	16.5 %
Net Assets - Ending	\$ 77.0	\$ 58.7	\$ 7.5	\$ 5.1	\$ 84.5	\$ 59.6	41.8 %

Governmental Activities:

The City's governmental activities increased net assets by \$18.3 million, which was up 31.2% from last year. Key elements of this change were as follows:

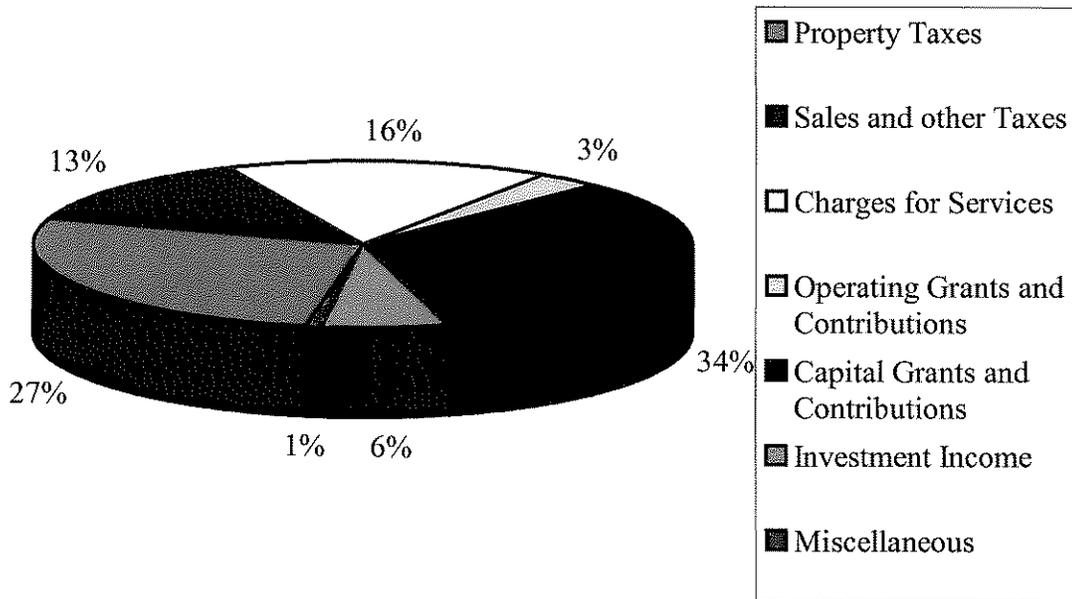
Revenue highlights:

- Property Tax revenues increased by \$3.0 million or 33.0% in fiscal year 2004-2005 due to higher assessed property values and new construction primarily in the redevelopment merged project area.
- Sales and Other Tax revenues increased by \$1.2 million or approximately 25.9% compared to fiscal year 2004-2005. These increases were also the result of the significant development and growth of the community.
- Investment income, which is a combination of interest earnings and change in fair market value of investments, increased by \$2.8 million. Interest earnings were better than in the prior fiscal year, because of the diversification of the portfolio and slightly larger cash balances being available throughout the year for investments.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

**Governmental Activities
Revenues by Source
June 30, 2005**



Expense highlights

Total expenses for governmental activities were \$24.0 million (not including interest on long-term debt of roughly \$2.5 million), which was up \$7.9 million from last year. Program revenues offset total expenditures as follows:

- Those who directly benefited from programs contributed \$7.1 million in charges for services.
- The City was able to fund some of its programs through operating grants and contributions from outside sources or other governments for a total amount of \$1.3 million.

Capital grants and contributions amounted to \$15.1 million. The City received a grant to assist in the building of the new library in the amount of \$6.1 million, of which \$0.8 million was spent in 2004-2005 fiscal year. A reason for the increase of \$15.9 million in capital grants and contributions was due to reporting purposes as prescribed by the Governmental Accounting Standards Board Statement No. 33 (GASB 33) and amended by Statement No. 36 accounting and financial reporting for non-exchange transactions which requires contributed capital to be reported. Public Works had \$12.2 million which included contributed capital of pipelines, culverts, alleys, pavement, curbs, gutter and grading.

CITY OF HERCULES

Management's Discussion and Analysis

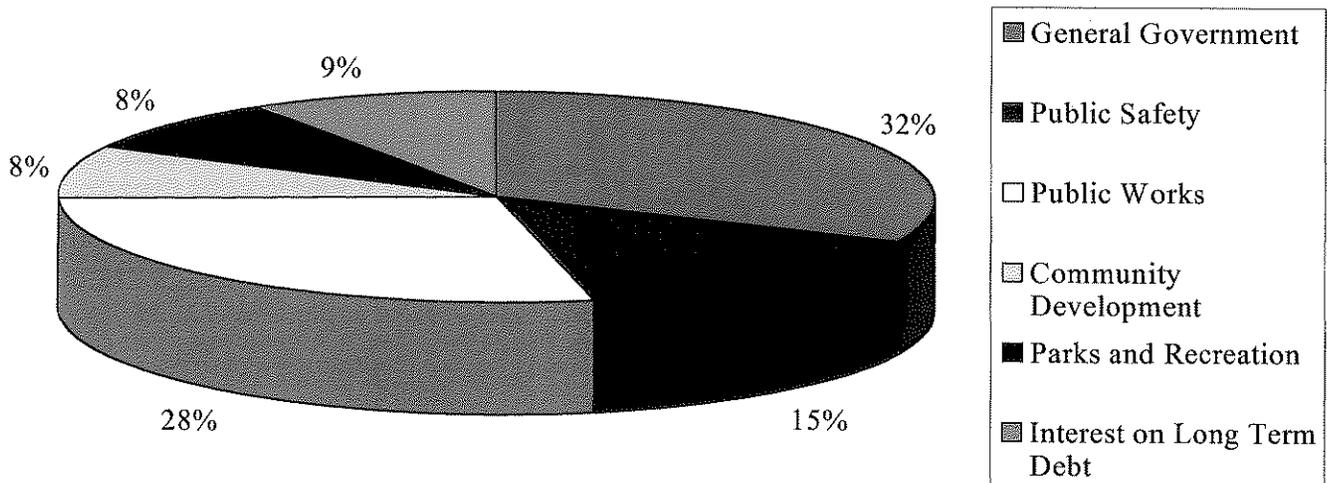
Fiscal Year Ended June 30, 2005

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 were funded in the amount of \$21.2 million.

**Governmental Activities
Expenses by Function/Program
June 30, 2005**



Functional expenses for the years ended June 30, 2005 and 2004 were as follows (amount in millions):

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2005	2004	2004-2005	2005	2004	2004-2005
General Government	\$ 8.4	\$ 6.2	35.4 %	\$ 3.8	\$ 5.8	(33.9)%
Public Safety	3.9	3.6	8.2 %	3.6	3.2	12.7 %
Public Works	7.5	3.2	132.9 %	(5.0)	2.7	(284.8)%
Community Development	2.1	1.3	64.4 %	(2.8)	(5.0)	(44.5)%
Parks and Recreation	2.2	1.7	26.8 %	0.8	0.7	21.3 %
Int. on Long-Term Debt	2.4	1.5	63.2 %	2.4	1.5	63.2 %
Total	\$ 26.5	\$ 17.5	51.3 %	\$ 3.0	\$ 8.9	(66.6)%

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

The most significant changes in programmatic net cost of services were seen in General Government, Public Works, Community Development and Interest on Long-Term Debt. The Community Development net cost was 44.5% more and revenues were \$1.4 million less than prior fiscal year due to a decrease in building permit activity. The Public Works net cost dropped \$7.7 million due to contributed capital per GASB 33 reporting requirements. The net cost for General Government went down \$2.2 million due to contributed capital per GASB 33 to the City and an increase in property tax, sales tax, investment earnings and miscellaneous revenues. Interest on Long-Term Debt increased as a result of two interest payments made as opposed to one interest payment in prior year on the 2003B Lease Revenue Bonds. There was also an interest increase on participation agreements repayment loan schedule.

Business Type Activities

The City's business-type activities increased total net assets by \$2.4 million. Key elements of this increase were as follows:

Revenue Highlights:

- Total revenues in business-type activities increased \$1.2 million. This increase was mainly due to a \$.3 million increase in sewer fees collected, and a \$.9 million increase in the electric utility fees collected. The change for the electric utility resulted from growth experienced in its second year of operation.

Expense Highlights:

- Total expenses for the sewer fund were down by \$.9 million from the prior year.
- The expenses for the electric utility were up by \$.5 million from the prior year again because of the customer base increasing, and therefore operating costs increased proportionately.

Balance Sheet Highlights:

- The \$2.4 million increase in total net assets primarily comes from operating income in the two enterprises. The sewer fund had operating income of \$.9 million, and the electric utility had an operating income loss of \$.7 million.
- The electric utility had an increase of \$.8 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

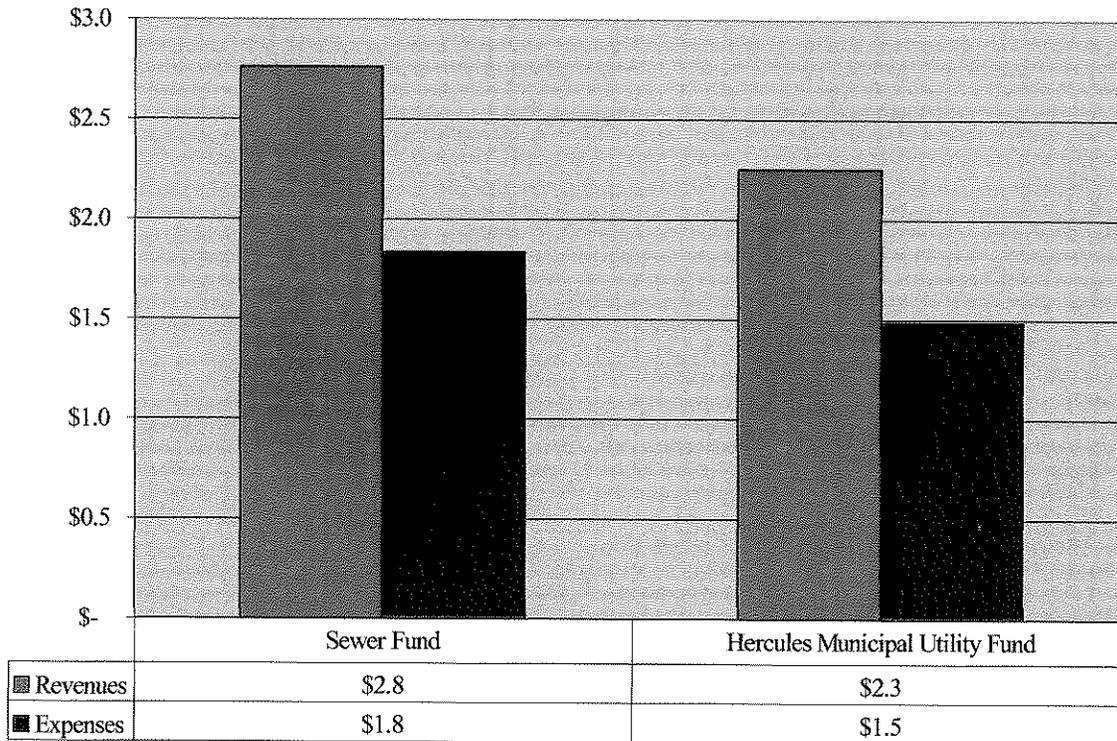
Management's Discussion and Analysis

Fiscal Year Ended June 30, 2005

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business Type Activities, Continued

**Business Type Activities
Revenues and Expenses
June 30, 2005**



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 2004-2005, the City's governmental funds reported combined ending fund balances of \$47 million, a decrease of \$.4 million in comparison with the prior year. Of this amount, \$42.7 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 negative \$8.1 million of which \$2.3 million from non-major governmental funds are available for spending at the government's discretion.

D. FUND FINANCIAL STATEMENT ANALYSIS, Continued

Governmental Funds, Continued

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$12.1 million, while total fund balance was \$26.7 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, 2005, unreserved fund balance was 109% of total General Fund expenditures and transfers out, while total fund balance was 239% of total expenditures and transfers out.

The fund balance of the City's General Fund increased by \$2.2 million in fiscal year 2005, as compared to a decrease of \$.2 million in fiscal year 2004. This increase is due to \$1.9 million more in resources coming into the fund from 2003-2004 to 2004-2005 and a decrease of \$.02 million in outflows. Primary reasons for the inflows increasing was a \$1.7 million value increase in the value of the investment portfolio which is a non-cash transaction that posts against interest actually earned and a \$.5 million increase in taxes. In addition a decrease of \$.3 million was experienced in charges for services which include police services, engineering services and recreation services. Total actual costs were maintained within budgeted amounts; however expenditures were \$1.4 million less than current revenues thus increasing total fund balance by \$2.2 million. Revenues for the year came in higher than projected at plus \$1.5 million and expenditures came in at \$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.

For the fiscal year 2004-2005, carryover appropriations totaled \$0.00.

With these adjustments, actual expenditures (outflows) for the fiscal year were \$1.1 million under the amended budget. Most of the unspent funds will be reappropriated in the carryover process for fiscal year 2005-2006.

Resources (inflows) available for appropriations were \$1.5 million above budgeted amounts primarily due to higher than anticipated taxes, use of money and intergovernmental fees.

CITY OF HERCULES**Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005****F. 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, 2005, net capital assets of the governmental activities totaled \$82.0 million and the net capital assets of the business-type activities totaled \$14.0 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, 2005.

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$ 4.1	\$ 1.6	\$ 0.2	\$ 0.1	\$ 4.3	\$ 1.7
Land Improvement	3.8	1.0	-	-	3.8	1.0
Buildings and Improvements	12.7	12.7	9.4	10.6	22.1	23.3
Machinery and Equipment	2.2	1.7	0.0	0.6	2.2	2.3
Construction in Progress	0.2	0.2	0.2	0.2	0.3	0.4
Infrastructure:	59.0	49.8	3.1	-	62.1	49.8
Organizational Costs	-	-	1.0	1.0	1.0	1.0
Total Capital Assets	\$ 82.0	\$ 67.0	\$ 14.0	\$ 12.5	\$ 96.0	\$ 79.5
Accumulated Depreciation	(33.4)	(31.2)	(8.2)	(7.8)	(41.6)	(39.0)
Net Total Capital Assets	\$ 48.6	\$ 35.8	\$ 5.8	\$ 4.7	\$ 54.4	\$ 40.5

Governmental Activities:

The increase in infrastructure of \$9.2 million is the result of reporting requirements for contributed capital under GASB 33 as the City accepted infrastructure (streets, sidewalks, etc.) from new subdivisions.

The increase in land of \$2.5 million is a result of 4.12 acres of contributed land.

Business-type Activities:

The addition of \$3.1 million in infrastructure is the result of accepting contributed capital for projects and the reclassification of assets from prior years for the Hercules Municipal Public Utility.

CITY OF HERCULES

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005

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

As of June 30, 2005, 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 2005 and 2004 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue Bonds	\$ 16.0	\$ 16.0	\$ -	\$ -	\$ 16.0	\$ 16.0
Tax Allocation Bonds	6.3	10.0	-	-	6.3	10.0
Long-term Notes Payable	0.6	0.6	-	-	0.6	0.6
Total Long-Term Obligations	\$ 22.9	\$ 26.6	\$ -	\$ -	\$ 22.9	\$ 26.6

During the 2004-2005 fiscal year the City's Redevelopment Agency paid off the 1994 Tax Allocation Bonds of approximately \$3.8 million, which is the primary reason for the reduction in total debt outstanding. The remainder of the reduction is attributable to normal principal payments.

There is no direct outstanding debt for business-type activities in the City.

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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Hercules
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	\$ 30,962,228	\$ 4,641,256	\$ 35,603,484
Cash and investments with fiscal agents (Note 2)	14,168,145	-	14,168,145
Receivables:			
Accounts	623,198	1,129,189	1,752,387
Grants	2,012	-	2,012
Interest	170,945	-	170,945
Other	-	1,880	1,880
Due from other funds	102,181	-	102,181
Advances to other funds	3,370,166	(3,370,166)	-
Prepaid items	69,763	10,455	80,218
Land held for resale	3,862,040	-	3,862,040
Total current assets	<u>53,330,678</u>	<u>2,412,614</u>	<u>55,743,292</u>
Noncurrent assets:			
Loans receivables	2,690,263	-	2,690,263
Deferred charges	715,867	-	715,867
Capital assets (Note 5):			
Land and nondepreciable assets	4,304,761	338,073	4,642,834
Depreciable assets, net	44,313,359	5,442,057	49,755,416
Total capital assets	<u>48,618,120</u>	<u>5,780,130</u>	<u>54,398,250</u>
Total noncurrent assets	<u>52,024,250</u>	<u>5,780,130</u>	<u>57,804,380</u>
Total assets	<u>105,354,928</u>	<u>8,192,744</u>	<u>113,547,672</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,960,112	578,646	3,538,758
Interest payable	172,729	-	172,729
Accrued payroll liabilities	212,841	-	212,841
Due to other funds	-	102,181	102,181
Deferred revenues	9,516	-	9,516
Claims and judgments payable (Note 8)	9,653	-	9,653
Refundable deposits	1,687,079	-	1,687,079
Due to other governments	139,919	-	139,919
Long-term debt - due within one year (Note 7)	437,619	-	437,619
Total current liabilities	<u>5,629,468</u>	<u>680,827</u>	<u>6,310,295</u>
Noncurrent liabilities:			
Compensated absences payable (Note 6)	263,750	9,011	272,761
Long-term debt - due in more than one year (Note 7)	22,449,716	-	22,449,716
Total noncurrent liabilities	<u>22,713,466</u>	<u>9,011</u>	<u>22,722,477</u>
Total liabilities	<u>28,342,934</u>	<u>689,838</u>	<u>29,032,772</u>
NET ASSETS			
Invested in capital assets, net of related debt	25,730,785	5,780,130	31,510,915
Restricted for:			
Capital projects	6,615,755	236,382	6,852,137
Debt service	14,500,973	-	14,500,973
Specific projects and programs	16,575,105	-	16,575,105
Total restricted assets	<u>37,691,833</u>	<u>236,382</u>	<u>37,928,215</u>
Unrestricted net assets	13,589,376	1,486,394	15,075,770
Total net assets	<u>\$ 77,011,994</u>	<u>\$ 7,502,906</u>	<u>\$ 84,514,900</u>

See accompanying Notes to Basic Financial Statements.

City of Hercules
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2005

Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 8,392,094	\$ 559,464	\$ 1,203,031	\$ 2,795,624	\$ 4,558,119
Public safety	3,896,586	97,109	94,057	100,000	291,166
Public works	7,452,497	225,526	-	12,215,342	12,440,868
Community development	2,137,838	4,903,531	10,000	-	4,913,531
Parks and recreation	2,155,818	1,306,630	-	-	1,306,630
Interest on long-term debt (Unallocated)	2,447,440	-	-	-	-
Total governmental activities	26,482,273	7,092,260	1,307,088	15,110,966	23,510,314
Business-type activities:					
Sewer Fund	1,836,017	2,762,068	-	-	2,762,068
Hercules Municipal Utility Fund	1,486,102	1,414,808	-	837,503	2,252,311
Total business-type activities	3,322,119	4,176,876	-	837,503	5,014,379
Total primary government	\$ 29,804,392	\$ 11,269,136	\$ 1,307,088	\$ 15,948,469	\$ 28,524,693

General revenues and transfers:

Taxes:

Property taxes
Sales and other taxes
Total taxes

Investment earnings

Miscellaneous

Loss on sale of assets

Transfers (Note 9)

Total general revenues, contributions and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (3,833,975)	\$ -	\$ (3,833,975)
(3,605,420)	-	(3,605,420)
4,988,371	-	4,988,371
2,775,693	-	2,775,693
(849,188)	-	(849,188)
(2,447,440)	-	(2,447,440)
(2,971,959)	-	(2,971,959)
-	926,051	926,051
-	766,209	766,209
-	1,692,260	1,692,260
(2,971,959)	1,692,260	(1,279,699)
12,144,444	-	12,144,444
6,019,885	-	6,019,885
18,164,329	-	18,164,329
2,638,083	-	2,638,083
1,889,115	-	1,889,115
(717,199)	-	(717,199)
(737,926)	737,926	-
21,236,402	737,926	21,974,328
18,264,443	2,430,186	20,694,629
58,747,551	5,072,720	63,820,271
\$ 77,011,994	\$ 7,502,906	\$ 84,514,900

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

The *General 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.

The *Redevelopment Agency Fund* accounts for Redevelopment Area tax increment monies to be expended for low and moderate income housing purposes. It also accounts for the Redevelopment Agency debt payment from tax revenue increments and for major capital projects undertaken by the Agency.

The *Hercules Public Finance 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 refinancing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building.

City of Hercules
Balance Sheet
Governmental Funds
June 30, 2005

	Major Funds				Total Governmental Funds
	General Fund	Redevelopment Agency	Hercules Public Finance Authority Debt Service	Non-Major Governmental Funds	
ASSETS					
Cash and investments	\$ 15,059,655	\$ 2,450,460	\$ -	\$ 12,251,243	\$ 29,761,358
Cash and investments with fiscal agents	-	4,700,567	9,467,578	-	14,168,145
Receivables:					
Accounts	337,264	49,672	-	236,262	623,198
Grants	2,012	-	-	-	2,012
Interest	79,164	28,792	62,989	-	170,945
Due from other funds	361,860	-	-	-	361,860
Advances to other funds (Note 9)	14,165,838	-	363,519	537,379	15,066,736
Prepaid items	65,563	-	-	4,200	69,763
Loans receivable	100,000	2,590,263	-	-	2,690,263
Land held for resale	-	3,862,040	-	-	3,862,040
Total assets	\$ 30,171,356	\$ 13,681,794	\$ 9,894,086	\$ 13,029,084	\$ 66,776,320
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 514,366	\$ 2,190,388	\$ 18,089	\$ 215,037	\$ 2,937,880
Accrued payroll liabilities	212,841	-	-	-	212,841
Compensated absences	261,247	-	-	-	261,247
Deferred revenues	9,515	2,584,717	-	-	2,594,232
Claims and judgments payable	9,653	-	-	-	9,653
Refundable deposits	1,687,079	-	-	-	1,687,079
Due to other funds	-	-	75,322	184,357	259,679
Due to other governments	68,600	-	-	71,319	139,919
Advances from other funds (Note 9)	669,608	10,433,257	-	593,705	11,696,570
Total liabilities	3,432,909	15,208,362	93,411	1,064,418	19,799,100
Fund Balances:					
Reserved:					
Advances to other funds	14,165,838	-	-	-	14,165,838
Prepays and petty cash	67,822	-	-	-	67,822
Future commitments	314,656	67,884	-	9,038,249	9,420,789
Low and moderate income housing	-	235,951	-	-	235,951
Land held for resale	-	3,862,040	-	-	3,862,040
Debt service	-	4,700,567	9,800,675	477,220	14,978,462
Total reserved	14,548,316	8,866,442	9,800,675	9,515,469	42,730,902
Unreserved, designated:					
Unrealized investment gain	5,030,383	-	-	-	5,030,383
Future projects	7,159,748	29,986	-	166,530	7,356,264
Total unreserved, designated	12,190,131	29,986	-	166,530	12,386,647
Unreserved, undesignated, reported in					
Redevelopment agency fund	-	(10,422,996)	-	-	(10,422,996)
Special revenue funds	-	-	-	2,282,936	2,282,936
Debt service funds	-	-	-	(269)	(269)
Total unreserved, undesignated	-	(10,422,996)	-	2,282,667	(8,140,329)
Total fund balances	26,738,447	(1,526,568)	9,800,675	11,964,666	46,977,220
Total liabilities and fund balances	\$ 30,171,356	\$ 13,681,794	\$ 9,894,086	\$ 13,029,084	\$ 66,776,320

See accompanying Notes to Basic Financial Statements.

City of Hercules
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2005

Total Fund Balances - Total Governmental Funds \$ 46,977,220

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in governmental funds are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

	Government- Wide Statement of Net Assets	Internal Service Funds	
Non-depreciable	\$ 4,304,761	\$ -	4,304,761
Depreciable, net	43,702,885	610,474	44,313,359
Total capital assets	\$ 48,007,646	\$ -	48,618,120

Revenues which are deferred on the Funds Balance Sheet because they are not available currently are reported as revenues in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Statement of Net Assets. 2,584,716

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (172,729)

Issuance Costs related to long term liabilities are expenditures in the governmental fund financial statements. However these costs are capitalized and amortized over the life of the bonds in government wide Financial Statements, and reported net of accumulated depreciation as deferred charges.

Total issuance cost	931,633
Accumulated amortization	(215,766)
Deferred charges, net	715,867

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Government-Wide Statement of Net Assets. 1,176,135

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities - due within one year	(437,619)
Long-term liabilities - due in more than one year	(22,449,716)
Total long-term liabilities	(22,887,335)

Net Assets of Governmental Activities **\$ 77,011,994**

See accompanying Notes to Basic Financial Statements.

City of Hercules

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2005

	Major Funds				Total Governmental Funds
	General Fund	Redevelopment Agency	Hercules Public Finance Authority Debt Service	Non-Major Governmental Funds	
REVENUES:					
Taxes	\$ 4,549,517	\$ 9,449,357	\$ -	\$ 2,303,747	\$ 16,302,621
Intergovernmental	1,950,564	-	-	1,313,040	3,263,604
Licenses and permits	1,085,735	-	-	-	1,085,735
Fines and forfeitures	57,368	-	-	-	57,368
Use of money and property	1,860,273	280,810	220,748	323,144	2,684,975
Charges for services	1,898,126	17,330	-	3,491,223	5,406,679
Lease income	-	-	532,096	-	532,096
Other revenues	1,143,705	400,058	-	106,296	1,650,059
Total revenues	12,545,288	10,147,555	752,844	7,537,450	30,983,137
EXPENDITURES:					
Current:					
General government	3,266,213	4,585,329	-	324,299	8,175,841
Public safety	3,809,073	-	-	-	3,809,073
Public works	133,617	-	-	1,419,680	1,553,297
Community development	1,155,166	-	-	-	1,155,166
Parks and recreation	1,943,863	-	-	-	1,943,863
Capital outlay	338,834	3,158,802	-	1,971,227	5,468,863
Lease expense	532,096	-	-	-	532,096
Debt service:					
Principal retirement	-	4,117,411	170,000	-	4,287,411
Interest and fiscal charges	-	1,652,107	603,862	-	2,255,969
Total expenditures	11,178,862	13,513,649	773,862	3,715,206	29,181,579
REVENUE OVER (UNDER) EXPENDITURES	1,366,426	(3,366,094)	(21,018)	3,822,244	1,801,558
OTHER FINANCING SOURCES (USES):					
Transfers in (Note 9)	863,589	-	-	3,553,959	4,417,548
Transfers out (Note 9)	-	-	(1,057,847)	(5,590,637)	(6,648,484)
Total other financing sources (uses)	863,589	-	(1,057,847)	(2,036,678)	(2,230,936)
Net change in fund balances	2,230,015	(3,366,094)	(1,078,865)	1,785,566	(429,378)
FUND BALANCES:					
Beginning of year	24,508,432	1,839,526	10,879,540	10,179,100	47,406,598
End of year	\$ 26,738,447	\$ (1,526,568)	\$ 9,800,675	\$ 11,964,666	\$ 46,977,220

See accompanying Notes to Basic Financial Statements.

City of Hercules

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (429,378)

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

	Wide Statement of Net Assets	Internal Service Funds	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital asset additions recorded in the current period.	\$ 15,277,690	\$ 30,000	15,307,690

	Government- Wide Statement of Net Assets	Internal Service Funds	
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	\$ (1,998,649)	\$ (175,668)	(2,174,317)

Loss on the disposal of capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, loss on the disposal of capital assets was not reported as expenditure in Governmental Funds. (717,199)

Revenues that do not meet the revenue recognition criteria in the Fund Financial Statements are recorded as deferred revenue on the fund balance sheets but recognized as revenue in the Government-Wide Financial Statements. These amounts present current year deferred revenue recognized. 739,834

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. 4,287,411

Issuance Costs are expenditures in Governmental Fund Financial Statements. However, these costs are capitalized and amortized over the life of the bonds in Government Wide Financial Statements.

Amortization expense (215,766)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. The following amount represents the change in accrued interest from prior year and interest expense from current year. 24,295

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the Internal Service Funds is reported with Governmental Activities. 1,441,873

Change in Net Assets of Governmental Activities \$ 18,264,443

See accompanying Notes to Basic Financial Statements.

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PROPRIETARY FUND FINANCIAL STATEMENTS

The *Sewer Fund* accounts for waste water 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.

The *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.

City of Hercules
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Major Enterprise Fund		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Hercules Municipal Utility		
ASSETS				
Current assets:				
Cash and investments	\$ 4,641,256	\$ -	\$ 4,641,256	\$ 1,200,870
Accounts receivable	-	1,129,189	1,129,189	-
Other receivable	-	1,880	1,880	-
Inventory	-	10,455	10,455	-
Total current assets	4,641,256	1,141,524	5,782,780	1,200,870
Noncurrent assets:				
Capital assets:				
Land & nondepreciable assets	150,000	188,073	338,073	-
Depreciable assets, net	1,853,682	3,588,375	5,442,057	610,474
Total noncurrent assets	2,003,682	3,776,448	5,780,130	610,474
Total assets	6,644,938	4,917,972	11,562,910	1,811,344
LIABILITIES				
Accounts payable	199,914	378,732	578,646	22,232
Due to other funds	-	102,181	102,181	-
Compensated absences	-	9,011	9,011	2,503
Advances from other funds	808,373	2,561,793	3,370,166	-
Total liabilities	1,008,287	3,051,717	4,060,004	24,735
NET ASSETS				
Invested in capital assets, net of related debt	2,003,682	3,776,448	5,780,130	610,474
Restricted for capital projects	236,382	-	236,382	-
Unrestricted	3,396,587	(1,910,193)	1,486,394	1,176,135
Total net assets	\$ 5,636,651	\$ 1,866,255	\$ 7,502,906	\$ 1,786,609

See accompanying Notes to Basic Financial Statements.

City of Hercules
Statement of Revenues, Expenses and Change in Net Assets
Proprietary Funds
For the year ended June 30, 2005

	Major Enterprise Fund		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Hercules Municipal Utility		
OPERATING REVENUES:				
Use of money and property	\$ 130,378	\$ -	\$ 130,378	\$ -
Charges for services	2,616,690	1,412,508	4,029,198	-
Other	15,000	2,300	17,300	101,825
Total operating revenues	2,762,068	1,414,808	4,176,876	101,825
OPERATING EXPENSES:				
Administration	57,735	1,208,843	1,266,578	152,962
Depreciation	135,483	277,259	412,742	175,668
Contractual services	1,642,799	-	1,642,799	-
Total operating expenses	1,836,017	1,486,102	3,322,119	328,630
OPERATING INCOME (LOSS)	926,051	(71,294)	854,757	(226,805)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,057,847	1,057,847	1,493,010
Transfers out	-	(319,921)	(319,921)	-
Contributed capital	-	837,503	837,503	30,000
Total other financing sources (uses)	-	1,575,429	1,575,429	1,523,010
Change in net assets	926,051	1,504,135	2,430,186	1,296,205
NET ASSETS:				
Beginning of Year	4,710,600	362,120	5,072,720	490,404
End of Year	\$ 5,636,651	\$ 1,866,255	\$ 7,502,906	\$ 1,786,609

See accompanying Notes to Basic Financial Statements.

City of Hercules
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2005

	Major Enterprise Fund		Total Enterprise Funds	Governmental
	Sewer	Hercules Municipal Utility		Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,747,068	\$ 455,013	\$ 3,202,081	\$ 101,825
Cash payments to suppliers of goods and services	(1,683,868)	(120,948)	(1,804,816)	22,233
Cash payment to employees for services	(58,584)	(1,219,396)	(1,277,980)	(150,459)
Other	15,000	251,132	266,132	-
Net cash provided (used) by operating activities	1,019,616	(634,199)	385,417	(26,401)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Advances from other funds	-	128,382	128,382	1,493,010
Transfers in	-	1,057,847	1,057,847	-
Transfer out	-	(319,921)	(319,921)	-
Net cash provided (used) by noncapital financing activities	-	866,308	866,308	1,493,010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Change in capital assets, net	(330,581)	(1,100,564)	(1,431,145)	(478,281)
Net cash provided (used) by capital and related financing activities	(330,581)	(1,100,564)	(1,431,145)	(478,281)
Net increase (decrease) in cash and cash equivalents	689,035	(868,455)	(179,420)	988,328
CASH AND INVESTMENTS:				
Beginning of year	3,952,221	30,952	3,983,173	182,542
End of year	\$ 4,641,256	\$ (837,503)	\$ 3,803,753	\$ 1,170,870
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 926,051	\$ (71,294)	\$ 854,757	\$ (226,805)
Provided (used) by operating activities:				
Depreciation	135,483	277,259	412,742	175,668
Changes in operating assets and liabilities:				
Accounts receivable	-	(957,495)	(957,495)	-
Other receivable	-	146,651	146,651	-
Inventory	-	(7,656)	(7,656)	-
Accounts payable	(41,069)	(78,737)	(119,806)	22,233
Deposit payable	-	(34,555)	(34,555)	-
Due to other funds	-	102,181	102,181	-
Accrued payroll liabilities	(849)	(7,085)	(7,934)	-
Compensated absences	-	(3,468)	(3,468)	2,503
Net cash provided (used) by operating activities	\$ 1,019,616	\$ (634,199)	\$ 385,417	\$ (26,401)

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Pension Trust Funds are 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
Statement of Fiduciary Net Assets
Expendable Trust and Agency Funds
June 30, 2005

	Pension Trust Fund	Total Agency Funds
ASSETS		
Cash and investments	\$ 48,801	\$ 5,820,438
Cash and investments with fiscal agents	-	838,070
Accounts receivable	-	317,153
Prepaid expense	-	316
Notes receivable	-	277,737
Total assets	48,801	\$ 7,253,714
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	-	\$ 147,654
Due to bondholders	-	2,156,666
Compensated absences	-	10,685
Due to other governments	-	4,938,709
Total liabilities	-	\$ 7,253,714
Net Assets:		
Unrestricted	48,801	
Total net assets	\$ 48,801	

City of Hercules
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Pension Trust Fund
For the year ended June 30, 2005

	Pension Trust Fund
	<u> </u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 1,427
Total additions	<u>1,427</u>
DEDUCTIONS:	
Administration	1,024
Total deductions	<u>1,024</u>
Change in net assets	403
NET ASSETS:	
Beginning of Year	<u>48,398</u>
End of Year	<u>\$ 48,801</u>

See accompanying Notes to Basic Financial Statements.

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City of Hercules
Notes to Basic Financial Statements
For the year ended June 30, 2005

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. 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, the Authority, and HMU 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.

City of Hercules

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Government-Wide Financial Statements

The Government-Wide Financial Statements include a Statement of net Assets and a Statement of Activities and Changes in Net Assets. 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 pronouncement: 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.

City of Hercules

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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.

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 presents 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.

Reconciliation of the Fund Financial Statement to the Government-Wide Financial Statements is 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 major proprietary fund and nonmajor funds aggregated. In addition, the City has presented the Hercules Municipal Utility Fund as a major fund because the City believes the financial position and activities of the fund are significant to the City as a whole. 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.

All proprietary fund types are accounted for on a flow of “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. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government entities that Use Proprietary Fund Accounting, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinion and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

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. Agency funds generally are used to account for assets that the government holds on behalf of others.

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
 - Overall
 - Custodial Credit Risk
 - 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, Continued

For the year ended June 30, 2005

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, 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 improvement	15 - 50 years
Land and improvement	20 years
Machinery and equipment	5 - 20 years
Infrastructure	15 - 50 years
Organizational costs	5 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, Continued
For the year ended June 30, 2005

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. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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 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 financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance 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 comprise 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 statement and the fund financial statement.

City of Hercules

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

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.

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

Reserved for Prepaids 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.

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

Designated for Unrealized Investment Gain represents funds reserved to cover unrealized investment gains resulting from changes in market values of specific investments. For the General Fund, this includes long-term investments not accounted for in any other fund.

Designated for Future Projects represents funds designated for the completion of future projects.

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.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

The Agency is required to set aside a portion of the tax increment received to increase and improve the community's supply of low and moderate income housing. The amount set aside each year is required to equal 20% of the tax increment receipts from the redevelopment project areas, which amounted to \$1,700,657 in the fiscal year ended June 30, 2005.

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 Pronouncements

In 2005, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB Statement No. 3)* - The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Statement requires certain disclosures of investments to address the different risk factors.
- Statement No. 44, *Economic Condition Reporting: The Statistical Section (Amendment of NCGA Statement 1)* - The Statement establishes the objectives of the statistical section and the five categories of information it contains; financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

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.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive, but did not, collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2005, the carrying amount of the City's deposits was \$327,702 and the bank balances were \$1,258,461. The total bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

B. Investments

The investments made by the City Treasurer are limited to those allowable under state statutes as incorporated into the City's Investment Policy which is more conservative than that allowed by state statute.

Under provisions of this policy, the City is authorized to invest in the following types of investments:

Certificates of Deposit	Government Agency Securities
Bankers Acceptances	Treasury Bills and Notes
Commercial Papers	Passbook Savings Accounts
Repurchase Agreements	Mutual Funds
Medium-Term Corporate Notes	State of California Local Agency Investment Fund

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

The City's investments with the Local Agency Investment Fund (LAIF), a State of California external investment pool, at June 30, 2005, included a small portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

Structured Notes - debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-backed Securities - generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2005, the City had \$14,046,362 invested in LAIF, which had invested 2.406% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.997747553 was used to calculate the fair value of the investments in LAIF. The fair value factor was applied to the selected funds by the City. All other investments of the City were recorded in the General Fund.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2005:

	Government-Wide Statement of Net Assets			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	
				Total	Total
Cash and investments	\$ 30,962,228	\$ 4,641,256	\$ 35,603,484	\$ 5,869,239	\$ 41,472,723
Cash and investment with fiscal agents	14,168,145	-	14,168,145	838,070	15,006,215
Total cash and investments	\$ 45,130,373	\$ 4,641,256	\$ 49,771,629	\$ 6,707,309	\$ 56,478,938

Investments held in the City Treasury grouped by maturity date at June 30, 2005, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)					
		1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Securities of U.S. Government Agencies:							
FHLB	\$ 17,827,520	\$ 1,001,250	\$ 1,992,500	\$ 8,848,760	\$ 3,980,320	\$ 2,004,690	\$ -
FHLMC	3,396,700	-	-	976,960	1,000,060	-	1,419,680
FNMA	3,113,571	-	-	-	-	-	3,113,571
Total Securities of U.S. Government Agencies	24,337,791	1,001,250	1,992,500	9,825,720	4,980,380	2,004,690	4,533,251
Local Agency Investments Funds	14,046,362	14,046,362	-	-	-	-	-
Corporate Obligation	1,612,861	-	-	997,810	-	-	615,051
Certificate of Deposit	1,148,007	-	-	95,963	96,244	955,800	-
Deposits	327,702	327,702	-	-	-	-	-
Total	\$ 41,472,723	\$ 15,375,314	\$ 1,992,500	\$ 10,919,493	\$ 5,076,624	\$ 2,960,490	\$ 5,148,302

D. Risk Disclosures

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

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

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

Credit Risk: Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. According to the City's investment policy, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

At June 30, 2005, the City had the following deposits and investments:

	Credit Quality Ratings	
	Moody's	S&P
Investments:		
Securities of U.S. Government Agencies:		
FHLB	Aaa	AAA
FHLMC	Aaa	AAA
FNMA	Aaa	AAA
Local Agency Investments Funds		Not Rated
Corporate Obligation		Not Rated
Certificate of Deposit		Not Rated

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

3. LOANS AND NOTES RECEIVABLES

A. Fund Financial Statements

Loans Receivable

Loans receivable at June 30, 2005, consisted of the following:

Bridge Housing Corporation	\$ 1,634,716
Eden Housing	700,000
Radston's Office Plus	250,000
Home Emergency Loan	105,547
Total	<u><u>\$ 2,690,263</u></u>

1. Bridge Housing Corporation

The Agency loaned the Bridge Housing 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 \$115,000 for a grand total of \$1,515,000. On January 1, 1999, the loan began to bear interest at the rate of 3.5% per year and is repayable in 2041, subject to certain conditions. The construction of the housing development was completed in September 1999. At June 30, 2005, the Corporation's loan balance was \$1,399,600. In addition, interest of \$235,116 is recorded in the interest receivable of the City's balance sheet. Total loan balance was \$1,634,716.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

3. LOANS AND NOTES RECEIVABLES, Continued

A. Fund Financial Statements, Continued

2. 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 any 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, 2005 was \$700,000.

3. Radston's Office Plus

On December 5, 2000, the Agency entered 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 is deferred until December 5, 2010. Commencing on December 5, 2010, the Payors shall pay a lump-sum cash amount of \$125,000 which represent all deferred and unpaid interest only. The remaining \$250,000 bears interest at 5% and 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. At June 30, 2005, the outstanding balance of the loan was \$250,000.

4. Home Emergency Loan

The City loaned \$100,000 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 when the contract between the City and the City Manager is terminated. The balance outstanding as of June 30, 2005 is \$100,000.

On September 19, 2002, the Agency entered into a home emergency loan with Ghadah Azizi in the amount of \$7,040 with interest at 5% per annum. A monthly principal and interest repayment of \$74.67 is required starting from October 2002 to September 2012. The remaining principal amount of the loan including interest is to be due and payable in one lump sum if the above owner ceases 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, 2005 is \$5,547.

4. DEFERRED REVENUE

A. Government-Wide Financial Statements

Deferred revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2005, deferred revenues in the Government-Wide Financial Statements were \$9,516 for governmental capital grants.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

4. DEFERRED REVENUE, Continued

B. Fund Financial Statements

At June 30, 2005, the following deferred revenues were recorded in the 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	\$	1,634,716
Eden Housing		700,000
Radston's Office Plus		250,000
LLEBG Police Grants		9,516
Total	\$	2,594,232

5. CAPITAL ASSETS

Capital assets including infrastructure capital assets were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on capital assets.

A. Government-Wide Financial Statements

At June 30, 2005, the City's capital assets consisted of the following:

	Government Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 4,145,204	\$ 150,000	\$ 4,295,204
Construction in progress	159,557	188,073	347,630
Total nondepreciable assets	4,304,761	338,073	4,642,834
Depreciable Assets:			
Land improvement	3,768,190	-	3,768,190
Building and improvement	12,697,679	9,429,835	22,127,514
Machinery and equipment	2,191,747	49,564	2,241,311
Infrastructure	59,007,669	3,137,301	62,144,970
Organizational costs	-	1,036,609	1,036,609
Total depreciable assets	77,665,285	13,653,309	91,318,594
Less accumulated depreciation	(33,351,926)	(8,211,252)	(41,563,178)
Total depreciable assets, net	44,313,359	5,442,057	49,755,416
Total capital assets, net	\$ 48,618,120	\$ 5,780,130	\$ 54,398,250

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Nondepreciable Assets:				
Land	\$ 1,601,076	\$ 2,774,124	\$ (229,996)	\$ 4,145,204
Construction in progress	159,557	-	-	159,557
Total nondepreciable assets	<u>1,760,633</u>	<u>2,774,124</u>	<u>(229,996)</u>	<u>4,304,761</u>
Depreciable Assets:				
Land improvement	970,972	2,797,218	-	3,768,190
Building and improvement	12,705,466	15,096	(22,883)	12,697,679
Machinery and equipment	1,687,286	546,692	(42,231)	2,191,747
Infrastructure	49,843,899	9,633,219	(469,449)	59,007,669
Total depreciable assets	<u>65,207,623</u>	<u>12,992,225</u>	<u>(534,563)</u>	<u>77,665,285</u>
Accumulated Depreciation:				
Land improvement	(838,575)	(241,950)	-	(1,080,525)
Building and improvement	(3,579,207)	(267,198)	5,721	(3,840,684)
Machinery and equipment	(1,037,183)	(256,324)	24,118	(1,269,389)
Infrastructure	(25,759,625)	(1,408,845)	7,142	(27,161,328)
Total accumulated depreciation	<u>(31,214,590)</u>	<u>(2,174,317)</u>	<u>36,981</u>	<u>(33,351,926)</u>
Total depreciable assets, net	<u>33,993,033</u>	<u>10,817,908</u>	<u>(497,582)</u>	<u>44,313,359</u>
Total capital assets, net	<u>\$ 35,753,666</u>	<u>\$ 13,592,032</u>	<u>\$ (727,578)</u>	<u>\$ 48,618,120</u>

Depreciation expenses of the governmental activities for the year ended June 30, 2005 are as follows:

General government	\$ 148,303
Public safety	30,119
Public works	1,675,219
Community development	175,668
Parks and recreation	145,008
Total depreciation expense	<u>\$ 2,174,317</u>

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2004	Additions	Reclassification	Balance June 30, 2005
Nondepreciable assets:				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Construction in progress	188,073	-	-	188,073
Total nondepreciable assets	338,073	-	-	338,073
Depreciable assets:				
Buildings and improvement	10,605,895	330,580	(1,506,640)	9,429,835
Machinery and equipment	579,660	-	(530,096)	49,564
Infrastructure	-	1,100,565	2,036,736	3,137,301
Organizational costs	1,036,609	-	-	1,036,609
Total depreciable assets	12,222,164	1,431,145	-	13,653,309
Accumulated depreciation				
Buildings and improvement	(6,857,534)	(135,481)	(583,136)	(7,576,151)
Machinery and equipment	(672,011)	(725)	624,255	(48,481)
Infrastructure	-	(69,214)	(41,119)	(110,333)
Organizational costs	(268,965)	(207,322)	-	(476,287)
Total accumulated depreciation	(7,798,510)	(412,742)	-	(8,211,252)
Total depreciable assets, net	4,423,654	1,018,403	-	5,442,057
Total business-type activities	\$ 4,761,727	\$ 1,018,403	\$ -	\$ 5,780,130

Depreciation expenses of the business-type activities for the year ended June 30, 2005 are as follows:

Sewer	\$ 135,483
Hercules Municipal Utility	277,259
Total depreciation expense	\$ 412,742

B. Fund Financial Statements

The fund financial statements do not present General Government Capital Assets. Accordingly, capital assets are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

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 total balance of compensated absences at June 30, 2005 was \$272,761.

7. LONG-TERM OBLIGATIONS

Long-term obligation activities for the year ended June 30, 2005, was as follows:

	Balance			Balance June 30, 2005	Classification	
	July 1, 2004	Additions	Retirements		Due Within One Year	Due in More than One Year
1994 Tax Allocation Bonds	\$ 3,835,000	\$ -	\$ (3,835,000)	\$ -	\$ -	\$ -
2001 Tax Allocation Bonds	6,500,000	-	(215,000)	6,285,000	225,000	6,060,000
2003A PFA Revenue						
Lease Bonds	7,000,000	-	-	7,000,000	-	7,000,000
2003B PFA Revenue						
Lease Bonds	9,150,000	-	(170,000)	8,980,000	175,000	8,805,000
Long-term Notes Payable	689,746	-	(67,411)	622,335	37,619	584,716
Total	\$ 27,174,746	\$ -	\$ (4,287,411)	\$ 22,887,335	\$ 437,619	\$ 22,449,716

1994 Tax Allocation Bonds

On June 29, 1994, the Agency, in conjunction with the Association of Bay Area Governments California Redevelopment Agency Pool, issued \$3,550,000 of original principal amount 1994 Tax Allocation Bonds, Series A, with interest rates of 4.20% to 6.0% and \$1,080,000 of Series B, with interest rates of 4.00% to 7.50% for a total principal amount of \$4,630,000. The proceeds were used to advance refund the outstanding balance of the 1987 Tax Allocation Bonds and generate funds in the amount of \$864,186 for use for future projects.

Interest on the 1994 Bonds is payable semi-annually on June 15 and December 15. Bonds maturing on or after December 15, 2004 are subject to call on December 15, 2004 and on any interest payment date thereafter at par, plus a premium of one percent to two percent of the principal amount through June 15, 2006, at which point they may be redeemed at par. The bonds are special obligations of the Agency; the Series A Bonds are secured by the Agency's tax increment revenues and the Series B Bonds are secured by surplus revenues not required for payment of the Series A Bonds. The outstanding balance was paid off during the fiscal year.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

7. LONG-TERM OBLIGATIONS, Continued

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, 2004, in amounts ranging from \$215,000 to \$575,000. The bonds mature on September 1, 2022.

The annual debt service requirements to maturity at June 30, 2005, were as follows:

For the Years Ending June 30,	Principal	Interest	Total
2006	\$ 225,000	\$ 387,566	\$ 612,566
2007	235,000	376,879	611,879
2008	250,000	365,129	615,129
2009	260,000	352,004	612,004
2010	275,000	338,029	613,029
2011-2015	1,655,000	1,414,400	3,069,400
2016-2020	2,265,000	810,880	3,075,880
2021-2022	1,120,000	108,480	1,228,480
Total	\$ 6,285,000	\$ 4,153,367	\$ 10,438,367

2003A Public Financing Authority Lease Revenue Bonds

The Authority issued lease revenue bonds, series 2003A, dated June 4, 2003, totaling \$7,000,000. The purpose of the bonds was to provide funds to 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.

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

7. LONG-TERM OBLIGATIONS, Continued

2003A Public Financing Authority Lease Revenue Bonds, Continued

The annual debt service requirements to maturity at June 30, 2005, were as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ -	\$ 130,270	\$ 130,270
2007	115,000	130,270	245,270
2008	125,000	128,130	253,130
2009	130,000	125,804	255,804
2010	135,000	123,384	258,384
2011-2015	795,000	576,166	1,371,166
2016-2020	1,025,000	494,096	1,519,096
2021-2025	1,310,000	388,763	1,698,763
2026-2030	1,680,000	253,561	1,933,561
2031-2034	1,685,000	80,395	1,765,395
Total	\$ 7,000,000	\$ 2,430,839	\$ 9,430,839

2003B Public Financing Authority Lease Revenue Bonds

The 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 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, 2004, in amounts ranging from \$170,000 to \$2,480,000. The bonds mature on December 1, 2033.

The annual debt service requirements to maturity at June 30, 2005, were as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 175,000	\$ 394,398	\$ 569,398
2007	180,000	389,960	569,960
2008	185,000	385,860	570,860
2009	190,000	381,635	571,635
2010	195,000	376,579	571,579
2011-2015	1,065,000	1,779,649	2,844,649
2016-2020	1,285,000	1,540,665	2,825,665
2021-2025	1,625,000	1,199,641	2,824,641
2026-2030	2,050,000	765,500	2,815,500
2031-2034	2,030,000	209,472	2,239,472
Total	\$ 8,980,000	\$ 7,423,359	\$ 16,403,359

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

7. LONG-TERM OBLIGATIONS, Continued

Long-term Notes Payable

In 1987, the 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.

As of June 30, 2005, the City's long-term notes payables were as follows.

East Group	\$	234,106
Bio Rad Laboratories		388,229
Total	\$	622,335

The East Group Notes payable annual debt service requirements to maturity at June 30, 2005 were as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 14,103	\$ 18,015	\$ 32,118
2007	15,217	16,922	32,118
2008	16,470	15,743	32,139
2009	17,712	14,467	32,213
2010	19,092	13,094	32,179
2011-2015	119,969	40,583	160,552
2016	31,543	2,318	33,861
Total	\$ 234,106	\$ 121,142	\$ 355,180

The Bio Rad Laboratories Notes payable annual debt service requirements to maturity at June 30, 2005 were as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 23,516	\$ 30,039	\$ 53,555
2007	25,373	28,217	53,590
2008	27,463	26,251	53,714
2009	29,533	24,122	53,655
2010	31,834	21,833	53,667
2011-2015	200,042	68,120	268,162
2016	50,468	3,863	54,331
Total	\$ 388,229	\$ 202,445	\$ 590,674

City of Hercules
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2005

8. RISK MANAGEMENT

General Liability Insurance

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

Workers' Compensation

The City maintains no deductible but has coverage limits for the following:

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

As of June 30, 2005, the City's estimated claims liabilities were as follows.

General Liability	\$	4,699
Workers' Compensation		4,954
Total	\$	9,653

Changes in the claims liabilities for the fiscal years ended June 30, 2003, 2004, and 2005, were as follows:

General Liability	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2002-03	\$ 153,553	\$ 72,928	\$ (164,145)	\$ 62,336
2003-04	62,336	694,206	(347,104)	409,438
2004-05	409,438	(342,104)	(57,681)	9,653

Miscellaneous Coverages

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

Coverage Type	Deductibles	Coverage Limits
Auto - Physical damage:		
Police Vehicle	\$ 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, Continued
For the year ended June 30, 2005

9. INTERFUND TRANSACTIONS

Fund Financial Statements

A. Long-Term Advances

At June 30, 2005, the City had the following long-term advances:

		Advances from Other Funds					
		Governmental Activities			Business-Type Activities		
		Major Funds			Major Funds		
		General Fund	Redevelopment Agency	Non-Major Funds	Sewer	Hercules Municipal Utility	Total
Advances to Other Funds	Major Funds						
	General Fund	\$ -	\$ 10,201,967	\$ 593,705	\$ 808,373	\$ 2,561,793	\$ 14,165,838
	Hercules Public Finance Authority	363,519	-	-	-	-	363,519
	Non-Major Funds	306,089	231,290	-	-	-	537,379
	Total	\$ 669,608	\$ 10,433,257	\$ 593,705	\$ 808,373	\$ 2,561,793	\$ 15,066,736

B. Due To/From Other Funds

Due to/from other funds for the year ended June 30, 2005 were as follows:

		Due to			
		Governmental Activities		Business-Type Activities	
		Major Funds		Major Funds	
		Hercules Public Finance Authority	Non-Major Funds	Hercules Municipal Utility	Total
Due from	Governmental Activities:				
	Major Funds:				
	General Funds	\$ 75,322	\$ 184,357	\$ 102,181	\$ 361,860
Total	\$ 75,322	\$ 184,357	\$ 102,181	\$ 361,860	

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, Continued
For the year ended June 30, 2005

9. INTERFUND TRANSACTIONS, Continued

C. Transfers

Transfers for the year ended June 30, 2005 were as follows:

		Transfers In				
		Governmental Activities			Business-Type Activities	
		Major Funds			Major Funds	
		General Fund	Non-Major Funds	Internal Services Funds	Hercules Municipal Utility	Total
Transfers Out	Governmental Activities:					
	Major Funds:					
	Hercules Public Finance Authority	\$ -	\$ -	\$ -	\$ 1,057,847	\$ 1,057,847
	Non-Major Funds	735,206	3,553,959	1,301,472	-	5,590,637
	Sub-total	735,206	3,553,959	1,301,472	1,057,847	6,648,484
	Business-Type Activities:					
	Major Funds:					
	Hercules Municipal Utility	128,383	-	191,538	-	319,921
	Total	\$ 863,589	\$ 3,553,959	\$ 1,493,010	\$ 1,057,847	\$ 6,968,405

10. PUBLIC EMPLOYEE RETIREMENT SYSTEM

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS); an agent 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 \$370,653 for the year ended June 30, 2005. The City employer is required to contribute for fiscal year 2004-2005 at an actuarially determined rate of 8.25% of annual covered payroll for miscellaneous employees and 26.638% 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, Continued
For the year ended June 30, 2005

14. EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

Funds	Appropriations	Expenditures	Excess
Major fund:			
Redevelopment Agency Fund	\$ 10,176,570	\$ 13,513,649	\$ 3,337,079
Non-major funds:			
Community Development Special Revenue Fund	128,500	523,402	394,902
STMP Traffic Impact Special Revenue Fund	-	143,493	143,493
Fire Equipment Special Revenue Fund	-	13,678	13,678
DIF Special Revenue Fund	-	141,757	141,757

15. SUBSEQUENT EVENTS

Assessment District No. 2005-1 Limited Obligation Improvement Bonds

On July 12, 2005, the City issued Assessment District No. 2005-1 Limited Obligation Improvement Bonds in the amount of \$6,550,345. The proceeds of the bonds will be used to finance a portion of the costs of certain infrastructures and land improvements to Jon Muir Parkway of special benefit to property with the City's Assessment District No. 2005-1. The Bonds mature annually each September 2 from 2006 to 2035, in amounts ranging from \$75,345 to \$405,000 and bear interest at rates ranging from 3.00% to 5.20%. Interest is payable semiannually on March 2 and September 2. The Bonds are subject to optional redemption prior to maturity, as a whole or in part, in denominations of \$5,000 or any integral multiple thereof on any interest payment date, at a price equal to the principal amount, plus a redemption premium up to 3% and accrued interest on the redemption date. The bonds are payable from the unpaid special assessment levied on parcels within the district.

Hercules Merged Project Area Tax Allocation Bonds, Series 2005

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 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 fund.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Hercules
Required Supplementary Information
For the year ended June 30, 2005

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 two fiscal years. 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, and then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2005, 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 two fiscal years. The legal level of budgetary control has been established at the fund level.

City of Hercules
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY PRINCIPLES, Continued

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,925,300	\$ 3,925,300	\$ 4,549,517	\$ 624,217
Intergovernmental	1,375,437	1,375,437	1,950,564	575,127
Licenses and permits	1,078,260	1,078,260	1,085,735	7,475
Fines and forfeitures	30,000	30,000	57,368	27,368
Use of money and property	1,515,853	1,515,853	1,860,273	344,420
Charges for services	2,204,900	2,204,900	1,898,126	(306,774)
Other revenues	879,291	879,291	1,143,705	264,414
Total revenues	11,009,041	11,009,041	12,545,288	1,536,247
EXPENDITURES:				
Current:				
General government	3,385,846	4,254,802	3,266,213	988,589
Public safety	3,706,865	3,786,009	3,809,073	(23,064)
Public works	825,007	592,075	133,617	458,458
Community development	991,664	1,035,017	1,155,166	(120,149)
Parks and recreation	1,869,812	1,953,018	1,943,863	9,155
Capital outlay	279,350	279,350	338,834	(59,484)
Lease expense	568,710	568,710	532,096	36,614
Total expenditures	11,627,254	12,468,981	11,178,862	1,290,119
REVENUES OVER (UNDER) EXPENDITURES	(618,213)	(1,459,940)	1,366,426	2,826,366
OTHER FINANCING SOURCES (USES):				
Transfers in	618,213	668,213	863,589	195,376
Total other financing sources (uses)	618,213	668,213	863,589	195,376
Net change in fund balance	\$ -	\$ (791,727)	2,230,015	\$ 3,021,742
FUND BALANCE:				
Beginning of year, as restated			24,508,432	
End of year			\$ 26,738,447	

City of Hercules
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY PRINCIPLES, Continued

Budgetary Comparison Schedule, Redevelopment Agency Fund

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 4,900,950	\$ 4,900,950	\$ 9,449,357	\$ 4,548,407
Charges for services	-	-	17,330	17,330
Use of money and property	99,050	99,050	280,810	181,760
Other revenues	-	-	400,058	400,058
Total revenues	5,000,000	5,000,000	10,147,555	5,147,555
EXPENDITURES:				
Current:				
General government	3,598,100	5,049,070	4,585,329	463,741
Capital outlay	3,500,000	3,550,000	3,158,802	391,198
Debt service:				
Principal repayment	428,000	428,000	4,117,411	(3,689,411)
Interest and fiscal charges	1,149,500	1,149,500	1,652,107	(502,607)
Total expenditures	8,675,600	10,176,570	13,513,649	(3,337,079)
REVENUES OVER (UNDER) EXPENDITURES	(3,675,600)	(5,176,570)	(3,366,094)	1,810,476
OTHER FINANCING SOURCES (USES):				
Transfer in	-	200,000	-	(200,000)
Transfer out	-	(200,000)	-	200,000
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	\$ (3,675,600)	\$ (5,176,570)	(3,366,094)	\$ 1,810,476
FUND BALANCE:				
Beginning of year			1,839,526	
End of year			\$ (1,526,568)	

City of Hercules
Required Supplementary Information, Continued
For the year ended June 30, 2005

1. BUDGETARY PRINCIPLES, Continued

Budgetary Comparison Schedule, Hercules Public Finance Authority Debt Service Fund

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ 119,522	\$ 119,522	\$ 220,748	\$ 101,226
Lease revenue	823,710	823,710	532,096	(291,614)
Total revenues	943,232	943,232	752,844	(190,388)
EXPENDITURES:				
Debt service:				
Principal retirement	170,000	170,000	170,000	-
Interest and fiscal charges	818,000	818,000	603,862	214,138
Total expenditures	988,000	988,000	773,862	214,138
REVENUES OVER (UNDER) EXPENDITURES	(44,768)	(44,768)	(21,018)	23,750
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(1,057,847)	(1,057,847)
Total other financing sources (uses)	-	-	(1,057,847)	(1,057,847)
Net change in fund balance	\$ (44,768)	\$ (44,768)	(1,078,865)	\$ (1,034,097)
FUND BALANCE:				
Beginning of year			10,879,540	
End of year			<u>\$ 9,800,675</u>	

City of Hercules
Required Supplementary Information, Continued
For the year ended June 30, 2005

2. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) - SCHEDULE OF FUNDING PROGRESS

Miscellaneous Employees

	(A)	(B)	(C)	(D)	(E)	(F)
			Unfunded (Overfunded)			Unfunded (Overfunded)
		Entry Age	Actuarial	Funded		Actuarial
Actuarial	Actuarial	Actuarial	Accrued	Ratio	Covered	Liability as
Valuation	Asset	Accrued	Liability	(A/B)	Payroll	Percentage of
Date*	Value	Liability	(B-A)			Covered
						Payroll
						(C/E)
6/30/2002	\$ 4,331,903	\$ 4,247,531	\$ (84,372)	102.0%	\$ 2,991,445	(2.8)%
6/30/2003	4,788,950	5,542,411	753,461	86.4%	3,016,844	25.0%
CalPERS Risk Pool Information (See note below)						
6/30/2004	2,460,944,656	2,746,095,668	285,151,012	89.6%	743,691,970	38.3%

Safety Employees

	(A)	(B)	(C)	(D)	(E)	(F)
			Unfunded (Overfunded)			Unfunded (Overfunded)
		Entry Age	Actuarial	Funded		Actuarial
Actuarial	Actuarial	Actuarial	Accrued	Ratio	Covered	Liability as
Valuation	Asset	Accrued	Liability	(A/B)	Payroll	Percentage of
Date*	Value	Liability	(B-A)			Covered
						Payroll
						(C/E)
6/30/2002	\$ 3,647,996	\$ 5,306,420	\$ 1,658,424	68.7%	\$ 1,527,440	108.6%
6/30/2003	4,518,997	6,439,631	1,920,634	70.2%	1,338,071	143.5%
CalPERS Risk Pool Information (See note below)						
6/30/2004	1,026,500,742	1,252,474,736	225,973,994	82.0%	154,903,754	145.9%

*Latest information available.

As of the actuarial valuation date of June 30, 2004, the City's retirement plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. The schedule of funding progress presented above for fiscal year 2004 is for the whole pool and not that of the City individually. At the end of Fiscal Year 2003-2004 CalPERS changed the City's plan from a pool with benefits of 2% at 55 to a pool with benefits of 3% at 55 due to the City's enhanced benefit plan. As a result, the 2004 amounts have been restated to reflect this change.

SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

Development Services Fund - This fund represents funds approved by the City Council to be set aside as an investment for future community and economic development activities.

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.

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.

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.

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 subregional transportation projects.

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.

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.

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

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.

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 specially for the purchase of fire equipment and an additional fire station.

NON-MAJOR GOVERNMENTAL FUNDS, Continued

DIF Fund - This includes monies that account for 3 (three) developer impact fees (DIF), General Public Facilities, Police Facilities and Traffic Facilities.

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.

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

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

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.

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.

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

General Obligation Bond Fund - This fund accounts for assessment tax revenues and debt service expenditures for the 1988 General Obligation Bonds issued for various community facilities.

City of Hercules
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

	Special Revenue				
	Development Services Fund	AB 3229 COPS Program Fund	State Gas Tax Fund	Community Development Fund	Development Fee Fund
ASSETS					
Cash and investments	\$ 257,792	\$ 3,211	\$ 416,248	\$ 464,376	\$ 1,785,190
Prepaid expense	-	-	-	-	-
Receivables:					
Accounts	-	-	42,508	-	-
Advance to other funds	-	-	-	537,379	-
Total assets	\$ 257,792	\$ 3,211	\$ 458,756	\$ 1,001,755	\$ 1,785,190
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 2,637	\$ 830	\$ -
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Advances from other funds	-	-	453,705	-	-
Total liabilities	-	-	456,342	830	-
Fund Balances:					
Reserved:					
Future commitments	257,792	3,211	2,414	1,000,925	1,785,190
Debt service	-	-	-	-	-
Total reserved	257,792	3,211	2,414	1,000,925	1,785,190
Unreserved, designated:					
Unrealized investment gain	-	-	-	-	-
Future projects	-	-	-	-	-
Total unreserved, designated	-	-	-	-	-
Unreserved, undesignated					
Total fund balances	257,792	3,211	2,414	1,000,925	1,785,190
Total liabilities and fund balances	\$ 257,792	\$ 3,211	\$ 458,756	\$ 1,001,755	\$ 1,785,190

Special Revenue

STMP Traffic Impact Fund	Measure C Street Fund	State AB-939 Fund	Stormwater Assessment Fund	Developer Park Fees Fund	Fire Equipment Fund	DIF Fund	Regional Water Quality Fund
\$ 161,708	\$ 269,189	\$ 71,319	\$ 286,157	\$ 97,862	\$ 3,897	\$ 1,900,052	\$ 37,341
-	-	-	-	-	-	-	-
-	-	-	11,168	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 161,708</u>	<u>\$ 269,189</u>	<u>\$ 71,319</u>	<u>\$ 297,325</u>	<u>\$ 97,862</u>	<u>\$ 3,897</u>	<u>\$ 1,900,052</u>	<u>\$ 37,341</u>
\$ -	\$ -	\$ -	\$ 108	\$ -	\$ -	\$ 50,600	\$ -
-	-	-	-	-	-	-	-
-	-	71,319	-	-	-	-	-
-	140,000	-	-	-	-	-	-
-	140,000	71,319	108	-	-	50,600	-
-	-	-	297,217	97,862	3,897	1,849,452	-
-	-	-	-	-	-	-	-
-	-	-	297,217	97,862	3,897	1,849,452	-
-	-	-	-	-	-	-	-
-	129,189	-	-	-	-	-	37,341
-	129,189	-	-	-	-	-	37,341
161,708	-	-	-	-	-	-	-
161,708	129,189	-	297,217	97,862	3,897	1,849,452	37,341
<u>\$ 161,708</u>	<u>\$ 269,189</u>	<u>\$ 71,319</u>	<u>\$ 297,325</u>	<u>\$ 97,862</u>	<u>\$ 3,897</u>	<u>\$ 1,900,052</u>	<u>\$ 37,341</u>

LLAD Fund	Special Revenue			Capital Project	Debt Service	Total Non-Major Governmental Funds
	Citywide L&L Fund	Fiscal Neutrality Fee Fund	Grant Fund	City Capital Project Fund	General Obligation Bond Fund	
\$ 489,498	\$ 203,181	\$ 2,122,844	\$ -	\$ 3,681,378	\$ -	\$ 12,251,243
4,200	-	-	-	-	-	4,200
-	-	-	182,586	-	-	236,262
-	-	-	-	-	-	537,379
<u>\$ 493,698</u>	<u>\$ 203,181</u>	<u>\$ 2,122,844</u>	<u>\$ 182,586</u>	<u>\$ 3,681,378</u>	<u>\$ -</u>	<u>\$ 13,029,084</u>
\$ 16,478	\$ 20,867	\$ -	\$ 114	\$ 123,403	\$ -	\$ 215,037
-	-	-	184,088	-	269	184,357
-	-	-	-	-	-	71,319
-	-	-	-	-	-	593,705
<u>16,478</u>	<u>20,867</u>	<u>-</u>	<u>184,202</u>	<u>123,403</u>	<u>269</u>	<u>1,064,418</u>
-	182,314	-	-	3,557,975	-	9,038,249
477,220	-	-	-	-	-	477,220
<u>477,220</u>	<u>182,314</u>	<u>-</u>	<u>-</u>	<u>3,557,975</u>	<u>-</u>	<u>9,515,469</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	166,530
-	-	-	-	-	-	166,530
-	-	2,122,844	(1,616)	-	(269)	2,282,667
477,220	182,314	2,122,844	(1,616)	3,557,975	(269)	11,964,666
<u>\$ 493,698</u>	<u>\$ 203,181</u>	<u>\$ 2,122,844</u>	<u>\$ 182,586</u>	<u>\$ 3,681,378</u>	<u>\$ -</u>	<u>\$ 13,029,084</u>

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City of Hercules

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2005

	Special Revenue				
	Development Services Fund	AB 3229 COPS Program Fund	State Gas Tax Fund	Community Development Fund	Development Fee Fund
REVENUES:					
Taxes	\$ -	\$ -	\$ 419,631	\$ -	\$ -
Intergovernmental	-	100,000	-	10,000	-
Use of money and property	-	853	-	77,410	50,630
Charges for services	-	-	-	462,000	48,104
Other revenues	-	-	-	-	-
Total revenues	-	100,853	419,631	549,410	98,734
EXPENDITURES:					
Current:					
General government	-	-	24,291	-	-
Public works	-	-	-	-	-
Capital outlay	-	-	7,393	523,402	-
Total expenditures	-	-	31,684	523,402	-
REVENUES OVER (UNDER) EXPENDITURES	-	100,853	387,947	26,008	98,734
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	(30,000)	(100,000)	(116,326)	(1,682,496)	-
Total other financing sources (uses)	(30,000)	(100,000)	(116,326)	(1,682,496)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(30,000)	853	271,621	(1,656,488)	98,734
FUND BALANCES:					
Beginning of year	287,792	2,358	(269,207)	2,657,413	1,686,456
End of year	\$ 257,792	\$ 3,211	\$ 2,414	\$ 1,000,925	\$ 1,785,190

Special Revenue

STMP Traffic Impact Fund	Measure C Street Fund	State AB-939 Fund	Stormwater Assessment Fund	Developer Park Fees Fund	Fire Equipment Fund	DIF Fund	Regional Water Quality Fund
\$ -	\$ 255,453	\$ -	\$ 297,876	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	3,643	-	6,344	39,367	3,896	59,290	1,074
225,526	-	-	-	-	13,375	2,668,858	-
-	-	-	-	-	-	-	-
225,526	259,096	-	304,220	39,367	17,271	2,728,148	1,074
143,493	-	-	-	-	13,678	141,757	-
-	-	-	252,466	-	-	-	-
-	551,927	-	-	-	-	-	-
143,493	551,927	-	252,466	-	13,678	141,757	-
82,033	(292,831)	-	51,754	39,367	3,593	2,586,391	1,074
-	-	-	-	-	-	208,373	-
-	(80,000)	-	-	(1,236,523)	-	(2,046,850)	-
-	(80,000)	-	-	(1,236,523)	-	(1,838,477)	-
82,033	(372,831)	-	51,754	(1,197,156)	3,593	747,914	1,074
79,675	502,020	-	245,463	1,295,018	304	1,101,538	36,267
\$ 161,708	\$ 129,189	\$ -	\$ 297,217	\$ 97,862	\$ 3,897	\$ 1,849,452	\$ 37,341

Special Revenue				Capital Project	Debt Service		Total
LLAD	Citywide	Fiscal	Grant	City	General	Total	
Fund	L&L	Neutrality Fee	Fund	Capital Project	Obligation	Non-Major	
Fund	Fund	Fund	Fund	Fund	Bond	Governmental	
Fund	Fund	Fund	Fund	Fund	Fund	Funds	
\$ 360,101	\$ 970,686	\$ -	\$ -	\$ -	\$ -	\$ 2,303,747	
-	-	-	211,029	992,002	9	1,313,040	
9,016	8,015	60,606	2,670	-	330	323,144	
-	-	73,360	-	-	-	3,491,223	
3,612	2,684	-	-	100,000	-	106,296	
372,729	981,385	133,966	213,699	1,092,002	339	7,537,450	
-	-	-	1,080	-	-	324,299	
155,293	1,011,921	-	-	-	-	1,419,680	
-	-	-	8,892	879,613	-	1,971,227	
155,293	1,011,921	-	9,972	879,613	-	3,715,206	
217,436	(30,536)	133,966	203,727	212,389	339	3,822,244	
-	-	-	-	3,345,586	-	3,553,959	
-	-	(48,863)	(205,343)	-	(44,236)	(5,590,637)	
-	-	(48,863)	(205,343)	3,345,586	(44,236)	(2,036,678)	
217,436	(30,536)	85,103	(1,616)	3,557,975	(43,897)	1,785,566	
259,784	212,850	2,037,741	-	-	43,628	10,179,100	
\$ 477,220	\$ 182,314	\$ 2,122,844	\$ (1,616)	\$ 3,557,975	\$ (269)	\$ 11,964,666	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Development Services Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Transfers out	\$ (30,000)	\$ (30,000)	\$ (30,000)	\$ -
Total other financing sources (uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ (30,000)</u>	<u>\$ (30,000)</u>	<u>(30,000)</u>	<u>\$ -</u>
FUND BALANCE:				
Beginning of year			<u>287,792</u>	
End of year			<u>\$ 257,792</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

AB 3229 COPS Program Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Use of money and property	-	-	853	853
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>100,853</u>	<u>853</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(100,000)	(100,000)	(100,000)	-
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ -</u>	<u>\$ -</u>	853	<u>\$ 853</u>
FUND BALANCE:				
Beginning of year			2,358	
End of year			<u>\$ 3,211</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

State Gas Tax Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 475,291	\$ 475,291	\$ 419,631	\$ (55,660)
Total revenues	<u>475,291</u>	<u>475,291</u>	<u>419,631</u>	<u>(55,660)</u>
EXPENDITURES:				
General government	-	-	24,291	(24,291)
Capital outlay	20,000	163,627	7,393	156,234
Total expenditures	<u>20,000</u>	<u>163,627</u>	<u>31,684</u>	<u>131,943</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>455,291</u>	<u>311,664</u>	<u>387,947</u>	<u>76,283</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(110,000)	(110,000)	(116,326)	(6,326)
Total other financing sources (uses)	<u>(110,000)</u>	<u>(110,000)</u>	<u>(116,326)</u>	<u>(6,326)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 345,291</u>	<u>\$ 201,664</u>	<u>271,621</u>	<u>\$ 69,957</u>
FUND BALANCE:				
Beginning of year			(269,207)	
End of year			<u>\$ 2,414</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Community Development Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 721,190	\$ 721,190	\$ -	\$ (721,190)
Intergovernmental	-	-	10,000	10,000
Use of money and property	-	-	77,410	77,410
Charges for services	-	-	462,000	462,000
Total revenues	<u>721,190</u>	<u>721,190</u>	<u>549,410</u>	<u>(171,780)</u>
EXPENDITURES:				
Capital outlay	3,500	128,500	523,402	(394,902)
Total expenditures	<u>3,500</u>	<u>128,500</u>	<u>523,402</u>	<u>(394,902)</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>717,690</u>	<u>592,690</u>	<u>26,008</u>	<u>(566,682)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,541,296)	(1,682,496)	(1,682,496)	-
Total other financing sources (uses)	<u>(1,541,296)</u>	<u>(1,682,496)</u>	<u>(1,682,496)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ (823,606)</u>	<u>\$ (1,089,806)</u>	<u>(1,656,488)</u>	<u>\$ (566,682)</u>
FUND BALANCE:				
Beginning of year			<u>2,657,413</u>	
End of year			<u>\$ 1,000,925</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Development Fee Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 50,630	\$ 50,630
Charges for services	272,000	272,000	48,104	(223,896)
Total revenues	<u>272,000</u>	<u>272,000</u>	<u>98,734</u>	<u>(173,266)</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>\$ 272,000</u>	<u>\$ 272,000</u>	98,734	<u>\$ (173,266)</u>
FUND BALANCE:				
Beginning of year			<u>1,686,456</u>	
End of year			<u>\$ 1,785,190</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

STMP Traffic Impact Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 338,256	\$ 338,256	\$ 225,526	\$ (112,730)
Total revenues	<u>338,256</u>	<u>338,256</u>	<u>225,526</u>	<u>(112,730)</u>
EXPENDITURES:				
Current:				
General government	-	-	143,493	(143,493)
Total expenditures	<u>-</u>	<u>-</u>	<u>143,493</u>	<u>(143,493)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 338,256</u>	<u>\$ 338,256</u>	82,033	<u>\$ (256,223)</u>
FUND BALANCE:				
Beginning of year			79,675	
End of year			<u>\$ 161,708</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Measure C Street Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 291,740	\$ 291,740	\$ 255,453	\$ (36,287)
Use of money and property	-	-	3,643	3,643
Total revenues	<u>291,740</u>	<u>291,740</u>	<u>259,096</u>	<u>(32,644)</u>
EXPENDITURES:				
Capital outlay	700,000	840,000	551,927	288,073
Total expenditures	<u>700,000</u>	<u>840,000</u>	<u>551,927</u>	<u>288,073</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>(408,260)</u>	<u>(548,260)</u>	<u>(292,831)</u>	<u>255,429</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(80,000)	(80,000)	(80,000)	-
Total other financing sources (uses)	<u>(80,000)</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ (488,260)</u>	<u>\$ (628,260)</u>	<u>(372,831)</u>	<u>\$ 255,429</u>
FUND BALANCE:				
Beginning of year			502,020	
End of year			<u>\$ 129,189</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

State AB 939 Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE:				
Beginning of year			<u>-</u>	
End of year			<u>\$ -</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Stormwater Assessment Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 279,473	\$ 279,473	\$ 297,876	\$ 18,403
Use of money and property	-	-	6,344	6,344
Total revenues	<u>279,473</u>	<u>279,473</u>	<u>304,220</u>	<u>24,747</u>
EXPENDITURES:				
Current:				
Public works	280,092	280,092	252,466	27,626
Total expenditures	<u>280,092</u>	<u>280,092</u>	<u>252,466</u>	<u>27,626</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (619)</u>	<u>\$ (619)</u>	51,754	<u>\$ 52,373</u>
FUND BALANCE:				
Beginning of year			245,463	
End of year			<u>\$ 297,217</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Developer Park Fees Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 39,367	\$ 39,367
Total revenues	<u>-</u>	<u>-</u>	<u>39,367</u>	<u>39,367</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>-</u>	<u>-</u>	<u>39,367</u>	<u>39,367</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(1,028,150)</u>	<u>(1,028,150)</u>	<u>(1,236,523)</u>	<u>(208,373)</u>
Total other financing sources (uses)	<u>(1,028,150)</u>	<u>(1,028,150)</u>	<u>(1,236,523)</u>	<u>(208,373)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ (1,028,150)</u>	<u>\$ (1,028,150)</u>	<u>(1,197,156)</u>	<u>\$ (169,006)</u>
FUND BALANCE:				
Beginning of year			<u>1,295,018</u>	
End of year			<u>\$ 97,862</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Fire Equipment Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 3,896	\$ 3,896
Charges for services	-	-	13,375	13,375
Total revenues	<u>-</u>	<u>-</u>	<u>17,271</u>	<u>17,271</u>
EXPENDITURES:				
Current:				
General government	-	-	13,678	(13,678)
Total expenditures	<u>-</u>	<u>-</u>	<u>13,678</u>	<u>(13,678)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	3,593	<u>\$ 3,593</u>
FUND BALANCE:				
Beginning of year			<u>304</u>	
End of year			<u>\$ 3,897</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

DIF Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 59,290	\$ 59,290
Charges for services	2,432,538	2,432,538	2,668,858	236,320
Total revenues	<u>2,432,538</u>	<u>2,432,538</u>	<u>2,728,148</u>	<u>295,610</u>
EXPENDITURES:				
Current:				
General government	-	-	141,757	(141,757)
Total expenditures	<u>-</u>	<u>-</u>	<u>141,757</u>	<u>(141,757)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,432,538</u>	<u>2,432,538</u>	<u>2,586,391</u>	<u>295,610</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	208,373	208,373
Transfers out	(2,046,850)	(2,046,850)	(2,046,850)	-
Total other financing sources (uses)	<u>(2,046,850)</u>	<u>(2,046,850)</u>	<u>(1,838,477)</u>	<u>208,373</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 385,688</u>	<u>\$ (2,046,850)</u>	<u>747,914</u>	<u>\$ 503,983</u>
FUND BALANCE:				
Beginning of year			<u>1,101,538</u>	
End of year			<u>\$ 1,849,452</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Regional Water Quality Fee Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 1,074	\$ 1,074
Total revenues	<u>-</u>	<u>-</u>	<u>1,074</u>	<u>1,074</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	1,074	<u>\$ 1,074</u>
FUND BALANCE:				
Beginning of year			36,267	
End of year			<u>\$ 37,341</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

LLAD Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 185,800	\$ 185,800	\$ 360,101	\$ 174,301
Use of money and property	-	-	9,016	9,016
Other revenue	-	-	3,612	3,612
Total revenues	<u>185,800</u>	<u>185,800</u>	<u>372,729</u>	<u>186,929</u>
EXPENDITURES:				
Current:				
Public works	<u>193,027</u>	<u>193,027</u>	<u>155,293</u>	<u>37,734</u>
Total expenditures	<u>193,027</u>	<u>193,027</u>	<u>155,293</u>	<u>37,734</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (7,227)</u>	<u>\$ (7,227)</u>	217,436	<u>\$ 224,663</u>
FUND BALANCE:				
Beginning of year			<u>259,784</u>	
End of year			<u>\$ 477,220</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Citywide L&L Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,004,000	\$ 1,004,000	\$ 970,686	\$ (33,314)
Use of money and property	-	-	8,015	8,015
Other revenues	-	-	2,684	2,684
Total revenues	<u>1,004,000</u>	<u>1,004,000</u>	<u>981,385</u>	<u>(22,615)</u>
EXPENDITURES:				
Current:				
Public works	<u>1,182,664</u>	<u>1,226,816</u>	<u>1,011,921</u>	<u>214,895</u>
Total expenditures	<u>1,182,664</u>	<u>1,226,816</u>	<u>1,011,921</u>	<u>214,895</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (178,664)</u>	<u>\$ (222,816)</u>	<u>(30,536)</u>	<u>\$ 192,280</u>
FUND BALANCE:				
Beginning of year			<u>212,850</u>	
End of year			<u>\$ 182,314</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Fiscal Neutrality Fee Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ 48,863	\$ 48,863	\$ 60,606	\$ 11,743
Charges for services	419,200	419,200	73,360	(345,840)
Total revenues	<u>468,063</u>	<u>468,063</u>	<u>133,966</u>	<u>(334,097)</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>468,063</u>	<u>468,063</u>	<u>133,966</u>	<u>(334,097)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(48,863)</u>	<u>(48,863)</u>	<u>(48,863)</u>	<u>-</u>
Total other financing sources (uses)	<u>(48,863)</u>	<u>(48,863)</u>	<u>(48,863)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ 419,200</u>	<u>\$ 419,200</u>	85,103	<u>\$ (334,097)</u>
FUND BALANCE:				
Beginning of year			<u>2,037,741</u>	
End of year			<u>\$ 2,122,844</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Grant Special Revenue Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 6,100,000	\$ 6,100,000	\$ 211,029	\$ (5,888,971)
Use of money and property	-	-	2,670	2,670
Total revenues	<u>6,100,000</u>	<u>6,100,000</u>	<u>213,699</u>	<u>(5,886,301)</u>
EXPENDITURES:				
General government	78,550	78,550	1,080	77,470
Capital outlay	15,446	15,446	8,892	6,554
Total expenditures	<u>93,996</u>	<u>93,996</u>	<u>9,972</u>	<u>84,024</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>6,006,004</u>	<u>6,006,004</u>	<u>203,727</u>	<u>(5,802,277)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	6,100,000	6,100,000	(205,343)	(6,305,343)
Total other financing sources (uses)	<u>6,100,000</u>	<u>6,100,000</u>	<u>(205,343)</u>	<u>(6,305,343)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 12,106,004</u>	<u>\$ 12,106,004</u>	<u>(1,616)</u>	<u>\$ (12,107,620)</u>
FUND BALANCE:				
Beginning of year			-	
End of year			<u>\$ (1,616)</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

City Capital Project Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 992,002	\$ 742,002
Other revenues	-	-	100,000	100,000
Total revenues	<u>250,000</u>	<u>250,000</u>	<u>1,092,002</u>	<u>842,002</u>
EXPENDITURES:				
Capital outlay	<u>10,641,686</u>	<u>10,641,686</u>	<u>879,613</u>	<u>9,762,073</u>
Total expenditures	<u>10,641,686</u>	<u>10,641,686</u>	<u>879,613</u>	<u>9,762,073</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(10,391,686)</u>	<u>(10,391,686)</u>	<u>212,389</u>	<u>10,604,075</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>9,263,000</u>	<u>9,263,000</u>	<u>3,345,586</u>	<u>(5,917,414)</u>
Total other financing sources (uses)	<u>9,263,000</u>	<u>9,263,000</u>	<u>3,345,586</u>	<u>(5,917,414)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,128,686)</u>	<u>\$ (1,128,686)</u>	<u>3,557,975</u>	<u>\$ 4,686,661</u>
FUND BALANCE:				
Beginning of year			<u>-</u>	
End of year			<u>\$ 3,557,975</u>	

City of Hercules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

General Obligation Bond Debt Service Fund

For the year ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 9	\$ 9
Use of money and property	-	-	330	330
Total revenues	-	-	339	339
REVENUES OVER (UNDER) EXPENDITURES				
	-	-	339	339
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(44,236)	(44,236)
Total other financing sources (uses)	-	-	(44,236)	(44,236)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	\$ -	\$ -	(43,897)	\$ (43,897)
FUND BALANCE:				
Beginning of year			43,628	
End of year			<u>\$ (269)</u>	

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INTERNAL SERVICE FUNDS

The *Vehicle Replacement Fund* accumulates funds for the replacement of vehicles used by City departments. The source of revenue for this fund is rental fees charges to the various user departments.

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

City of Hercules
Statement of Net Assets
Internal Service Fund
For the year ended June 30, 2005

	Vehicle Replacement	IT Equipment Replacement	Total
ASSETS			
Current assets:			
Cash and investments	\$ 984,347	\$ 216,523	\$ 1,200,870
Total current assets	984,347	216,523	1,200,870
Capital assets:			
Depreciable assets, net	387,678	222,796	610,474
Total assets	1,372,025	439,319	1,811,344
LIABILITIES			
Accounts payable	428	21,804	22,232
Compensated absences payable	-	2,503	2,503
Total liabilities	428	24,307	24,735
NET ASSETS			
Invested in capital assets, net of related debt	387,678	222,796	610,474
Unrestricted	983,919	192,216	1,176,135
Total net assets	\$ 1,371,597	\$ 415,012	\$ 1,786,609

City of Hercules
Statement of Activities and Changes in Net Assets
Internal Service Fund
For the year ended June 30, 2005

	Vehicle Replacement	IT Equipment Replacement	Total
OPERATING REVENUES:			
Other revenue	\$ 101,825	\$ -	\$ 101,825
Total operating revenues	101,825	-	101,825
OPERATING EXPENSES:			
Administration	-	152,962	152,962
Depreciation	144,719	30,949	175,668
Total operating expenses	144,719	183,911	328,630
OPERATING INCOME (LOSS)	(42,894)	(183,911)	(226,805)
OTHER FINANCING SOURCES:			
Transfers in	924,087	568,923	1,493,010
Capital contribution	-	30,000	30,000
Total other financing sources	924,087	598,923	1,523,010
Change in net assets	881,193	415,012	1,296,205
NET ASSETS:			
Beginning of year	490,404	-	490,404
End of year	\$ 1,371,597	\$ 415,012	\$ 1,786,609

City of Hercules
Statement of Cash Flows
Internal Service Fund
For the year ended June 30, 2005

	Vehicle Replacement	IT Equipment Replacement	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 101,825	\$ -	\$ 101,825
Cash payments to suppliers of goods and services	429	21,804	22,233
Cash payment to employees for services	-	(150,459)	(150,459)
Net cash provided (used) by operating activities	102,254	(128,655)	(26,401)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfer from other funds	924,087	568,923	1,493,010
Net cash provided (used) by noncapital financing activities	924,087	568,923	1,493,010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Change in capital assets, net	(224,536)	(253,745)	(478,281)
Net cash provided (used) by capital and related financing activities	(224,536)	(253,745)	(478,281)
Net increase (decrease) in cash and cash equivalents	801,805	186,523	988,328
CASH AND CASH EQUIVALENTS:			
Beginning of year	182,542	-	182,542
End of year	<u>\$ 984,347</u>	<u>\$ 186,523</u>	<u>\$ 1,170,870</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO			
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (42,894)	\$ (183,911)	\$ (226,805)
Provided (used) by operating activities:			
Depreciation	144,719	30,949	175,668
Changes in operating assets and liabilities:			
Accounts payable	429	21,804	22,233
Compensated absence	-	2,503	2,503
Net cash provided (used) by operating activities	\$ 102,254	\$ (128,655)	\$ (26,401)

FIDUCIARY FUNDS

Pension Trust Fund:

Police Medical Retirement Fund - This fund accounts for the funds set aside by the City each year to pre-fund future medical expenses for retired police officers.

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.

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.

City of Hercules
Combining Statement of Fiduciary Net Assets
Fiduciary Fund - Pension Trust Fund
For the year ended June 30, 2005

	Pension Trust Fund
ASSETS:	
Cash and investments	\$ 48,801
Total assets	<u>48,801</u>
NET ASSETS:	
Unrestricted	48,801
Total net assets	<u><u>\$ 48,801</u></u>

City of Hercules
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund - Pension Trust Fund
For the year ended June 30, 2005

	Pension Trust Fund
	<u> </u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 1,427
Total additions	<u>1,427</u>
DEDUCTIONS:	
Administration	1,024
Total deductions	<u>1,024</u>
Change in net assets	403
NET ASSETS:	
Beginning of year	<u>48,398</u>
End of year	<u>\$ 48,801</u>

City of Hercules
Combining Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency Funds
For the year ended June 30, 2005

	Balance July 1, 2004	Net Changes in Assets and Liabilities	Balance June 30, 2005
<u>WESTCAT TRANSIT</u>			
Assets:			
Cash and investments	\$ 243,287	\$ (248,041)	\$ (4,756)
Total assets	\$ 243,287	\$ (248,041)	\$ (4,756)
Liabilities:			
Accrued payroll liabilities	\$ 12,929	\$ (12,929)	\$ -
Due to other governments	230,358	(2,351,123)	(4,756)
Total liabilities	\$ 243,287	\$ (2,364,052)	\$ (4,756)
<u>WEST CONTRA COSTA INTEGRATED WASTE MANAGEMENT AUTHORITY</u>			
Assets:			
Cash and investments	\$ 3,375,884	\$ 1,121,939	\$ 4,497,823
Accounts receivable	265,062	52,091	317,153
Prepaid expense	-	316	316
Notes receivable	407,701	(129,964)	277,737
Total assets	\$ 4,048,647	\$ 1,044,382	\$ 5,093,029
Liabilities:			
Accounts payable	\$ 147,193	\$ (3,558)	\$ 143,635
Compensated absences	9,107	1,578	10,685
Due to other governments	3,892,347	1,046,362	4,938,709
Total liabilities	\$ 4,048,647	\$ 1,044,382	\$ 5,093,029
<u>REASSESSMENT DISTRICT 91-1</u>			
Assets:			
Cash and investments	\$ 288,033	\$ 8,456	\$ 296,489
Total assets	\$ 288,033	\$ 8,456	\$ 296,489
Liabilities:			
Due to other governments	\$ 288,033	\$ 8,456	\$ 296,489
Total liabilities	\$ 288,033	\$ 8,456	\$ 296,489

(Continued)

City of Hercules
Combining Statement of Changes in Assets and Liabilities, Continued
Fiduciary Funds - Agency Funds
For the year ended June 30, 2005

	Balance July 1, 2004	Net Changes in Assets and Liabilities	Balance June 30, 2005
<u>A. NOBEL REASSESSMENT DISTRICT</u>			
Assets:			
Cash and investments	\$ 828,174	\$ 24,148	\$ 852,322
Cash and investments with fiscal agents	821,881	16,189	838,070
Total assets	\$ 1,650,055	\$ 40,337	\$ 1,690,392
Liabilities:			
Due to bondholders	\$ 1,650,055	\$ 40,337	\$ 1,690,392
Total liabilities	\$ 1,650,055	\$ 40,337	\$ 1,690,392
 <u>Taylor Woodrow Maintenance LMOD</u>			
Assets:			
Cash and investments	\$ -	\$ 50,496	\$ 50,496
Total assets	\$ -	\$ 50,496	\$ 50,496
Liabilities:			
Due to bondholders	\$ -	\$ 50,496	\$ 50,496
Total liabilities	\$ -	\$ 50,496	\$ 50,496
 <u>Hercules Community Library</u>			
Assets:			
Cash and investments	\$ -	\$ 120,815	\$ 120,815
Total assets	\$ -	\$ 120,815	\$ 120,815
Liabilities:			
Due to bondholders	\$ -	\$ 120,815	\$ 120,815
Total liabilities	\$ -	\$ 120,815	\$ 120,815
 <u>Hercules Golf Club</u>			
Assets:			
Cash and investments	\$ -	\$ 7,249	\$ 7,249
Total assets	\$ -	\$ 7,249	\$ 7,249
Liabilities:			
Accounts payable	\$ -	\$ 4,019	\$ 4,019
Due to bondholders	-	3,230	3,230
Total liabilities	\$ -	\$ 7,249	\$ 7,249

(Concluded)

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STATISTICAL INFORMATION

This part of the City of Hercules's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends	115 - 119
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	120 - 124
<i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	
Debt Capacity	125 - 128
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	129 - 131
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information	132 - 133
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	

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

	Fiscal Year		
	2003	2004	2005
Governmental activities:			
Invested in capital assets, net of related debt	\$ 12,171	\$ 8,579	\$ 25,731
Restricted	12,858	18,255	37,692
Unrestricted	29,652	31,913	13,589
Total Governmental Activities	\$ 54,681	\$ 58,748	\$ 77,012
Business-type activities:			
Invested in capital assets, net of related debt	\$ 2,924	\$ 4,762	\$ 5,780
Restricted	6	236	236
Unrestricted	1,412	75	1,486
Total Business-type activities	\$ 4,341	\$ 5,073	\$ 7,503
Primary government:			
Invested in capital assets, net of related debt	\$ 15,095	\$ 13,341	\$ 31,511
Restricted	12,864	18,492	37,928
Unrestricted	31,064	31,988	15,076
Total primary government	\$ 59,022	\$ 63,820	\$ 84,515

Source: CAFR 2003, 2004, 2005

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

	Fiscal Year		
	2003	2004	2005
General Fund			
Reserved	\$ 12,783	\$ 14,724	\$ 14,548
Unreserved	12,377	9,784	12,190
Total General Fund	\$ 25,160	\$ 24,508	\$ 26,738
All other governmental funds			
Reserved	\$ 9,484	\$ 26,518	\$ 28,183
Unreserved, reported in:			
Special revenue funds	3,468	5,118	2,449
Debt service funds	6,391	-	-
Redevelopment Agency	(4,481)	(8,738)	(10,393)
Total all other governmental funds	\$ 14,861	\$ 22,898	\$ 20,239

Source: CAFR 2003, 2004, 2005

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

	Fiscal Years		
	2003	2004	2005
Revenues			
Taxes	\$ 9,308	\$ 11,050	\$ 16,303
Intergovernmental	1,141	1,570	3,264
Licenses and permits	2,536	1,876	1,086
Fines and forfeitures	53	57	57
Use of money and property	2,333	443	2,685
Charges for services	6,917	6,430	5,407
Lease income	480	315	532
Other revenues	100	1,107	1,650
Total Revenues	22,869	22,850	30,983
Expenditures			
General government	5,108	5,798	8,176
Public safety	3,326	3,536	3,809
Public works	1,648	1,896	1,553
Community development	1,127	1,288	1,155
Parks and recreation	1,637	1,564	1,944
Capital outlay	3,535	3,170	5,469
Lease expense	480	315	532
Debt service			
Principal	679	4,370	4,287
Interest	1,675	1,381	2,256
Bond issuance cost	-	706	-
Total Expenditures	19,216	24,025	29,182
Excess of revenues over (under) expenditures	3,653	(1,175)	1,802
Other financing sources (uses)			
Capital Contributions to HMU	(671)	-	-
Proceeds from long-term debt	7,000	9,150	-
Transfers in	1,084	5,105	4,418
Transfers out	(1,110)	(5,694)	(6,648)
Total other financing sources (uses)	6,303	8,561	(2,231)
Net change in fund balances	\$ 9,955	\$ 7,386	\$ (429)
Debt as a percentage of noncapital expenditures	15.01%	30.96%	27.59%

Source: CAFR 2003, 2004, 2005

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

Fiscal Year	Basic Countywide Tax	Town of Hercules	East Bay Regional Park	Martinez USD	West Contra Costa USD	John Swett School	Community College
2003	1.0000	0.0170	0.0065	0.0901	0.0526	0.0319	0.0040
2004	1.0000	-	0.0057	0.1000	0.1064	0.0275	0.0038
2005	1.0000	-	0.0057	0.0923	0.1153	0.0273	0.0042

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

Ratios of General Bonded Debt Outstanding

Last Three Fiscal Years

(amounts expressed in thousands, except per capita amount)

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

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, 2005
(amounts expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping Tax and Assessment Debt:			
Bay Area Rapid Transit District	\$ 512	0.512%	\$ 3
Contra Costa Community College District	1,515	1.654%	25
John Swett Unified School District	943	9.863%	93
West Contra Costa Unified School District	37,542	9.863%	3,703
West Contra Costa Healthcare Parcel Tax Obligations	2,620	10.078%	264
East Bay Municipal Utility District	44	1.453%	1
East Bay Regional Park District	1,100	0.756%	8
City of Hercules 1915 Act Bonds	8,420	100.000%	8,420
Total Gross Overlapping Tax and Assessment Debt	52,696		12,517
Less East Bay Municipal Utility District (100% self-supporting)	44		1
Total Net Overlapping Tax and Assessment Debt	\$ 52,652		\$ 12,516
Direct and Overlapping General Fund Debt:			
Contra Costa County General Fund Obligations	5,210	1.651%	86
Contra Costa County Pension Obligations	9,159	1.651%	151
Contra Costa County Board of Education Certificates of Participation	28	1.651%	0
Contra Costa Community College District Certificates of participation	21	1.651%	0
West Contra Costa Unified School District Certificates of Participation	938	1.651%	15
City of Hercules General Fund Obligations	15,980	100.000%	15,980
Contra Costa County Mosquito Abatement District Certificates of Participation	5	1.651%	0
Total Direct and Overlapping General Fund Debt	\$ 31,341		\$ 16,234
Gross Combined Total Debt	\$ 84,037		\$ 28,750 ¹
Net Combined Total Debt	\$ 83,993		\$ 28,749

¹Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Hercules. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: Contra Costa County Auditor-Controller

**City of Hercules
Principal Employers
Current Year and Five Years Ago**

Employer	2005			2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment ¹
Bio-Rad	1700	1	37.17%	662	1	
Contra Costa County	275	2	6.01%	220	2	
Mechanics Bank	211	3	4.61%	150	3	
Home Depot	150	4	3.28%			
Albertsons/Sav-On	75	5	1.64%	110	5	
Shields Nursing Center Inc	72	6	1.57%			
Thru Lite Care Provider Center	72	6	1.57%			
Ohlone Elementary School	59	8	1.29%			
Northview Pacific Laboratories	50	9	1.09%	56	6	
Franklin Canyon Golf Course	50	9	1.09%	50	8	
Histopathology Reference Lab	50	9	1.09%			
Hercules Middle/High School				117	4	
A&B Diecast				50	7	
Pro Media				45	9	
Radsons Office Plus				26	10	

¹Note: Total City Employment figures not available for 2001

Source: California Employment Development Department

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

	June 30		
	2003 ¹	2004 ¹	2005 ²
Function:			
General government	14.5	16.5	20
Public safety:			
Police	30	30	27
Public works	23	23	15
Community development	13	13	6
Parks and recreation	54.5	54.5	63
Hercules Municipal Utility	2	2	3
Total	<u>137</u>	<u>139</u>	<u>134</u>

¹ Source: City of Hercules Base Budget

² Source: City of Hercules Payroll Records

City of Hercules
Operating Indicators by Function
Last Three Fiscal Years

Function	Fiscal Year		
	2003	2004	2005
Public Safety:			
Part 1 crimes ¹	685	851	741
Total Incidents	10,600	13,898	18,111
Police reports	2,556	2,745	3,081
Public Works:			
Street resurfacing (miles)	16	8	6
Street lights repaired	27	30	50
Potholes filled (sq. ft.)	150	100	175
Community Development:			
Public improvements ² (\$000)	760	1,200	300
Total permit valuation ³ (\$000)	7,281	24,944	55,425
Tax increment generated ⁴ (\$000)	2,962	5,003	6,390
% Change in Sales Tax Receipts	8.01%	-5.06% ⁵	24.28% ⁵
Parks and Recreation:			
Community Events (July 4th, Cultural Festival, etc.) (Attendance)	8,000	9,000	10,000
Sports Programs (e.g. basketball, softball)	5,840	6,008	6,155
Child Care programs (Enrollment)	428	417	368
Day/Summer Camps (Enrollment)	357	331	333
Teen/Youth Council (Enrollment)	65	101	90
Aquatic programs (Enrollment/attendance)	5,387	5,889	5,813
Senior Center (Enrollment/attendance)	18,813	18,002	27,866

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, and arson.

²Measures public construction/improvement within the city.

³Measures private construction/improvement within the city. (Last seven months only for 2003).

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	Fiscal Year		
	2003	2004	2005
Public Safety:			
Police:			
Stations	1	1	1
Patrol units	17	18	18
Public Works:			
Streets (miles)	55	56	57
Streetlights	1800	1800	1800
Traffic Lights	8	8	12
Sanitary Sewers (miles)	46.6	58	58
Parks and Recreation:			
Parks acreage	125.5	104.5	104.5
Parks	12	8	8
Swimming pools	1	1	1

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

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