

CITY OF HERCULES
CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended
June 30, 2010

CITY OF HERCULES
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For the fiscal year ended June 30, 2010

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INTRODUCTORY SECTION



May 10, 2011

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, 2010.

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

The City of Hercules' financial statements have been audited by Moss, Levy & Hartzheim, a firm of licensed certified public accountants. They concluded, based upon their audit of the City's financial records, that there was a reasonable basis for rendering an unqualified opinion that the City of Hercules' financial statements for the fiscal year ended June 30, 2010 are fairly presented and in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

The City of Hercules is a culturally diverse community of 24,693 residents (1-1-10 California Department of Finance estimated population) situated in west-central Contra Costa County on the east side of San Francisco Bay where State Highway 4 intersects with Highway I-80. The City boundaries encompass just over 20 square miles, approximately 12.5 of which are the waters of San Pablo Bay. The land portion of the City covers approximately 7.6 square miles and runs from its westerly boundary of San Pablo Bay up into the hills of Pinole Ridge. It is bordered by the City of Pinole to the

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

City Council members serve as the governing board of the Redevelopment Agency. The City provides accounting and administrative services to the Redevelopment Agency. Additional data is provided in the Notes to the Financial Statements.

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, 2010) financial results of the City of Hercules, of which the Hercules Municipal Utility (HMU) is a part, and two other separate legal entities, namely the Hercules Redevelopment Agency (RDA) and the Hercules Public Financing Authority (PFA). The RDA and the PFA have individual Component Unit financial reports as well. The HMU is not considered a component unit, but the City does issue a separate financial report for that function since the electric utility is a relatively new endeavor for the City.

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

Factors Affecting Financial Condition

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

Local economy. The City is part of the greater San Francisco Bay Area. As is well documented, the overall Bay Area economy has suffered during what is now being coined the Great Recession. While the City has over the past several years, been relatively immune to the hardships that other Bay Area cities have faced, the negative economic climate has reached our shores. In particular the local tax base, heavily reliant

on real property values, has sharply declined and with it a major source of income to the City. To address this, the City is aggressively pursuing several large commercial and mixed use projects that would assist the City with a strong financial recovery. Additionally, utility users tax revenue, one of the City's largest revenue source, has sharply increased and should continue as the population of the City grows.

Long-term financial planning. For a number of years the City has engaged in financial planning for more than the current fiscal year. As a practice, staff prepares a one year operating budget and a five year capital improvement program. The capital improvement program is developed from those master plans that exist for various types of infrastructure and development in the City, and from the City Council meetings where staff receives direction as to how to implement the vision for the community.

The City has made significant progress in planning its Intermodal Transit Center (ITC) which will include a train station and a ferry and bus terminal surrounded by a private mixed use development. This development won the coveted distinction of being a "Catalyst Project" which concentrates State resources on projects that have shown a commitment to sustainable communities and innovative strategies. Catalyst projects promote housing at all income levels, local jobs and housing relationships; job creation and retention; enhance transportation modal choices; preserve open space; promote public health; eliminate toxic threats; address blighted properties; reduce green house gas emissions and increase energy conservation and independence. Hercules was one of only 13 cities in the entire State of California to receive this designation. As part of this Transit Oriented Development, the project will include the renovation of the old Dynamite factory historic clubhouse, the addition of new parks and plazas and some level of below market rate housing.

Other projects in the city include the development of the Sycamore North project which is under construction which includes both a retail and housing component, entitlements for the New Town Center Project, the construction of two new parks in the Waterfront neighborhood, and the entitlement of the Sycamore Crossing site which is a 12 acre mixed use development located in the heart of town.

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 preservation of its capital while striving to achieve a reasonable rate of return.

Risk management. Risk management activities are the coordinated efforts of the City's Risk Benefit Manager. The City is a member of the Municipal Pooling Authority, a joint powers authority insurance group comprised of most cities in Contra Costa County and a few cities from outside the County, which provides coverage for workers' compensation,

liability, vehicles, property damage and certain employee benefit insurances. This entity operates in accordance with the joint powers authority agreement between member cities to provide the various insurance coverage programs. Staff of the Authority provides services to the City in the areas of risk identification, evaluation, and treatment; workers compensation and liability claims administration; safety training; and, special events coverage. Over the past several years the City has enjoyed very favorable rates due to its aggressive risk management programs and policies.

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,

Fred Deltorchio
Interim City Manager

Elizabeth D. Warmerdam
Finance Director/Interim Deputy City Manager

CITY OF HERCULES
ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL

JUNE 30, 2010

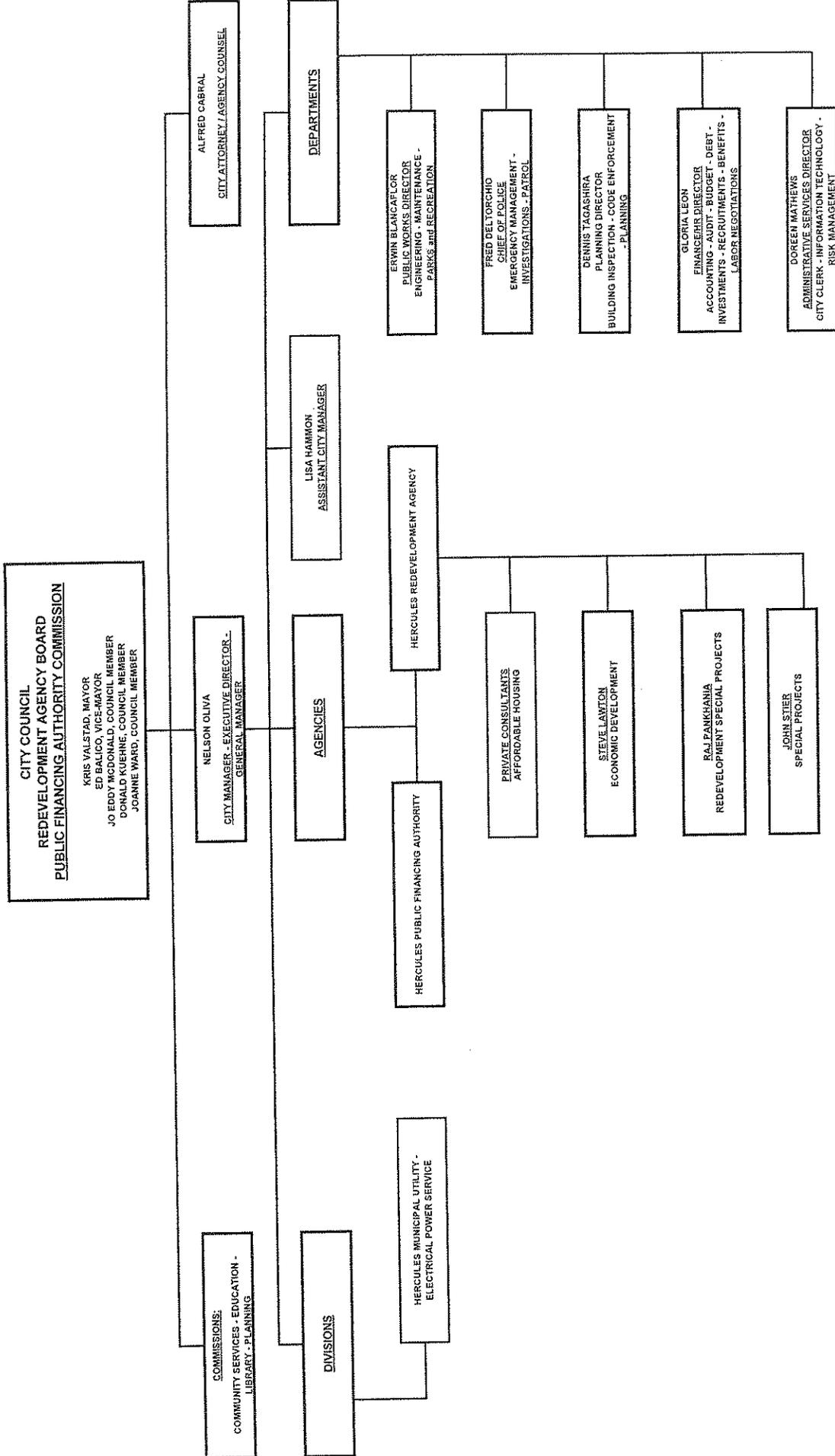
CITY COUNCIL AND ELECTED OFFICIALS

| | |
|----------------|-------------------|
| MAYOR | Kris Valstad |
| VICE MAYOR | Ed Balico |
| COUNCIL MEMBER | Joe Eddy McDonald |
| COUNCIL MEMBER | Donald Kuehne |
| COUNCIL MEMBER | Joanne Ward |

ADMINISTRATIVE PERSONNEL

| | |
|--------------------------------------|------------------|
| CITY MANAGER | Nelson Oliva |
| ASSISTANT CITY MANAGER | Lisa Hammon |
| CITY ATTORNEY | Alfred Cabral |
| ADMINISTRATIVE SERVICES/CITY CLERK | Doreen Mathews |
| FINANCE AND HUMAN RESOURCES DIRECTOR | Gloria Leon |
| CHIEF OF POLICE | Fred Deltorchio |
| ECONOMIC PLANNING DIRECTOR | Steve Lawton |
| PLANNING DIRECTOR | Dennis Tagashira |
| PUBLIC WORKS DIRECTOR | Erwin Blancaflor |
| SPECIAL PROJECTS DIRECTOR | Raj Pankhania |
| INTERIM TREASURER | John Stier |

**CITY OF HERCULES
ORGANIZATIONAL CHART**



FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules (City), California, as of and for the fiscal year ended June 30, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

As noted in Note 8, the R.D.L.P. loan of \$3,937,500 is due and payable on August 15, 2011. At this time it is uncertain on how the City plans to fund the repayment. Additionally, as noted in Note 16, the Hercules Redevelopment Agency did not make its payment to the State of California for their share of the Supplemental Educational Revenue Augmentation Funds (SERAF).

In accordance with the *Government Auditing Standards*, we have also issued a report dated May 10, 2011, on our consideration of the City of Hercules' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedules for the General Fund and the Redevelopment Agency Special Revenue Fund, and the trend information of the post-employment benefits other than pensions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The Introductory Section, Budgetary Comparison Schedules for the Redevelopment Agency Debt Service Fund, Hercules Public Financing Authority Debt Service Fund, and Redevelopment Agency Capital Projects Fund, Combining Financial Statements for the Nonmajor Governmental Funds, Nonmajor Funds Budgetary Comparison Schedules, Internal Service Funds financial statements, Fiduciary Funds financial statements, and the Statistical Section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. The Budgetary Comparison Schedules for the Redevelopment Agency Debt Service Fund, Hercules Public Financing Authority Debt Service Fund, and Redevelopment Agency Capital Projects Fund, Combining Financial Statements for the Nonmajor Governmental Funds, Nonmajor Funds Budgetary Comparison Schedules, Internal Service Funds financial statements, and Fiduciary Funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
May 10, 2011

CITY OF HERCULES

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2010

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, 2010. 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

- As of June 30, 2010, the assets of the City exceeded its liabilities by \$107.8 million (net assets). Of this amount, \$53.1 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors within the restrictions set forth by the various funding sources.
- The City's total net assets decreased by \$ 11.5 million during the current fiscal year, represented by a \$14.2 million decrease in Governmental and a \$2.7 million increase in Business-Type Activities.
- During current fiscal year, citywide expenses increased by \$3.7 million or 7% from the prior year to \$56.7 million, as a result of increased administrative cost. Revenue decreased by \$0.9 million or 2% to \$48.8 million, due to mixed results of lower property tax, lower sales and use tax and increases in Utility Users Tax and program revenues, which include charges for services, operating and capital grants and contributions.
- As of June 30, 2010, the City's governmental funds reported combined fund balances of \$53.9 million, a decrease of \$35.7 million or 40% from the prior year. Of this amount, the Redevelopment Agency Capital Projects Fund reported a fund deficit of \$25.0 million and the Redevelopment Agency Special Revenue reported a fund deficit of \$10.2 million. Unreserved designated fund balance for the General Fund was \$7.6 million, or 37 percent of total General Fund expenditures for the year.
- As of June 30, 2010, total fund balance for the General Fund was \$28.9 million, of which \$21.2 million was reserved and the remainder was designated for specific purposes by the City Council. General Fund expenditures of \$20.7 million exceeded revenues of \$16.4 million by \$4.3 million; this was offset by the net transfer in of \$7.8 million.
- As of June 30, 2010, Redevelopment Agency Special Revenue Fund had a deficit fund balance of \$10.2 million, a \$9.8 million decrease from the prior year.
- Total debt increased by \$10.1 million to \$166.8 million during the fiscal year. The increase was mostly attributable to the new issuance of 2009 PFA Taxable Lease Revenue Bond and 2010 PFA Revenue Refunding Bond which paid off of 2003A PFA Lease Revenue Bond, and a prior period adjustment for the Residential Development Loan Program (R.D.L.P).

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.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

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 an electric utility, the Hercules Municipal Utility (HMU) which is an enterprise fund. For financial disclosure reasons, a separate financial report is done.

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

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

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

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

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

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

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

Fund Financial Statements

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

CITY OF HERCULES

Management's Discussion and Analysis *Fiscal Year Ended June 30, 2010*

to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

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

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. Reconciliation is provided for both the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances to facilitate this comparison.

Based on criteria in GASB No. 34, there are certain funds that are considered 'major funds'. The major governmental funds include the General Fund, the Redevelopment Agency Special Revenue Fund, the Redevelopment Agency Debt Service Fund, the Public Financing Authority Debt Service Fund, and the Redevelopment Agency Capital Projects 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 – City maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses an enterprise fund to account for its Wastewater operation and its Electric Utility operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Vehicle Replacement program, Facility Maintenance program and its Information Technology (IT) Equipment Replacement program. Because these services predominantly benefit the governmental rather than business-type activities, they have been included within governmental activities in the Government-Wide Financial Statements.

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

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

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 major special revenue funds, and information concerning the progress in funding its obligation to provide pension and other post retirement benefits to its employees.

Other Supplementary Information

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

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the City's financial position. As of June 30, 2010, assets exceeded liabilities by \$107.8 million, which was a decrease of \$11.5 million from the prior fiscal year.

Table 1 - City of Hercules Condensed Comparative Statements of Net Assets
(Amounts expressed in millions)

| | Governmental Activities | | Business-type Activities | | Total | | Total % Change |
|--------------------------|-------------------------|-----------------|--------------------------|----------------|-----------------|-----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | |
| Assets: | | | | | | | |
| Current Assets | \$ 77.7 | \$ 106.0 | \$ 5.4 | \$ 1.3 | \$ 83.1 | \$ 107.3 | (22.6) % |
| Other Assets | 20.3 | 14.8 | 8.0 | 10.3 | 28.3 | 25.1 | 12.7 % |
| Capital Assets, Net | 162.1 | 134.6 | 18.9 | 18.0 | 181.0 | 152.6 | 18.6 % |
| Total Assets | \$ 260.1 | \$ 255.4 | \$ 32.3 | \$ 29.6 | \$ 292.4 | \$ 285.0 | 2.6 % |
| Liabilities: | | | | | | | |
| Current Liabilities | \$ 15.6 | \$ 10.8 | \$ 1.5 | \$ 1.5 | \$ 17.1 | \$ 12.3 | 39.0 % |
| Other Liabilities | - | 0.2 | - | - | - | 0.2 | (100.0) % |
| Long-term Liabilities | 167.5 | 153.2 | - | - | 167.5 | 153.2 | 9.3 % |
| Total Liabilities | \$ 183.1 | \$ 164.2 | \$ 1.5 | \$ 1.5 | \$ 184.6 | \$ 165.7 | 11.4 % |
| Net Assets: | | | | | | | |
| Invested in Capital | | | | | | | |
| Net of Related Debt | \$ 35.8 | \$ 50.1 | \$ 18.9 | \$ 18.0 | \$ 54.7 | \$ 68.1 | (19.7) % |
| Restricted | 12.1 | 2.2 | - | - | 12.1 | 2.2 | 450.0 % |
| Unrestricted | 29.1 | 38.9 | 11.9 | 10.1 | 41.0 | 49.0 | (16.3) % |
| Total Net Assets | \$ 77.0 | \$ 91.2 | \$ 30.8 | \$ 28.1 | \$ 107.8 | \$ 119.3 | (9.6) % |

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

Current Assets declined \$24.2 million or 23% as a result of \$24 million bond draws for the capital projects (Intermodal Transit Center, Sycamore North and the acquisition of the Yellow Freight parcel). Current liability increased \$4.8 million or 39% due to Supplemental Education Relief Augmentation Fund (SERAF) obligation.

Table 2- City of Hercules Comparative Analysis of Net Assets
(Amount expressed in millions)

| | 2010 | 2009 | Change \$ | Change % |
|---|----------|----------|--------------|-------------|
| Net Assets: | | | | |
| Investment in Capital Assets, Net of Related Debt | \$ 54.7 | \$ 68.1 | \$ (13.4) | (19.7)% |
| Restricted | 12.1 | 2.2 | 9.9 | 450.0 % |
| Unrestricted | 41.0 | 49.0 | (8.0) | (16.3)% |
| Total Net Assets | \$ 107.8 | \$ 119.3 | \$ (11.5) | (9.6)% |

The largest portion of the City's net assets, \$54.7 million or 51%, reflects its investment in capital 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 are not sources of income for repayment of debt since 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.

The City's unrestricted net assets decreased by \$8.0 million or 16% to \$41.0 million. This portion of the net assets may be used to meet the City's ongoing obligations to citizens and creditors within the restrictions set forth by the various funding sources.

Statement of Activities

The Statement of Activities provides information about all the City's revenues and expenses, with the emphasis on measuring net revenues or expenses of each of the City's program. The Statement of Activities explains in detail the change in Net Assets for the year.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

Table 3 - City of Hercules Condensed Comparative Statements of Activities and Changes in Net Assets
(Amount expressed in millions)

| | Governmental Activities | | Business-type Activities | | Total | | Total % Change |
|---|----------------------------|----------------|-----------------------------|----------------|-----------------|-----------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | |
| Revenues: | | | | | | | |
| Program Revenues | | | | | | | |
| Charges for Services | \$ 7.4 | \$ 5.9 | \$ 8.4 | \$ 6.2 | \$ 15.8 | \$ 12.1 | 30.6 % |
| Grants | 0.1 | - | 0.2 | 0.4 | 0.3 | 0.4 | (25.0)% |
| Capital Contributions | 1.1 | 4.9 | - | - | 1.1 | 4.9 | (77.6)% |
| Total Program Revenues | 8.6 | 10.8 | 8.6 | 6.6 | 17.2 | 17.4 | (1.1)% |
| General Revenues | | | | | | | |
| Property Taxes | \$ 13.7 | \$ 16.0 | \$ - | \$ - | \$ 13.7 | \$ 16.0 | (14.4)% |
| Sales and Use Taxes | 2.1 | 2.6 | - | - | 2.1 | 2.6 | (19.2)% |
| Utility Users Tax | 2.5 | 2.0 | - | - | 2.5 | 2.0 | 25.0 % |
| Other Taxes | 1.8 | 1.4 | - | - | 1.8 | 1.4 | 28.6 % |
| Motor Vehicle taxes | 1.6 | 1.9 | - | - | 1.6 | 1.9 | (15.8)% |
| Use of Money and Property | 5.4 | 5.6 | 0.8 | 0.3 | 6.2 | 5.9 | 5.1 % |
| Misc Revenues | 3.7 | 2.4 | - | - | 3.7 | 2.4 | 54.2 % |
| Total General Revenues | 30.8 | 31.9 | 0.8 | 0.3 | 31.6 | 32.2 | (1.9)% |
| Total Revenues | 39.4 | 42.7 | 9.4 | 6.9 | 48.8 | 49.6 | (1.6)% |
| Expenses: | | | | | | | |
| General Government | 7.5 | 7.6 | - | - | 7.5 | 7.6 | (1.3)% |
| Public Safety | 7.1 | 6.5 | - | - | 7.1 | 6.5 | 9.2 % |
| Public Works | 5.5 | 5.1 | - | - | 5.5 | 5.1 | 7.8 % |
| Parks and Recreation | 3.3 | 3.0 | - | - | 3.3 | 3.0 | 10.0 % |
| Community Development | 16.2 | 15.8 | - | - | 16.2 | 15.8 | 2.5 % |
| Interest on Long Term Debt | 10.8 | 8.8 | - | - | 10.8 | 8.8 | 22.7 % |
| Sewer | - | - | 3.0 | 2.7 | 3.0 | 2.7 | 11.1 % |
| Hercules Municipal Utility | - | - | 3.3 | 3.5 | 3.3 | 3.5 | (5.7)% |
| Total Expenses | 50.4 | 46.8 | 6.3 | 6.2 | 56.7 | 53.0 | 7.0 % |
| Increase (Decrease) in Net Assets before Transfers | (11.0) | (4.1) | 3.1 | 0.7 | (7.9) | (3.4) | 132.4 % |
| Transfers | 0.4 | (5.3) | (0.4) | 5.3 | - | - | - |
| Increase (Decrease) in Net Assets | (10.6) | (9.4) | 2.7 | 6.0 | (7.9) | (3.4) | 132.4 % |
| Net Assets - Beginning | 91.2 | 115.0 | 28.1 | 7.7 | 119.3 | 122.7 | (2.8)% |
| Prior Period Adjustments | (3.5) | (14.4) | (0.1) | 14.4 | (3.6) | 0.0 | (100.0)% |
| Net Assets - Ending | \$ 77.1 | \$ 91.2 | \$ 30.7 | \$ 28.1 | \$ 107.8 | \$ 119.3 | (9.6)% |

CITY OF HERCULES

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2010

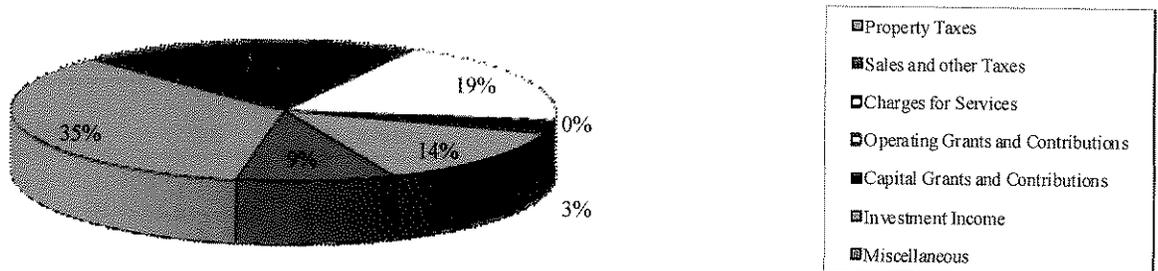
Governmental Activities:

The City's governmental activities net assets declined by \$14.2 million or 16% from the prior fiscal year. Governmental revenue decreased by \$3.3 million to \$39.4 million. This decrease can be attributed to economic recession and its effects on property tax, sales tax and contributions and grants. Governmental expenses increased \$3.6 million, most of which attributable to the \$5.0 million Supplemental Education Relief Augmentation Fund (SERAF) due to the State.

Revenue highlights:

- Property Tax was the largest (43%) single general revenue source. Its decrease of \$2.3 million or 14% had a significant impact on the bottom line as a direct result of 15% drop in the assessed property value in our city.
- Utility Users Tax jumped from the third rank in single general revenue source to the second place by an increase of \$.5 million due to newly added Water Utility Users Tax.
- Sales Tax was the third largest single general revenue source. It decreased \$.5 million from the prior fiscal year.
- Charges for services increased \$1.5 million and contributions and grants decreased \$3.7 million, resulting in a decrease of \$2.2 million in total Program Revenues.
- The City received operating contributions and grants totaling \$1.2 million which included a US Department of Transportation Federal Highway Administration ARRA grant for Hercules pavement rehabilitation, a US Department of Transportation Federal Transit Administration grant for the rail station, Recovery JAG grant for Police Citizen Academy and AVOID 25 DUI grants, all of which were spent in 2009-2010 fiscal year.

Chart 1 - Revenues by Source - Governmental Activity
For the Fiscal Year Ended June 30, 2010

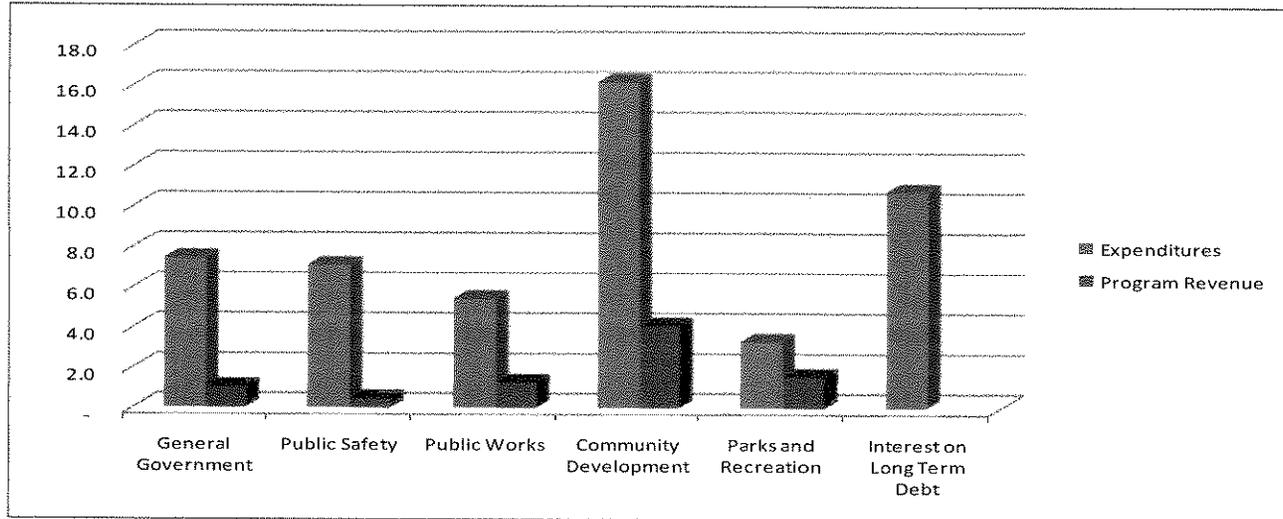


CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

Expenses and Program Revenue highlights:

Chart 2 - Expenses and Program Revenues - Governmental Activities
(Expressed in millions)



The above Expenses and Program Revenue chart illustrates the City's governmental expenses by major activities and related program revenue generated to support that activity. Program revenue includes charges for services such as childcare tuition, facility rental fee, traffic fines, licenses, permits, plan check fees, building inspection and other construction related fees. Contribution and grants include amounts contributed by developers and grants from federal and state governments, the majority of which are public works capital grants. As the chart below shows, community development (32%) is the largest activity in expense, followed by interest on long-term debt (22%). General government expenses (15%) include city council, city manager's office, city attorney, city clerk, human resources and finance. The remaining activities are public safety (14%), public works (11%) and parks and recreation (7%).

Table 4 - City of Hercules Functional Expenses
(Amounts expressed in millions)

| | Total Cost of Services | | Percentage Change | Net Cost of Services | | Percentage Change |
|------------------------|------------------------|----------------|-------------------|----------------------|----------------|-------------------|
| | 2010 | 2009 | 2010-2009 | 2010 | 2009 | 2010-2009 |
| General Government | \$ 7.5 | \$ 7.6 | (1.3)% | \$ 6.4 | \$ 2.0 | 220.0 % |
| Public Safety | 7.1 | 6.5 | 9.2 % | 6.6 | 6.0 | 10.0 % |
| Public Works | 5.5 | 5.1 | 7.8 % | 4.2 | 4.7 | (10.6)% |
| Community Development | 16.2 | 15.8 | 2.5 % | 12.1 | 13.5 | (10.4)% |
| Parks and Recreation | 3.3 | 3.0 | 10.0 % | 1.7 | 1.5 | 13.3 % |
| Int. on Long-Term Debt | 10.8 | 8.8 | 22.7 % | 10.8 | 8.3 | 30.1 % |
| Total | \$ 50.4 | \$ 46.8 | 7.7 % | \$ 41.8 | \$ 36.0 | 16.1 % |

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

Total expenses for governmental activities increased \$3.6 million from the prior fiscal year to \$50.4 million. A majority of the increase was attributed to the \$2.0 million increase in interest on long-term debt from newly issued 2009 Public Financing Authority Lease Revenue Bond and RDA loans from General Fund.

Business Type Activities

The City's business-type activities net assets increased by \$2.7 million. Total business-type revenue had an upward movement by \$2.5 million to \$9.4 million due to rate increase on electric utility and sewer. Total business-type expenses increased by just \$.1 million to \$6.3 million, which reflects effective cost control.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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 current fiscal year, the City's governmental funds reported combined ending fund balances of \$53.9 million, a decrease of \$35.7 million in comparison with the prior year. Of this amount, \$92.2 million is reserved indicating that it is unavailable for appropriation because it had already been committed for various purposes (see Note 1.G. in the Notes to Basic Financial Statements). Net unreserved fund balance was at a deficit of \$38.2 million, of which \$20.4 million was allocated for certain General Fund designations and future projects. Meanwhile, Redevelopment Agency Special Revenue Fund and Capital Project Fund had unreserved fund deficit of \$11.8 million and \$37.4 million respectively, which means these two funds were using resources from other funds.

General Fund

The General Fund is the major operating fund of the City. A number of City services are accounted for in the General Fund, including public safety, general government, public works, parks and recreation, etc. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7.6 million, while total fund balance was \$28.9 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. The unreserved fund balance represented 37% of total General Fund expenditures of \$20.7 million, and total fund balance represented 140% of the same amount.

At the end of fiscal year 2010, the fund balance in the General Fund increased by \$3.5 million, as compared to a decrease of \$1.6 million in fiscal year 2009. Total net transfer in of \$7.8 million contributed to the increase in the fund balance, of which \$7.0 million was one-time transfer from PFA 2009 Lease Revenue Bond proceeds. During fiscal year 2010, revenue increased 1.7 million (11%) and expenditures increased \$3.4 million (20%).

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

General Fund Budgetary Highlights

The fiscal year 2010 original adopted budget for General Fund expenditures amounted to \$19.5 million, the final budget was \$20.1 million, reflecting a budget increase of \$.6 million.

Actual General Fund expenditures were over the final fiscal year 2010 budget by \$.5 million. The primary reason can be attributed to the reclassification of the \$2 million loan to the Bio-Rad Laboratories from the Redevelopment Agency to the General Fund.

Actual General Fund revenues fell short of final budget estimates by \$3.0 million due to the following: (1) projected interest payback from Redevelopment Agency was not realized due to deficit in Redevelopment fund; and (2) interest rate continued to be close to zero.

Redevelopment Agency Special Revenue Fund

The Redevelopment Agency Special Revenue fund reported a deficit fund balance of \$10.2 million. The Agency's tax increment revenue totaled \$10.4 million for fiscal year 2010, an 18% decline compared to \$12.8 million in the prior fiscal year. This decline was consistent with overall reduction in property assessed values. The Agency reported \$12.9 million expenditures which included \$5.0 million Supplemental Education Relief Augmentation Fund (SERAF) due to the State, \$2.5 million program-related services and expenditures, \$1.4 million pass-through to other governmental agencies, \$1.2 million in affordable housing and first-time homebuyer loans, and \$.5 million business development loans. The other remaining expenditures of \$2.3 million included: \$1.1 million intergovernmental payment; and \$1.2 million in salary, administration and overhead charges. Transfers out totaled \$10.0 million, which included bond payments of \$9.5 million and \$.4 million Owner Participation Agreement payments.

Redevelopment Agency Capital Projects Fund

At the close of the fiscal year, the fund balance decreased by \$6.6 million to a deficit of \$25.0 million. Majority of the fund deficit occurred in fiscal year 2009 due to resolution#09-010 authorizing the Redevelopment Agency to record the debt to City for multiple capital projects: HMU backbone infrastructure, Improvements to Wastewater Treatment Plant, Public Library Construction, Teen Center and Frog Pad Park Construction. During current fiscal year, the fund expended \$29.3 million for capital projects including major projects like Intermodal Transit Center, Sycamore North, and the acquisition of the yellow freight parcel.

Redevelopment Agency Debt Service Fund

The Redevelopment Agency Debt Service fund balance decreased \$28 million in fiscal year 2010 as compared to the prior fiscal year; of which \$24.4 million was transferred out to capital projects fund to supplement capital project costs, and \$2.6 million was owner participation agreement payments.

Public Financing Authority Fund

The Public Financing Authority's fund balance increased \$3.7 million from the prior fiscal year. The increase was due to two new bonds issued in current fiscal year. 2009 Taxable Lease Revenue Bond of \$10.8 million was issued for the acquisition of Bio-Rad venture property, of which \$7.0 million was transferred to General Fund as sale consideration; and 2010 Revenue Refunding Bond of \$7.4 million was issued to refinance 2003A Lease Revenue Bond. 2003A Lease Revenue Bond of \$6.6 million was defeased as of June 30, 2010.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

Proprietary Funds

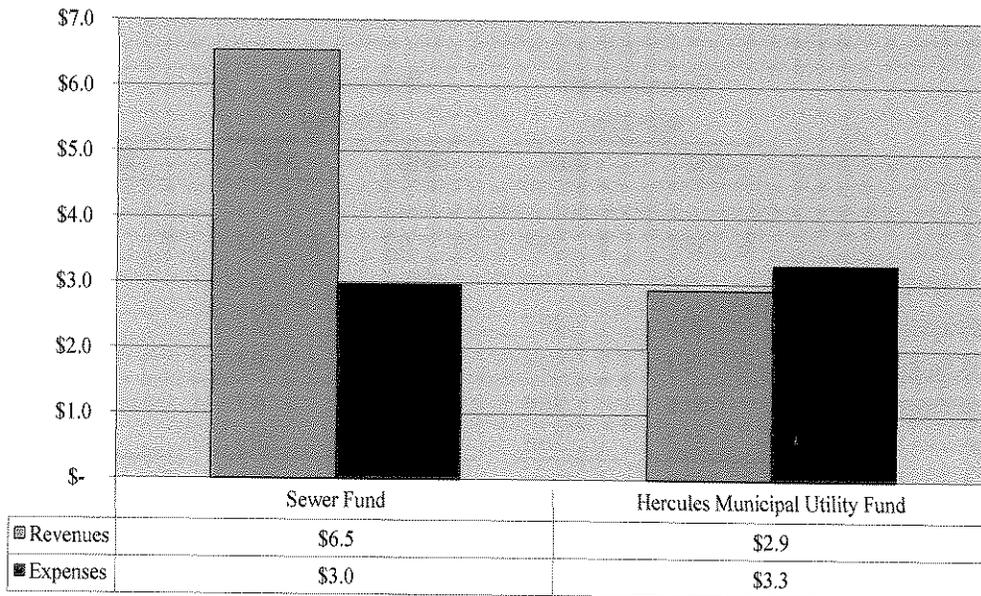
The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets of Sewer and Municipal Utility were \$12.1 million and deficit of \$.1 million, respectively. Sewer net assets increased \$3.6 million; municipal utility net assets decreased \$.8 million.

Sewer operating revenues ended the year with 5.8 million, a \$2.0 million jump from the prior fiscal year due to rate increase of \$2 per month per year authorized by Resolution#09-070. Operating expenses increased by a relatively smaller scale at \$.2 million. Change in net assets was \$3.6 million, versus \$1.3 million in the prior fiscal year.

Municipal Utility operating revenue went up to \$2.7 million as opposed to \$2.4 million in the prior fiscal year. This was attributed to two rate increases authorized by Resolution#10-021. The electric utility fund had a loss of \$.2 million for fiscal year 2010 as opposed to loss of \$.8 million for the prior fiscal year. The management continues to reduce the deficit by reducing operating costs and increasing the customer base which will assist with the income shortfall. It is anticipated that the general fund of the City of Hercules will assist the electric utility fund for at least another two fiscal years.

**Chart 3 - Business Type Activities Revenues and Expenses, not including transfers
For the Fiscal Year Ended June 30, 2010
(Amount expressed in millions)**



CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

Fiduciary Funds

The City has two fiduciary functions: (1) City acts as the agent for certain agencies and assessment districts, holding amounts collected while awaits payment as directed; and (2) City sets aside funds each year to pre-fund future medical expenses for retired police officers. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operation.

E. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets including Infrastructure

As of June 30, 2010, the City's investments in capital assets for its governmental and business-type activities are \$180.9 million (net of accumulated depreciation) as presented below in Table 3. The investment in capital assets includes land, buildings, land improvements, machinery and equipment, vehicles, and infrastructure such as roads, bridges, street lights, traffic signals, electric stations, sewer pipelines. The City's investment in capital assets for the current fiscal year increased by 19%, which is attributed mostly to the BART parking lot construction, New Town Center development, Sycamore North project, Intermodal Transit Center project and completion of the force main in the historical homes project.

Table 5 - City of Hercules Capital Assets
(Amounts expressed in millions):

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|----------------------------|----------|-----------------------------|---------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 35.7 | \$ 33.7 | \$ 0.2 | \$ 0.2 | \$ 35.9 | \$ 33.9 |
| Land Improvements | 9.6 | 5.5 | - | - | 9.6 | 5.5 |
| Buildings and Improvements | 30.5 | 29.7 | 11.3 | 11.3 | 41.8 | 41.0 |
| Machinery and Equipment | 4.3 | 4.1 | 0.1 | 0.1 | 4.4 | 4.2 |
| Construction in Progress | 52.5 | 29.8 | 5.4 | 4.7 | 57.9 | 34.5 |
| Infrastructure | 77.7 | 76.6 | 11.6 | 10.9 | 89.3 | 87.5 |
| Total Capital Assets | \$ 210.3 | \$ 179.4 | \$ 28.6 | \$ 27.2 | \$ 238.9 | \$ 206.6 |
| Accumulated Depreciation | (48.3) | (44.8) | (9.7) | (9.2) | (58.0) | (54.0) |
| Net Total Capital Assets | \$ 162.0 | \$ 134.6 | \$ 18.9 | \$ 18.0 | \$ 180.9 | \$ 152.6 |

Long-Term Obligations

At the end of fiscal year 2010, the City had total long-term obligations of \$166.8 million as presented on the next page in Table 6. Of this amount, \$24.6 million represents capital leases for the community library, Bio-Rad Venture building, and the Municipal Utility electric system; \$134.5 million represents tax allocation

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

bonds for the redevelopment projects; \$7.7 million represents Housing Enabled by Local Partnerships (H.E.L.P.) loan, Residential Development Loan Program (R.D.L.P.) and SunTrust Lease. Deductions to long-term obligation include payments of \$3.6 million.

Table 6 - City of Hercules Long-Term obligations
(Amounts expressed in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|----------------------------|-----------------|-----------------------------|-------------|-----------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenue Bonds | \$ 24.6 | \$ 14.9 | \$ - | \$ - | \$ 24.6 | \$ 14.9 |
| Tax Allocation Bonds | 134.5 | 137.7 | - | - | 134.5 | 137.7 |
| Other Long-term Debt | 7.7 | 4.3 | - | - | 7.7 | 4.3 |
| Total Long-Term Obligations | \$ 166.8 | \$ 156.9 | \$ - | \$ - | \$ 166.8 | \$ 156.9 |

On July 15, 2009 the Hercules Public Financing Authority issued Taxable Lease Revenue Bonds, Series 2009 in the amount of \$10,080,000. The proceeds of the bond were used to finance the acquisition of certain commercial condominium property, consisting of approximately 96,487 square feet located at 203-295 Linus Pauling Drive within the City.

On June 17, 2010 the Hercules Public Financing Authority issued Revenue Refunding Bonds, Series 2010 in the amount of \$7,425,000. The proceeds of the bonds were used to refund the Hercules Public Financing Authority Lease Revenue Bonds Series 2003A outstanding in the principal amount of \$6,495,000.

A prior period adjustment was made to add \$3.2 million Residential Development Loan Program to long-term debt. In July 2007, the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency) to develop a 50-unit multifamily rental project, which is Sycamore North project. The Agency authorized the making of a loan in the amount of \$3.75 million to the City of Hercules. As of June 30, 2010, the whole amount of the loan has been drawn and spent for the project.

F. ECONOMIC FACTORS

The economy of the City for the upcoming year is discussed in the Transmittal Letter located in the Introductory Section of the CAFR.

G. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, 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. A copy of this financial report is also located at the City's website at <http://www.ci.hercules.ca.us>, by selecting "Finance" under "Department & Services" and then selecting "Comprehensive Annual Financial Reports".

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HERCULES
STATEMENT OF NET ASSETS
June 30, 2010

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| ASSETS | | | |
| Cash and investments | \$ 26,911,036 | \$ 4,825,165 | \$ 31,736,201 |
| Cash and investments with fiscal agent | 42,851,728 | | 42,851,728 |
| Accounts receivable | 2,180,160 | 329,312 | 2,509,472 |
| Interest receivable | 538,554 | | 538,554 |
| Prepaid items | 9,501 | | 9,501 |
| Inventory | 19,029 | 259,644 | 278,673 |
| Loans receivable | 14,454,907 | | 14,454,907 |
| Lease receivable | 9,433,337 | | 9,433,337 |
| Land held for resale | 5,214,077 | | 5,214,077 |
| Internal balances | (8,036,456) | 8,036,456 | |
| Deferred charges - net of accumulated amortization | 4,282,550 | | 4,282,550 |
| Net pension assets | 188,612 | | 188,612 |
| Capital assets: | | | |
| Nondepreciable: | | | |
| Land | 35,753,896 | 150,000 | 35,903,896 |
| Construction in progress | 52,463,180 | 5,385,043 | 57,848,223 |
| Depreciable: | | | |
| Land improvements, building and improvements, machinery and equipment, and infrastructure | 122,132,164 | 23,073,319 | 145,205,483 |
| Accumulated depreciation | (48,339,325) | (9,757,144) | (58,096,469) |
| Total assets | <u>260,056,950</u> | <u>32,301,795</u> | <u>292,358,745</u> |
| LIABILITIES | | | |
| Accounts payable | 11,335,289 | 1,455,682 | 12,790,971 |
| Accrued wages | 712,975 | 30,417 | 743,392 |
| Accrued interest payable | 3,194,305 | | 3,194,305 |
| Deposits payable | 75,910 | | 75,910 |
| Claims and judgments payable | 210,968 | | 210,968 |
| Noncurrent liabilities: | | | |
| Due within one year | 4,368,918 | 32,402 | 4,401,320 |
| Due in more than one year | 163,176,559 | | 163,176,559 |
| Total liabilities | <u>183,074,924</u> | <u>1,518,501</u> | <u>184,593,425</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 35,836,422 | 18,851,218 | 54,687,640 |
| Restricted for: | | | |
| Lighting and landscaping | 762,968 | | 762,968 |
| Development | 8,444,620 | | 8,444,620 |
| Streets and roads | 2,864,467 | | 2,864,467 |
| Unrestricted | <u>29,073,549</u> | <u>11,932,076</u> | <u>41,005,625</u> |
| Total net assets | <u>\$ 76,982,026</u> | <u>\$ 30,783,294</u> | <u>\$ 107,765,320</u> |

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

CITY OF HERCULES
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants |
| Governmental activities: | | | | |
| General government | \$ 7,463,048 | \$ 1,073,258 | \$ - | \$ - |
| Public safety | 7,119,075 | 361,586 | 136,545 | |
| Public works | 5,458,425 | 252,358 | | 1,045,713 |
| Parks and recreation | 3,332,491 | 1,595,213 | | |
| Community development | 16,227,407 | 4,123,481 | | |
| Interest on long term debt | 10,870,645 | | | |
| Total governmental activities | 50,471,091 | 7,405,896 | 136,545 | 1,045,713 |
| Business-type activities: | | | | |
| Sewer | 2,966,615 | 5,769,224 | | |
| Hercules Municipal Utility | 3,287,676 | 2,674,649 | 155,743 | |
| Total business-type activities | 6,254,291 | 8,443,873 | 155,743 | |
| Total government | \$ 56,725,382 | \$ 15,849,769 | \$ 292,288 | \$ 1,045,713 |

General revenues and transfers:

Taxes:

Secured and unsecured property taxes

Sales and use taxes

Utility user taxes

Other taxes

Unrestricted motor vehicle taxes in-lieu

Use of money and property

Miscellaneous revenue

Transfers

Total general revenues and transfers

Change in net assets

Net Assets, July 1, 2009

Prior period adjustments

Net Assets, July 1, 2009, restated

Net assets, June 30, 2010

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

Net (Expense) Revenue and Change in Net Assets

| Net Governmental Activities | Net Business-type Activities | Total |
|-----------------------------------|------------------------------------|-----------------------|
| \$ (6,389,790) | \$ - | \$ (6,389,790) |
| (6,620,944) | | (6,620,944) |
| (4,160,354) | | (4,160,354) |
| (1,737,278) | | (1,737,278) |
| (12,103,926) | | (12,103,926) |
| (10,870,645) | | (10,870,645) |
| <u>(41,882,937)</u> | | <u>(41,882,937)</u> |
| | 2,802,609 | 2,802,609 |
| | (457,284) | (457,284) |
| | <u>2,345,325</u> | <u>2,345,325</u> |
| <u>(41,882,937)</u> | <u>2,345,325</u> | <u>(39,537,612)</u> |
| 13,730,957 | | 13,730,957 |
| 2,068,077 | | 2,068,077 |
| 2,483,576 | | 2,483,576 |
| 1,781,169 | | 1,781,169 |
| 1,611,710 | | 1,611,710 |
| 5,350,053 | 831,144 | 6,181,197 |
| 3,746,731 | | 3,746,731 |
| 371,898 | (371,898) | |
| <u>31,144,171</u> | <u>459,246</u> | <u>31,603,417</u> |
| <u>(10,738,766)</u> | <u>2,804,571</u> | <u>(7,934,195)</u> |
| 91,248,698 | 28,059,469 | 119,308,167 |
| <u>(3,527,906)</u> | <u>(80,746)</u> | <u>(3,608,652)</u> |
| <u>87,720,792</u> | <u>27,978,723</u> | <u>115,699,515</u> |
| <u>\$ 76,982,026</u> | <u>\$ 30,783,294</u> | <u>\$ 107,765,320</u> |

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FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

CITY OF HERCULES
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2010

| | General Fund | Redevelopment Agency Special Revenue Fund | Redevelopment Agency Debt Service Fund |
|--|-----------------|--|---|
| ASSETS | | | |
| Cash and investments | \$ 8,004,532 | \$ - | \$ 116,955 |
| Cash and investments with fiscal agent | | | 38,331,928 |
| Accounts receivable | 978,141 | 139,244 | 5,687 |
| Interest receivable | 9,484 | 524,598 | |
| Prepaid expenditures | 9,501 | | |
| Due from other funds | 6,532,319 | 40,834 | |
| Inventory | 8,016 | | |
| Loans receivable | 2,547,082 | 12,607,825 | |
| Lease receivable | | | |
| Land held for resale | | 1,352,037 | |
| Advances to other funds | 20,616,777 | | |
| Total assets | \$ 38,705,852 | \$ 14,664,538 | \$ 38,454,570 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 148,500 | \$ 5,137,025 | \$ 1,162,267 |
| Accrued wages | 601,403 | 61,072 | |
| Deposits payable | 75,910 | | |
| Claims and judgments payable | 210,968 | | |
| Deferred revenue | 2,779,663 | 13,271,027 | |
| Due to other funds | 79,257 | 6,433,985 | 2,171,043 |
| Advances from other funds | 5,941,995 | | 10,183,545 |
| Total liabilities | 9,837,696 | 24,903,109 | 13,516,855 |
| Fund Balances: | | | |
| Reserved: | | | |
| Debt service | | | 36,387,549 |
| Capital projects | | | |
| Advances to other funds | 20,616,777 | | |
| Prepaid expenditures | 9,501 | | |
| Petty cash | 2,455 | | |
| Land held for resale | | 1,352,037 | |
| Inventory | 8,016 | | |
| Future commitments | 611,020 | 186,595 | 115,537 |
| Unreserved, designated reported in: | | | |
| General Fund | 7,620,387 | | |
| Special Revenue Funds | | | |
| Unreserved, undesignated reported in: | | | |
| Special Revenue Funds | | (11,777,203) | |
| Capital Projects Fund | | | |
| Debt Service Fund | | | (11,565,371) |
| Total fund balances (deficits) | 28,868,156 | (10,238,571) | 24,937,715 |
| Total liabilities and fund balances | \$ 38,705,852 | \$ 14,664,538 | \$ 38,454,570 |

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

| Hercules Public Financing Authority Debt Service Fund | Redevelopment Agency Capital Projects Fund | Other Governmental Funds | Total |
|--|---|--------------------------------|-----------------------|
| \$ - | \$ 765,309 | \$ 15,585,474 | \$ 24,472,270 |
| 4,519,800 | | | 42,851,728 |
| 4,472 | | 1,056,606 | 2,179,678 |
| 79,257 | 2,267,350 | 69,796 | 538,554 |
| | | 11,013 | 9,501 |
| | | | 8,989,556 |
| | | | 19,029 |
| | | | 15,154,907 |
| 24,913,337 | | | 24,913,337 |
| | 3,862,040 | | 5,214,077 |
| 12,727,321 | | 3,260,656 | 36,604,754 |
| <u>\$ 42,244,187</u> | <u>\$ 6,894,699</u> | <u>\$ 19,983,545</u> | <u>\$ 160,947,391</u> |
| \$ 80,899 | \$ 3,380,443 | \$ 1,236,044 | \$ 11,145,178 |
| | | 29,200 | 691,675 |
| | | | 75,910 |
| | | | 210,968 |
| 24,913,337 | | 319,610 | 41,283,637 |
| 56,817 | | 226,014 | 8,967,116 |
| | 28,538,110 | | 44,663,650 |
| <u>25,051,053</u> | <u>31,918,553</u> | <u>1,810,868</u> | <u>107,038,134</u> |
| 4,465,813 | | | 4,465,813 |
| | | | 36,387,549 |
| 12,727,321 | | 3,260,656 | 36,604,754 |
| | | | 9,501 |
| | | | 2,455 |
| | 3,862,040 | | 5,214,077 |
| | | | 8,016 |
| | 8,482,533 | 65,088 | 9,460,773 |
| | | | 7,620,387 |
| | | 12,749,089 | 12,749,089 |
| | | 2,097,844 | (9,679,359) |
| | (37,368,427) | | (37,368,427) |
| | | | (11,565,371) |
| <u>17,193,134</u> | <u>(25,023,854)</u> | <u>18,172,677</u> | <u>53,909,257</u> |
| <u>\$ 42,244,187</u> | <u>\$ 6,894,699</u> | <u>\$ 19,983,545</u> | <u>\$ 160,947,391</u> |

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CITY OF HERCULES
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 53,909,257

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

| | | |
|-----------------------------------|---------------------|-------------|
| Capital assets at historical cost | \$ 207,238,735 | |
| Accumulated depreciation | <u>(46,384,779)</u> | 160,853,956 |

In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. (3,194,305)

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

| | | |
|--------------------------|------------------|-----------|
| Issuance costs | 4,870,376 | |
| Accumulated amortization | <u>(587,826)</u> | 4,282,550 |

Internal service funds are used by management to charge the costs of certain activities, such as replacement and maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 3,366,026

Long-term liabilities: In the governmental funds balance sheet, only current liabilities are reported.

In the statement of net assets, all liabilities, including long-term liabilities, are reported.

Long-term liabilities relating to governmental activities consist of:

| | | |
|---|------------------|---------------|
| Tax Allocation Bonds | (132,885,000) | |
| Premium on Tax Allocation Bonds | (1,885,676) | |
| Deferred loss on refunding for the Tax Allocation Bonds | 242,635 | |
| PFA Revenue Bonds | (25,560,000) | |
| Discount on PFA Revenue Bonds | 702,081 | |
| Deferred Loss on Refunding for the PFA Revenue Bonds | 213,306 | |
| Long-term Notes Payable | (402,023) | |
| H.E.L.P Loan | (1,600,000) | |
| R.D.L.P. Loan | (3,750,000) | |
| Suntrust Lease | (1,918,915) | |
| Compensated Absences Payable | <u>(684,115)</u> | (167,527,707) |

The net pension asset pertaining to governmental fund types is not a current financial resource and therefore is not recorded in the governmental fund statements. 188,612

In the governmental funds balance sheet, accounts receivable, certain loans receivable and lease receivable are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue. Also, accrued interest on notes receivable has not been reported in the governmental funds.

| | | |
|---|------------------|-------------------|
| Loans receivable | \$ 15,154,907 | |
| Interest receivable related to loans receivable | 524,598 | |
| Lease receivable - sales type | 9,433,337 | |
| Accounts receivable | 690,795 | |
| Allowance for uncollectible loan | <u>(700,000)</u> | <u>25,103,637</u> |

TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES \$ 76,982,026

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

CITY OF HERCULES
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2010

| | General Fund | Redevelopment Agency Special Revenue Fund | Redevelopment Agency Debt Service Fund |
|---|----------------------|--|---|
| Revenues: | | | |
| Taxes and assessments | \$ 5,693,505 | \$ 10,405,553 | \$ - |
| Licenses and permits | 884,545 | | |
| Fines and forfeitures | 174,604 | | |
| Use of money and property | 2,138,774 | (362,151) | 122,839 |
| Intergovernmental revenues | 1,634,279 | | |
| Program income | | 475,718 | |
| Charges for services | 3,003,790 | 98,686 | |
| Lease revenue | | | |
| Other revenues | 2,893,180 | 88,891 | |
| Total revenues | <u>16,422,677</u> | <u>10,706,697</u> | <u>122,839</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 5,537,471 | | |
| Public safety | 7,062,448 | | |
| Streets and public works | 783,903 | | |
| Parks and recreation | 3,061,393 | | |
| Community development | 3,082,936 | 12,895,882 | 3,079,195 |
| Lease expense | 1,154,996 | | |
| Capital outlay | | | |
| Debt service: | | | |
| Principal | | | 3,190,926 |
| Interest and fiscal agent fees | | | 7,318,681 |
| Bond issuance costs | | | |
| Total expenditures | <u>20,683,147</u> | <u>12,895,882</u> | <u>13,588,802</u> |
| Excess of revenues over (under) expenditures | <u>(4,260,470)</u> | <u>(2,189,185)</u> | <u>(13,465,963)</u> |
| Other Financing Sources (Uses): | | | |
| Proceeds from issuance of long-term debt | | | |
| Discount on issuance of long-term debt | | | |
| Payment to refunded debt escrow agent | | | |
| Transfers in | 7,925,440 | 2,413,421 | 9,844,536 |
| Transfers out | (132,422) | (10,039,536) | (24,387,210) |
| Total other financing sources (uses) | <u>7,793,018</u> | <u>(7,626,115)</u> | <u>(14,542,674)</u> |
| Net changes in fund balances | <u>3,532,548</u> | <u>(9,815,300)</u> | <u>(28,008,637)</u> |
| Fund balances (deficits) - July 1, 2009 | 25,077,621 | (423,271) | 53,123,593 |
| Prior period adjustments | 257,987 | | (177,241) |
| Fund balances (deficits) - July 1, 2009, restated | <u>25,335,608</u> | <u>(423,271)</u> | <u>52,946,352</u> |
| Fund balances (deficits) - June 30, 2010 | <u>\$ 28,868,156</u> | <u>\$ (10,238,571)</u> | <u>\$ 24,937,715</u> |

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

| Hercules Public Financing Authority Debt Service Fund | Redevelopment Agency Capital Projects Fund | Other Governmental Funds | Totals |
|---|---|--------------------------------|----------------------|
| \$ - | \$ - | \$ 2,202,149 | \$ 18,301,207 |
| | | | 884,545 |
| | | | 174,604 |
| 1,696,580 | | 1,022,576 | 4,618,618 |
| | | 2,370,070 | 4,004,349 |
| | | | 475,718 |
| | | 2,454,978 | 5,557,454 |
| 330,000 | | | 330,000 |
| | | 411,617 | 3,393,688 |
| <u>2,026,580</u> | | <u>8,461,390</u> | <u>37,740,183</u> |
| | | | 5,537,471 |
| | | | 7,062,448 |
| | | 2,386,643 | 3,170,546 |
| | | | 3,061,393 |
| | | 228,560 | 19,286,573 |
| | | | 1,154,996 |
| | 29,286,378 | 1,729,492 | 31,015,870 |
| 330,000 | | 110,402 | 3,631,328 |
| 1,004,905 | 1,925,962 | 118,947 | 10,368,495 |
| 271,865 | | | 271,865 |
| <u>1,606,770</u> | <u>31,212,340</u> | <u>4,574,044</u> | <u>84,560,985</u> |
| <u>419,810</u> | <u>(31,212,340)</u> | <u>3,887,346</u> | <u>(46,820,802)</u> |
| 17,505,000 | | 559,802 | 18,064,802 |
| (719,378) | | | (719,378) |
| (6,510,749) | | | (6,510,749) |
| 81,757 | 25,855,307 | 1,387,734 | 47,508,195 |
| (7,047,686) | (1,255,385) | (4,396,331) | (47,258,570) |
| <u>3,308,944</u> | <u>24,599,922</u> | <u>(2,448,795)</u> | <u>11,084,300</u> |
| <u>3,728,754</u> | <u>(6,612,418)</u> | <u>1,438,551</u> | <u>(35,736,502)</u> |
| 13,464,380 | (18,411,436) | 16,734,126 | 89,565,013 |
| | | | 80,746 |
| <u>13,464,380</u> | <u>(18,411,436)</u> | <u>16,734,126</u> | <u>89,645,759</u> |
| <u>\$ 17,193,134</u> | <u>\$ (25,023,854)</u> | <u>\$ 18,172,677</u> | <u>\$ 53,909,257</u> |

CITY OF HERCULES
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

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

NET CHANGE IN FUND BALANCES \$ (35,736,502)

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

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

| | |
|---|-------------|
| Capital outlay expenditures added back to fund balances | 30,711,688 |
| Depreciation expense not reported in governmental funds | (3,215,782) |

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

| | |
|--|--------------|
| Proceeds from issuance of long-term debt | (18,064,802) |
| Repayment of debt principal is added back to fund balances | 3,631,328 |
| Costs of issuance from issuance of long-term debt | 271,865 |
| Discount incurred from issuance of long-term debt | 719,378 |
| Amortization expense of costs of issuance not reported in governmental funds | (159,394) |
| Payment to refunded debt escrow account | 6,510,749 |
| Amortization of premium and deferred loss on refunding | 48,676 |

The net pension asset pertaining to governmental fund types is not a current financial resource and therefore is not recorded in the governmental fund statements. This amount represents the amount of the change in the net pension asset during the fiscal year 398,253

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

| | |
|----------------------|-----------|
| Interest payable | (391,432) |
| Compensated absences | (61,671) |

Certain revenues are offset by deferred revenue in the governmental funds because they are not available to pay for current period expenditures. This amount represents the amount by which prior year deferred revenue exceeded current year, including the \$700,000 allowance for an uncollectible loan. 4,178,021

Internal service funds are used by management to charge the costs of certain activities, such as replacement and maintenance, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities. 420,859

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (10,738,766)

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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

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

Internal Service Funds – These funds account for activities related to vehicle replacement, IT equipment replacement, and facilities maintenance.

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2010

| | <u>Enterprise Funds</u> | | <u>Totals</u> | <u>Governmental</u> |
|-------------------------------------|-------------------------|----------------------|----------------------|---------------------|
| | <u>Sewer</u> | <u>Hercules</u> | | <u>Activities -</u> |
| | <u>Fund</u> | <u>Municipal</u> | | <u>Internal</u> |
| | | <u>Utility</u> | | <u>Service</u> |
| | | <u>Fund</u> | | <u>Funds</u> |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and investments | \$ 2,892,415 | \$ 1,932,750 | \$ 4,825,165 | \$ 2,438,766 |
| Accounts receivable - net | 455 | 328,857 | 329,312 | 482 |
| Due from other funds | | 56,817 | 56,817 | |
| Inventory | | 259,644 | 259,644 | |
| Advance to other funds | 9,693,000 | | 9,693,000 | |
| | | | | |
| Total Current Assets | <u>12,585,870</u> | <u>2,578,068</u> | <u>15,163,938</u> | <u>2,439,248</u> |
| Capital Assets: | | | | |
| Nondepreciable: | | | | |
| Land | 150,000 | | 150,000 | |
| Construction in progress | 5,105,481 | 279,562 | 5,385,043 | |
| | | | | |
| Total Nondepreciable Capital Assets | <u>5,255,481</u> | <u>279,562</u> | <u>5,535,043</u> | |
| Depreciable: | | | | |
| Buildings and improvements | 11,335,199 | | 11,335,199 | |
| Infrastructure | 2,625,220 | 8,977,040 | 11,602,260 | |
| Machinery and equipment | 46,673 | 89,187 | 135,860 | 3,110,505 |
| | | | | |
| Total Depreciable Capital Assets | 14,007,092 | 9,066,227 | 23,073,319 | 3,110,505 |
| Less Accumulated Depreciation | <u>(8,720,745)</u> | <u>(1,036,399)</u> | <u>(9,757,144)</u> | <u>(1,954,546)</u> |
| Net Depreciable Capital Assets | <u>5,286,347</u> | <u>8,029,828</u> | <u>13,316,175</u> | <u>1,155,959</u> |
| Net Capital Assets | <u>10,541,828</u> | <u>8,309,390</u> | <u>18,851,218</u> | <u>1,155,959</u> |
| Total Noncurrent Assets | <u>10,541,828</u> | <u>8,309,390</u> | <u>18,851,218</u> | <u>1,155,959</u> |
| Total Assets | <u>\$ 23,127,698</u> | <u>\$ 10,887,458</u> | <u>\$ 34,015,156</u> | <u>\$ 3,595,207</u> |

(continued)

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

| | <u>Enterprise Funds</u> | | <u>Totals</u> | <u>Governmental</u> |
|--|-------------------------|--|----------------------|---|
| | <u>Sewer Fund</u> | <u>Hercules Municipal Utility Fund</u> | | <u>Activities- Internal Service Funds</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 490,701 | \$ 964,981 | \$ 1,455,682 | \$ 190,111 |
| Accrued wages | 11,547 | 18,870 | 30,417 | 21,300 |
| Due to other funds | | 79,257 | 79,257 | |
| Compensated absences | 11,432 | 20,970 | 32,402 | 17,770 |
| Total Current Liabilities | <u>513,680</u> | <u>1,084,078</u> | <u>1,597,758</u> | <u>229,181</u> |
| Noncurrent Liabilities: | | | | |
| Advances from other funds | | 1,634,104 | 1,634,104 | |
| Total Noncurrent Liabilities | | <u>1,634,104</u> | <u>1,634,104</u> | |
| Total Liabilities | <u>513,680</u> | <u>2,718,182</u> | <u>3,231,862</u> | <u>229,181</u> |
| NET ASSETS (DEFICITS) | | | | |
| Invested in capital assets, net of related debt | 10,541,828 | 8,309,390 | 18,851,218 | 1,155,959 |
| Unrestricted | 12,072,190 | (140,114) | 11,932,076 | 2,210,067 |
| Total Net Assets | <u>\$ 22,614,018</u> | <u>\$ 8,169,276</u> | <u>\$ 30,783,294</u> | <u>\$ 3,366,026</u> |

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2010

| | <u>Enterprise Funds</u> | | <u>Totals</u> | <u>Governmental</u> |
|---|-------------------------|--|----------------------|---|
| | <u>Sewer Fund</u> | <u>Hercules Municipal Utility Fund</u> | | <u>Activities- Internal Service Funds</u> |
| Operating Revenues: | | | | |
| Sales and charges for services | \$ 5,402,588 | \$ 2,634,327 | \$ 8,036,915 | \$ 789,293 |
| Other operating revenue | 366,636 | 40,322 | 406,958 | 353,043 |
| Total Operating Revenues | <u>5,769,224</u> | <u>2,674,649</u> | <u>8,443,873</u> | <u>1,142,336</u> |
| Operating Expenses: | | | | |
| Contractual services | 112,150 | 145,664 | 257,814 | |
| Maintenance and operation | 2,128,023 | 540,796 | 2,668,819 | |
| Purchase of electricity | | 1,762,543 | 1,762,543 | |
| Administration | 449,456 | 143,643 | 593,099 | 535,405 |
| Depreciation | 256,986 | 280,626 | 537,612 | 303,505 |
| Total Operating Expenses | <u>2,946,615</u> | <u>2,873,272</u> | <u>5,819,887</u> | <u>838,910</u> |
| Operating Income (Loss) | <u>2,822,609</u> | <u>(198,623)</u> | <u>2,623,986</u> | <u>303,426</u> |
| Non-Operating Revenues (Expenses): | | | | |
| Investment income (loss) | 760,819 | 70,325 | 831,144 | 12,364 |
| Reimbursements | | 155,743 | 155,743 | |
| Interest expense | | (53,985) | (53,985) | |
| Gain (loss) on sale of capital assets | (20,000) | | (20,000) | (17,204) |
| Fees and taxes | | (360,419) | (360,419) | |
| Total Non-Operating Revenue (Expenses) | <u>740,819</u> | <u>(188,336)</u> | <u>552,483</u> | <u>(4,840)</u> |
| Income (Loss) Before Transfers | <u>3,563,428</u> | <u>(386,959)</u> | <u>3,176,469</u> | <u>298,586</u> |
| Transfers: | | | | |
| Transfers in | | | | 122,273 |
| Transfers out | | (371,898) | (371,898) | |
| Change in Net Assets | <u>3,563,428</u> | <u>(758,857)</u> | <u>2,804,571</u> | <u>420,859</u> |
| Net Assets, July 1, 2009 | 19,050,590 | 9,008,879 | 28,059,469 | 2,945,167 |
| Prior period adjustments | | (80,746) | (80,746) | |
| Net Assets, July 1, 2009, restated | <u>19,050,590</u> | <u>8,928,133</u> | <u>27,978,723</u> | <u>2,945,167</u> |
| Net Assets, June 30, 2010 | <u>\$ 22,614,018</u> | <u>\$ 8,169,276</u> | <u>\$ 30,783,294</u> | <u>\$ 3,366,026</u> |

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010

| | <u>Enterprise Funds</u> | | <u>Totals</u> | <u>Governmental</u> |
|--|-------------------------|---------------------|---------------------|---------------------|
| | <u>Sewer</u> | <u>Hercules</u> | | <u>Activities -</u> |
| | <u>Fund</u> | <u>Municipal</u> | | <u>Internal</u> |
| | | <u>Utility</u> | | <u>Service</u> |
| | | <u>Fund</u> | | <u>Funds</u> |
| Cash Flows from Operating Activities: | | | | |
| Receipts from customers | \$ 5,768,769 | \$ 2,748,434 | \$ 8,517,203 | \$ 1,142,014 |
| Payments to suppliers and users | (2,967,944) | (5,190,087) | (8,158,031) | (244,878) |
| Payments to employees | (159,470) | (424,059) | (583,529) | (372,265) |
| Net Cash Provided (Used) by Operating Activities | <u>2,641,355</u> | <u>(2,865,712)</u> | <u>(224,357)</u> | <u>524,871</u> |
| Cash Flows from Non-Capital Financing Activities: | | | | |
| Fees and taxes | | (360,419) | (360,419) | |
| Reimbursements | | 155,743 | 155,743 | |
| Transfers in | | | | 122,273 |
| Transfers out | | (371,898) | (371,898) | |
| Net Cash Provided (Used) by Non-Capital Financing Activities | | <u>(576,574)</u> | <u>(576,574)</u> | <u>122,273</u> |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Purchase of capital assets | (1,129,192) | (262,506) | (1,391,698) | (282,651) |
| Payments received from other funds | | 5,474,793 | 5,474,793 | |
| Interest paid on debt | | (53,985) | (53,985) | |
| Advances from the City of Hercules | | 146,409 | 146,409 | |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(1,129,192)</u> | <u>5,304,711</u> | <u>4,175,519</u> | <u>(282,651)</u> |
| Cash Flows from Investing Activities: | | | | |
| Interest received | 760,819 | 70,325 | 831,144 | 12,364 |
| Net Cash Provided (Used) by Investing Activities | <u>760,819</u> | <u>70,325</u> | <u>831,144</u> | <u>12,364</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,272,982 | 1,932,750 | 4,205,732 | 376,857 |
| Cash and Cash Equivalents, July 1, 2009 | 619,433 | | 619,433 | 2,061,909 |
| Cash and Cash Equivalents, June 30, 2010 | <u>\$ 2,892,415</u> | <u>\$ 1,932,750</u> | <u>\$ 4,825,165</u> | <u>\$ 2,438,766</u> |
| Reconciliation of Cash and Cash Equivalents to Statement of Net Assets | | | | |
| Cash and investments | <u>\$ 2,892,415</u> | <u>\$ 1,932,750</u> | <u>\$ 4,825,165</u> | <u>\$ 2,438,766</u> |
| Total Cash and Investments | <u>\$ 2,892,415</u> | <u>\$ 1,932,750</u> | <u>\$ 4,825,165</u> | <u>\$ 2,438,766</u> |

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

(continued)

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010

| | <u>Enterprise Funds</u> | | <u>Totals</u> | <u>Governmental</u> |
|---|-------------------------|--|---------------------|---|
| | <u>Sewer Fund</u> | <u>Hercules Municipal Utility Fund</u> | | <u>Activities- Internal Service Funds</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating Income (Loss) | \$ 2,822,609 | \$ (198,623) | \$ 2,623,986 | \$ 303,426 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 256,986 | 280,626 | 537,612 | 303,505 |
| (Increase) Decrease in Operating Assets: | | | | |
| Accounts receivable | (455) | 73,785 | 73,330 | (322) |
| Inventory | | (2,365) | (2,365) | |
| Advances to other funds | (718,000) | | (718,000) | |
| Increase (Decrease) in Operating Liabilities: | | | | |
| Accounts payable | 271,711 | (265,526) | 6,185 | (79,603) |
| Accrued wages | 6,931 | (2,605) | 4,326 | 4,976 |
| Compensated absences | 1,573 | 1,120 | 2,693 | (7,111) |
| Due to other funds | | 79,257 | 79,257 | |
| Advances from other funds | | (2,831,381) | (2,831,381) | |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 2,641,355</u> | <u>\$ (2,865,712)</u> | <u>\$ (224,357)</u> | <u>\$ 524,871</u> |

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

FIDUCIARY FUND FINANCIAL STATEMENTS

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

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

CITY OF HERCULES
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2010

| | OPEB Trust Fund | Total Agency Funds |
|--|--------------------------------|-----------------------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash and investments | \$ 63,256 | \$ 7,134,050 |
| Cash and investments with fiscal agent | | 1,840,976 |
| Accounts receivable | | 796,423 |
| | <u>63,256</u> | <u>9,771,449</u> |
| Total Assets | | |
| LIABILITIES | | |
| Liabilities: | | |
| Accounts payable | | 834,368 |
| Compensated absences | | 14,242 |
| Deposits payable | | 8,922,839 |
| | | <u>9,771,449</u> |
| Total Liabilities | | |
| NET ASSETS | | |
| Unrestricted | <u>63,256</u> | <u> </u> |
| Total Net Assets | <u>\$ 63,256</u> | <u>\$ -</u> |

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

CITY OF HERCULES
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Fiscal Year Ended June 30, 2010

| | <u>OPEB Trust Fund</u> |
|----------------------------------|--------------------------------|
| Additions: | |
| Investment revenue | <u>\$ 25,127</u> |
| Total additions | <u>25,127</u> |
| Deductions: | |
| Employee benefits | 400 |
| Contribution to the general fund | <u>398,253</u> |
| Total deductions | <u>398,653</u> |
| Change in net assets | (373,526) |
| Net Assets - July 1, 2009 | <u>436,782</u> |
| Net Assets - June 30, 2010 | <u><u>\$ 63,256</u></u> |

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

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. The Agency provides services entirely for the benefit of the City of Hercules. The governing body is substantially the same as the primary government and the City and the component unit are financially interdependent; hence, the unit is blended with the primary government.

Hercules Public Financing Authority

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

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

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

B. Basis of Accounting and Measurement Focus

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Government-wide Financial Statements

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

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

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

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

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

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

Governmental Fund Financial Statements

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

The following are the description of the major funds:

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The following are the description of the major funds: (Continued)

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

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

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

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

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

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

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

Proprietary Fund Financial Statements

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

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

Hercules Municipal Utility 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
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

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

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

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the funds. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City’s Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units. When these assets are held under the terms of a formal trust agreement, a trust fund is used. The Other Postemployment Benefits (OPEB) trust fund is accounted for using the “economic resources” measurement focus. The OPEB trust fund is used to account for resources legally held in trust for special purposes. The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The OPEB trust fund is accounted for using the accrual basis of accounting. The City maintains ten fiduciary funds – OPEB Trust Fund, Westcat Transit Fund, West Contra Costa Integrated Waste Management Authority Fund, Reassessment District 91-1 Debt Service Fund, Reassessment District 05-1 Debt Service Fund, A. Nobel Reassessment Debt Service Fund, Taylor Woodrow Maintenance LMOD Fund, Hercules Community Library Fund, Hercules Golf Club Fund, and Pinole/Hercules Wastewater Treatment Plant Fund.

C. Cash and Investments

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

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

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

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Cash and Investments, Continued

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

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

D. Capital Assets

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

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

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

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

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

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

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

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

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Capital Assets, Continued

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

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

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

E. Long-Term Obligations

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

In the Governmental Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

F. Compensated Absences

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

G. Net Assets

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

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

Restricted for Lighting and Landscaping represents amounts accumulated for lighting and landscaping.

Restricted for Development represents impact fees and funds collected for future development.

Restricted for Streets and Roads represents taxes collected for streets and roads expenditures.

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.

Included in total restricted net assets at June 30, 2010 are net assets restricted by enabling legislation of \$9,207,588.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Net Assets, Continued

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

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

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

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

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

Reserved for Capital Projects represents the portion of fund balance that are reserved for capital projects per debt agreements.

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

H. Use of Restricted/Unrestricted Net Assets

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

I. Property Taxes, Tax Increment and Special Assessment Revenue

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

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

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Pronouncements

The City implemented the requirements of GASB Statements No. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.

GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 51, “*Accounting and Financial Reporting for Intangible Assets*”. This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce the inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*”. This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 57, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*”. This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 58, “*Accounting and Financial Reporting for Chapter 9 Bankruptcies*”. This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

2. CASH AND INVESTMENTS

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

| | | |
|---|--|----------------------|
| Statement of Net Assets: | | |
| Cash and investments | | \$ 31,736,201 |
| Cash and investments with fiscal agents | | 42,851,728 |
| Statement of Fiduciary Net Assets: | | |
| Cash and investments | | 7,197,306 |
| Cash and investments with fiscal agents | | <u>1,840,976</u> |
| Total | | <u>\$ 83,626,211</u> |

Cash and investments as of June 30, 2010 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 2,555 |
| Deposits with financial institutions | 3,040,055 |
| Investments | <u>80,583,601</u> |
| Total | <u>\$ 83,626,211</u> |

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

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|--|---------------------|---------------------------------------|--|
| Local Agency Investment Fund (State Pool) | N/A | \$50 million | \$50 million |
| U.S. Treasury Obligations | 30 years | 20% | None |
| U.S. Government Agency Issues | 30 years | 20% | None |
| Insured Deposits with Banks and Savings and Loans | N/A | None | None |
| Bankers Acceptance (must be dollar denominated) | 6 months | 40% | 30% |
| Commercial Paper | 6 months | 15% | 10% |
| Negotiable Time Certificates of Deposit | 5 years | 30% | \$100,000 |
| Non-negotiable Time Certificates of Deposit | 5 years | 30% | \$100,000 |
| Federally insured Time Deposits | 1 year | 20% | None |
| Repurchase Agreements | 30 days | None | None |
| Reverse Repurchase Agreements | 92 days | 20% | None |
| Medium-Term Notes | 5 years | 30% | 15% |
| Mutual Funds | N/A | 20% | None |
| Money Market Funds | N/A | None | None |
| Insured or Passbook Savings Accounts | N/A | None | \$100,000 |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

2. CASH AND INVESTMENTS, CONTINUED

Investments Authorized by Debt Agreements

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|--|---------------------|---------------------------------------|--|
| Local Agency Investment Fund (State Pool) | N/A | None | None |
| U.S. Treasury Obligations | 30 years | 20% | None |
| U.S. Government Agency Issues | 30 years | 20% | None |
| Insured Deposits with Banks and Savings and Loans | N/A | None | None |
| Bankers Acceptance (must be dollar denominated) | 6 months | 40% | 30% |
| Commercial Paper | 6 months | 15% | 10% |
| Negotiable Time Certificates of Deposit | 5 years | 30% | None |
| Non-negotiable Time Certificates of Deposit | 5 years | 30% | None |
| Federally insured Time Deposits | 1 year | 20% | None |
| Repurchase Agreements | 30 days | None | None |
| Reverse Repurchase Agreements | 92 days | 20% | None |
| Medium-Term Notes | 5 years | 30% | 15% |
| Mutual Funds | N/A | 20% | None |
| Money Market Funds | N/A | None | None |
| Insured or Passbook Savings Accounts | N/A | None | None |
| Guaranteed Investment Contracts | N/A | None | None |

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Interest Rate Risk

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

2. CASH AND INVESTMENTS, CONTINUED

Disclosures Relating to Interest Rate Risk, Continued

| Investment Type | Totals | Remaining Maturity (in Months) | | | | | |
|------------------------------------|----------------------|--------------------------------|--------------------|-------------------|---------------------|----------------------|------------------------|
| | | 12 Months Or Less | 13 to 24 Months | 25-36 Months | 37-48 Months | 49-60 Months | More Than 60 Months |
| State Investment Pool | \$ 8,637,432 | \$ 8,637,432 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Certificates of Deposit | 206,723 | | | 206,723 | | | |
| U.S. Agency Securities | 27,046,743 | 18,055 | 269,793 | 336,233 | 2,357,445 | 22,378,799 | 1,686,418 |
| Held by debt trustees: | | | | | | | |
| Money Market Funds | 41,984,678 | 41,984,678 | | | | | |
| Guaranteed Investment Contracts | 1,473,457 | 393,942 | | | | | 1,079,515 |
| State Investment Pool | 1,234,568 | 1,234,568 | | | | | |
| | <u>\$ 80,583,601</u> | <u>\$ 52,268,675</u> | <u>\$ 269,793</u> | <u>\$ 542,956</u> | <u>\$ 2,357,445</u> | <u>\$ 22,378,799</u> | <u>\$ 2,765,933</u> |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

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

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

Disclosures Relating to Credit Risk

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

| Investment Type | Amount | Minimum Legal Rating | Exempt From Disclosure | Rating as of Fiscal Year End | | | |
|------------------------------------|----------------------|----------------------------|------------------------------|------------------------------|----------------------|-------------|----------------------|
| | | | | AAA | AA | A | Not Rated |
| State Investment Pool | \$ 8,637,432 | N/A | N/A | \$ - | \$ - | \$ - | \$ 8,637,432 |
| Certificates of Deposit | 206,723 | N/A | N/A | | | | 206,723 |
| U.S. Agency Securities | 27,046,743 | | | 23,403,433 | | | 3,643,310 |
| Held by debt trustees: | | | | | | | |
| Money Market Funds | 41,984,678 | N/A | N/A | 41,984,678 | | | |
| Guaranteed Investment Contracts | 1,473,457 | N/A | N/A | | | | 1,473,457 |
| State Investment Pool | 1,234,568 | N/A | N/A | | | | 1,234,568 |
| Total | <u>\$ 80,583,601</u> | | | <u>\$ -</u> | <u>\$ 65,388,111</u> | <u>\$ -</u> | <u>\$ 15,195,490</u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

2. CASH AND INVESTMENTS, CONTINUED

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent more than 5% of total City investments are as follows:

| Issuer | Investment Type | Reporting Amount |
|------------------------|------------------------|---------------------|
| FHLMC | U.S. Agency Securities | \$ 14,330,127 |
| FNMA | U.S. Agency Securities | 5,375,066 |
| Federal Home Loan Bank | U.S. Agency Securities | 7,323,500 |

Due to the City's pooling of its cash and investments, it is indeterminable of the amounts of concentration included in individual opinion units.

Custodial Credit Risk

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

As of June 30, 2010, \$2,739,961 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

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

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The LAIF fair value factor of 1.001643776 was used to calculate the fair value of the investments in LAIF. The fair value factor was applied to selected funds by the City.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

3. LOANS RECEIVABLE

Loans Receivable

Loans receivable at June 30, 2010, consisted of the following:

| | | |
|---------------------------------------|----|---------------|
| Bridge Housing Corporation | \$ | 1,799,198 |
| Eden Housing | | 700,000 |
| Sycamore by the Bay | | 300,000 |
| Radston's Office Plus | | 375,000 |
| First Time Homebuyers | | 4,002,890 |
| Affordable Housing | | 4,539,702 |
| Business Development Loans | | 1,703,556 |
| Bio-Rad Loan | | 1,997,082 |
| Home Emergency Loans | | 12,077 |
| Employee Loans | | 250,000 |
| Subtotal | | 15,679,505 |
| Less: Reported as interest receivable | | 524,598 |
| Allowance for uncollectible loan | | 700,000 |
| Total | | \$ 14,454,907 |

A. Bridge Housing Corporation

The City loaned the Bridge Housing Corporation (Corporation) \$1,400,000 to finance construction of a sixty unit senior citizen housing development next to City Hall. On September 8, 1998, the City approved an addition to the loan of \$114,600 for a total of \$1,514,600. On January 1, 1999, the loan began to accrue interest at the rate of 3.5% per year and is repayable in 2041, subject to certain conditions. The construction was completed in September 1999. On March 2, 2000, the Corporation repaid \$115,000 to the City. As of June 30, 2010, the Corporation's loan balance was \$1,799,198, which includes \$399,598 of interest reported as interest receivable.

B. Eden Housing Loan

On July 1, 2002, the City loaned Eden Housing, Inc. \$700,000 to assist in the development of low and moderate income housing for senior citizens. The loan does not bear interest. The repayment of the loan is only due and payable if a default has been declared by the City 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 City. The balance outstanding as of June 30, 2010 was \$700,000. An allowance of \$700,000 has been established for this loan, due to its terms.

C. Radston's Office Plus

On December 5, 2000, the City entered into a promissory note agreement with the Radston's Office Plus (Payors) in the amount of \$250,000 with interest at 5% per annum. All principal and interest is deferred until December 5, 2010. Commencing on December 5, 2010, the Payors shall pay a lump-sum cash amount of \$125,000 which represents all deferred and unpaid interest only. The principal balance of \$250,000 will be fully amortized and paid over the next ten years at \$2,652 per month, principal and interest, commencing on December 5, 2010. The loan is secured by a Deed of Trust on real property. As of June 30, 2010, the outstanding balance of the loan was \$375,000, which includes \$125,000 of interest reported as interest receivable.

D. First Time Homebuyers

The City has provided various loan programs for First Time Homebuyers. In general, they provide secondary financing for low and moderate buyers in the City of Hercules that have deferred payments in order to allow the buyer to maximize their purchasing capacity. The loan has a repayment period of 20 years and payment is deferred in the first 10 years of the loan. The loan has a simple interest rate is at 3%, which will not be accrued during the deferred period. The balance outstanding as of June 30, 2010 was \$4,002,890.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

3. LOANS RECEIVABLE, CONTINUED

E. Affordable Housing Loans

The City has provided various loan programs for Affordable Housing assistance. The first is the Below Market Rate Program, which provides secondary financing for low to moderate income persons who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area. This is available to City employees as well. The repayment period varies from 10 to 30 years with a deferred period of 10 to 20 years and no interest will be accrued. The second is the Rehabilitation and Beautification Program, which provides financial assistance to rehabilitate properties. Borrowers are individuals and families who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area. The loan has a repayment period of 20 years and payment is deferred for the first 10 years of the loan. The loan has a simple interest rate of 3%, which will not be accrued during the deferred period. The balance outstanding of the Affordable Housing Assistance loans as of June 30, 2010 was \$4,539,702.

F. Employee Loan (Related Party)

The City loaned \$250,000 to the City Manager for the purchase of a residence within the City of Hercules. The loan is to be repaid from the proceeds of the sale of the house with no interest when the contract between the City and the City Manager is terminated. The balance outstanding as of June 30, 2010 was \$250,000. Subsequent to June 30, 2010 the City Manager terminated his employment with the City and signed a separation agreement that extends the repayment of the loan to January 9, 2016.

G. Home Emergency Loans

On September 19, 2002, the City entered into several home emergency loans in various amounts with interest at 5% per annum. The principal amount of the loans including interest is to be due and payable in one lump sum if the owners cease to occupy the property or upon any transfer, refinance, sale, or conveyance of all or a part of the property. The balance outstanding as of June 30, 2010 was \$12,077.

H. Business Development Loans

The City established the Business Development Loan Program (BDLP) to provide low cost financial assistance to businesses within the City of Hercules. The BDLP offers a secured loan of up to \$75,000, a term not greater than 20 years, and a simple interest rate of 3% per annum. All applicants are evaluated and prioritized according to established program criteria and if funded are subject to various terms, conditions, and fees. These fees will be deducted from the final loan award by the escrow administrator at the time of funding. The balance outstanding as of June 30, 2010 was \$3,700,638.

I. Bio-Rad Loan

The City advanced Bio-Rad Laboratories, Inc. \$2,000,000 in order to construct various tenant improvements in one or more of the buildings located at 203-295 Linus Pauling Drive. The terms of the loan call for monthly payments of \$10,418.09, at an interest rate of 4.5% per annum, with repayments commencing May 15, 2010 through September 14, 2038. The balance outstanding as of June 30, 2010 was \$1,997,082.

J. Sycamore by the Bay

The City entered into a settlement agreement with Semik and Laura Oungoulian (Oungoulian) on April 6, 2006 concerning a dispute over development fees owed by Oungoulian for a 91 unit Senior Housing Project located at 1550 Sycamore Avenue, Hercules (Project). Under the settlement agreement, Oungoulian will pay the City the sum of \$550,000 to resolve all claims concerning development fees that Oungoulian owes to the City for the Project. Oungoulian paid \$250,000 to the City on May 22, 2008 prior to the final settlement agreement. The rest of the settlement amount, \$300,000, was setup as an installment note with the City with a 3.25% interest rate per annum. The balance outstanding as of June 30, 2010 was \$300,000.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

4. DEFERRED REVENUE

Fund Financial Statements

At June 30, 2010, the following deferred revenues were recorded in the Governmental Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

| | | |
|----------------------------|----|--------------------------|
| Loans Receivable: | | |
| Bridge Housing Corporation | \$ | 1,799,198 |
| Eden Housing | | 700,000 |
| Sycamore by the Bay | | 300,000 |
| Radston's Office Plus | | 375,000 |
| First Time Homebuyers | | 4,002,890 |
| Affordable Housing | | 4,539,702 |
| Business Development Loans | | 1,703,556 |
| Home Emergency Loans | | 12,077 |
| Employee Loans | | 250,000 |
| Lease Receivable: | | |
| Capital Lease-Sales Type | | 9,433,337 |
| Accounts Receivable | | <u>690,795</u> |
| Total | \$ | <u><u>23,806,555</u></u> |

5. CAPITAL ASSETS

At June 30, 2010, the City's capital assets consisted of the following:

| | Governmental Activities | Business-type Activities | Total |
|----------------------------------|------------------------------|-----------------------------|------------------------------|
| Nondepreciable Assets: | | | |
| Land | \$ 35,753,896 | \$ 150,000 | \$ 35,903,896 |
| Construction in progress | <u>52,463,180</u> | <u>5,385,043</u> | <u>57,848,223</u> |
| Total nondepreciable assets | <u>88,217,076</u> | <u>5,535,043</u> | <u>93,752,119</u> |
| Depreciable Assets: | | | |
| Land improvements | 9,661,951 | | 9,661,951 |
| Building and improvements | 30,486,070 | 11,335,199 | 41,821,269 |
| Machinery and equipment | 4,317,569 | 135,860 | 4,453,429 |
| Infrastructure | <u>77,666,574</u> | <u>11,602,260</u> | <u>89,268,834</u> |
| Total depreciable assets | 122,132,164 | 23,073,319 | 145,205,483 |
| Less accumulated depreciation | <u>(48,339,325)</u> | <u>(9,757,144)</u> | <u>(58,096,469)</u> |
| Total depreciable assets, net | <u>73,792,839</u> | <u>13,316,175</u> | <u>87,109,014</u> |
| Total capital assets, net | <u><u>\$ 162,009,915</u></u> | <u><u>\$ 18,851,218</u></u> | <u><u>\$ 180,861,133</u></u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

5. CAPITAL ASSETS, CONTINUED

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

| | Balance July 1, 2009 | Additions | Deletions | Transfers | Balance June 30, 2010 |
|-------------------------------------|-------------------------|----------------------|--------------------|--------------------|--------------------------|
| Governmental Activities | | | | | |
| Nondepreciable capital assets: | | | | | |
| Land | \$ 33,734,373 | \$ 1,860,323 | \$ - | \$ 159,200 | \$ 35,753,896 |
| Construction in progress | 29,759,162 | 27,223,550 | | (4,519,532) | 52,463,180 |
| Total nondepreciable capital assets | <u>63,493,535</u> | <u>29,083,873</u> | | <u>(4,360,332)</u> | <u>88,217,076</u> |
| Depreciable capital assets: | | | | | |
| Land improvements | 5,482,984 | 225,910 | | 3,953,057 | 9,661,951 |
| Buildings and improvements | 29,720,754 | 358,041 | | 407,275 | 30,486,070 |
| Machinery and equipment | 4,052,122 | 282,651 | (17,204) | | 4,317,569 |
| Infrastructure | 76,622,710 | 1,043,864 | | | 77,666,574 |
| Total depreciable capital assets | <u>115,878,570</u> | <u>1,910,466</u> | <u>(17,204)</u> | <u>4,360,332</u> | <u>122,132,164</u> |
| Accumulated depreciation: | | | | | |
| Land improvements | (2,395,242) | (406,512) | | | (2,801,754) |
| Buildings and improvements | (5,198,974) | (607,464) | | | (5,806,438) |
| Machinery and equipment | (2,505,647) | (350,248) | | | (2,855,895) |
| Infrastructure | (34,720,175) | (2,155,063) | | | (36,875,238) |
| Total accumulated depreciation | <u>(44,820,038)</u> | <u>(3,519,287)</u> | | | <u>(48,339,325)</u> |
| Net depreciable capital assets | <u>71,058,532</u> | <u>(1,608,821)</u> | <u>(17,204)</u> | <u>4,360,332</u> | <u>73,792,839</u> |
| Net capital assets | <u>\$ 134,552,067</u> | <u>\$ 27,475,052</u> | <u>\$ (17,204)</u> | <u>\$ -</u> | <u>\$ 162,009,915</u> |

Depreciation Allocation

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

| | |
|--|---------------------|
| Governmental Activities: | |
| General government | \$ 621,015 |
| Public safety | 32,558 |
| Public works | 2,282,019 |
| Parks and recreation | 270,864 |
| Community development | <u>312,831</u> |
| Total Depreciation Expense-Governmental Activities | <u>\$ 3,519,287</u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

5. CAPITAL ASSETS, CONTINUED

| | Balance July 1, 2009 | Additions | Deletions | Transfers | Balance June 30, 2010 |
|-------------------------------------|-------------------------|--------------------|--------------------|-------------|--------------------------|
| Business-type Activities | | | | | |
| Sewer | | | | | |
| Nondepreciable capital assets: | | | | | |
| Land | \$ 150,000 | \$ - | \$ - | \$ - | \$ 150,000 |
| Construction in progress | 4,566,697 | 538,784 | | | 5,105,481 |
| Total nondepreciable capital assets | <u>4,716,697</u> | <u>538,784</u> | | | <u>5,255,481</u> |
| Depreciable capital assets: | | | | | |
| Buildings and improvements | 11,278,754 | | | 56,445 | 11,335,199 |
| Machinery and equipment | 46,673 | | | | 46,673 |
| Infrastructure | 2,111,257 | 590,408 | (20,000) | (56,445) | 2,625,220 |
| Total depreciable capital assets | <u>13,436,684</u> | <u>590,408</u> | <u>(20,000)</u> | | <u>14,007,092</u> |
| Less accumulated depreciation | <u>(8,463,759)</u> | <u>(256,986)</u> | | | <u>(8,720,745)</u> |
| Net depreciable capital assets | <u>4,972,925</u> | <u>333,422</u> | <u>(20,000)</u> | | <u>5,286,347</u> |
| Net capital assets | <u>\$ 9,689,622</u> | <u>\$ 872,206</u> | <u>\$ (20,000)</u> | <u>\$ -</u> | <u>\$ 10,541,828</u> |
| Hercules Municipal Utility | | | | | |
| Nondepreciable capital assets: | | | | | |
| Construction in progress | \$ 120,739 | \$ 158,823 | \$ - | \$ - | \$ 279,562 |
| Total nondepreciable capital assets | <u>120,739</u> | <u>158,823</u> | | | <u>279,562</u> |
| Depreciable capital assets: | | | | | |
| Machinery and equipment | 42,878 | 46,309 | | | 89,187 |
| Infrastructure | 8,919,666 | 57,374 | | | 8,977,040 |
| Total depreciable capital assets | <u>8,962,544</u> | <u>103,683</u> | | | <u>9,066,227</u> |
| Less accumulated depreciation | <u>(755,773)</u> | <u>(280,626)</u> | | | <u>(1,036,399)</u> |
| Net depreciable capital assets | <u>8,206,771</u> | <u>(176,943)</u> | | | <u>8,029,828</u> |
| Net capital assets | <u>\$ 8,327,510</u> | <u>\$ (18,120)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,309,390</u> |

Depreciation Allocation

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

| | |
|---|-------------------|
| Business-Type Activities: | |
| Sewer | \$ 256,986 |
| Hercules Municipal Utility | <u>280,626</u> |
| Total Depreciation Expense-Business-type Activities | <u>\$ 537,612</u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

7. COMPENSATED ABSENCES

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

| | July 1, 2009 Balance | Additions | Reductions | June 30, 2010 Balance | Due Within One Year |
|--------------------------|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| Governmental Activities | \$ 647,325 | \$ 562,441 | \$ (507,881) | \$ 701,885 | \$ 525,000 |
| Business-type Activities | 29,709 | 29,639 | (26,946) | 32,402 | 32,402 |
| | <u>\$ 677,034</u> | <u>\$ 592,080</u> | <u>\$ (534,827)</u> | <u>\$ 734,287</u> | <u>\$ 557,402</u> |

\$17,770 of the compensated absences balance of the governmental activities is recorded in the statement of net assets of the internal service funds.

8. LONG-TERM OBLIGATIONS

Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

| | Balance July 1, 2009 | Prior Period Adjustment | Additions | Reductions | Balance June 30, 2010 | Due within one year |
|---|-------------------------|----------------------------|----------------------|------------------------|--------------------------|------------------------|
| Governmental activities: | | | | | | |
| 2005 Tax Allocation Bonds | \$ 52,180,000 | \$ - | \$ - | \$ (1,520,000) | \$ 50,660,000 | \$ 1,575,000 |
| Premium on 2005 Tax Allocation Bonds | 1,885,840 | | | (72,532) | 1,813,308 | 72,532 |
| Deferred loss on refunding for the 2005 Tax Allocation Bonds | (252,340) | | | 9,705 | (242,635) | (9,705) |
| 2007 Housing Tax Allocation Bonds, Series A | 12,910,000 | | | (240,000) | 12,670,000 | 255,000 |
| 2007 Housing Tax Allocation Bonds, Series B | 12,525,000 | | | (250,000) | 12,275,000 | 260,000 |
| Premium on 2007 Housing Tax Allocation Bonds, Series B | 75,514 | | | (3,146) | 72,368 | 3,146 |
| 2007 Tax Allocation Bonds | 58,410,000 | | | (1,130,000) | 57,280,000 | 1,185,000 |
| 2003A PFA Lease Revenue Bonds | 6,630,000 | | | (6,630,000) | | |
| 2003B PFA Lease Revenue Bonds | 8,250,000 | | | (195,000) | 8,055,000 | 200,000 |
| 2009 PFA Taxable Lease Revenue Bonds | | | 10,080,000 | | 10,080,000 | 165,000 |
| Discount on 2009 PFA Taxable Lease Revenue Bonds | | | (501,599) | 17,297 | (484,302) | (17,297) |
| 2010 PFA Revenue Refunding Bonds | | | 7,425,000 | | 7,425,000 | |
| Discount on 2010 PFA Revenue Refunding Bonds | | | (217,779) | | (217,779) | (7,778) |
| Loss on Refunding for the 2010 PFA Revenue Refunding Bonds | | | (213,306) | | (213,306) | (7,618) |
| Long-term Notes Payable | 452,949 | | | (50,926) | 402,023 | 54,952 |
| H.E.L.P Loan | 1,600,000 | | | | 1,600,000 | |
| R.D.L.P. Loan | | 3,190,198 | 559,802 | | 3,750,000 | |
| Suntrust Lease | 2,029,317 | | | (110,402) | 1,918,915 | 115,686 |
| Total long-term obligations | <u>\$ 156,696,280</u> | <u>\$ 3,190,198</u> | <u>\$ 17,132,118</u> | <u>\$ (10,175,004)</u> | <u>\$ 166,843,592</u> | <u>\$ 3,843,918</u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

2005 Tax Allocation Bonds

On August 5, 2005, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, Series 2005, in the amount of \$56,260,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area and refund the Agency's Subordinate Tax Allocation Bonds, Series 2001. The Bonds mature annually each August 1 from 2006 to 2035, in amounts ranging from \$740,000 to \$2,960,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semiannually on February 1 and August 1. The Bonds maturing on or after August 1, 2016, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2015, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2010 is \$50,660,000.

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

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|----------------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 1,575,000 | \$ 2,390,336 | \$ 3,965,336 |
| 2012 | 1,640,000 | 2,327,266 | 3,967,266 |
| 2013 | 1,705,000 | 2,264,856 | 3,969,856 |
| 2014 | 1,765,000 | 2,199,536 | 3,964,536 |
| 2015 | 1,835,000 | 2,119,841 | 3,954,841 |
| 2016-2020 | 9,785,000 | 9,151,094 | 18,936,094 |
| 2021-2025 | 8,715,000 | 6,977,257 | 15,692,257 |
| 2026-2030 | 11,100,000 | 4,536,109 | 15,636,109 |
| 2031-2035 | 11,765,000 | 1,480,639 | 13,245,639 |
| 2036 | 775,000 | 19,025 | 794,025 |
| Subtotal | 50,660,000 | 33,465,959 | 84,125,959 |
| Plus: Premium | 1,813,018 | | 1,813,018 |
| Less: Deferred Loss on Refunding | (242,635) | | (242,635) |
| Total | <u>\$ 52,230,383</u> | <u>\$ 33,465,959</u> | <u>\$ 85,696,342</u> |

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferred loss on refunding of debt which is reported as part of long-term debt. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest. The total amount of the deferred loss was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year 2009-2010 was \$9,705, and the accumulated amortization at June 30, 2010 was \$48,525.

2007 Housing Tax Allocation Bonds Series A and B

On July 26, 2007, the Redevelopment Agency issued Hercules Merged Project Area Housing Tax Allocation Bonds, 2007 Series A, in the amount of \$13,130,000 and 2007 Series B, in the amount of 12,760,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2033, in amounts ranging from \$220,000 to \$950,000 and bear interest at rates ranging from 3.50% to 6.125%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after August 1, 2017, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2010 for 2007 Series A and Series B are \$12,670,000 and \$12,275,000 respectively.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

The annual debt service requirements to maturity at June 30, 2010 of the 2007 Series A are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 255,000 | \$ 754,056 | \$ 1,009,056 |
| 2012 | 270,000 | 739,619 | 1,009,619 |
| 2013 | 285,000 | 724,356 | 1,009,356 |
| 2014 | 300,000 | 707,968 | 1,007,968 |
| 2015 | 315,000 | 690,441 | 1,005,441 |
| 2016-2020 | 1,875,000 | 3,149,979 | 5,024,979 |
| 2021-2025 | 2,505,000 | 2,501,026 | 5,006,026 |
| 2026-2030 | 3,360,000 | 1,612,406 | 4,972,406 |
| 2031-2034 | 3,505,000 | 445,134 | 3,950,134 |
| Total | <u>\$ 12,670,000</u> | <u>\$ 11,324,985</u> | <u>\$ 23,994,985</u> |

The annual debt service requirements to maturity at June 30, 2010 of the 2007 Series B are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|----------------------|---------------------|----------------------|
| 2011 | \$ 260,000 | \$ 564,786 | \$ 824,786 |
| 2012 | 315,000 | 553,241 | 868,241 |
| 2013 | 325,000 | 540,351 | 865,351 |
| 2014 | 340,000 | 526,775 | 866,775 |
| 2015 | 350,000 | 512,506 | 862,506 |
| 2016-2020 | 1,990,000 | 2,324,780 | 4,314,780 |
| 2021-2025 | 2,470,000 | 1,832,500 | 4,302,500 |
| 2026-2030 | 3,130,000 | 1,155,941 | 4,285,941 |
| 2031-2034 | 3,095,000 | 315,794 | 3,410,794 |
| Subtotal | 12,275,000 | 8,326,674 | 20,601,674 |
| Plus Premium | 72,368 | | 72,368 |
| Total | <u>\$ 12,347,368</u> | <u>\$ 8,326,674</u> | <u>\$ 20,674,042</u> |

2007 Tax Allocation Bonds Series A

On December 20, 2007, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, 2007 Series A, in the amount of \$60,555,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area. The Bonds mature annually each August 1 from 2009 to 2043, in amounts ranging from \$260,000 to \$3,315,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semi-annually on February 1 and August 1. The Bonds maturing on or after August 1, 2018, are subject to optional redemption prior to maturity at the option of the Agency on or after February 1, 2018, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue account. The balance at June 30, 2010 is \$57,280,000

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

2007 Tax Allocation Bonds Series A, Continued

The annual debt service requirements to maturity at June 30, 2010, are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|----------------------|----------------------|-----------------------|
| 2011 | \$ 1,185,000 | \$ 2,670,983 | \$ 3,855,983 |
| 2012 | 1,240,000 | 2,610,358 | 3,850,358 |
| 2013 | 1,300,000 | 2,546,858 | 3,846,858 |
| 2014 | 1,360,000 | 2,480,358 | 3,840,358 |
| 2015 | 1,430,000 | 2,410,608 | 3,840,608 |
| 2016-2020 | 2,160,000 | 11,734,135 | 13,894,135 |
| 2021-2025 | 5,710,000 | 10,829,463 | 16,539,463 |
| 2026-2030 | 6,465,000 | 9,371,384 | 15,836,384 |
| 2031-2035 | 9,625,000 | 7,716,215 | 17,341,215 |
| 2036-2040 | 17,310,000 | 4,132,020 | 21,442,020 |
| 2041-2044 | 9,495,000 | 702,812 | 10,197,812 |
| Total | <u>\$ 57,280,000</u> | <u>\$ 57,205,194</u> | <u>\$ 114,485,194</u> |

2003B Public Financing Authority Lease Revenue Bonds

The Public Financing Authority issued lease revenue bonds, series 2003B, dated October 15, 2003, totaling \$9,150,000. The purpose of the bonds was to refinance the 1994 Refunding Certificates of Participation and to finance a portion of the construction for a public library. The interest rate on the bonds ranges from 2.00% to 5.00%. The interest is payable semiannually on June 1 and December 1, commencing December 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the facility lease. Principal is due annually beginning on December 1, 2005, in amounts ranging from \$170,000 to \$2,480,000. The bonds mature on December 1, 2033. The balance at June 30, 2010 is \$8,055,000.

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

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|---------------------|---------------------|----------------------|
| 2011 | \$ 200,000 | \$ 370,798 | \$ 570,798 |
| 2012 | 205,000 | 364,110 | 569,110 |
| 2013 | 210,000 | 356,585 | 566,585 |
| 2014 | 220,000 | 348,468 | 568,468 |
| 2015 | 230,000 | 339,688 | 569,688 |
| 2016-2020 | 1,285,000 | 1,540,665 | 2,825,665 |
| 2021-2025 | 1,625,000 | 1,199,639 | 2,824,639 |
| 2026-2030 | 2,050,000 | 765,502 | 2,815,502 |
| 2031-2034 | 2,030,000 | 209,250 | 2,239,250 |
| Total | <u>\$ 8,055,000</u> | <u>\$ 5,494,705</u> | <u>\$ 13,549,705</u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

2009 Public Financing Authority Taxable Lease Revenue Bonds (Bio-Rad Project)

The Authority issued taxable lease revenue bonds, series 2009, dated July 29, 2009, totaling \$10,080,000. The purpose of the bonds was to finance the acquisition of certain commercial condominium properties, consisting of approximately 96,847 square feet located at 203-295 Linus Pauling Drive within the City from the City, funding a reserve fund for the Bonds and to paying the costs of issuance of the Bonds. The interest rates on the bonds range from 6.00% to 8.40%. The interest is payable semiannually on January 1 and July 1, commencing January 1, 2010. The bonds are subject to optional special mandatory redemption, and mandatory sinking account redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the property lease. Principal is due annually beginning on July 1, 2010, in amounts ranging from \$165,000 to \$845,000. The bonds mature on July 1, 2038. The balance at June 30, 2010 is \$10,080,000.

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

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 165,000 | \$ 809,765 | \$ 974,765 |
| 2012 | 115,000 | 801,365 | 916,365 |
| 2013 | 120,000 | 794,315 | 914,315 |
| 2014 | 130,000 | 786,815 | 916,815 |
| 2015 | 135,000 | 778,865 | 913,865 |
| 2016-2020 | 830,000 | 3,736,525 | 4,566,525 |
| 2021-2025 | 1,185,000 | 3,354,430 | 4,539,430 |
| 2026-2030 | 1,765,000 | 2,753,419 | 4,518,419 |
| 2031-2035 | 2,625,000 | 1,851,150 | 4,476,150 |
| 2036-2039 | 3,010,000 | 530,880 | 3,540,880 |
| Total | <u>\$ 10,080,000</u> | <u>\$ 16,197,529</u> | <u>\$ 26,277,529</u> |

2010 Public Financing Authority Revenue Refunding Bonds (Electric System Project)

The Authority issued revenue refunding bonds, series 2010, dated June 28, 2010, totaling \$7,425,000. The purpose of the bonds was to refund the Hercules Public Financing Authority Lease Revenue Bonds Series 2003A currently outstanding in the principal amount of \$6,495,000, fund a reserve fund for the Bonds, and pay the costs of issuance of the Bonds. The interest rates on the bonds range from 2.500% to 5.375%. The interest is payable semiannually on February 1 and August 1, commencing February 1, 2011. The bonds are subject to special mandatory redemption, mandatory sinking fund redemption, and redemption from optional prepayment of Installment Payments prior to maturity. The bonds are payable from and secured by installment payments to be paid by the City under the Installment Sale Agreement and the City's advance payments under the Cooperation Agreement. Principal is due annually beginning on August 1, 2011, in amounts ranging from \$160,000 to \$495,000. The bonds mature on August 1, 2038. The balance at June 30, 2010 is \$7,425,000.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

2010 Public Financing Authority Revenue Refunding Bonds (Electric System Project) (Continued)

Future debt service requirements on the 2010 Public Financing Authority Revenue Refunding bonds are:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|----------------------------------|---------------------|---------------------|----------------------|
| 2011 | \$ - | \$ 394,938 | \$ 394,938 |
| 2012 | | 361,775 | 361,775 |
| 2013 | 160,000 | 361,775 | 521,775 |
| 2014 | 165,000 | 357,775 | 522,775 |
| 2015 | 170,000 | 353,238 | 523,238 |
| 2016-2020 | 945,000 | 1,672,693 | 2,617,693 |
| 2021-2025 | 1,175,000 | 1,446,375 | 2,621,375 |
| 2026-2030 | 1,480,000 | 1,129,663 | 2,609,663 |
| 2031-2035 | 1,920,000 | 699,288 | 2,619,288 |
| 2036-2039 | 1,410,000 | 154,262 | 1,564,262 |
| Subtotal | 7,425,000 | 6,931,782 | 14,356,782 |
| Less: Discount | (217,779) | | (217,779) |
| Less: Deferred Loss on Refunding | (213,306) | | (213,306) |
| Total | <u>\$ 6,993,915</u> | <u>\$ 6,931,782</u> | <u>\$ 13,925,697</u> |

In connection with the issuance of the 2010 PFA Revenue Refunding Bonds, the Authority recorded a deferred loss on refunding of debt which is reported as part of long-term debt. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest and the write-off of the cost of issuance of the defeased 2003A Public Financing Authority Lease Revenue Bonds. The total amount of the deferred loss was \$213,306 which will be amortized over the life of the bond.

H.E.L.P. Loan Payable

In April 2005 the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency), a public instrumentality and political subdivision of the State of California to develop a 50-unit multifamily rental project that is a component to a mixed-used development, also consisting of 26,825 square feet of ground-floor commercial space. The Agency has authorized the making of a loan in the amount of \$1,600,000 known as the Housing Enabled by Local Partnerships (HELP) to the City of Hercules for the purpose of assisting in operating a local housing program. Under the terms of this agreement the City of Hercules agrees to reimburse the Agency \$1,600,000, 10 years from April 11, 2005 at a 3% simple per annum interest. Interest is to be charged only on funds disbursed. As of June 30, 2010, only \$1,600,000 has been provided to the City.

R.D.L.P. Loan Payable

In February 2007, the City of Hercules entered into a loan agreement with the California Housing Finance Agency (Agency) in the amount of \$3,750,000 (\$1,750,000 for predevelopment costs and \$2,000,000 for construction costs). The funds will be used to assist with site acquisition, predevelopment, and construction costs for 23 affordable ownership units within a 52-unit condominium project, which is a component to the Sycamore Downtown Street project, a mixed-use, mixed-income development. Under the terms of the agreement, the City of Hercules agrees to repay the Agency \$3,750,000, 4 years from February 2007 at 3% simple per annum interest. In August 2010, the repayment date was extended to August 15, 2011. The balance at June 30, 2010 is \$3,750,000.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

R.D.L.P. Loan Payable (Continued)

Future debt service requirements on the R.D.L.P. loan are:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|---------------------|-------------------|---------------------|
| 2011 | \$ - | \$ - | \$ - |
| 2012 | 3,750,000 | 187,500 | 3,937,500 |
| Total | <u>\$ 3,750,000</u> | <u>\$ 187,500</u> | <u>\$ 3,937,500</u> |

Long-term Notes Payable

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

As of June 30, 2010, the City's long-term notes payables are as follows.

| | |
|----------------------|-------------------|
| East Group | \$ 151,513 |
| Bio Rad Laboratories | 250,510 |
| Total | <u>\$ 402,023</u> |

The annual debt service requirements to maturity for the East Group Note Payable as of June 30, 2010 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|-------------------|------------------|-------------------|
| 2011 | \$ 20,601 | \$ 11,614 | \$ 32,215 |
| 2012 | 22,112 | 10,018 | 32,130 |
| 2013 | 23,887 | 8,304 | 32,191 |
| 2014 | 25,661 | 6,453 | 32,114 |
| 2015 | 27,709 | 4,464 | 32,173 |
| 2016 | 31,543 | 2,317 | 33,860 |
| Total | <u>\$ 151,513</u> | <u>\$ 43,170</u> | <u>\$ 194,683</u> |

The annual debt service requirements to maturity for the Bio Rad Laboratories Notes Payable as of June 30, 2010 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|-------------------|------------------|-------------------|
| 2011 | \$ 34,351 | \$ 19,366 | \$ 53,717 |
| 2012 | 36,871 | 16,704 | 53,575 |
| 2013 | 39,830 | 13,847 | 53,677 |
| 2014 | 42,788 | 10,760 | 53,548 |
| 2015 | 46,203 | 7,443 | 53,646 |
| 2016 | 50,467 | 3,863 | 54,330 |
| Total | <u>\$ 250,510</u> | <u>\$ 71,983</u> | <u>\$ 322,493</u> |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM OBLIGATIONS, CONTINUED

SunTrust Lease

On September 27, 2007, the City entered into master lease agreements with SunTrust Leasing Corporation in order to provide funds for the financing of the EMS Project performed by Siemens Building Technologies in the amount of \$2,185,538. Payments are due semiannually on September 27 and March 27, at an interest rate of 4.73%. The Master Lease Agreement matures on September 27, 2022. As of June 30, 2010, the outstanding balance of the master lease agreement is \$1,918,915.

The annual debt service requirements to maturity for the SunTrust master lease agreement as of June 30, 2010 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|---------------------|-------------------|---------------------|
| 2011 | \$ 115,686 | \$ 89,412 | \$ 205,098 |
| 2012 | 121,223 | 83,876 | 205,099 |
| 2013 | 127,024 | 78,074 | 205,098 |
| 2014 | 133,104 | 71,995 | 205,099 |
| 2015 | 139,474 | 65,624 | 205,098 |
| 2016-2020 | 804,120 | 221,174 | 1,025,294 |
| 2021-2023 | 478,284 | 34,463 | 512,747 |
| Total | <u>\$ 1,918,915</u> | <u>\$ 644,618</u> | <u>\$ 2,563,533</u> |

Defeased Debt – 2001 Tax Allocation Bonds

The Redevelopment Agency issued 2005 Tax Allocation Bonds to refund the 2001 Tax Allocation Bonds. The Agency issued subordinate tax allocation bonds, series 2001, dated September 4, 2001, totaling \$6,500,000. The purpose of the bonds was to provide funds to finance certain redevelopment activities within, and of benefit to, the Hercules Merged Project Area. The interest rate on the bonds ranges from 4.50% to 6.40%. The interest is payable semi-annually each March 1 and September 1 commencing March 1, 2002. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by a pledge of tax revenues in the Merged Project Area. Principal is due annually beginning on September 1, 2005, in amounts ranging from \$215,000 to \$575,000. The economic effect of refunding the bonds was a gain of \$293,279. The liability for these bonds has been removed from the City's books and records, as they are considered defeased. The outstanding balance was paid off as of June 30, 2010.

Defeased Debt – 2003A Public Financing Authority Lease Revenue Bonds

The Public Financing Authority issued 2010 Revenue Refunding Bonds to refund the Lease Revenue Bonds, Series 2003A. The Authority issued the Lease Revenue Bonds, Series 2003A, dated June 4, 2003, totaling \$7,000,000. The purpose of the bonds was to provide funds for the acquisition, construction, and installation of various improvements located within the City. The interest rate on the bonds is at a weekly rate, designated and determined from time to time. The interest is payable on the first business day of each month, commencing July 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by base rental payments of the facility lease. Principal is due annually beginning on December 1, 2006, in amounts ranging from \$115,000 to \$455,000. The economic effect of refunding the bonds was a loss of \$213,306. The liability for these bonds has been removed from the City's books and records, as they are considered defeased. The outstanding balance as of June 30, 2010 was \$6,495,000.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

9. NON-CITY OBLIGATIONS

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

| Description | Original Issuance | Balance as of June 30, 2010 |
|--|----------------------|--------------------------------|
| Reassessment District 2001-01 (Alfred Nobel) | \$ 9,700,030 | \$ 5,040,000 |
| Reassessment District 2005-1 (John Muir Parkway) | 6,550,345 | 6,115,000 |

10. RISK MANAGEMENT

General Liability Insurance

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

Workers' Compensation

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

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

As of June 30, 2010, the City's estimated claims liabilities were as follows.

| | |
|----------------------|-------------------|
| General Liability | \$ 176,452 |
| Workers Compensation | 34,516 |
| Total | <u>\$ 210,968</u> |

Changes in the claims liabilities for the fiscal years ended June 30, 2008, 2009, and 2010 are as follows:

| Fiscal Year | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimates | Claim Payments | Balance at End of Fiscal Year |
|-------------|---|---|-------------------|-------------------------------------|
| 2007-2008 | \$ 50,666 | \$ 477,513 | \$ (463,200) | \$ 64,979 |
| 2008-2009 | 64,979 | 385,455 | (480,763) | (30,329) |
| 2009-2010 | (30,329) | 696,923 | (455,626) | 210,968 |

Miscellaneous Coverages

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

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

10. RISK MANAGEMENT, CONTINUED

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.

11. CAPITAL LEASE – SALES TYPE

On August 14, 2008, the City of Hercules and Bio-Rad Laboratories, Inc. entered in to a lease agreement, which Bio-Rad agreed to lease from the City of Hercules, the premises, consisting of the land located in the City of Hercules, County of Contra Costa, State of California, commonly known as the Venture Commerce Center located at 203-295 Linus Pauling Drive, including five (5) buildings consisting of approximately 96,847 rentable square feet, together with the parking lot and associated improvements serving the buildings.

The term of this lease shall be for thirty (30) years, commencing on September 15, 2008 and ending on September 14, 2038, or terminated sooner pursuant to the terms of this lease. Bio-Rad Laboratories, Inc. has the option to terminate this lease anytime on or after the fifteenth (15th) anniversary date as to a portion or the entire premises by delivering to the City of Hercules not later than three (3) months prior to said fifteenth (15th) anniversary date or any applicable later termination date, a notice of such election.

The City of Hercules granted to Bio-Rad Laboratories, Inc. the option to purchase the premises. Bio-Rad Laboratories, Inc. may elect to exercise the Purchase Option by delivering to the City of Hercules written notice of such election within 30 days prior to either of the following dates: (1) the fifteenth (15th) anniversary date; (ii) the twentieth (20th) anniversary date; or (iii) the twenty-fifth (25th) anniversary date. If Bio-Rad Laboratories, Inc. has not elected to exercise the Purchase Option during the time period said above, then the Purchase Option shall automatically be deemed elected by Bio-Rad Laboratories, Inc. as of the expiration date unless Bio-Rad Laboratories, Inc. provides prior written notice to the City of Hercules within fifteen (15) days prior to the expiration date electing not to pursue the Purchase Option. If Bio-Rad Laboratories, inc. elects to exercise the Purchase Option on the expiration date, the purchase price for the premises shall be one dollar (\$1.00).

Total lease revenue of \$26,723,100 will be received from the Bio-Rad Laboratories, Inc. during the term of lease. The interest rate on the lease payments is 8.0381%. Monthly lease payments vary from \$55,300 to \$83,699 will be received on the first day of each month without notice, offset, deduction or demand, in advance, during the lease term.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

11. CAPITAL LEASE – SALES TYPE, CONTINUED

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

| Fiscal years ending June 30, | Amounts |
|------------------------------------|--------------|
| 2011 | \$ 705,246 |
| 2012 | 727,962 |
| 2013 | 750,678 |
| 2014 | 773,394 |
| 2015 | 796,110 |
| 2016-2020 | 4,307,570 |
| 2021-2025 | 4,573,630 |
| 2026-2030 | 4,751,150 |
| 2031-2035 | 4,933,280 |
| 2036-2039 | 3,168,550 |
| | 25,487,570 |
| Less: Amount representing interest | 16,054,233 |
| Net investment in lease | \$ 9,433,337 |

12. INTERFUND TRANSACTIONS

Long-Term Advances

At June 30, 2010, the City had the following long-term advances:

| | Interfund Receivables | Interfund Payables |
|---|--------------------------|-----------------------|
| Major Funds: | | |
| General Fund | \$ 20,616,777 | \$ 5,941,995 |
| Redevelopment Agency Debt Service Fund | | 10,183,545 |
| Hercules Public Financing Authority Debt Service Fund | 12,727,321 | |
| Redevelopment Agency Capital Projects Fund | | 28,538,110 |
| Major Proprietary Funds: | | |
| Sewer Fund | 9,693,000 | |
| Hercules Municipal Utility Fund | | 1,634,104 |
| Nonmajor Governmental Fund: | | |
| DIF Special Revenue Fund | 3,260,656 | |
| | \$ 46,297,754 | \$ 46,297,754 |

Advances to the General fund were to provide for the construction of the Hercules Municipal Utility electric system.

Advances to the Redevelopment Agency from the General Fund, the Public Financing Authority, DIF Special Revenue Fund, and the Sewer Fund were for the New Town Center project, Hercules Municipal Utility electric system, construction of the community library, a park and teen center, and upgrades to the wastewater treatment plant.

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

12. INTERFUND TRANSACTIONS, CONTINUED

Due To/From Other Funds

Due to/from other funds as of June 30, 2010 were as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---|----------------------------------|-------------------------------|
| Major Funds: | | |
| General Fund | \$ 6,532,319 | \$ 79,257 |
| Redevelopment Agency Special Revenue Fund | 40,834 | 6,433,985 |
| Redevelopment Agency Debt Service Fund | | 2,171,043 |
| Hercules Public Financing Authority Debt Service Fund | 79,257 | 56,817 |
| Redevelopment Agency Capital Projects Fund | 2,267,350 | |
| Major Proprietary Fund: | | |
| Hercules Municipal Utility Fund | 56,817 | 79,257 |
| Nonmajor Governmental Funds: | | |
| AB 3229 COPS Program Special Revenue Fund | | 13,974 |
| State Gas Tax Special Revenue Fund | 69,796 | |
| Grant Special Revenue Fund | | 212,040 |
| | <u>\$ 9,046,373</u> | <u>\$ 9,046,373</u> |

The due to/from other funds are to provide cash flow for the funds with negative cash and for other short-term borrowings between funds.

Transfers

Transfers for the fiscal year ended June 30, 2010 were as follows:

| | <u>Interfund Transfers in</u> | <u>Interfund Transfers out</u> |
|--|-----------------------------------|------------------------------------|
| Major Funds: | | |
| General Fund | \$ 7,925,440 | \$ 132,422 |
| Redevelopment Agency Special Revenue Fund | 2,413,421 | 10,039,536 |
| Redevelopment Agency Debt Service Fund | 9,844,536 | 24,387,210 |
| Public Finance Authority Debt Service Fund | 81,757 | 7,047,686 |
| Redevelopment Agency Capital Projects Fund | 25,855,307 | 1,255,385 |
| Major Proprietary Funds: | | |
| Hercules Municipal Utility Fund | | 371,898 |
| Nonmajor Governmental Funds: | | |
| AB 3229 COPS Program Special Revenue Fund | | 103,670 |
| DIF Special Revenue Fund | | 555,545 |
| Community Development Special Revenue Fund | | 81,513 |
| State Gas Tax Special Revenue Fund | 607,488 | 110,000 |
| Measure C Street Special Revenue Fund | 183,326 | 80,000 |
| Grant Special Revenue Fund | 41,375 | 1,665,092 |
| Fiscal Neutrality Fee Special Revenue Fund | | 73,169 |
| City Capital Project Fund | 555,545 | 1,727,342 |
| Internal Service Funds: | | |
| Vehicle Replacement Fund | 9,346 | |
| IT Equipment Replacement Fund | 102,965 | |
| Facility Maintenance Fund | 9,962 | |
| | <u>\$ 47,630,468</u> | <u>\$ 47,630,468</u> |

The transfers are to reimburse expenditures made on behalf of another fund.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

13. PUBLIC EMPLOYEE RETIREMENT SYSTEM

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

Funding Policy – Active plan members are required by state statute to contribute 7% for Miscellaneous and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, which amounted to \$739,479 for the fiscal year ended June 30, 2010. The City employer is required to contribute for fiscal year 2009-2010 at an actuarially determined rate of 10.732% of annual covered payroll for miscellaneous employees and 29.936% (30.740% after January, 2010) for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – For fiscal year 2009-2010, the City’s annual pension cost of \$1,596,456 for PERS was equal to the City’s required and actual contribution. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2010, was 15 years for miscellaneous and 15 years for safety employees for the prior and current service unfunded liability. For fiscal years 2008, 2009, and 2010, the City’s annual pension costs of \$1,352,244, \$1,408,489, and \$1,596,456, respectively, were equal to the City’s required and actual contributions.

14. DEFERRED COMPENSATION PLAN

457 Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is available to full-time employees. The Internal Revenue Service regulations allow an employer to designate a 457(b) Deferred Compensation Plan as an alternative to social security. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (ICMA) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457(g). Accordingly, these assets have been excluded from the City’s Comprehensive Annual Financial Report.

401A Plan

The City contributes 4% of total gross salary to the plan for senior managers. For unrepresented group, the City also contributes 4% with a maximum contribution of \$4,000 per year. In addition both groups can contribute to the group plan.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

14. DEFERRED COMPENSATION PLAN, CONTINUED

PARS

Part-time employees who do not participate in the Public Employees Retirement System are covered through the City's participation in Public Alternative Retirement System (PARS). Employees contribute 6.2% and the City contributes 1.3%.

15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City provides certain health insurance benefits to retired employees in accordance with memorandums of understanding with each employee group as follows:

For employees who retire from the City of Hercules after at least five (5) years of service with the City and who have reached the age of fifty (50) years old, and who continue health insurance through a City-sponsored health insurance plan, the City will contribute the minimum monthly amount of \$105 of the health insurance premium. For police and police management retirees who have at least ten (10) years of service, or twenty (20) years of service if they retire on disability and continue receiving health insurance through a City-sponsored health insurance plan, the City will contribute a percentage of \$264.22/month, based on the retirees accumulated sick leave and years of service, at retirement. As soon as the retiree is eligible for Medicare, the City will contribute a percentage of the retirees' Kaiser Medicare supplement.

Funding Policy

The City's policy is to contribute an amount sufficient to pay the current year's premiums and set-aside an amount equal to the annual required contribution, based on a twenty (20) year amortization. For fiscal year 2009-10, the City contributed \$14,253, which covered current premiums, and also transferred \$600,000 to the Public Agency Retirement Services. Currently, there are 7 retirees who are receiving benefits.

Annual OPEB and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years (the City has elected a twenty year amortization period). The following table shows the components of the City's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

| | |
|---|--------------|
| Annual required contribution | \$ 216,000 |
| Annual OPEB cost (expense) | 216,000 |
| Contributions made | (614,253) |
| Increase in net OPEB obligation | (398,253) |
| Net OPEB obligation - beginning of fiscal year | 209,641 |
| Net OPEB obligation (assets) - end of fiscal year | \$ (188,612) |

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS, CONTINUED

Annual OPEB and Net OPEB Obligation, Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2009 were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contribution</u> | <u>Net OPEB Obligation (Asset)</u> |
|----------------------------------|-----------------------------|--|--|
| 6/30/2009 | \$ 216,000 | 3% | \$ 209,641 |
| 6/30/2010 | 216,000 | 285% | (188,612) |

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,116,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,116,000. The covered payroll (annual payroll of active employees covered by the plan) was \$6,830,000, and the ratio of the UAAL to the covered payroll was 16.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return, which is the expected long-term investment returns on plan assets, a projected salary increase assumption rate of 3 percent, and an annual healthcare cost trend rate of 4.5 percent. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a flat percentage of covered payroll over twenty years. The remaining amortization period at June 30, 2007 was twenty years.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

16. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

Hercules LLC – The Redevelopment Agency audited the Hercules, LLC’s reimbursement requests as stated in Note 9 in 2007 and discovered that Hercules, LLC had substantially inflated its reimbursement requests. Hercules, LLC was unable to provide justification for its action. The Redevelopment Agency ceased making any tax increment reimbursements to Hercules, LLC. Hercules LLC protested and filed a lawsuit claiming entitlement to those reimbursements.

The Redevelopment Agency and Hercules, LLC participated in mediation on September 10, 2008 and again on February 2, 2009, but were unable to reach a settlement of their differences or the lawsuit at any time. The case was scheduled for trial commencing January 25, 2010, but the parties voluntarily submitted the case to additional mediation.

The final round of mediation was successful and the case was settled. Under the settlement agreement, Hercules, LLC will be paid nothing more out of the housing portion of project tax increment, and will receive seventy five percent (75%) of the unrestricted portion of project tax increment until February, 2024 with fifty percent (50%) thereafter. Hercules, LLC will also be paid \$3 million on or before June 22, 2011, none of which is to be paid during the 2009-10 fiscal year. Finally Hercules, LLC will be paid \$968,816 as the balance of project tax increment funds due for the fiscal year 2009-2010, which funds were being held by the Redevelopment Agency pending the settlement. The Agency has recorded the amount as a liability as of June 30, 2010.

SERAF Contingency – During the fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various “budget trailer bills” were passed by the state legislature to balance the state’s budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the SERAF legislation, together with the effect of this legislation on the City of Hercules and its Redevelopment Agency (the Agency).

Pursuant to AB 264x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 264x, agencies may borrow portions of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the CRA filed a class action lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

The Agency’s SERAF contributions are \$4,992,984 for the fiscal year 2009-2010 and \$1,026,977 for 2010-2011. It is the position of Agency officials that the SERAF contributions required by AB 264x are unconstitutional, and that the Agency is not obligated to make these contributions. The Agency has not made the contribution for 2009-2010, but has recorded the payment as a liability as of June 30, 2010.

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

16. COMMITMENTS AND CONTINGENCIES, CONTINUED

B. Commitments

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

Under the settlement in Fiscal Year 2009-10, Hercules, LLC will be paid nothing more out of the housing portion of project tax increment, and will receive seventy five percent (75%) of the unrestricted portion of project tax increment until February, 2024 with fifty percent (50%) thereafter.

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

17. JOINT POWERS AGREEMENTS

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

A. West Contra Costa Transportation Advisory Committee (WCCTAC)

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

The City's payments to WCCTAC are in accordance with a formula under which each member Agency pays a proportionate share of the expenditures based on the number of voting members representing each agency. Audited financial statements can be obtained from the WCCTAC, One Alvarado Square, San Pablo, California 94806. The City has one voting member on the WCCTAC and pays 10% of expenditures, which amounted to \$42,772 for fiscal year 2009-2010.

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

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

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

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

17. JOINT POWERS AGREEMENTS, CONTINUED

C. Pinole/Hercules Wastewater Treatment Plant

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

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

18. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Hercules was \$260,152.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The District participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

19. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of (\$3,527,906) was made on the Statement of Activities for Governmental Activities for an understatement of advances to other funds in the amount of \$80,746; an understatement of loans receivable in the amount of \$300,000; an overstatement of lease receivable in the amount of (\$654,140); an overstatement of interest receivable in the amount of (\$64,314); and an understatement of loans payable in the amount of (\$3,190,198).

A prior period adjustment of \$257,987 was made on the General Fund for an understatement of advances to other funds in the amount of \$257,987.

A prior period adjustment of (\$177,241) was made on the Redevelopment Agency Debt Service Fund for an understatement of advances from other funds in the amount of (\$177,241).

A prior period adjustment of (\$80,746) was made on the Statement of Activities for Business-type Activities for an understatement of advances from other funds on the Hercules Municipal Utility fund in the amount of (\$80,746).

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

20. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances/Net Assets

As of June 30, 2010, the following funds had a deficit fund balance:

| | Deficit Fund Balances |
|--|--------------------------|
| Major Governmental Funds: | |
| Redevelopment Agency Special Revenue Fund | \$ 10,238,571 |
| Redevelopment Agency Capital Projects Fund | 22,132,751 |

The Redevelopment Agency Special Revenue Fund and the Redevelopment Agency Capital Projects Fund's deficit fund balances are expected to be eliminated in future years through tax increment revenue and the increase of tax increment over the additional life of ten years.

Expenditures in Excess of Appropriations

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

| | Excess of Appropriations |
|--|-----------------------------|
| Major Governmental Fund: | |
| Public Financing Authority Debt Service Fund | \$ 568,510 |
| Nonmajor Governmental Funds: | |
| Stormwater Assessment Special Revenue Fund | 21,984 |
| SunTrust Lease Debt Service Fund | 23,751 |

21. RELATED PARTY TRANSACTIONS

During the reporting period, the City paid a total of \$954,614 to NEO Consulting Inc. for consulting services in relation to the affordable housing program. As of June 30, 2010, NEO Consulting Inc.'s ownership was acquired by the McKinney Group, LLC from the two adult children of the City Manager. The City has contracted with NEO Consulting Inc. since July, 2005.

22. SUBSEQUENT EVENTS

The City entered into a separation agreement with the City Manager on December 21, 2010 to terminate his employment without good cause effective January 9, 2011. The City agreed to pay all of his accrued, unused vacation benefits, less legally required withholdings, on or about January 21, 2011 and a lump sum amount equal to six months of his \$225,000 annual salary and benefits, less legally required withholdings and deductions. Also, the City Manager will be paid six months of his \$225,000 annual salary, less legally required withholdings and deductions, upon recruitment of his permanent replacement or July 21, 2011, whichever is earlier. These terms are in accordance with section 5(B) of his April 15, 2008 Employment Agreement.

As of March 2011, construction on the Sycamore North Project has slowed and the building is currently being marketed for sale.

On March 8, 2011, the Hercules Redevelopment Agency's Board of Directors approved the transfer of four properties to the City of Hercules as repayment of long-term debt owed by the Agency to the City.

CITY OF HERCULES
Notes to Basic Financial Statements
June 30, 2010

22. SUBSEQUENT EVENTS, CONTINUED

The state of California's proposed budget for 2011/12 includes several provisions which could have a significant impact on local governments. One of the specific proposals is the elimination of Redevelopment Agencies. This is only one of the numerous provisions which could significantly impact the finances of local governments.

23. FINANCIAL CONDITION

The Hercules Redevelopment Agency's stand-alone financial statements have been prepared assuming that the Agency will continue as a going concern. Please refer to the Redevelopment Agency's stand-alone financial statements for more information. The Redevelopment Agency Special Revenue Fund and Capital Projects Fund have fund balance deficits of \$10,238,571 and \$25,023,854 at June 30, 2010, respectively. Also, the Agency's tax increment revenue was insufficient to pay the current year's debt service.

CITY OF HERCULES
Required Supplementary Information
June 30, 2010

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Projected Unit Credit Cost Accrued Liability | Actuarial Value of Assets | Unfunded Liability (Excess Assets) | Funded Ratio | Annual Covered Payroll | UAAL As a % of Payroll |
|--------------------------------|---|---------------------------------|---|-----------------|------------------------------|------------------------------|
| 6/30/2007 | \$ 1,116,000 | \$ - | \$ 1,116,000 | 0% | \$ 6,830,000 | 16.3% |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HERCULES
Notes to Required Supplementary Information
June 30, 2010

BUDGETARY PRINCIPLES

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

1. In June, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution before July 1.
4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device. Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP) and are consistent with the basis used for financial reporting. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any reconciliation. The General Fund budget is adopted on the budgetary basis, which is not consistent with accounting principles generally accepted in the United States of America. Commitments for material and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are encumbered at year-end lapse, then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2010, 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 carryover and are rebudgeted for the subsequent year.
9. Budget appropriations for the various governmental funds become effective July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level.

CITY OF HERCULES
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | <u>Budgeted Amounts</u> | | | Variance with |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Taxes and assessments | \$ 6,679,039 | \$ 6,679,039 | \$ 5,693,505 | \$ (985,534) |
| Licenses and permits | 1,320,163 | 1,320,163 | 884,545 | (435,618) |
| Fines and forfeitures | 107,000 | 107,000 | 174,604 | 67,604 |
| Use of money and property | 5,078,710 | 5,078,710 | 2,138,774 | (2,939,936) |
| Intergovernmental revenues | 1,958,600 | 1,958,600 | 1,634,279 | (324,321) |
| Charges for services | 2,328,360 | 2,328,360 | 3,003,790 | 675,430 |
| Other revenues | 1,958,168 | 1,958,168 | 2,893,180 | 935,012 |
| Total revenues | 19,430,040 | 19,430,040 | 16,422,677 | (3,007,363) |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| City council | 344,009 | 344,009 | 341,003 | 3,006 |
| Community events | 295,193 | 295,303 | 226,370 | 68,933 |
| City manager | 1,964,858 | 2,218,367 | 1,319,884 | 898,483 |
| Legal services | 347,000 | 347,000 | 111,318 | 235,682 |
| Management services | 273,006 | 309,719 | 308,618 | 1,101 |
| City clerk | 112,512 | 112,512 | 85,778 | 26,734 |
| Cable TV | 32,743 | 32,743 | 25,550 | 7,193 |
| Risk management | 795,684 | 795,684 | 1,019,980 | (224,296) |
| Recruitment | 326,344 | 363,769 | 330,931 | 32,838 |
| Operations | 1,025,518 | 1,155,756 | 1,768,039 | (612,283) |
| Total general government | 5,516,867 | 5,974,862 | 5,537,471 | 437,391 |
| Public safety: | | | | |
| Police administration | 2,377,735 | 2,381,277 | 2,409,340 | (28,063) |
| Police patrol | 4,697,073 | 4,780,231 | 4,653,108 | 127,123 |
| Total public safety | 7,074,808 | 7,161,508 | 7,062,448 | 99,060 |
| Streets and public works: | | | | |
| Street facilities | 400,215 | 400,215 | 383,363 | 16,852 |
| Engineering | 430,904 | 430,904 | 400,540 | 30,364 |
| Total streets and public safety | 831,119 | 831,119 | 783,903 | 47,216 |

(Continued)

See Notes to Required Supplementary Information

CITY OF HERCULES
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (CONTINUED)
For the Fiscal Year Ended June 30, 2010

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|----------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Expenditures: (Continued) | | | | |
| Current: | | | | |
| Parks and recreation: | | | | |
| Library | \$ 143,526 | \$ 143,526 | \$ 130,899 | \$ 12,627 |
| Facility rental | 237,916 | 238,027 | 187,327 | 50,700 |
| Day camp | 279,111 | 279,333 | 320,211 | (40,878) |
| Child care | 1,049,624 | 1,049,957 | 928,092 | 121,865 |
| Recreation classes | 117,689 | 117,800 | 106,060 | 11,740 |
| Senior citizens | 186,445 | 186,556 | 167,980 | 18,576 |
| Tiny tots | 174,221 | 196,831 | 217,928 | (21,097) |
| Swim center | 487,280 | 487,390 | 403,270 | 84,120 |
| Sports program | 198,797 | 198,907 | 147,078 | 51,829 |
| Teen program | 195,772 | 195,882 | 154,122 | 41,760 |
| Community center | 127,820 | 127,930 | 69,284 | 58,646 |
| Youth and teen resource center | 268,356 | 268,466 | 229,142 | 39,324 |
| Total parks and recreation | <u>3,466,557</u> | <u>3,490,605</u> | <u>3,061,393</u> | <u>429,212</u> |
| Community development: | | | | |
| Business and regional planning | 504,052 | 619,302 | 2,521,272 | (1,901,970) |
| Building inspection | 862,108 | 828,422 | 561,664 | 266,758 |
| Total community development | <u>1,366,160</u> | <u>1,447,724</u> | <u>3,082,936</u> | <u>(1,635,212)</u> |
| Lease expense | <u>1,243,858</u> | <u>1,243,858</u> | <u>1,154,996</u> | <u>88,862</u> |
| Total expenditures | <u>19,499,369</u> | <u>20,149,676</u> | <u>20,683,147</u> | <u>(533,471)</u> |
| Excess of revenues over (under) expenditures | <u>(69,329)</u> | <u>(719,636)</u> | <u>(4,260,470)</u> | <u>(3,540,834)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 773,500 | 797,114 | 7,925,440 | 7,128,326 |
| Transfers out | <u>(268,000)</u> | <u>(268,000)</u> | <u>(132,422)</u> | <u>135,578</u> |
| Total other financing sources (uses) | <u>505,500</u> | <u>529,114</u> | <u>7,793,018</u> | <u>7,263,904</u> |
| Net change in fund balance | <u>436,171</u> | <u>(190,522)</u> | <u>3,532,548</u> | <u>3,723,070</u> |
| Fund balance - July 1, 2009 | 25,077,621 | 25,077,621 | 25,077,621 | |
| Prior period adjustments | | | 257,987 | 257,987 |
| Fund balance - July 1, 2009, restated | <u>25,077,621</u> | <u>25,077,621</u> | <u>25,335,608</u> | <u>257,987</u> |
| Fund balance - June 30, 2010 | <u>\$ 25,513,792</u> | <u>\$ 24,887,099</u> | <u>\$ 28,868,156</u> | <u>\$ 3,981,057</u> |

See Notes to Required Supplementary Information

CITY OF HERCULES
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|-----------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Taxes and assessments | \$ 17,051,847 | \$ 17,051,847 | \$ 10,405,553 | \$ (6,646,294) |
| Use of money and property | 10,000 | 10,000 | (362,151) | (372,151) |
| Program income | 267,800 | 622,046 | 475,718 | (146,328) |
| Charges for services | 81,800 | 116,905 | 98,686 | (18,219) |
| Other revenues | 21,000 | 91,000 | 88,891 | (2,109) |
| Total revenues | <u>17,432,447</u> | <u>17,891,798</u> | <u>10,706,697</u> | <u>(7,185,101)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Community development | 8,244,243 | 15,332,974 | 12,895,882 | 2,437,092 |
| Total expenditures | <u>8,244,243</u> | <u>15,332,974</u> | <u>12,895,882</u> | <u>2,437,092</u> |
| Excess of revenues over (under) expenditures | <u>9,188,204</u> | <u>2,558,824</u> | <u>(2,189,185)</u> | <u>(4,748,009)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | | 6,292,984 | 2,413,421 | (3,879,563) |
| Transfers out | (10,608,808) | (10,745,468) | (10,039,536) | 705,932 |
| Total other financing sources (uses) | <u>(10,608,808)</u> | <u>(4,452,484)</u> | <u>(7,626,115)</u> | <u>(3,173,631)</u> |
| Net change in fund balance | (1,420,604) | (1,893,660) | (9,815,300) | (7,921,640) |
| Fund balance (deficit) - July 1, 2009 | <u>(423,271)</u> | <u>(423,271)</u> | <u>(423,271)</u> | |
| Fund balance (deficit) - June 30, 2010 | <u>\$ (1,843,875)</u> | <u>\$ (2,316,931)</u> | <u>\$ (10,238,571)</u> | <u>\$ (7,921,640)</u> |

See Notes to Required Supplementary Information

OTHER SUPPLEMENTAL INFORMATION

CITY OF HERCULES
REDEVELOPMENT AGENCY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|---------------------|----------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| Revenues: | | | | |
| Use of money and property | \$ 1,900,000 | \$ 1,900,000 | \$ 122,839 | \$ (1,777,161) |
| Total revenues | <u>1,900,000</u> | <u>1,900,000</u> | <u>122,839</u> | <u>(1,777,161)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Community development | | | 3,079,195 | (3,079,195) |
| Debt service: | | | | |
| Principal | 3,460,000 | 3,460,000 | 3,190,926 | 269,074 |
| Interest and fiscal agent fees | 9,977,549 | 10,327,549 | 7,318,681 | 3,008,868 |
| Total expenditures | <u>13,437,549</u> | <u>13,787,549</u> | <u>13,588,802</u> | <u>198,747</u> |
| Excess of revenues over (under) expenditures | <u>(11,537,549)</u> | <u>(11,887,549)</u> | <u>(13,465,963)</u> | <u>(1,578,414)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 17,180,858 | 17,480,858 | 9,844,536 | (7,636,322) |
| Transfers out | (52,718,389) | (49,915,476) | (24,387,210) | 25,528,266 |
| Total other financing sources (uses) | <u>(35,537,531)</u> | <u>(32,434,618)</u> | <u>(14,542,674)</u> | <u>17,891,944</u> |
| Net change in fund balance | <u>(47,075,080)</u> | <u>(44,322,167)</u> | <u>(28,008,637)</u> | <u>16,313,530</u> |
| Fund balance - July 1, 2009 | 53,123,593 | 53,123,593 | 53,123,593 | |
| Prior period adjustments | | | (177,241) | (177,241) |
| Fund balances - July 1, 2009, restated | <u>53,123,593</u> | <u>53,123,593</u> | <u>52,946,352</u> | <u>(177,241)</u> |
| Fund balance - June 30, 2010 | <u>\$ 6,048,513</u> | <u>\$ 8,801,426</u> | <u>\$ 24,937,715</u> | <u>\$ 16,136,289</u> |

CITY OF HERCULES
HERCULES PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|---------------------|----------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| Revenues: | | | | |
| Use of money and property | \$ 718,260 | \$ 718,260 | \$ 1,696,580 | \$ 978,320 |
| Lease revenue | 330,000 | 330,000 | 330,000 | |
| Total revenues | <u>1,048,260</u> | <u>1,048,260</u> | <u>2,026,580</u> | <u>978,320</u> |
| Expenditures: | | | | |
| Debt service: | | | | |
| Principal | 330,000 | 330,000 | 330,000 | |
| Interest and fiscal agent fees | 708,260 | 708,260 | 1,004,905 | (296,645) |
| Bond issuance costs | | | 271,865 | (271,865) |
| Total expenditures | <u>1,038,260</u> | <u>1,038,260</u> | <u>1,606,770</u> | <u>(568,510)</u> |
| Excess of revenues over (under) expenditures | <u>10,000</u> | <u>10,000</u> | <u>419,810</u> | <u>409,810</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from issuance of long-term debt | | | 17,505,000 | 17,505,000 |
| Discount on issuance of long-term debt | | | (719,378) | (719,378) |
| Payment to refunded debt escrow agent | | | (6,510,749) | (6,510,749) |
| Transfers in | | | 81,757 | 81,757 |
| Transfers out | (1,000,000) | (7,971,478) | (7,047,686) | 923,792 |
| Total other financing sources (uses) | <u>(1,000,000)</u> | <u>(7,971,478)</u> | <u>3,308,944</u> | <u>11,280,422</u> |
| Net change in fund balance | (990,000) | (7,961,478) | 3,728,754 | 11,690,232 |
| Fund balance - July 1, 2009 | <u>13,464,380</u> | <u>13,464,380</u> | <u>13,464,380</u> | |
| Fund balance - June 30, 2010 | <u>\$ 12,474,380</u> | <u>\$ 5,502,902</u> | <u>\$ 17,193,134</u> | <u>\$ 11,690,232</u> |

CITY OF HERCULES
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|------------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Use of money and property | \$ - | \$ - | \$ - | \$ - |
| Total revenues | | | | |
| Expenditures: | | | | |
| Capital outlay | 51,124,633 | 55,314,732 | 29,286,378 | 26,028,354 |
| Debt service: | | | | |
| Interest and fiscal agent fees | | | 1,925,962 | (1,925,962) |
| Total expenditures | 51,124,633 | 55,314,732 | 31,212,340 | 24,102,392 |
| Excess of revenues over (under) expenditures | (51,124,633) | (55,314,732) | (31,212,340) | 24,102,392 |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 51,124,633 | 51,261,293 | 25,855,307 | (25,405,986) |
| Transfers out | | | (1,255,385) | (1,255,385) |
| Total other financing sources (uses) | 51,124,633 | 51,261,293 | 24,599,922 | (26,661,371) |
| Net change in fund balance | | (4,053,439) | (6,612,418) | (2,558,979) |
| Fund balance (deficit) - July 1, 2009 | (18,411,436) | (18,411,436) | (18,411,436) | |
| Fund balance (deficit) - June 30, 2010 | <u>\$ (18,411,436)</u> | <u>\$ (22,464,875)</u> | <u>\$ (25,023,854)</u> | <u>\$ (2,558,979)</u> |

NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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.

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NONMAJOR GOVERNMENTAL FUNDS, CONTINUED

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

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

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

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2010

| | Special Revenue Funds | | | |
|--------------------------------------|--|--------------------------------------|----------------------|---|
| | AB 3229 COPS Program Fund | Citywide L&L Fund | LLAD Fund | Stormwater Assessment Fund |
| Assets | | | | |
| Cash and investments | \$ - | \$ 223,024 | \$ 710,856 | \$ 10,189 |
| Accounts receivable | 13,974 | | | 13,669 |
| Due from other funds | | | | |
| Inventory | | | | |
| Advances to other funds | | | | |
| | | | | |
| Total assets | \$ 13,974 | \$ 223,024 | \$ 710,856 | \$ 23,858 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 92,951 | \$ 57,495 | \$ 4,775 |
| Accrued wages | | 9,421 | 11,045 | 5,596 |
| Deferred revenue | | | | |
| Due to other funds | 13,974 | | | |
| | | | | |
| Total liabilities | 13,974 | 102,372 | 68,540 | 10,371 |
| Fund Balances: | | | | |
| Reserved: | | | | |
| Advances to other funds | | | | |
| Future commitments | | | | |
| Unreserved, designated: | | | | |
| Future projects | | 120,652 | 642,316 | 13,487 |
| Unreserved, undesignated | | | | |
| Reported in: | | | | |
| Special Revenue Funds | | | | |
| Capital Projects Funds | | | | |
| | | | | |
| Total fund balances | | 120,652 | 642,316 | 13,487 |
| Total liabilities and fund balances | \$ 13,974 | \$ 223,024 | \$ 710,856 | \$ 23,858 |

Special Revenue Funds

| DIF Fund | Community Development Fund | Development Fee Fund | State Gas Tax Fund | Measure C Street Fund |
|---------------------|----------------------------------|----------------------------|-----------------------------------|-----------------------------------|
| \$ 6,191,693 | \$ 546,803 | \$ 2,371,098 | \$ 1,568,539 102,129 69,796 | \$ 1,188,788 319,610 11,013 |
| <u>3,260,656</u> | | | | |
| <u>\$ 9,452,349</u> | <u>\$ 546,803</u> | <u>\$ 2,371,098</u> | <u>\$ 1,740,464</u> | <u>\$ 1,519,411</u> |
| \$ 87,828 3,138 | \$ 703 | \$ - | \$ 41,194 | \$ 34,604 319,610 |
| <u>90,966</u> | <u>703</u> | | <u>41,194</u> | <u>354,214</u> |
| 3,260,656 27,205 | | | | |
| 6,073,522 | 546,100 | 2,371,098 | 1,699,270 | 1,165,197 |
| <u>9,361,383</u> | <u>546,100</u> | <u>2,371,098</u> | <u>1,699,270</u> | <u>1,165,197</u> |
| <u>\$ 9,452,349</u> | <u>\$ 546,803</u> | <u>\$ 2,371,098</u> | <u>\$ 1,740,464</u> | <u>\$ 1,519,411</u> |

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
June 30, 2010

| | Special Revenue Funds | | | |
|--|---|----------------------------------|-----------------------|---|
| | STMP Traffic Impact Fund | State AB-939 Fund | Grant Fund | Fiscal Neutrality Fee Fund |
| Assets | | | | |
| Cash and investments | \$ 226,971 | \$ 85,708 | \$ 56,199 | \$ 2,097,844 |
| Accounts receivable | | | 212,041 | |
| Due from other funds | | | | |
| Inventory | | | | |
| Advances to other funds | | | | |
| Total assets | \$ 226,971 | \$ 85,708 | \$ 268,240 | \$ 2,097,844 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 226,971 | \$ 71,319 | \$ - | \$ - |
| Accrued wages | | | | |
| Deferred revenue | | | | |
| Due to other funds | | | 212,040 | |
| Total liabilities | 226,971 | 71,319 | 212,040 | |
| Fund Balances: | | | | |
| Reserved: | | | | |
| Advances to other funds | | | | |
| Future commitments | | | | |
| Unreserved, designated: | | | | |
| Future projects | | 14,389 | 56,200 | |
| Unreserved, undesignated | | | | |
| Reported in: | | | | |
| Special Revenue Funds | | | | 2,097,844 |
| Capital Projects Funds | | | | |
| Total fund balances | | 14,389 | 56,200 | 2,097,844 |
| Total liabilities and fund balances | \$ 226,971 | \$ 85,708 | \$ 268,240 | \$ 2,097,844 |

| | Capital Project Fund | Debt Service Fund | |
|--------------------------------------|-------------------------------------|---|---|
| Regional Water Quality Fund | City Capital Projects Fund | SunTrust Lease Debt Service Fund | Totals |
| \$ 46,858 | \$ 260,904 395,183 | \$ - | \$ 15,585,474 1,056,606 69,796 11,013 3,260,656 |
| <u>\$ 46,858</u> | <u>\$ 656,087</u> | <u>\$ -</u> | <u>\$ 19,983,545</u> |
| \$ - | \$ 618,204 | \$ - | \$ 1,236,044 29,200 319,610 226,014 |
| | 618,204 | | 1,810,868 |
| | | | 3,260,656 65,088 |
| 46,858 | | | 12,749,089 |
| | | | 2,097,844 |
| <u>46,858</u> | <u>37,883</u> | | <u>18,172,677</u> |
| <u>\$ 46,858</u> | <u>\$ 656,087</u> | <u>\$ -</u> | <u>\$ 19,983,545</u> |

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2010

| | <u>Special Revenue Funds</u> | | | |
|---|--|--------------------------------------|----------------------|---|
| | <u>AB 3229 COPS Program Fund</u> | <u>Citywide L&L Fund</u> | <u>LLAD Fund</u> | <u>Stormwater Assessment Fund</u> |
| Revenues: | | | | |
| Taxes and assessments | \$ - | \$ 1,121,141 | \$ 740,843 | \$ 340,165 |
| Use of money and property | | (730) | 29,640 | (1,299) |
| Intergovernmental revenues | 100,000 | | | |
| Charges for services | | | | |
| Other revenues | | 974 | 1,080 | 375 |
| Total revenues | <u>100,000</u> | <u>1,121,385</u> | <u>771,563</u> | <u>339,241</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Streets and public works | | 1,012,389 | 919,335 | 410,029 |
| Community development | | | | |
| Capital outlay | | 3,079 | | 4,000 |
| Debt service: | | | | |
| Principal | | | | |
| Interest and fiscal agent fees | | | | |
| Total expenditures | | <u>1,015,468</u> | <u>919,335</u> | <u>414,029</u> |
| Excess of revenues over (under) expenditures | <u>100,000</u> | <u>105,917</u> | <u>(147,772)</u> | <u>(74,788)</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from issuance of long-term debt | | | | |
| Transfers in | | | | |
| Transfers out | (103,670) | | | |
| Total other financing sources (uses) | <u>(103,670)</u> | | | |
| Net changes in fund balances | (3,670) | 105,917 | (147,772) | (74,788) |
| Fund balances (deficit) - July 1, 2009 | <u>3,670</u> | <u>14,735</u> | <u>790,088</u> | <u>88,275</u> |
| Fund balances - June 30, 2010 | <u>\$ -</u> | <u>\$ 120,652</u> | <u>\$ 642,316</u> | <u>\$ 13,487</u> |

Special Revenue Funds

| DIF Fund | Community Development Fund | Development Fee Fund | State Gas Tax Fund | Measure C Street Fund |
|---------------------|----------------------------------|----------------------------|--------------------------|-----------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 481,935 | 19,432 | 98,362 | 47,525 | 40,090 |
| 1,877,749 | 164,900 | | 630,111 | 580,270 |
| <u>2,359,684</u> | <u>184,332</u> | <u>98,362</u> | <u>677,636</u> | <u>624,360</u> |
| | | | 35,535 | 9,355 |
| 221,812 | 6,748 | | 581,681 | 111,950 |
| | 11,826 | | | |
| <u>221,812</u> | <u>18,574</u> | | <u>617,216</u> | <u>121,305</u> |
| 2,137,872 | 165,758 | 98,362 | 60,420 | 503,055 |
| | | | 607,488 | 183,326 |
| (555,545) | (81,513) | | (110,000) | (80,000) |
| (555,545) | (81,513) | | 497,488 | 103,326 |
| 1,582,327 | 84,245 | 98,362 | 557,908 | 606,381 |
| 7,779,056 | 461,855 | 2,272,736 | 1,141,362 | 558,816 |
| <u>\$ 9,361,383</u> | <u>\$ 546,100</u> | <u>\$ 2,371,098</u> | <u>\$ 1,699,270</u> | <u>\$ 1,165,197</u> |

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2010

| | <u>Special Revenue Funds</u> | | | |
|---|---|----------------------------------|-----------------------|---|
| | <u>STMP Traffic Impact Fund</u> | <u>State AB-939 Fund</u> | <u>Grant Fund</u> | <u>Fiscal Neutrality Fee Fund</u> |
| Revenues: | | | | |
| Taxes and assessments | \$ - | \$ - | \$ - | \$ - |
| Use of money and property | 207 | 2,933 | 1,911 | 71,277 |
| Intergovernmental revenues | | | 1,059,689 | |
| Charges for services | 252,358 | | | |
| Other revenues | | | | |
| | <u>252,565</u> | <u>2,933</u> | <u>1,061,600</u> | <u>71,277</u> |
| Total revenues | | | | |
| Expenditures: | | | | |
| Current: | | | | |
| Streets and public works | | | | |
| Community development | | | | |
| Capital outlay | 244,825 | | | |
| Debt service: | | | | |
| Principal | | | | |
| Interest and fiscal agent fees | | | | |
| | <u>244,825</u> | | | |
| Total expenditures | | | | |
| Excess of revenues over (under) expenditures | <u>7,740</u> | <u>2,933</u> | <u>1,061,600</u> | <u>71,277</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from issuance of long-term debt | | | 559,802 | |
| Transfers in | | | 41,375 | |
| Transfers out | | | (1,665,092) | (73,169) |
| | | | <u>(1,063,915)</u> | <u>(73,169)</u> |
| Total other financing sources (uses) | | | | |
| Net changes in fund balances | 7,740 | 2,933 | (2,315) | (1,892) |
| Fund balances (deficit) - July 1, 2009 | <u>(7,740)</u> | <u>11,456</u> | <u>58,515</u> | <u>2,099,736</u> |
| Fund balances - June 30, 2010 | <u>\$ -</u> | <u>\$ 14,389</u> | <u>\$ 56,200</u> | <u>\$ 2,097,844</u> |

| | Capital Project Fund | Debt Service Fund | |
|--------------------------------------|-------------------------------------|---|---------------|
| Regional Water Quality Fund | City Capital Projects Fund | Suntrust Lease Debt Service Fund | Totals |
| \$ - | \$ - | \$ - | \$ 2,202,149 |
| 1,944 | | 229,349 | 1,022,576 |
| | | | 2,370,070 |
| | 159,971 | | 2,454,978 |
| | 405,188 | | 411,617 |
| 1,944 | 565,159 | 229,349 | 8,461,390 |
| | | | 2,386,643 |
| | | | 228,560 |
| | 772,131 | | 1,729,492 |
| | | 110,402 | 110,402 |
| | | 118,947 | 118,947 |
| | 772,131 | 229,349 | 4,574,044 |
| 1,944 | (206,972) | | 3,887,346 |
| | | | 559,802 |
| | 555,545 | | 1,387,734 |
| | (1,727,342) | | (4,396,331) |
| | (1,171,797) | | (2,448,795) |
| 1,944 | (1,378,769) | | 1,438,551 |
| 44,914 | 1,416,652 | | 16,734,126 |
| \$ 46,858 | \$ 37,883 | \$ - | \$ 18,172,677 |

CITY OF HERCULES
AB 3229 COPS PROGRAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|---|
| Revenues: | | | |
| Intergovernmental revenues | \$ 100,000 | \$ 100,000 | \$ - |
| Total revenues | <u>100,000</u> | <u>100,000</u> | |
| Other Financing Sources (Uses): | | | |
| Transfers in | | | |
| Transfers out | <u>(100,000)</u> | <u>(103,670)</u> | <u>(3,670)</u> |
| Total other financing sources (uses) | <u>(100,000)</u> | <u>(103,670)</u> | <u>(3,670)</u> |
| Net change in fund balance | | (3,670) | (3,670) |
| Fund balance - July 1, 2009 | <u>3,670</u> | <u>3,670</u> | |
| Fund balance - June 30, 2010 | <u>\$ 3,670</u> | <u>\$ -</u> | <u>\$ (3,670)</u> |

CITY OF HERCULES
CITYWIDE L&L SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|-------------------|---|
| Revenues: | | | |
| Taxes and assessments | \$ 1,034,906 | \$ 1,121,141 | \$ 86,235 |
| Use of money and property | | (730) | (730) |
| Other revenues | | 974 | 974 |
| Total revenues | <u>1,034,906</u> | <u>1,121,385</u> | <u>86,479</u> |
| Expenditures: | | | |
| Current: | | | |
| Streets and public works | 1,103,524 | 1,012,389 | 91,135 |
| Capital outlay | <u>50,000</u> | <u>3,079</u> | <u>46,921</u> |
| Total expenditures | <u>1,153,524</u> | <u>1,015,468</u> | <u>138,056</u> |
| Net change in fund balance | (118,618) | 105,917 | 224,535 |
| Fund balance - July 1, 2009 | <u>14,735</u> | <u>14,735</u> | |
| Fund balance (deficit) - June 30, 2010 | <u>\$ (103,883)</u> | <u>\$ 120,652</u> | <u>\$ 224,535</u> |

CITY OF HERCULES
LLAD SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------|-------------------|-------------------|---|
| Revenues: | | | |
| Taxes and assessments | \$ 751,446 | \$ 740,843 | \$ (10,603) |
| Use of money and property | 11,100 | 29,640 | 18,540 |
| Other revenues | | 1,080 | 1,080 |
| Total revenues | <u>762,546</u> | <u>771,563</u> | <u>9,017</u> |
| Expenditures: | | | |
| Current: | | | |
| Streets and public works | 1,093,345 | 919,335 | 174,010 |
| Total expenditures | <u>1,093,345</u> | <u>919,335</u> | <u>174,010</u> |
| Net change in fund balance | (330,799) | (147,772) | 183,027 |
| Fund balance - July 1, 2009 | <u>790,088</u> | <u>790,088</u> | |
| Fund balance - June 30, 2010 | <u>\$ 459,289</u> | <u>\$ 642,316</u> | <u>\$ 183,027</u> |

CITY OF HERCULES
STORMWATER ASSESSMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------|------------------|------------------|---|
| Revenues: | | | |
| Taxes and assessments | \$ 317,163 | \$ 340,165 | \$ 23,002 |
| Use of money and property | 3,300 | (1,299) | (4,599) |
| Other revenues | | 375 | 375 |
| | <u>320,463</u> | <u>339,241</u> | <u>18,778</u> |
| Expenditures: | | | |
| Current: | | | |
| Streets and public works | 362,045 | 410,029 | (47,984) |
| Capital outlay | 30,000 | 4,000 | 26,000 |
| | <u>392,045</u> | <u>414,029</u> | <u>(21,984)</u> |
| Net change in fund balance | (71,582) | (74,788) | (3,206) |
| Fund balance - July 1, 2009 | <u>88,275</u> | <u>88,275</u> | |
| Fund balance - June 30, 2010 | <u>\$ 16,693</u> | <u>\$ 13,487</u> | <u>\$ (3,206)</u> |

CITY OF HERCULES
DIF SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 187,000 | \$ 481,935 | \$ 294,935 |
| Charges for services | 3,213,879 | 1,877,749 | (1,336,130) |
| Total revenues | 3,400,879 | 2,359,684 | (1,041,195) |
| Expenditures: | | | |
| Current: | | | |
| Community development | 366,224 | 221,812 | 144,412 |
| Total expenditures | 366,224 | 221,812 | 144,412 |
| Excess of revenues over (under) expenditures | 3,034,655 | 2,137,872 | (896,783) |
| Other Financing Sources (Uses): | | | |
| Transfers out | (2,287,176) | (555,545) | 1,731,631 |
| Total other financing sources (uses) | (2,287,176) | (555,545) | 1,731,631 |
| Net change in fund balance | 747,479 | 1,582,327 | 834,848 |
| Fund balance - July 1, 2009 | 7,779,056 | 7,779,056 | |
| Fund balance - June 30, 2010 | <u>\$ 8,526,535</u> | <u>\$ 9,361,383</u> | <u>\$ 834,848</u> |

CITY OF HERCULES
COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------------|---|
| Revenues: | | | |
| Use of money and property | \$ 17,000 | \$ 19,432 | \$ 2,432 |
| Charges for services | 275,400 | 164,900 | (110,500) |
| Total revenues | 292,400 | 184,332 | (108,068) |
| Expenditures: | | | |
| Current: | | | |
| Community development | | 6,748 | (6,748) |
| Capital outlay | 19,205 | 11,826 | 7,379 |
| Total expenditures | 19,205 | 18,574 | 631 |
| Excess of revenues over (under) expenditures | 273,195 | 165,758 | (107,437) |
| Other Financing Sources (Uses): | | | |
| Transfers out | (181,083) | (81,513) | 99,570 |
| Total other financing sources (uses) | (181,083) | (81,513) | 99,570 |
| Net change in fund balance | 92,112 | 84,245 | (7,867) |
| Fund balance - July 1, 2009 | 461,855 | 461,855 | |
| Fund balance - June 30, 2010 | \$ 553,967 | \$ 546,100 | \$ (7,867) |

CITY OF HERCULES
DEVELOPMENT FEE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------|-----------------|--------------|---|
| Revenues: | | | |
| Use of money and property | \$ 20,000 | \$ 98,362 | \$ 78,362 |
| Total revenues | 20,000 | 98,362 | 78,362 |
| Net change in fund balance | 20,000 | 98,362 | 78,362 |
| Fund balance - July 1, 2009 | 2,272,736 | 2,272,736 | |
| Fund balance - June 30, 2010 | \$ 2,292,736 | \$ 2,371,098 | \$ 78,362 |

CITY OF HERCULES
STATE GAS TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 11,000 | \$ 47,525 | \$ 36,525 |
| Intergovernmental revenues | 522,000 | 630,111 | 108,111 |
| Total revenues | 533,000 | 677,636 | 144,636 |
| Expenditures: | | | |
| Current: | | | |
| Streets and public works | 15,000 | 35,535 | (20,535) |
| Capital outlay | 902,822 | 581,681 | 321,141 |
| Total expenditures | 917,822 | 617,216 | 300,606 |
| Excess of revenues over (under) expenditures | (384,822) | 60,420 | 445,242 |
| Other Financing Sources (Uses): | | | |
| Transfers in | 667,000 | 607,488 | (59,512) |
| Transfers out | (122,306) | (110,000) | 12,306 |
| Total other financing sources (uses) | 544,694 | 497,488 | (47,206) |
| Net change in fund balance | 159,872 | 557,908 | 398,036 |
| Fund balance - July 1, 2009 | 1,141,362 | 1,141,362 | |
| Fund balance - June 30, 2010 | <u>\$ 1,301,234</u> | <u>\$ 1,699,270</u> | <u>\$ 398,036</u> |

CITY OF HERCULES
MEASURE C STREET SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|---------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 15,000 | \$ 40,090 | \$ 25,090 |
| Intergovernmental revenues | 276,000 | 580,270 | 304,270 |
| Other revenues | | 4,000 | 4,000 |
| Total revenues | 291,000 | 624,360 | 333,360 |
| Expenditures: | | | |
| Current: | | | |
| Streets and public works | 19,000 | 9,355 | 9,645 |
| Capital outlay | 316,750 | 111,950 | 204,800 |
| Total expenditures | 335,750 | 121,305 | 214,445 |
| Excess of revenues over (under) expenditures | (44,750) | 503,055 | 547,805 |
| Other Financing Sources (Uses): | | | |
| Transfers in | | 183,326 | 183,326 |
| Transfers out | (80,000) | (80,000) | |
| Total other financing sources (uses) | (80,000) | 103,326 | 183,326 |
| Net change in fund balance | (124,750) | 606,381 | 731,131 |
| Fund balance - July 1, 2009 | 558,816 | 558,816 | |
| Fund balance - June 30, 2010 | <u>\$ 434,066</u> | <u>\$ 1,165,197</u> | <u>\$ 731,131</u> |

CITY OF HERCULES
STMP TRAFFIC IMPACT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|----------------|---|
| Revenues: | | | |
| Use of money and property | \$ 2,300 | \$ 207 | \$ (2,093) |
| Charges for services | 1,001,152 | 252,358 | (748,794) |
| Total revenues | 1,003,452 | 252,565 | (750,887) |
| Expenditures: | | | |
| Capital outlay | 1,003,452 | 244,825 | 758,627 |
| Total expenditures | 1,003,452 | 244,825 | 758,627 |
| Net change in fund balance | | 7,740 | 7,740 |
| Fund balance (deficit) - July 1, 2009 | (7,740) | (7,740) | |
| Fund balance (deficit) - June 30, 2010 | <u>\$ (7,740)</u> | <u>\$ -</u> | <u>\$ 7,740</u> |

CITY OF HERCULES
STATE AB-939 SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------|------------------|------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 1,000 | \$ 2,933 | \$ 1,933 |
| Total revenues | 1,000 | 2,933 | 1,933 |
| Net change in fund balance | 1,000 | 2,933 | 1,933 |
| Fund balance - July 1, 2009 | 11,456 | 11,456 | |
| Fund balance - June 30, 2010 | <u>\$ 12,456</u> | <u>\$ 14,389</u> | <u>\$ 1,933</u> |

CITY OF HERCULES
GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 7,000 | \$ 1,911 | \$ (5,089) |
| Intergovernmental revenues | 5,973,908 | 1,059,689 | (4,914,219) |
| Total revenues | 5,980,908 | 1,061,600 | (4,919,308) |
| Other Financing Sources (Uses): | | | |
| Proceeds from issuance of long-term debt | | 559,802 | 559,802 |
| Transfers in | | 41,375 | 41,375 |
| Transfers out | (5,968,908) | (1,665,092) | 4,303,816 |
| Total other financing sources (uses) | (5,968,908) | (1,063,915) | 4,904,993 |
| Net change in fund balance | 12,000 | (2,315) | (14,315) |
| Fund balance - July 1, 2009 | 58,515 | 58,515 | |
| Fund balance - June 30, 2010 | \$ 70,515 | \$ 56,200 | \$ (14,315) |

CITY OF HERCULES
FISCAL NEUTRALITY FEE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|---------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 300,000 | \$ 71,277 | \$ (228,723) |
| Total revenues | <u>300,000</u> | <u>71,277</u> | <u>(228,723)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers out | <u>(2,139,000)</u> | <u>(73,169)</u> | <u>2,065,831</u> |
| Total other financing sources (uses) | <u>(2,139,000)</u> | <u>(73,169)</u> | <u>2,065,831</u> |
| Net change in fund balance | (1,839,000) | (1,892) | 1,837,108 |
| Fund balance - July 1, 2009 | <u>2,099,736</u> | <u>2,099,736</u> | |
| Fund balance - June 30, 2010 | <u>\$ 260,736</u> | <u>\$ 2,097,844</u> | <u>\$ 1,837,108</u> |

CITY OF HERCULES
REGIONAL WATER QUALITY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------|------------------|------------------|---|
| Revenues: | | | |
| Use of money and property | \$ 1,000 | \$ 1,944 | \$ 944 |
| Total revenues | <u>1,000</u> | <u>1,944</u> | <u>944</u> |
| Net change in fund balance | 1,000 | 1,944 | 944 |
| Fund balance - July 1, 2009 | <u>44,914</u> | <u>44,914</u> | |
| Fund balance - June 30, 2010 | <u>\$ 45,914</u> | <u>\$ 46,858</u> | <u>\$ 944</u> |

CITY OF HERCULES
CITY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|-----------------|-------------|---|
| Revenues: | | | |
| Charges for services | \$ - | \$ 159,971 | \$ 159,971 |
| Total revenues | | 565,159 | 565,159 |
| Expenditures: | | | |
| Capital outlay | 6,471,175 | 772,131 | 5,699,044 |
| Total expenditures | 6,471,175 | 772,131 | 5,699,044 |
| Excess of revenues over (under) expenditures | (6,471,175) | (206,972) | 6,264,203 |
| Other Financing Sources (Uses): | | | |
| Transfers in | 6,264,921 | 555,545 | (5,709,376) |
| Transfers out | | (1,727,342) | (1,727,342) |
| Total other financing sources (uses) | 6,264,921 | (1,171,797) | (7,436,718) |
| Net change in fund balance | (206,254) | (1,378,769) | (1,172,515) |
| Fund balance - July 1, 2009 | 1,416,652 | 1,416,652 | |
| Fund balance - June 30, 2010 | \$ 1,210,398 | \$ 37,883 | \$ (1,172,515) |

CITY OF HERCULES
SUNTRUST LEASE DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2010

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------|-----------------|------------|---|
| Revenues: | | | |
| Use of money and property | \$ 205,598 | \$ 229,349 | \$ 23,751 |
| Total revenues | 205,598 | 229,349 | 23,751 |
| Expenditures: | | | |
| Debt service: | | | |
| Principal | 110,402 | 110,402 | |
| Interest and fiscal agent fees | 95,196 | 118,947 | (23,751) |
| Total expenditures | 205,598 | 229,349 | (23,751) |
| Net change in fund balance | | | |
| Fund balance - July 1, 2009 | | | |
| Fund balance - June 30, 2010 | \$ - | \$ - | \$ - |

INTERNAL SERVICE FUNDS

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

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

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

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2010

| | Vehicle Replacement Fund | IT Equipment Replacement Fund | Facility Maintenance Fund | Totals |
|--|--------------------------------|-------------------------------------|---------------------------------|---------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and investments | \$ 1,652,564 | \$ 719,582 | \$ 66,620 | \$ 2,438,766 |
| Accounts receivable | | 482 | | 482 |
| Total current assets | 1,652,564 | 720,064 | 66,620 | 2,439,248 |
| Non-current Assets: | | | | |
| Capital assets, depreciable: | | | | |
| Machinery and equipment | 2,116,753 | 993,752 | | 3,110,505 |
| Total depreciable capital assets | 2,116,753 | 993,752 | | 3,110,505 |
| Less accumulated depreciation | (1,505,344) | (449,202) | | (1,954,546) |
| Net depreciable capital assets | 611,409 | 544,550 | | 1,155,959 |
| Net capital assets | 611,409 | 544,550 | | 1,155,959 |
| Total noncurrent assets | 611,409 | 544,550 | | 1,155,959 |
| Total assets | 2,263,973 | 1,264,614 | 66,620 | 3,595,207 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | | 148,605 | 41,506 | 190,111 |
| Accrued wages | | 13,329 | 7,971 | 21,300 |
| Compensated absences | | 5,091 | 12,679 | 17,770 |
| Total current liabilities | | 167,025 | 62,156 | 229,181 |
| Total liabilities | | 167,025 | 62,156 | 229,181 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 611,409 | 544,550 | | 1,155,959 |
| Unrestricted | 1,652,564 | 553,039 | 4,464 | 2,210,067 |
| Total net assets | \$ 2,263,973 | \$ 1,097,589 | \$ 4,464 | \$ 3,366,026 |

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2010

| | Vehicle Replacement Fund | IT Equipment Replacement Fund | Facility Maintenance Fund | Totals |
|---|--------------------------------|-------------------------------------|---------------------------------|---------------------|
| Revenues: | | | | |
| Charges for services | \$ 186,238 | \$ 603,055 | \$ - | \$ 789,293 |
| Other operating revenue | 9,043 | 343,946 | 54 | 353,043 |
| Total revenues | <u>195,281</u> | <u>947,001</u> | <u>54</u> | <u>1,142,336</u> |
| Expenses: | | | | |
| Administration | | 525,442 | 9,963 | 535,405 |
| Depreciation | 169,323 | 134,182 | | 303,505 |
| Total expenses | <u>169,323</u> | <u>659,624</u> | <u>9,963</u> | <u>838,910</u> |
| Operating Income (Loss) | <u>25,958</u> | <u>287,377</u> | <u>(9,909)</u> | <u>303,426</u> |
| Non-operating revenues (expenses): | | | | |
| Gain (loss) on sale of capital assets | (17,204) | | | (17,204) |
| Interest income | 12,364 | | | 12,364 |
| Total non-operating revenues (expenses) | <u>(4,840)</u> | | | <u>(4,840)</u> |
| Income (Loss) before transfers | 21,118 | 287,377 | (9,909) | 298,586 |
| Transfers: | | | | |
| Transfers in | 9,346 | 102,965 | 9,962 | 122,273 |
| Change in net assets | 30,464 | 390,342 | 53 | 420,859 |
| Net Assets, July 1, 2009 | <u>2,233,509</u> | <u>707,247</u> | <u>4,411</u> | <u>2,945,167</u> |
| Net Assets, June 30, 2010 | <u>\$ 2,263,973</u> | <u>\$ 1,097,589</u> | <u>\$ 4,464</u> | <u>\$ 3,366,026</u> |

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010

| | Vehicle Replacement Fund | IT Equipment Replacement Fund | Facility Maintenance Fund | Totals |
|---|--------------------------------|-------------------------------------|---------------------------------|---------------------|
| Cash Flows from Operating Activities: | | | | |
| Receipts from customers | \$ 195,281 | \$ 946,519 | \$ 214 | \$ 1,142,014 |
| Payment to suppliers and users | | (337,495) | 92,617 | (244,878) |
| Payment to employees | | (212,517) | (159,748) | (372,265) |
| Net Cash Provided (Used) by Operating Activities | <u>195,281</u> | <u>396,507</u> | <u>(66,917)</u> | <u>524,871</u> |
| Cash flows from Non-Capital Financing Activities: | | | | |
| Transfers in | <u>9,346</u> | <u>102,965</u> | <u>9,962</u> | <u>122,273</u> |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>9,346</u> | <u>102,965</u> | <u>9,962</u> | <u>122,273</u> |
| Cash flows from Capital and Related Financing Activities: | | | | |
| Purchases of capital assets | <u>(147,229)</u> | <u>(135,422)</u> | | <u>(282,651)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(147,229)</u> | <u>(135,422)</u> | | <u>(282,651)</u> |
| Cash flows from Investing Activities: | | | | |
| Interest received | <u>12,364</u> | | | <u>12,364</u> |
| Net Cash Provided by Investing Activities | <u>12,364</u> | | | <u>12,364</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 69,762 | 364,050 | (56,955) | 376,857 |
| Cash and Cash Equivalents, July 1, 2009 | <u>1,582,802</u> | <u>355,532</u> | <u>123,575</u> | <u>2,061,909</u> |
| Cash and Cash Equivalents, June 30, 2010 | <u>\$ 1,652,564</u> | <u>\$ 719,582</u> | <u>\$ 66,620</u> | <u>\$ 2,438,766</u> |
| Reconciliation of Cash and Cash Equivalents to Combining Statement of Net Assets | | | | |
| Cash and investments | <u>\$ 1,652,564</u> | <u>\$ 719,582</u> | <u>\$ 66,620</u> | <u>\$ 2,438,766</u> |
| Total Cash and Investments | <u>\$ 1,652,564</u> | <u>\$ 719,582</u> | <u>\$ 66,620</u> | <u>\$ 2,438,766</u> |

(Continued)

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2010

| | Vehicle Replacement Fund | IT Equipment Replacement Fund | Facility Maintenance Fund | Totals |
|---|--------------------------------|-------------------------------------|---------------------------------|------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating Income (Loss) | \$ 25,958 | \$ 287,377 | \$ (9,909) | \$ 303,426 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 169,323 | 134,182 | | 303,505 |
| (Increase) Decrease in Operating Assets: | | | | |
| Accounts receivable | | (482) | 160 | (322) |
| Increase (Decrease) in Operating Liabilities: | | | | |
| Accounts payable | | (22,794) | (56,809) | (79,603) |
| Accrued wages | | 5,032 | (56) | 4,976 |
| Compensated absences | | (6,808) | (303) | (7,111) |
| Net Cash Provided (Used) by Operating Activities | \$ 195,281 | \$ 396,507 | \$ (66,917) | \$ 524,871 |

FIDUCIARY FUNDS

Agency Funds:

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

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

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

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

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

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

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

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

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

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF ASSETS AND LIABILITIES
June 30, 2010

| | Westcat Transit | West Contra Costa Integrated Waste Management Authority | Reassessment District 91-1 | Reassessment District 05-1 |
|--|----------------------------|--|---------------------------------------|---------------------------------------|
| Assets | | | | |
| Cash and investments | \$ - | \$ 5,919,102 | \$ 165,172 | \$ 150,380 |
| Cash and investments with fiscal agent | | | | 884,855 |
| Accounts receivable | 3,533 | 792,027 | | |
| Total Assets | \$ 3,533 | \$ 6,711,129 | \$ 165,172 | \$ 1,035,235 |
| Liabilities | | | | |
| Accounts payable | \$ 3,533 | \$ 233,124 | \$ 165,172 | \$ 395,183 |
| Compensated absences | | 14,242 | | |
| Deposits payable | | 6,463,763 | | 640,052 |
| Total Liabilities | \$ 3,533 | \$ 6,711,129 | \$ 165,172 | \$ 1,035,235 |

| A. Nobel Reassessment District | Taylor Woodrow Maintenance LMOB | Hercules Community Library | Hercules Golf Club | Pinole/Hercules Wastewater Treatment Plant | Totals |
|--------------------------------------|--|----------------------------------|--------------------------|---|--------------------------------------|
| \$ 744,832 956,121 | \$ 63,636 | \$ 5,034 | \$ 49,401 | \$ 36,493 | \$ 7,134,050 1,840,976 796,423 |
| <u>\$ 1,700,953</u> | <u>\$ 63,636</u> | <u>\$ 5,034</u> | <u>\$ 49,401</u> | <u>\$ 37,356</u> | <u>\$ 9,771,449</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 37,356 | \$ 834,368 14,242 |
| <u>1,700,953</u> | <u>63,636</u> | <u>5,034</u> | <u>49,401</u> | | <u>8,922,839</u> |
| <u>\$ 1,700,953</u> | <u>\$ 63,636</u> | <u>\$ 5,034</u> | <u>\$ 49,401</u> | <u>\$ 37,356</u> | <u>\$ 9,771,449</u> |

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2010

| | Balance July 1, 2009 | Additions | Deletions | Balance June 30, 2010 |
|--|-------------------------|-------------------|---------------------|--------------------------|
| WESTCAT TRANSIT | | | | |
| ASSETS | | | | |
| Accounts receivable | \$ 3,533 | \$ - | \$ - | \$ 3,533 |
| Total Assets | <u>\$ 3,533</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,533</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 3,533 | \$ - | \$ - | \$ 3,533 |
| Total Liabilities | <u>\$ 3,533</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,533</u> |
| WEST CONTRA COSTA INTEGRATED WASTE MANAGEMENT AUTHORITY | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 6,554,054 | \$ - | \$ (634,952) | \$ 5,919,102 |
| Accounts receivable | 394,210 | 397,817 | | 792,027 |
| Total Assets | <u>\$ 6,948,264</u> | <u>\$ 397,817</u> | <u>\$ (634,952)</u> | <u>\$ 6,711,129</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 76,235 | \$ 156,889 | \$ - | \$ 233,124 |
| Compensated absences | 12,635 | 1,607 | | 14,242 |
| Deposits payable | 6,859,394 | 239,321 | (634,952) | 6,463,763 |
| Total Liabilities | <u>\$ 6,948,264</u> | <u>\$ 397,817</u> | <u>\$ (634,952)</u> | <u>\$ 6,711,129</u> |
| REASSESSMENT DISTRICT 91-1 | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 341,920 | \$ 2,135 | \$ (178,883) | \$ 165,172 |
| Total Assets | <u>\$ 341,920</u> | <u>\$ 2,135</u> | <u>\$ (178,883)</u> | <u>\$ 165,172</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 341,920 | \$ 2,135 | \$ (178,883) | \$ 165,172 |
| Total Liabilities | <u>\$ 341,920</u> | <u>\$ 2,135</u> | <u>\$ (178,883)</u> | <u>\$ 165,172</u> |

(Continued)

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2010
(Continued)

| | Balance July 1, 2009 | Additions | Deletions | Balance June 30, 2010 |
|--|-------------------------|-------------------|---------------------|--------------------------|
| REASSESSMENT DISTRICT 05-1 | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 157,728 | \$ - | \$ (7,348) | \$ 150,380 |
| Cash and investments with fiscal agent | 1,227,456 | 89,704 | (432,305) | 884,855 |
| Accounts Receivable | 369 | | (369) | |
| Total Assets | <u>\$ 1,385,553</u> | <u>\$ 89,704</u> | <u>\$ (440,022)</u> | <u>\$ 1,035,235</u> |
| LIABILITIES | | | | |
| Accounts Payable | \$ 374,473 | \$ 20,710 | \$ - | \$ 395,183 |
| Deposits payable | 1,011,080 | 68,994 | (440,022) | 640,052 |
| Total Liabilities | <u>\$ 1,385,553</u> | <u>\$ 89,704</u> | <u>\$ (440,022)</u> | <u>\$ 1,035,235</u> |
| A. NOBEL REASSESSMENT DISTRICT | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 714,529 | \$ 30,303 | \$ - | \$ 744,832 |
| Cash and investments with fiscal agent | 955,101 | 703,544 | (702,524) | 956,121 |
| Total Assets | <u>\$ 1,669,630</u> | <u>\$ 733,847</u> | <u>\$ (702,524)</u> | <u>\$ 1,700,953</u> |
| LIABILITIES | | | | |
| Deposits payable | \$ 1,669,630 | \$ 733,847 | \$ (702,524) | \$ 1,700,953 |
| Total Liabilities | <u>\$ 1,669,630</u> | <u>\$ 733,847</u> | <u>\$ (702,524)</u> | <u>\$ 1,700,953</u> |
| TAYLOR WOODROW MAINTENANCE LMOD | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 60,996 | \$ 2,640 | \$ - | \$ 63,636 |
| Total Assets | <u>\$ 60,996</u> | <u>\$ 2,640</u> | <u>\$ -</u> | <u>\$ 63,636</u> |
| LIABILITIES | | | | |
| Deposits payable | \$ 60,996 | \$ 2,640 | \$ - | \$ 63,636 |
| Total Liabilities | <u>\$ 60,996</u> | <u>\$ 2,640</u> | <u>\$ -</u> | <u>\$ 63,636</u> |

(Continued)

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2010
(Continued)

| | Balance July 1, 2009 | Additions | Deletions | Balance June 30, 2010 |
|---|-------------------------|-------------------|---------------------|--------------------------|
| HERCULES COMMUNITY LIBRARY | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 5,973 | \$ 1,052 | \$ (1,991) | \$ 5,034 |
| Total Assets | <u>\$ 5,973</u> | <u>\$ 1,052</u> | <u>\$ (1,991)</u> | <u>\$ 5,034</u> |
| LIABILITIES | | | | |
| Deposits payable | \$ 5,973 | \$ 1,052 | \$ (1,991) | \$ 5,034 |
| Total Liabilities | <u>\$ 5,973</u> | <u>\$ 1,052</u> | <u>\$ (1,991)</u> | <u>\$ 5,034</u> |
| HERCULES GOLF CLUB | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 37,456 | \$ 48,909 | \$ (36,964) | \$ 49,401 |
| Total Assets | <u>\$ 37,456</u> | <u>\$ 48,909</u> | <u>\$ (36,964)</u> | <u>\$ 49,401</u> |
| LIABILITIES | | | | |
| Deposits payable | \$ 37,456 | \$ 48,909 | \$ (36,964) | \$ 49,401 |
| Total Liabilities | <u>\$ 37,456</u> | <u>\$ 48,909</u> | <u>\$ (36,964)</u> | <u>\$ 49,401</u> |
| PINOLE/HERCULES WASTEWATER TREATMENT PLANT | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 27,847 | \$ 253,452 | \$ (244,806) | \$ 36,493 |
| Accounts Receivable | | 863 | | 863 |
| Total Assets | <u>\$ 27,847</u> | <u>\$ 254,315</u> | <u>\$ (244,806)</u> | <u>\$ 37,356</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ 37,356 | \$ - | \$ 37,356 |
| Deposits payable | 27,847 | 216,959 | (244,806) | |
| Total Liabilities | <u>\$ 27,847</u> | <u>\$ 254,315</u> | <u>\$ (244,806)</u> | <u>\$ 37,356</u> |

(Continued)

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2010
(Continued)

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2010</u> |
|--|---------------------------------------|---------------------|-----------------------|--|
| TOTAL AGENCY FUNDS | | | | |
| ASSETS | | | | |
| Cash and investments | \$ 7,900,503 | \$ 338,491 | \$ (1,104,944) | \$ 7,134,050 |
| Cash and investments with fiscal agent | 2,182,557 | 793,248 | (1,134,829) | 1,840,976 |
| Accounts receivable | 398,112 | 398,680 | (369) | 796,423 |
| | <u>\$ 10,481,172</u> | <u>\$ 1,530,419</u> | <u>\$ (2,240,142)</u> | <u>\$ 9,771,449</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 796,161 | \$ 217,090 | \$ (178,883) | \$ 834,368 |
| Compensated absences | 12,635 | 1,607 | | 14,242 |
| Deposits payable | 9,672,376 | 1,311,722 | (2,061,259) | 8,922,839 |
| | <u>\$ 10,481,172</u> | <u>\$ 1,530,419</u> | <u>\$ (2,240,142)</u> | <u>\$ 9,771,449</u> |

STATISTICAL SECTION

TABLE 1

City of Hercules

Net Assets by Component

Last Eight Fiscal Years

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|---|-------------|-----------|-----------|------------|------------|------------|------------|------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Governmental activities | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 12,171 | \$ 8,579 | \$ 25,731 | \$(11,063) | \$ 5,415 | \$ 64,911 | \$ 50,093 | \$ 35,836 |
| Restricted | 12,858 | 18,256 | 37,692 | 61,752 | 79,222 | 14,555 | 2,243 | 12,072 |
| Unrestricted | 29,652 | 31,913 | 13,589 | 36,881 | 19,688 | 35,510 | 38,912 | 29,074 |
| Total Governmental Activities | \$ 54,681 | \$ 58,747 | \$ 77,012 | \$ 87,570 | \$ 104,325 | \$ 114,976 | \$ 91,249 | \$ 76,982 |
| Business-type activities | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 2,924 | \$ 4,762 | \$ 5,780 | \$ 8,009 | \$ 12,758 | \$ 11,655 | \$ 18,017 | \$ 18,851 |
| Restricted | 6 | 236 | 236 | 236 | - | - | - | - |
| Unrestricted | 1,412 | 75 | 1,486 | 1,692 | (5,483) | (3,997) | 10,042 | 11,932 |
| Total Business-type activities | \$ 4,342 | \$ 5,073 | \$ 7,503 | \$ 9,937 | \$ 7,275 | \$ 7,658 | \$ 28,059 | \$ 30,783 |
| Primary government | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 15,095 | \$ 13,341 | \$ 31,511 | \$ (3,054) | \$ 18,173 | \$ 76,566 | \$ 68,111 | \$ 54,687 |
| Restricted | 12,864 | 18,491 | 37,928 | 61,988 | 79,222 | 14,555 | 2,243 | 12,072 |
| Unrestricted | 31,064 | 31,988 | 15,076 | 38,573 | 14,205 | 31,513 | 48,954 | 41,006 |
| Total primary government | \$ 59,023 | \$ 63,820 | \$ 84,515 | \$ 97,507 | \$ 111,600 | \$ 122,634 | \$ 119,308 | \$ 107,765 |

The City of Hercules implemented GASB S-34 for the fiscal year June 30, 2003. Information prior to the implementation of GASB S-34 is not available.

Source: Comprehensive Annual Financial Reports of the City of Hercules, California

TABLE 2
City of Hercules
Change in Net Assets
Last Eight Fiscal Years
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Expenses | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General government | \$ 5,281 | \$ 6,203 | \$ 8,392 | \$ 4,104 | \$ 4,732 | \$ 5,498 | \$ 7,601 | \$ 7,463 |
| Public safety | 3,502 | 3,583 | 3,897 | 4,664 | 5,628 | 5,540 | 6,461 | 7,119 |
| Public works | 4,256 | 3,261 | 7,452 | 4,204 | 4,861 | 4,751 | 5,110 | 5,458 |
| Community development | 2,803 | 1,288 | 2,138 | 10,623 | 8,163 | 11,244 | 15,817 | 16,227 |
| Parks and recreation | 1,806 | 1,735 | 2,156 | 2,243 | 2,382 | 2,652 | 2,994 | 3,333 |
| Interest on long-term debt | 1,424 | 1,472 | 2,447 | 3,510 | 4,114 | 6,796 | 8,838 | 10,871 |
| Total governmental activities expense | 19,072 | 17,542 | 26,482 | 29,348 | 29,880 | 36,481 | 46,822 | 50,471 |
| Business-type activities | | | | | | | | |
| Sewer | 2,369 | 1,845 | 1,836 | 2,112 | 2,657 | 1,531 | 2,757 | 2,966 |
| Hercules Municipal Utility Fund | 492 | 974 | 1,486 | 2,320 | 2,801 | 3,198 | 3,487 | 3,288 |
| Total business-type activities expense | 2,861 | 2,819 | 3,322 | 4,432 | 5,458 | 4,729 | 6,244 | 6,254 |
| Total primary government expenses | \$ 21,933 | \$ 20,361 | \$ 29,804 | \$ 33,780 | \$ 35,338 | \$ 41,210 | \$ 53,066 | \$ 56,725 |
| Program Revenues | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Charges for services | | | | | | | | |
| General government | \$ 201 | \$ 254 | \$ 559 | \$ 175 | \$ 1,081 | \$ 325 | \$ 1,165 | \$ 1,073 |
| Community development | 8,009 | 6,301 | 4,904 | 3,791 | 1,450 | 1,495 | 2,348 | 4,123 |
| Parks and recreation | 1,219 | 1,013 | 1,307 | 1,425 | 1,468 | 1,231 | 1,503 | 1,595 |
| Other activities | 154 | 547 | 323 | 240 | 433 | 1,058 | 905 | 614 |
| Operating grants and contributions | 1,063 | 503 | 1,307 | 32 | 434 | 7,584 | 32 | 137 |
| Capital grants and contributions | 1 | 47 | 15,111 | 6,416 | 6,983 | 3,420 | 4,937 | 1,046 |
| Total governmental activities program revenues | 10,647 | 8,665 | 23,511 | 12,079 | 11,849 | 15,113 | 10,890 | 8,588 |
| Business-type activities: | | | | | | | | |
| Charges for services | | | | | | | | |
| Sewer | 3,070 | 2,461 | 2,762 | 3,163 | 2,326 | 3,710 | 3,815 | 5,769 |
| Hercules Municipal Utility Fund | 69 | 546 | 1,415 | 1,701 | 1,727 | 1,953 | 2,354 | 2,675 |
| Operating grants and contributions | 671 | - | 838 | - | 3,116 | - | 411 | 156 |
| Total business-type activities program revenues | 3,810 | 3,007 | 5,015 | 4,864 | 7,169 | 5,663 | 6,580 | 8,600 |
| Total primary government program revenues | \$ 14,457 | \$ 11,672 | \$ 28,526 | \$ 16,943 | \$ 19,018 | \$ 20,776 | \$ 17,470 | \$ 17,188 |

The City of Hercules implemented GASB S-34 for the fiscal year June 30, 2003. Information prior to the implementation of GASB S-34 is not available.

Source: Comprehensive Annual Financial Reports of the City of Hercules, California

TABLE 2 (continued)
City of Hercules
Change in Net Assets
Last Eight Fiscal Years
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|--|-------------|------------|------------|-------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Net (expense)/revenue: | | | | | | | | |
| Governmental activities | \$ (8,425) | \$ (8,877) | \$ (2,971) | \$ (17,269) | \$ (18,031) | \$ (21,368) | \$ (35,931) | \$ (41,883) |
| Business-type activities | 949 | 188 | 1,693 | 432 | 1,711 | 934 | 335 | 2,346 |
| Total primary government net expense | \$ (7,476) | \$ (8,689) | \$ (1,278) | \$ (16,837) | \$ (16,320) | \$ (20,434) | \$ (35,596) | \$ (39,537) |
| General Revenue and Other Changes in Net Assets | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Property taxes | \$ 5,396 | \$ 9,130 | \$ 12,144 | \$ 13,478 | \$ 16,777 | \$ 16,641 | \$ 16,021 | \$ 13,731 |
| Sales and other taxes | 3,912 | 4,780 | 6,020 | 6,856 | 6,746 | 6,822 | 7,849 | 7,944 |
| Investment earnings | 2,333 | (199) | 2,638 | 3,439 | 5,259 | 6,046 | 5,642 | 5,350 |
| Miscellaneous | 100 | (225) | 1,889 | 3,855 | 2,198 | 2,453 | 2,432 | 3,747 |
| Loss on sale of assets | - | - | (717) | (9) | (14) | - | - | - |
| Transfers | 100 | (543) | (738) | (2,003) | 41 | 286 | (5,326) | 372 |
| Total Governmental activities | 11,841 | 12,943 | 21,236 | 25,616 | 31,007 | 32,248 | 26,618 | 31,144 |
| Business-type activities | | | | | | | | |
| Investment earnings | - | - | - | - | - | 6 | 325 | 831 |
| Transfers | (100) | 543 | 738 | 2,003 | (41) | (286) | 5,326 | (372) |
| Total business-type activities | (100) | 543 | 738 | 2,003 | (41) | (280) | 5,651 | 459 |
| Total primary government | \$ 11,741 | \$ 13,486 | \$ 21,974 | \$ 27,619 | \$ 30,966 | \$ 31,968 | \$ 32,270 | \$ 31,603 |
| Change in Net Assets | | | | | | | | |
| Governmental activities | \$ 3,416 | \$ 4,066 | \$ 18,265 | \$ 8,347 | \$ 12,976 | \$ 10,880 | \$ (9,313) | \$ (10,739) |
| Business-type activities | 849 | 731 | 2,431 | 2,435 | 1,670 | 654 | 5,987 | 2,805 |
| Total primary government | \$ 4,265 | \$ 4,797 | \$ 20,696 | \$ 10,782 | \$ 14,646 | \$ 11,534 | \$ (3,326) | \$ (7,934) |

Source: Comprehensive Annual Financial Reports of the City of Hercules, California

The City of Hercules implemented GASB S-34 for the fiscal year June 30, 2003. Information prior to the implementation of GASB S-34 is not available.

TABLE 3
City of Hercules
Governmental Activities Tax Revenues by Source ¹
Last Eight Fiscal Years
 (amounts expressed in thousands)

| Fiscal Year | Property Tax | Utility Users Tax | Sales Tax | Gas Tax | Franchise Tax | Transfer Tax | Transportation Tax | Business License Tax | Total |
|-------------|--------------|-------------------|-----------|---------|---------------|--------------|--------------------|----------------------|----------|
| 2003 | \$ 5,387 | \$ 1,120 | \$ 1,078 | \$ 423 | \$ 308 | \$ 198 | \$ 283 | \$ 140 | \$ 8,937 |
| 2004 | 7,256 | 1,254 | 1,023 | 392 | 353 | 368 | 265 | 139 | 11,050 |
| 2005 | 13,134 | 1,431 | 1,271 | 420 | 383 | 279 | 259 | 138 | 17,315 |
| 2006 | 13,478 | 1,789 | 1,669 | 690 | 479 | 295 | 1,765 | 168 | 20,333 |
| 2007 | 16,777 | 1,824 | 1,821 | 441 | 496 | 131 | 1,884 | 152 | 23,526 |
| 2008 | 16,641 | 1,803 | 1,927 | 432 | 472 | 73 | 1,957 | 158 | 23,463 |
| 2009 | 16,021 | 1,959 | 2,566 | 604 | 600 | 85 | 1,881 | 154 | 23,871 |
| 2010 | 13,731 | 2,484 | 2,068 | 630 | 603 | 88 | 1,612 | 141 | 21,357 |

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

The City of Hercules implemented GASB S-34 for the fiscal year June 30, 2003. Information prior to the implementation of GASB S-34 is not available.

Source: City of Hercules Finance Department

TABLE 4
City of Hercules
Fund Balances of Governmental Funds
Last Eight Fiscal Years
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|------------------------------------|-------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| General Fund | | | | | | | | |
| Reserved | \$ 12,783 | \$ 14,724 | \$ 14,548 | \$ 14,262 | \$ 17,518 | \$ 19,135 | \$ 19,693 | \$ 21,248 |
| Unreserved | 12,377 | 9,784 | 12,190 | 11,810 | 9,604 | 7,365 | 5,384 | 7,620 |
| Total General Fund | \$ 25,160 | \$ 24,508 | \$ 26,738 | \$ 26,072 | \$ 27,122 | \$ 26,500 | \$ 25,078 | \$ 28,868 |
| All other governmental funds | | | | | | | | |
| Reserved | \$ 9,484 | \$ 26,518 | \$ 28,183 | \$ 63,618 | \$ 52,375 | \$ 114,978 | \$ 94,617 | \$ 70,904 |
| Unreserved, reported in: | | | | | | | | |
| Designated, future projects | - | - | - | - | - | 11,756 | 11,474 | 12,749 |
| Special revenue funds | 3,468 | 5,118 | 2,449 | 6,608 | 13,979 | 7,954 | 816 | (9,679) |
| Debt service funds | 6,391 | - | - | - | 107 | 1,224 | (14,746) | (11,565) |
| Capital project funds | (4,481) | (8,738) | (10,393) | (4,807) | (357) | (16,046) | (27,673) | (37,368) |
| Total all other governmental funds | \$ 14,862 | \$ 22,898 | \$ 20,239 | \$ 65,419 | \$ 66,104 | \$ 119,866 | \$ 64,488 | \$ 25,041 |

Source: Comprehensive Annual Financial Reports of the City of Hercules, California

TABLE 4
City of Hercules
Changes in Fund Balances of Governmental Funds
Last Eight Fiscal Years
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|---|---------------|----------------|---------------|----------------|----------------|-----------------|-----------------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Revenues | | | | | | | | |
| Taxes | \$ 9,308 | \$ 11,050 | \$ 16,303 | \$ 18,550 | \$ 20,880 | \$ 20,750 | \$ 20,177 | \$ 18,301 |
| Intergovernmental | 1,141 | 1,570 | 3,264 | 3,084 | 7,440 | 10,396 | 8,192 | 4,004 |
| Licenses and permits | 2,536 | 1,876 | 1,086 | 753 | 509 | 337 | 492 | 885 |
| Fines and forfeitures | 53 | 57 | 57 | 64 | 168 | 135 | 147 | 175 |
| Use of money and property | 2,333 | 443 | 2,685 | 3,439 | 4,931 | 6,686 | 5,914 | 4,619 |
| Program income | - | - | - | - | 4 | 31 | 318 | 476 |
| Charges for services | 6,917 | 6,430 | 5,407 | 4,665 | 2,696 | 2,606 | 3,607 | 5,557 |
| Lease income | 480 | 315 | 532 | 920 | 1,022 | 310 | 389 | 330 |
| Other revenues | 100 | 1,107 | 1,650 | 1,355 | 2,198 | 2,453 | 2,432 | 3,393 |
| Total Revenues | 22,868 | 22,848 | 30,984 | 32,829 | 39,847 | 43,704 | 41,667 | 37,740 |
| Expenditures | | | | | | | | |
| General government | 5,108 | 5,798 | 8,176 | 3,792 | 3,528 | 4,373 | 5,206 | 5,537 |
| Public safety | 3,326 | 3,536 | 3,809 | 4,654 | 5,594 | 5,255 | 6,225 | 7,062 |
| Public works | 1,648 | 1,896 | 1,553 | 2,266 | 2,746 | 2,560 | 2,887 | 3,171 |
| Community development | 1,127 | 1,288 | 1,155 | 10,637 | 9,424 | 12,857 | 12,843 | 19,287 |
| Parks and recreation | 1,637 | 1,564 | 1,944 | 2,116 | 2,228 | 2,425 | 2,751 | 3,061 |
| Capital outlay | 3,535 | 3,170 | 5,469 | 9,568 | 12,568 | 41,331 | 34,018 | 31,016 |
| Lease expense | 480 | 315 | 532 | 920 | 1,022 | 1,133 | 1,096 | 1,155 |
| Debt service | | | | | | | | |
| Principal | 679 | 4,370 | 4,287 | 438 | 1,546 | 1,815 | 4,533 | 3,631 |
| Interest | 1,675 | 1,381 | 2,256 | 3,120 | 4,099 | 5,020 | 8,800 | 10,369 |
| Bond issuance cost | - | 706 | - | 1,079 | - | 3,106 | - | 272 |
| Total Expenditures | 19,215 | 24,024 | 29,181 | 38,591 | 42,754 | 79,874 | 78,358 | 84,561 |
| Excess of revenues over (under) expenditures | 3,653 | (1,176) | 1,803 | (5,761) | (2,907) | (36,170) | (36,691) | (46,821) |

City of Hercules
Changes in Fund Balances of Governmental Funds
Last Eight Fiscal Years
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|--|-----------------|-------------------|-----------------|------------------|-------------------|------------------|--------------------|--------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Other financing sources (uses) | | | | | | | | |
| Proceeds from long-term debt | \$ 7,000 | \$ 9,150 | \$ - | \$ 56,260 | \$ 400 | \$ 89,037 | \$ 453 | \$ 18,065 |
| Discounts/Premium from Issuance | - | - | - | 2,176 | - | 82 | - | (719) |
| Refunding Payment to escrow | - | - | - | (6,351) | - | - | - | (6,511) |
| Capital Contributions to HMU | (671) | - | - | - | - | - | - | - |
| Transfers in | 1,084 | 5,105 | 4,418 | 20,258 | 23,575 | 51,414 | 61,824 | 47,508 |
| Transfers out | (1,110) | (5,694) | (6,648) | (22,328) | (24,129) | (51,244) | (67,972) | (47,259) |
| Total other financing sources (uses) | (697) | (589) | (2,230) | 50,015 | (155) | 89,289 | (5,695) | 11,084 |
| Net change in fund balances | \$ 2,956 | \$ (1,765) | \$ (427) | \$ 44,253 | \$ (3,061) | \$ 53,118 | \$ (42,386) | \$ (35,737) |
| Debt as a percentage of noncapital expenditures | 15.01% | 30.96% | 27.59% | 15.98% | 18.70% | 25.79% | 30.07% | 26.65% |

Source: Comprehensive Annual Financial Reports of the City of Hercules, California

TABLE 5
City of Hercules
Assessed Value and Estimated Actual Value of Taxable Property
Last Eight Fiscal Years
(amounts expressed in thousands)

| Fiscal Year Ended June 30 | Real Property | | Personal Property | Less: | | Total Taxable Assessed Value | Total Direct Tax Rate |
|---------------------------|---------------|-----------|-------------------|--------------------------|--------------|------------------------------|-----------------------|
| | Property | Property | | Tax Exempt Real Property | Property | | |
| 2003 | \$ 1,722,513 | \$ 32,630 | | \$ 57,703 | \$ 1,697,440 | 1.202 | |
| 2004 | 1,970,445 | 30,814 | | 59,112 | 1,942,147 | 1.243 | |
| 2005 | 2,410,917 | 29,865 | | 65,569 | 2,375,213 | 1.245 | |
| 2006 | 2,821,941 | 35,128 | | 82,382 | 2,774,687 | 1.234 | |
| 2007 | 3,187,086 | 39,352 | | 83,861 | 3,142,577 | 1.236 | |
| 2008 | 3,428,954 | 38,806 | | 85,254 | 3,382,506 | 1.209 | |
| 2009 | 3,319,675 | 39,831 | | 83,593 | 3,275,913 | 1.233 | |
| 2010 | 2,841,377 | 38,715 | | 89,164 | 2,790,928 | 1.340 | |

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

Source: Auditor's Office of the County of Contra Costa

TABLE 6
City of Hercules
Property Tax Rates
Direct and Overlapping Governments
Last Eight Fiscal Years

| Fiscal Year | Basic Countywide Tax | City of Hercules | East Bay | | West | | John Swett School | Community College | Total |
|-------------|----------------------|------------------|---------------|--------------|------------------|------------------|-------------------|-------------------|--------|
| | | | Regional Park | Martinez USD | Contra Costa USD | Contra Costa USD | | | |
| 2003 | 1.0000 | 0.0170 | 0.0000 | 0.0065 | 0.0901 | 0.0526 | 0.0319 | 0.0040 | 1.2021 |
| 2004 | 1.0000 | - | 0.0000 | 0.0057 | 0.1000 | 0.1064 | 0.0275 | 0.0038 | 1.2434 |
| 2005 | 1.0000 | - | 0.0000 | 0.0057 | 0.0923 | 0.1153 | 0.0273 | 0.0042 | 1.2448 |
| 2006 | 1.0000 | - | 0.0048 | 0.0057 | 0.0904 | 0.1041 | 0.0246 | 0.0047 | 1.2343 |
| 2007 | 1.0000 | - | 0.0050 | 0.0085 | 0.0794 | 0.1143 | 0.0244 | 0.0043 | 1.2359 |
| 2008 | 1.0000 | - | 0.0076 | 0.0080 | 0.0557 | 0.1035 | 0.0229 | 0.0108 | 1.2085 |
| 2009 | 1.0000 | - | 0.0090 | 0.0100 | 0.0597 | 0.1230 | 0.0247 | 0.0066 | 1.2330 |
| 2010 | 1.0000 | - | 0.0057 | 0.0108 | 0.0619 | 0.1828 | 0.0666 | 0.0126 | 1.3404 |

Ten years information not available.

Source: County of Contra Costa Tax Rate Book

TABLE 7
City of Hercules
Principal Property Taxpayers
June 30, 2010
(amounts expressed in thousands)

| Taxpayer | 2010 | | 2009 | | 2008 | |
|----------------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|
| | Taxable Assessed Value | % of Total Taxable Assessed Value | Taxable Assessed Value | % of Total Taxable Assessed Value | Taxable Assessed Value | % of Total Taxable Assessed Value |
| Bio-Rad Laboratories | \$ 124,922 | 1 4.48% | \$ 127,775 | 1 3.90% | \$ 121,563 | 1 3.59% |
| HD Development of Maryland | 16,607 | 2 0.60% | 16,731 | 3 0.51% | 16,672 | 2 0.49% |
| Rago Development Corporation | 14,605 | 3 0.52% | 14,640 | 4 0.45% | 14,071 | 3 0.42% |
| Santa Clara Vly Housing Group | 14,239 | 4 0.51% | 14,273 | 5 0.44% | 13,719 | 4 0.41% |
| Tulloch Brian | 8,324 | 5 0.30% | 8,343 | 6 0.25% | 8,019 | 6 0.24% |
| Three Trees Holdings LLC | 7,200 | 6 0.26% | 8,000 | 7 0.24% | 8,000 | 7 0.24% |
| Orinda Investors LP | 6,670 | 7 0.24% | 6,674 | 8 0.20% | | |
| Dathe Robert P. & Charlotta R. | 6,549 | 8 0.23% | 6,564 | 10 0.20% | | |
| Hercules Sycamore Hills LLC | 6,424 | 9 0.23% | | | | |
| Hercules Real Estate Ltd Ptnship | 5,975 | 10 0.21% | | | | |
| First American Title | | | | | | |
| Eden Victoria LP | | | 19,106 | 2 0.58% | | |
| Eden-Sycamore LP | | | 6,630 | 9 0.20% | | |
| Besphil & Co Ltd | | | | | 7,863 | 9 0.23% |
| Lewis - Hercules LLC | | | | | 7,736 | 10 0.23% |
| LB/VCC Hercules II LLC | | | | | 7,951 | 8 0.24% |
| Greenparks/Sage Franklin Canyon | | | | | | |
| Uy Gary Z./Marissa C. | | | | | | |
| WL Homes Bayside LLC | | | | | | |
| LCRI Investments LLC | | | | | | |
| Freitas Diana | | | | | | |
| Padua Roderick/Pilling V. | | | | | | |
| Koziol Dave | | | | | | |
| Serb Andres C. & Janet C. | | | | | | |
| Home Depot USA | | | | | | |
| William Lyons Homes | | | | | | |
| Hercules Overlook LP | | | | | | |
| Walmart Stores Inc | | | | | 12,938 | 5 0.38% |
| All others | <u>2,579,413</u> | <u>92.42%</u> | <u>3,046,276</u> | <u>93.02%</u> | <u>3,163,974</u> | <u>93.54%</u> |
| Total | <u>\$2,790,928</u> | <u>100.00%</u> | <u>\$3,275,012</u> | <u>100.00%</u> | <u>\$ 3,382,506</u> | <u>100.00%</u> |

Source: Contra Costa County Assessor's Office

2004 is the earliest year available.

| 2007 | | | 2006 | | | 2005 | | | 2004 | | |
|------------------------|------|-----------------------------------|------------------------|------|-----------------------------------|------------------------|------|-----------------------------------|------------------------|------|-----------------------------------|
| Taxable Assessed Value | Rank | % of Total Taxable Assessed Value | Taxable Assessed Value | Rank | % of Total Taxable Assessed Value | Taxable Assessed Value | Rank | % of Total Taxable Assessed Value | Taxable Assessed Value | Rank | % of Total Taxable Assessed Value |
| \$ 111,349 | 1 | 3.54% | \$ 111,608 | 1 | 59.12% | \$ 100,334 | 1 | 36.97% | \$ 74,766 | 1 | 4.31% |
| 16,542 | 3 | 0.53% | 16,264 | 4 | 8.62% | | | | | | |
| 8,604 | 7 | 0.27% | | | | 8,270 | 9 | 3.05% | | | |
| 13,450 | 4 | 0.43% | | | | | | | | | |
| 7,862 | 8 | 0.25% | 7,708 | 7 | 4.08% | | | | | | |
| 11,236 | 6 | 0.36% | 11,015 | 5 | 5.84% | 10,799 | 8 | 3.98% | 5,899 | 8 | 0.34% |
| | | | 8,435 | 6 | 4.47% | | | | | | |
| | | | 6,065 | 10 | 3.21% | | | | 5,837 | 9 | 0.34% |
| | | | | | | 35,632 | 2 | 13.13% | | | |
| 18,004 | 2 | 0.57% | 17,651 | 3 | 9.35% | 15,090 | 6 | 5.56% | | | |
| 7,708 | 9 | 0.25% | | | | | | | | | |
| 7,584 | 10 | 0.24% | 7,435 | 8 | 3.94% | 25,676 | 4 | 9.46% | | | |
| | | | | | | | | | | | |
| | | | | | | | | | 35,610 | 2 | 2.05% |
| | | | | | | 6,091 | 10 | 2.24% | 21,328 | 3 | 1.23% |
| | | | | | | | | | 10,601 | 4 | 0.61% |
| | | | | | | | | | 10,223 | 5 | 0.59% |
| | | | | | | | | | 8,118 | 6 | 0.47% |
| | | | | | | | | | 6,108 | 7 | 0.35% |
| | | | | | | | | | 5,709 | 10 | 0.33% |
| | | | | | | 14,663 | 7 | 5.40% | | | |
| | | | | | | 29,145 | 3 | 10.74% | | | |
| | | | | | | 25,676 | 5 | 9.46% | | | |
| 12,684 | 5 | 0.40% | 2,589 | | 1.37% | | | | | | |
| <u>2,927,554</u> | | <u>93.16%</u> | | | | | | | <u>1,548,741</u> | | <u>89.37%</u> |
| <u>\$3,142,577</u> | | <u>100.00%</u> | <u>\$ 188,770</u> | | <u>100.00%</u> | <u>\$ 271,376</u> | | <u>100.00%</u> | <u>\$1,732,940</u> | | <u>100.00%</u> |

TABLE 8
City of Hercules
Property Tax Levies and Collections
Last Eight Fiscal Years
(amounts expressed in thousands)

| Fiscal Year Ended June 30 | Total Tax Levy for Fiscal Year \$ | Collected within the Fiscal Year of the Levy ¹ | | Collections in Subsequent Years ¹ | Total Collections to Date | |
|---------------------------------|--|--|------------|--|---------------------------|------------|
| | | Amount | Percentage | | Amount | Percentage |
| 2003 | \$ 5,387 | \$ 5,387 | 100% | n/a | \$ 5,387 | 100% |
| 2004 | 7,256 | 7,256 | 100% | n/a | 7,256 | 100% |
| 2005 | 13,134 | 13,134 | 100% | n/a | 13,134 | 100% |
| 2006 | 13,478 | 13,478 | 100% | n/a | 13,478 | 100% |
| 2007 | 16,777 | 16,777 | 100% | n/a | 16,777 | 100% |
| 2008 | 16,641 | 16,641 | 100% | n/a | 16,641 | 100% |
| 2009 | 16,021 | 16,021 | 100% | n/a | 16,021 | 100% |
| 2010 | 13,731 | 13,731 | 100% | n/a | 13,731 | 100% |

¹ Teeter Plan

Source: City of Hercules, California; Ten years of information not available.

TABLE 9
City of Hercules
Ratios of Outstanding Debt by Type
Last Eight Fiscal Years
(amounts expressed in thousands)

| Fiscal Year | Governmental Activities | | | | | | | Business-Type Activities | | | Total Primary Government |
|-------------|--------------------------|---------------------|-------------------------------|------------------------------------|--------------------------|---------------|----------------|--------------------------|---------------|----------------|--------------------------|
| | General Obligation Bonds | Lease Revenue Bonds | Certificates of Participation | Redevelopment Tax Allocation Bonds | Special Assessment Bonds | Notes Payable | Capital Leases | Governmental Activities | Utility Bonds | Capital Leases | |
| 2003 | \$ - | \$ 7,000 | \$ 4,270 | \$ 10,435 | \$ - | \$ 690 | \$ - | \$ 22,395 | \$ - | \$ - | \$ 22,395 |
| 2004 | - | 16,150 | - | 10,335 | - | 690 | - | 27,175 | - | - | 27,175 |
| 2005 | - | 15,980 | - | 6,285 | - | 622 | - | 22,887 | - | - | 22,887 |
| 2006 | - | 15,805 | - | 58,082 | - | 585 | - | 74,472 | - | - | 74,472 |
| 2007 | - | 15,510 | - | 56,809 | - | 944 | - | 73,263 | - | - | 73,263 |
| 2008 | - | 15,200 | - | 141,860 | - | 1,647 | 2,135 | 160,842 | - | - | 160,842 |
| 2009 | - | 14,880 | - | 137,735 | - | 2,053 | 2,029 | 156,697 | - | - | 156,697 |
| 2010 | - | 17,651 | - | 134,527 | - | 5,752 | 1,919 | 159,849 | 6,994 | - | 166,843 |

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

¹ See Demographic and Economic Indicators schedule for personal income and population data.

Source: Comprehensive Annual Financial Reports of the City of Hercules, California

TABLE 10
City of Hercules
Ratios of General Bonded Debt Outstanding
Last Eight Fiscal Years
(amounts expressed in thousands, except per capita)

| Fiscal Year | General Bonded Debt Outstanding | | | | | | | | | | Percent of Assessed Property Value | Per Capita |
|-------------|---------------------------------|---------------------|-------------------------------|------------------------------------|--------------------------|---------------|----------------|-----------|------------------------------------|------------|------------------------------------|------------|
| | General Obligation Bonds | Lease Revenue Bonds | Certificates of Participation | Redevelopment Tax Allocation Bonds | Special Assessment Bonds | Notes Payable | Capital Leases | Total | Percent of Assessed Property Value | Per Capita | | |
| 2003 | \$ - | \$ 7,000 | \$ 4,270 | \$ 10,435 | \$ - | \$ - | \$ - | \$ 21,705 | 1.28% | \$ 1,059 | | |
| 2004 | - | 16,150 | - | 10,335 | - | - | - | 26,485 | 1.36% | 1,214 | | |
| 2005 | - | 15,980 | - | 6,285 | - | - | - | 22,265 | 0.94% | 1,021 | | |
| 2006 | - | 15,805 | - | 58,082 | - | - | - | 73,887 | 2.66% | 3,387 | | |
| 2007 | - | 15,510 | - | 56,809 | - | 400 | - | 72,719 | 2.31% | 3,334 | | |
| 2008 | - | 15,200 | - | 141,860 | - | 1,147 | 2,135 | 160,342 | 4.74% | 7,350 | | |
| 2009 | - | 14,880 | - | 137,735 | - | 1,600 | 2,029 | 156,244 | 4.77% | 7,163 | | |
| 2010 | - | 17,651 | - | 134,527 | - | 5,350 | 1,919 | 159,447 | 5.71% | 7,309 | | |

General bonded debt is payable from governmental fund resources. General obligation bonds (of which the City has none) are backed by the taxing authority of the City wherein taxes may be raised to provide resources for debt service payments.

Source: Comprehensive Annual Financial Reports of the City of Hercules, CA and County of Contra Costa Auditor's Office.

TABLE 11
City of Hercules
Direct and Overlapping Governmental Activities Debt
As of June 30, 2010
(amounts expressed in thousands)

| | Debt Outstanding | Estimated Percentage Applicable (1) | Estimated Share of Overlapping Debt |
|---|---------------------|---|--|
| Overlapping Tax and Assessment Debt: | | | |
| Bay Area Rapid Transit District | \$ 420,000 | 0.412% | \$ 1,730 |
| Contra Costa Community College District | 245,795 | 1.393% | 3,424 |
| John Swett Unified School District | 15,241 | 6.864% | 1,046 |
| West Contra Costa Unified School District | 758,263 | 8.970% | 68,016 |
| West Contra Costa Healthcare Parcel Tax Obligations | 23,175 | 8.926% | 2,069 |
| East Bay Regional Park District | 196,775 | 0.627% | 1,234 |
| California Statewide Comm Development Authority 1915 Act Bonds | 1,211 | 100.000% | 1,211 |
| City of Hercules 1915 Act Bonds | 11,155 | 100.000% | 11,155 |
| Total Gross Overlapping Tax and Assessment Debt | 1,671,615 | | 89,885 |
| Direct and Overlapping General Fund Debt: | | | |
| Contra Costa County General Fund Obligations | 270,430 | 1.388% | 3,754 |
| Contra Costa County Pension Obligations | 435,310 | 1.388% | 6,042 |
| Contra Costa Community College District Certificates of Participation | 990 | 1.393% | 14 |
| West Contra Costa Unified School District Certificates of Participation | 21,830 | 8.970% | 1,958 |
| City of Hercules General Fund Obligations | 24,920 | 100.000% | 24,920 |
| Total Direct and Overlapping General Fund Debt | \$ 753,480 | | \$ 36,688 |
| Gross Combined Total Debt | \$ 2,425,095 | | \$ 126,573 (2) |
| Net Combined Total Debt | \$ 2,425,095 | | \$ 126,573 |

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

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

Ratios to 2009-10 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt 3.18%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$24,630,000) 1.37%

Gross Combined Total Debt 7.02%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

TABLE 12
City of Hercules
Legal Debt Margin Information
Last Eight Fiscal Years
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Assessed value (1) | \$ 1,697,440 | \$ 1,942,147 | \$ 2,375,213 | \$ 2,774,687 | \$ 3,142,577 | \$ 3,382,506 | \$ 3,275,913 | \$ 2,790,928 |
| Conversion percentage (2) | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Adjusted assessed valuation | \$ 424,360 | \$ 485,537 | \$ 593,803 | \$ 693,672 | \$ 785,644 | \$ 845,627 | \$ 818,978 | \$ 697,732 |
| Debt limit percentage | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| Debt Limit | \$ 63,654 | \$ 72,831 | \$ 89,070 | \$ 104,051 | \$ 117,847 | \$ 126,844 | \$ 122,847 | \$ 104,660 |
| Total net debt applicable to limit (3) | - | - | - | - | - | - | - | - |
| Legal debt margin | \$ 63,654 | \$ 72,831 | \$ 89,070 | \$ 104,051 | \$ 117,847 | \$ 126,844 | \$ 122,847 | \$ 104,660 |

(1) Assessed value amounts are for the City of Hercules and do not include the Hercules Redevelopment Agency. Tax-exempt real property assessed value has been excluded.

(2) Under the California Government Code, the City of Hercules' outstanding general obligation debt cannot exceed 15 percent of total assessed valuation of taxable property within the City boundaries. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1982 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time of the legal debt margin was enacted by the State of California for local governments located within the state.

(3) In accordance with California Government Code Section 43605, only the City's general obligation debt are subject to the legal limit. The City of Hercules does carry bonded debt secured by special assessments and other revenue sources, but at this time does not have any outstanding general obligation bonds. The City is not at risk of exceeding its legal limit of \$104,660,000.

Source: Auditor-Controller, Contra Costa County and City of Hercules Finance Department

TABLE 13
City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

Alfred Nobel Assessment

| Fiscal Year | Special | Less: | Net | Debt Service | | Coverage Ratio |
|----------------|---------------------------|-----------------------|----------------------|--------------|------------|-------------------|
| | Assessment Collections | Operating Expenses | Available Revenue | Principal | Interest | |
| 2001 | \$ 1,551,641 | \$ 2,135 | \$ 1,549,506 | \$ 340,000 | \$ 825,848 | 1.33 |
| 2002 | 998,946 | 7,630 | 991,316 | 10,635,000 | 1,107,784 | 0.08 |
| 2003 | 958,201 | 4,996 | 953,205 | 435,000 | 545,675 | 0.97 |
| 2004 | 1,057,076 | 4,193 | 1,052,883 | 465,000 | 519,403 | 1.07 |
| 2005 | 1,009,553 | 32,463 | 977,090 | 490,000 | 493,385 | 0.99 |
| 2006 | 993,642 | 11,523 | 982,119 | 625,000 | 466,281 | 0.90 |
| 2007 | 941,081 | 8,659 | 932,422 | 730,000 | 432,513 | 0.80 |
| 2008 | 916,397 | 18,847 | 897,550 | 910,000 | 382,600 | 0.69 |
| 2009 | 731,138 | 6,686 | 724,452 | 545,000 | 343,104 | 0.82 |
| 2010 | 698,985 | 6,014 | 692,971 | 570,000 | 312,993 | 0.78 |

John Muir Parkway Assessment (3)

| Fiscal Year | Special | Less: | Net | Debt Service | | Coverage Ratio |
|----------------|---------------------------|-----------------------|----------------------|--------------|------------|-------------------|
| | Assessment Collections | Operating Expenses | Available Revenue | Principal | Interest | |
| 2006 | \$ 434,616 | \$ 7,172 | \$ 427,444 | | \$ 186,313 | 2.29 |
| 2007 | 465,924 | 8,109 | 457,815 | 75,345 | 310,835 | 1.19 |
| 2008 | (30) | 7,690 | (7,720) | 115,000 | 307,894 | (0.02) |
| 2009 | 634,790 | 4,929 | 629,861 | 120,000 | 304,043 | 1.49 |
| 2010 | 650,810 | 7,552 | 643,258 | 125,000 | 299,753 | 1.51 |

Source: City of Hercules, CA Finance Department

TABLE 13 (continued)
City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years

2010 PFA Revenue Refunding Bonds

| Fiscal Year | Utility | Less: | Net | Debt Service | | Coverage Ratio (1) |
|----------------|------------------------|-----------------------|----------------------|--------------|----------|-----------------------|
| | Revenue Collections | Operating Expenses | Available Revenue | Principal | Interest | |
| 2010 | \$ 2,674,649 | \$ 2,873,272 | \$ (198,623) | \$ - | \$ - | NA |

2009 PFA Taxable Lease Revenue Bonds

| Fiscal Year | Utility | Less: | Net | Debt Service | | Coverage Ratio (2) |
|----------------|------------------------|-----------------------|----------------------|--------------|------------|-----------------------|
| | Revenue Collections | Operating Expenses | Available Revenue | Principal | Interest | |
| 2010 | \$ 762,123 | \$ 91,839 | \$ 670,284 | \$ - | \$ 343,991 | NA |

(1) Debt coverage ratio not applicable. This bond issue closed in June of 2010. Principal and interest payments are not due till the future fiscal year.

(2) Debt coverage ratio not applicable. This bond issue closed in July of 2009. Principal and interest payments are not due till the future fiscal year.

(3) Information only reflects data since issuance, which is less than ten years.

TABLE 14
City of Hercules
Demographic and Economic Statistics
Last Eight Fiscal Years

| <u>Fiscal Year</u> | <u>Population</u> ⁵ | <u>Personal Income (in thousands)</u> ³ | <u>Per Capita Personal Income</u> ³ | <u>Labor Force</u> ¹ | <u>Unemployment Rate</u> ¹ |
|--------------------|--------------------------------|--|--|---------------------------------|---------------------------------------|
| 2003 | 20,489 | 43,954 | 43,954 | 11,100 ¹ | 4.4% ¹ |
| 2004 | 21,814 | n/a ⁴ | n/a ⁴ | 11,100 ¹ | 4.0% ¹ |
| 2005 | 23,360 | n/a ⁴ | n/a ⁴ | 11,300 ² | 3.3% ² |
| 2006 | 23,834 | n/a ⁴ | n/a ⁴ | 11,200 ² | 2.9% ² |
| 2007 | 23,975 | n/a ⁴ | n/a ⁴ | 11,600 ⁶ | 3.1% ⁶ |
| 2008 | 24,324 | n/a ⁴ | n/a ⁴ | 11,600 ² | 4.1% ² |
| 2009 | 24,480 | n/a ⁴ | n/a ⁴ | 11,400 ² | 7.2% ² |
| 2010 | 24,693 | n/a ⁴ | n/a ⁴ | 11,300 ⁶ | 8.4% ⁶ |

- Notes:
- ¹ Annual Average. Source is EDD
 - ² At June 30
 - ³ Information for Contra Costa County - City information not available. Source is California Statistical Abstract.
 - ⁴ Information will be provided for these years in later reports. Source: California Statistical Abstract
 - ⁵ Source: California Department of Finance
 - ⁶ At July 31

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

TABLE 15
City of Hercules
Principal Employers
Last Five Fiscal Years

| Employer | 2010 | | | 2009 | | | 2008 | | | 2007 | | | 2006 | | |
|---------------------------------------|-----------|------|-------------------------------------|--------------------|------|-------------------------------------|-----------|------|-------------------------------------|-----------|------|-------------------------------------|-----------|------|-------------------------------------|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Bio-Rad | 1,294 | 1 | 11.45% | 1,253 ¹ | 1 | 10.99% | 1,700 | 1 | 14.66% | 1,184 | 1 | 10.21% | 1,118 | 1 | 53.39% |
| Mechanics Bank | 226 | 2 | 2.00% | 250 | 2 | 2.19% | 250 | 2 | 2.16% | 250 | 2 | 2.16% | 195 | 2 | 9.31% |
| City of Hercules | 135 | 3 | 1.19% | 135 | 4 | 1.18% | 124 | 5 | 1.07% | 137 | 6 | 1.18% | 115 | 5 | 5.49% |
| Contra Costa County -- Human Services | 127 | 4 | 1.12% | 84 | 6 | 0.74% | 180 | 3 | 1.55% | 146 | 4 | 1.26% | 140 | 3 | 6.68% |
| Home Depot | 116 | 5 | 1.03% | 126 | 5 | 1.11% | 124 | 5 | 1.07% | 150 | 3 | 1.29% | 120 | 4 | 5.73% |
| Hercules Middle/High School | 115 | 6 | 1.02% | 150 | 3 | 1.32% | 150 | 4 | 1.29% | 140 | 5 | 1.21% | | | |
| Benda Tool & Model Works | 78 | 7 | 0.69% | 60 | 11 | 0.53% | 85 | 7 | 0.73% | 85 | 7 | 0.82% | 85 | 6 | 4.06% |
| Lucky's | 73 | 8 | 0.65% | 80 | 7 | 0.70% | 85 | 7 | 0.73% | 85 | 7 | 0.82% | 60 | 8 | 2.87% |
| Northview Pacific Laboratories | 65 | 9 | 0.58% | 70 | 8 | 0.61% | 76 | 8 | 0.66% | 60 | 9 | 0.52% | | | |
| McDonald's -- Sycamore | 47 | 10 | 0.42% | 45 | 10 | 0.39% | 40 | 11 | 0.34% | | | | | | |
| PTRL West Inc | 45 | 11 | 0.40% | 47 | 9 | 0.41% | 45 | 10 | 0.39% | | | | | | |
| City Mechanical Inc | 45 | 11 | 0.40% | 37 | 15 | 0.32% | | | | | | | | | |
| Pro Media | 38 | 13 | 0.34% | 35 | 16 | 0.31% | 35 | 14 | 0.30% | 36 | 13 | 0.31% | 30 | 13 | 1.43% |
| Ohione Elementary School | 36 | 14 | 0.32% | 33 | 17 | 0.29% | 36 | 13 | 0.31% | 33 | 15 | 0.28% | 50 | 9 | 2.39% |
| Histopathology Reference Lab | 36 | 14 | 0.32% | 31 | 18 | 0.27% | 48 | 9 | 0.41% | 30 | 17 | 0.26% | 33 | 12 | 1.58% |
| West Coast Pathology Lab | 35 | 16 | 0.31% | 43 | 12 | 0.38% | | | | | | | | | |
| Franklin Canyon Golf Course | 35 | 16 | 0.31% | 40 | 13 | 0.35% | 40 | 11 | 0.34% | 40 | 10 | 0.34% | 35 | 11 | 1.67% |
| Round Table Pizza | 35 | 16 | 0.31% | 35 | 16 | 0.31% | | | | 33 | 16 | 0.28% | | | |
| Hanna Ranch Elementary School | 32 | 19 | 0.28% | 29 | 20 | 0.25% | | | | | | | | | |
| Lupine Hills Elementary School | 30 | 20 | 0.27% | 30 | 19 | 0.26% | | | | | | | | | |
| A&B Diecast | 27 | 21 | 0.24% | 38 | 14 | 0.33% | 100 | 6 | 0.86% | 81 | 7 | 0.70% | 74 | 7 | 3.53% |
| Big Lots | 25 | 22 | 0.22% | 38 | 14 | 0.33% | 38 | 12 | 0.33% | 39 | 12 | 0.34% | 39 | 10 | 1.86% |
| Burger King | 24 | 23 | 0.21% | 26 | 21 | 0.23% | 40 | 11 | 0.34% | | | | | | |
| B&C Janitorial Service | | | | | | | | | | | | | | | |
| Prudential California Realty | | | | | | | | | | | | | | | |
| Radstons Office Plus | | | | | | | | | | | | | | | |
| True Lite Care Provider Center | | | | | | | | | | | | | | | |
| Shields Nursing Center Inc | | | | | | | | | | | | | | | |
| Subtotal | 2,719 | | 24.06% | 2,677 | | 23.46% | 3,196 | | 27.55% | 2,494 | | 21.50% | 2,094 | | 100.00% |
| Total City Labor Force | 11,300 | | | 11,400 | | | 11,600 | | | 11,600 | | | 11,600 | | |

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

¹ A&B Diecast in 2008 was a miscounted duplicate of Benda Tool & Model Works.

² B&C Janitorial Service, Prudential California Realty, Radstons Office Plus, doing business in Hercules.

and Shields Nursing Center Inc are no longer

³ Revised from 2009 CAFR

TABLE 16
City of Hercules
Full-Time Equivalent City Government Employees by Function
Last Three Fiscal Years

| Function | June 30 | | |
|----------------------------|----------------|-------------|-------------|
| | 2008 | 2009 | 2010 |
| General government | 26 | 26 | 29 |
| Police | 31 | 31 | 32 |
| Public works | 16 | 16 | 16 |
| Community development | 8 | 7 | 8 |
| Parks and recreation | 38 | 51 | 48 * |
| Hercules Municipal Utility | 5 | 4 | 3 |
| Total | 124 | 135 | 135 |

*2008 did not include P&R temporary part-time employees
2009 and 2010 do include these individuals calculated as FTE's.

TABLE 17
City of Hercules
Operating Indicators by Function
Last Three Fiscal Years

| Function | Fiscal Year | | |
|--|---------------------|---------------------|--------|
| | 2008 | 2009 | 2010 |
| Public Safety | | | |
| Part 1 crimes ¹ | 647 | 561 | 533 |
| Total incidents | 22,369 | 22,267 | 23,908 |
| Police reports | 2,881 | 2,567 | 2,898 |
| Public Works | | | |
| Street resurfacing (miles) | 4 | 1 | 1 |
| Street lights repaired | 10 | 30 | 65 |
| Potholes filled (sq. ft.) | 75 | 40 | 35 |
| Community Development | | | |
| Public improvements ² (\$000) | 9,500 | 509 | 921 |
| Total permit valuation (\$000) | 10,274 ⁸ | 66,446 ⁸ | 6,072 |
| Tax increment generated ³ (\$000) | 11,501 | 10,910 | 8,997 |
| % Change in Sales Tax Receipts | -0.81% | 8.67% | 33.16% |
| Parks and Recreation | | | |
| Community Events (July 4th, Cultural Festival, etc.) (Attendance) | 13,000 | 24,000 | 25,270 |
| Youth Sports Programs (e.g. basketball, softball) | 5,689 | 5,000 | 3,500 |
| Adult Sports Programs (Attendance) ⁴ | -- | 1,120 | 970 |
| Child Care programs (Enrollment) | 373 | 3,243 | 3,402 |
| Day/Summer Camps (Enrollment) | 1,550 | 1,455 | 1,575 |
| Teen/Youth Council (Members) | 108 | 72 | 84 |
| Teen Center (new in 2009) ⁴ | -- | 1,149 | 2,576 |
| Aquatic programs (Attendance) ⁵ | 14,399 | 10,100 | 16,973 |
| Senior Center (Attendance) | 51,400 | 54,269 | 56,102 |
| Recreation Classes (Attendance) ⁷ | -- | -- | 1,106 |
| Facility Rentals⁶ | | | |
| Foxboro (Attendance) | -- | 3,200 | 3,100 |
| Ohlone (Attendance) | -- | 4,300 | 3,960 |
| Senior Center (Attendance) | -- | 5,400 | 5,100 |
| Community Center (Attendance) | -- | 13,750 | 15,750 |
| Samara Terrace (Attendance) | -- | 1,560 | 3,580 |
| Library Meetings Rooms (Attendance) | -- | 3,640 | 4,095 |

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

¹ Part 1 Crimes are the following as reported to DOJ:

homicide, rape, robbery, burglary, assault, theft, auto theft, and arson.

² Measures public construction/improvement within the city.

³ Measures redevelopment activity within the city.

⁴ New in 2009.

⁵ Aquatics program was closed for 4 months while pool was under construction.

⁶ Facility rentals numbers are not available for years prior to 2009.

⁷ Added in 2010.

⁸ Revised in 2010.

TABLE 18
City of Hercules
Capital Asset Statistics by Function
Last Three Fiscal Years

| Function | Fiscal Year | | |
|------------------------------|--------------------|-------------|----------------|
| | 2008 | 2009 | 2010 |
| Public Safety | | | |
| Police | | | |
| Stations | 1 | 1 | 1 |
| Patrol units/Police Vehicles | 18 | 18 | 11 |
| Motorcycles | 0 | 0 | 3 ¹ |
| Specialized Vehicles | 0 | 0 | 3 ¹ |
| Unmarked Vehicles | 0 | 0 | 8 ¹ |
| Public Works | | | |
| Streets (miles) | 57 | 57 | 57 |
| Streetlights | 1800 | 1800 | 1800 |
| Traffic Lights | 12 | 12 | 12 |
| Sanitary Sewers (miles) | 58 | 58 | 58 |
| Parks and Recreation | | | |
| Parks acreage | 106.5 | 106.5 | 108.5 |
| Parks | 11 | 11 | 12 |
| Swimming pools | 1 | 1 | 1 |

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

¹ Reclassed from "Patrol Unit" in 2010

