

# City of Hercules

Hercules, California

*Comprehensive Annual Financial Report*

*For the year ended June 30, 2006*

**C&L**  
Caporicci & Larson  
Certified Public Accountants

**City of Hercules**  
**Basic Financial Statements**  
**For the year ended June 30, 2006**

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## CITY OF HERCULES

111 CIVIC DRIVE, HERCULES, CA 94547

PHONE: 510 • 799 • 8200

December 1, 2006

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Hercules (City) for the fiscal year ended June 30, 2006.

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

The City's financial statements have been audited by Caporicci & Larson, 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's financial statements for the fiscal year ended June 30, 2006 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.

The 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 is a culturally diverse community of 23,834 residents (1-1-06 California Department of Finance estimated population) situated in west-central Contra Costa County on the east side of San Francisco Bay where State Highway 4 intersects with Highway I-80. The City boundaries encompass just over 20 square miles, approximately 12.5 of which are the waters of San Pablo Bay. The land portion of the City covers approximately 7.6 square miles and runs from its westerly boundary of San Pablo Bay up into the hills of Pinole Ridge. It is bordered by the City of Pinole to the south and the unincorporated community of Rodeo to the north. The City is a "general law" city and has operated under the Council-Manager form of municipal government since its incorporation on December 15, 1900. The City Council is comprised of five members elected at large to four-year overlapping terms. From among its members, the Council selects the Mayor. The City Manager is appointed by and serves at the pleasure of the City Council. The City Manager is responsible for implementing the policy decisions of the City Council and supervising all operations of the city government.

The City 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, 2006) financial results of the City, of which the Hercules Municipal Utility (HMU) is a part, and two other separate legal entities, namely the Hercules Redevelopment Agency (Agency) and the Hercules Public Financing Authority (Authority). The Agency and the Authority have individual Component Unit financial reports done on them as well. The HMU is not considered a component unit, but the City does a separate financial report for that function as well since the electric utility is a relatively new endeavor for the City.

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

The 2006-2007 fiscal year budget process is an exception to the two year budget cycle historically used by the City. Because the City was facing a revenue pinch, staff and the City Council chose to do a one year budget to allow the organization time during the 2006-2007 fiscal year to reevaluate how it is going to do its business and to restructure as appropriate to be able to function within its available resources. The City has every intention of returning to a two year budget process for the 2007-2009 fiscal years.

Only the City Council has the authority to move money between funds and to approve additions or deletions to the budget. The City Manager has authority to move money within each fund. The City Council has to approve any expenditure over \$10,000 by an action item on their normal meeting agenda.

### **Factors Affecting Financial Condition**

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

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

(averaging about \$500,000 per unit), and there are plans on the drawing board for significant new commercial development. There have been a number of new facilities built in the industrial park within the City, and there are still a few lots left in that park that are slated for development over the next few years.

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

**Long-term financial planning.** For a number of years the City has engaged in financial planning for more than the current fiscal year. As a practice, staff prepares two year operating budgets and five year capital improvement programs. The capital improvement program is developed from those master plans that exist for the various types of infrastructure in the city, and from the City Council work sessions where staff receives input from the City Council on its visions for the community and the projects and amenities that they desire to have in the community.

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

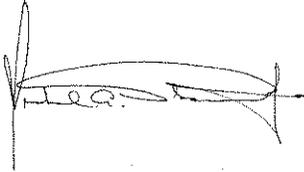
**Cash management policies and practices.** The City's investment management plan addresses a wide variety of investment practices, including primary investment objectives, investment authority, allowable investment vehicles, investment maturity terms, eligible financial institutions, capital preservation,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

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

## Acknowledgements

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

Respectfully submitted,



Michael A. Sakamoto  
City Manager



Tim Hansen  
Interim Finance Director/Treasurer

**CITY OF HERCULES**  
**ELECTED OFFICIALS AND**  
**ADMINISTRATIVE PERSONNEL**

**JUNE 30, 2006**

**CITY COUNCIL AND ELECTED OFFICIALS**

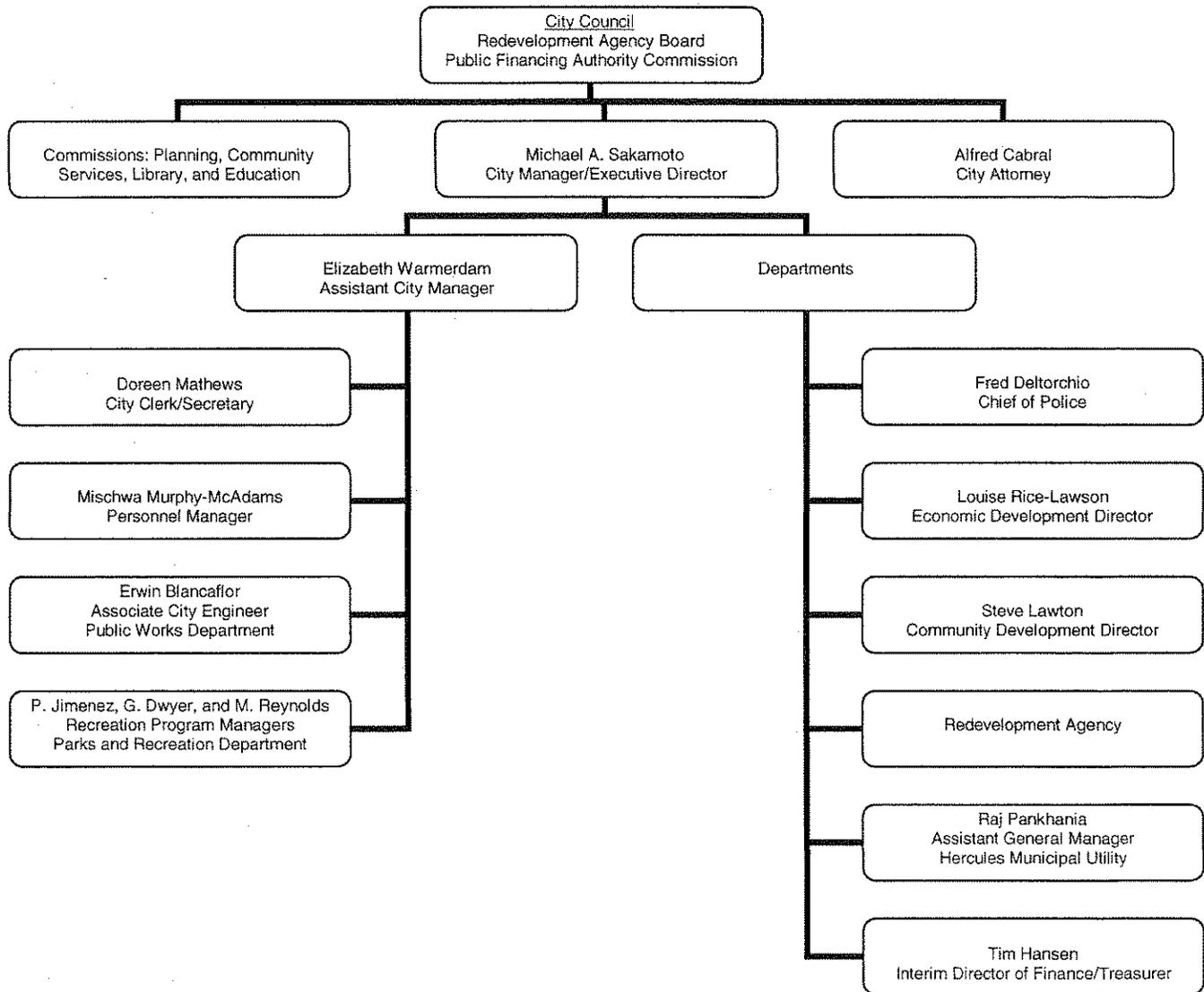
Trevor Evans-Young  
Ed Balico  
Frank Batara  
Charleen Raines  
Joanne Ward

Mayor  
Vice Mayor  
Council Member  
Council Member  
Council Member

**ADMINISTRATIVE PERSONNEL**

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

Michael A. Sakamoto  
Elizabeth Warmerdam  
Alfred Cabral  
Doreen Mathews  
Tim Hansen  
Fred Deltorchio  
Steve Lawton



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hercules, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the City adopted Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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San Diego, California 92111

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

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

*Capricci & Carson*

Oakland, California  
November 10, 2006

# CITY OF HERCULES

## Management's Discussion and Analysis

Fiscal Year Ended June 30, 2006

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, 2006. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

### A. FINANCIAL HIGHLIGHTS

- The assets of the City of Hercules Governmental Activities exceeded its liabilities at the close of the fiscal year by \$87.6 million (Net Assets). Of this amount, total capital assets were \$11.1 million less than its related debt (net of related debt), resulting from debt being issued during the fiscal year and those debt proceeds not being spent by year's end on the assets for which the debt issue was done. There are restricted funds of \$61.8 million for capital projects, debt service and other. The remaining \$36.9 million are unrestricted funds. These amounts include all funds of the City, the Redevelopment Agency and the Public Financing Authority.
- The City's net assets increased by \$10.8 million for the year, representing an \$8.4 million increase in Governmental and a \$2.4 million increase in Business-Type Activities. The majority of the increase in the Governmental Activities came from the City's cash and investments. There was a \$2.2 million prior year adjustment to the total net assets that in effect increased that number to \$13.0 million.
- As of the close of the fiscal year, the City's Governmental funds, including the general, special revenue, debt service, capital projects, redevelopment and public financing funds, reported combined ending fund balances of \$91.5 million, an increase of \$44.3 million in comparison with the prior year. There is \$0.6 million in the Total Unreserved, Undesignated Fund Balance available for spending at the government's discretion on operating activities and capital projects as compared to the expected and normal large (\$8.1 million) negative unreserved/undesignated fund balance that was primarily caused by the Redevelopment Agency (RDA) in 2005.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11.8 million, or 90 percent of total General Fund expenditures/transfers out for the year. This amount includes \$3.7 million for long term investments, and \$8.1 million for future projects.
- Total net bonded debt increased by \$51.6 million during the fiscal year. The increase was due to the issuance of the new 2005 tax allocation bonds for the Redevelopment Agency (RDA) and the retirement of the 2001 tax allocation bonds for a total amount of \$56.8 million.
- During the fiscal year, the Governmental-Wide Financial Statements' total revenues of \$44.6 million exceeded total expenses of \$33.8 million, by \$10.8 million. The expenses are slightly higher (13.3%) than expenses for the prior fiscal year. The expenditures increases are the result of associated costs for the Redevelopment Agency Fund and the Affordable Housing Program which include ERAF payments, administrative charges, consulting services, first time homebuyer program and inclusionary housing program. The program revenues, which come from charges for services, operating and capital grants and contributions, decreased by 40.6% from the previous year. The revenue decreases are coming from a scaled down construction that has been occurring in the City. In addition, due to reporting purposes as prescribed by the Governmental Accounting Standards Board Statement (GASB) No. 33 (GASB No. 33) and amended by Statement No. 36 accounting and financial reporting for non-exchange transactions required contributed capital to be reported. In 2005 there was \$10.8 million more in contributed capital than in 2006

**B. OVERVIEW OF FINANCIAL STATEMENTS**

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

*Government-Wide Financial Statements*

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

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

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

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

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

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

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.

**B. OVERVIEW OF FINANCIAL STATEMENTS, Continued**

*Government-Wide Financial Statements, Continued*

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

*Fund Financial Statements*

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

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

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

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

Based on criteria in GASB 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(s) group, and the Public Financing Authority Debt Service Fund, which are reported in detail in the Governmental Fund Financial Statements. All other funds are shown in the aggregate as other non-major funds. Individual fund data for other non-major governmental funds is provided in the form of supplementary information elsewhere in the report.

**B. OVERVIEW OF FINANCIAL STATEMENTS, *Continued***

***Fund Financial Statements, Continued***

*Proprietary Funds* – The City maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses an enterprise fund to account for its Wastewater operation and its Electric Utility operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Vehicle Replacement program 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 and IT Equipment Replacement) are presented in the proprietary fund financial statements. Individual fund data for the Vehicle Replacement and the IT Equipment Replacement internal service funds are provided in the form of supplementary information elsewhere in the report.

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

***Notes to the Basic Financial Statements***

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

***Required Supplementary Information***

In addition to the basic financial statements, this report also presents certain Required Supplementary Information (RSI) including the City's budgetary comparison schedules for the General Fund and the other major special revenue funds, and information concerning the progress in funding its obligation to provide pension benefits to its employees.

***Other Supplementary Information***

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

# CITY OF HERCULES

## Management's Discussion and Analysis

Fiscal Year Ended June 30, 2006

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### Statement of Net Assets

Net assets are a good indicator of the City's financial position. At the 2005-2006 fiscal year end, net assets of the City were \$97.5 million, which is an increase of \$10.8 million from the prior year. The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities		Total		Total % Change
	2006	2005	2006	2005	2006	2005	
<b>Assets:</b>							
Current Assets	\$ 96.7	\$ 53.3	\$ 6.3	\$ 2.4	\$ 103.0	\$ 55.7	84.9 %
Other Assets	10.2	3.4	(3.0)	0.0	7.2	3.4	111.8 %
Capital Assets, Net	63.4	48.6	7.6	5.8	71.0	54.4	30.5 %
<b>Total Assets</b>	<b>\$ 170.3</b>	<b>\$ 105.3</b>	<b>\$ 10.9</b>	<b>\$ 8.2</b>	<b>\$ 181.2</b>	<b>\$ 113.5</b>	<b>59.6 %</b>
<b>Liabilities:</b>							
Current Liabilities	\$ 9.7	\$ 5.6	\$ 1.0	\$ 0.7	\$ 10.7	\$ 6.3	69.8 %
Other Liabilities	0.1	0.3	0.0	0.0	0.1	0.3	(66.7)%
Long-term Liabilities	72.9	22.4	0.0	0.0	72.9	22.4	225.4 %
<b>Total Liabilities</b>	<b>\$ 82.7</b>	<b>\$ 28.3</b>	<b>\$ 1.0</b>	<b>\$ 0.7</b>	<b>\$ 83.7</b>	<b>\$ 29.0</b>	<b>188.6 %</b>
<b>Net Assets:</b>							
Invested in Capital							
Net of Related Debt	\$ (11.1)	\$ 25.7	\$ 8.0	\$ 5.8	\$ (3.1)	\$ 31.5	(109.8)%
Restricted	61.8	37.7	0.2	0.2	62.0	37.9	63.6 %
Unrestricted	36.9	13.6	1.7	1.5	38.6	15.1	155.6 %
<b>Total Net Assets</b>	<b>\$ 87.6</b>	<b>\$ 77.0</b>	<b>\$ 9.9</b>	<b>\$ 7.5</b>	<b>\$ 97.5</b>	<b>\$ 84.5</b>	<b>15.4 %</b>

At June 30, 2006, the City's Current Assets and Long-term Liabilities increased significantly over the previous year primarily due to new debt issued in August of 2005 in the amount of \$56.3 million. Other Assets increased as a result of the inclusion of an accelerated affordable housing loan program. Capital Assets, Net increased from construction in progress. Investment in Capital Assets Net of Related Debt represents a negative 3% of total net assets. This component portrays the total amount of funds required to acquire those assets less any related debt used for such acquisition that is still outstanding. The City uses these capital assets to provide services to its citizens. The capital assets of the City are not sources of income for repayment of debt as most assets are not revenue generating and generally are not liquidated to repay debt. Therefore, debt service payments are funded from other sources available to the City.

A portion of the City's net assets (63.6%) is subject to restrictions imposed by the City or by external parties and their use is determined by those restrictions and agreements. The remainder of net assets, or \$38.6 million, may be used to meet the City's ongoing operations.

# CITY OF HERCULES

## Management's Discussion and Analysis Fiscal Year Ended June 30, 2006

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued*

#### Statement of Net Assets, *Continued*

City of Hercules  
Comparative Analysis of Net Assets  
June 30, 2006 and 2005  
(Amount in Millions)

	2006	2005	Change \$	Change %
Net Assets:				
Investment in Capital Assets, Net of Related Debt	\$ (3.1)	\$ 31.5	\$ (34.6)	(109.7)%
Restricted	62.0	37.9	24.1	63.4 %
Unrestricted	38.6	15.1	23.5	155.8 %
Total Net Assets	\$ 97.5	\$ 84.5	\$ 13.0	15.4 %

The decrease of \$34.6 million in the City's Investment in Capital Assets Net of Related Debt was due to the routine acquisition of capital assets, and the issuance of the 2005 tax allocation bonds (TABs) for the Redevelopment Agency (RDA) in the amount of \$56.3 million which included the refunding of the 2001 tax allocation bonds. A very small portion of the proceeds from the 2005 TAB issue was spent by fiscal year end.

There was an increase in restricted net assets of \$24.1 million primarily due to proceeds of long-term debt restricted for acquisition of capital assets and specific projects and programs.

The City's unrestricted net assets increased by \$23.5 million. This increase was primarily due to more projects and programs unrestricted for specific use.

# CITY OF HERCULES

## Management's Discussion and Analysis

Fiscal Year Ended June 30, 2006

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

#### Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2006 and 2005.

	City of Hercules						Total % Change
	Condensed Comparative Statements of Activities and Changes in Net Assets						
	For the Fiscal Years Ended June 30, 2006 and 2005 (Amount in Millions)						
	Governmental Activities		Business-type Activities		Total		
	2006	2005	2006	2005	2006	2005	
<b>Revenues:</b>							
Program Revenues	\$ 12.1	\$ 23.5	\$ 4.9	\$ 5.0	\$ 17.0	\$ 28.5	(40.5)%
General Revenues	27.6	22.0	0.0	0.0	27.6	22.0	25.7 %
<b>Total Revenues</b>	<b>\$ 39.7</b>	<b>\$ 45.5</b>	<b>\$ 4.9</b>	<b>\$ 5.0</b>	<b>\$ 44.6</b>	<b>\$ 50.5</b>	<b>(11.7)%</b>
<b>Expenses</b>	<b>29.3</b>	<b>26.5</b>	<b>4.4</b>	<b>3.3</b>	<b>33.8</b>	<b>29.8</b>	<b>13.3 %</b>
Increase in Net Assets before Transfers	\$ 10.4	\$ 19.0	\$ 0.4	\$ 1.7	\$ 10.8	\$ 20.7	(47.8)%
Transfers	(2.0)	(0.7)	2.0	0.7	0.0	0.0	-
Increase in Net Assets	\$ 8.4	\$ 18.3	\$ 2.4	\$ 2.4	\$ 10.8	\$ 20.7	(47.8)%
Net Assets - Beginning	77.0	58.7	7.5	5.1	84.5	63.8	32.4 %
Adjustments	2.2	0.0	0.0	0.0	2.2	0.0	-
<b>Net Assets - Ending</b>	<b>\$ 87.6</b>	<b>\$ 77.0</b>	<b>\$ 9.9</b>	<b>\$ 7.5</b>	<b>\$ 97.5</b>	<b>\$ 84.5</b>	<b>15.4 %</b>

#### Governmental Activities:

The City's governmental activities increased net assets by \$8.4 million, which was up 10.6% from last year though the increase amount was lower than the increase in the previous year. Key elements of this change were as follows:

#### Revenue highlights:

- In the General Revenues category, Property, Sales and Other Tax revenues increased by \$2.1 million in fiscal year 2005-2006 when compared to fiscal year 2004-2005 due to higher assessed property values and new construction primarily in the redevelopment merged project area. Investment earnings and miscellaneous revenues were up \$3.5 million. Interest earnings were up generally and the market value of the portfolio stayed relatively constant for the fiscal year.
- There was an adjustment to net assets from the previous year for \$2.2 million that was to account for Construction in Progress that was not recorded at year end. As a result, total net assets increased by \$10.6 million (\$8.4 million for the current year and \$2.2 million for prior year adjustment).
- The decrease in Program Revenues is from a \$1.5 million drop in charges for services, a \$7.0 million drop in contributed infrastructure from developers and \$2.9 million drop in grants and other contributions.

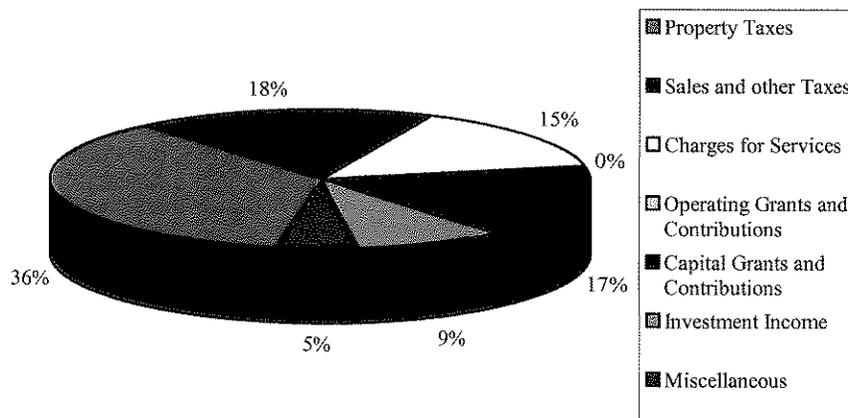
# CITY OF HERCULES

## Management's Discussion and Analysis Fiscal Year Ended June 30, 2006

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

#### Governmental Activities, Continued

Governmental Activities  
Revenues by Source  
June 30, 2006



#### Expense highlights:

Total expenses for governmental activities were \$25.8 million (not including interest on long-term debt of roughly \$3.5 million), which was up \$1.8 million from last year. Program revenues offset total expenditures as follows:

- Those who directly benefited from programs contributed \$5.6 million in charges for services, a decrease of \$1.5 million from prior year as a result of a decrease in new home construction.
- The City was able to fund some of its programs through capital grants from other governments and contributions of infrastructure from outside sources for a total amount of \$6.4 million.

The City received a grant to assist in the building of the new library in the amount of \$6.1 million, all of which was spent in 2005-2006 fiscal year.

As a result, total expenditures that were funded by tax revenues, investment income and other general revenues amounted to \$25.6 million.

# CITY OF HERCULES

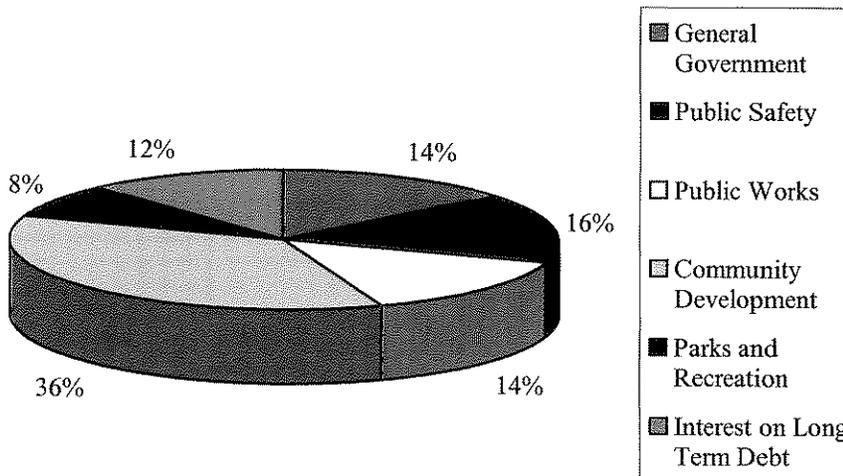
## Management's Discussion and Analysis

Fiscal Year Ended June 30, 2006

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

#### Governmental Activities, Continued

**Governmental Activities  
Expenses by Function/Program  
June 30, 2006**



Functional expenses for the years ended June 30, 2006 and 2005 were as follows (amount in millions):

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2006	2005	2005-2006	2006	2005	2005-2006
General Government	\$ 4.1	\$ 8.4	(51.1)%	\$ 2.8	\$ 3.8	(26.8)%
Public Safety	4.7	3.9	19.7 %	4.4	3.6	22.8 %
Public Works	4.2	7.5	(43.6)%	(1.1)	(5.0)	(77.4)%
Community Development	10.6	2.1	396.9 %	6.8	(2.8)	(346.1)%
Parks and Recreation	2.2	2.2	4.1 %	0.8	0.8	(3.7)%
Int. on Long-Term Debt	3.5	2.4	43.4 %	3.5	2.4	43.4 %
<b>Total</b>	<b>\$ 29.3</b>	<b>\$ 26.5</b>	<b>10.8 %</b>	<b>\$ 17.3</b>	<b>\$ 3.0</b>	<b>481.0 %</b>

The change in the Total Cost of Services reflected a nominal increase over the previous year with approximately 40% of the increase coming from increased interest payments on debt. That again is the result of the TAB debt issue that was done during the year. The most significant changes in programmatic total and net cost of services were seen in General Government, Public Works, and Community Development. General Government went down significantly and Community Development went up significantly as a result of the auditor's reclassification of, and increased activity in, the affordable housing program. Also, the net cost of Community Development numbers were further exacerbated in that revenues were \$1.1 million less than prior fiscal year due to a decrease in building permit activity.

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# CITY OF HERCULES

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## *Management's Discussion and Analysis* *Fiscal Year Ended June 30, 2006*

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### **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued***

#### *Governmental Activities, Continued*

The Public Works total cost for services decreased while the net cost services increased by \$6.1 million due to the building of the library. The net cost for General Government went down \$1.0 million due to contributed capital per GASB No. 33 to the City and an increase in property tax, sales tax, investment earnings and miscellaneous revenues. Interest on Long-Term Debt increased as a result of the new 2005 tax allocation bonds being issued. In addition, there was an interest increase on owner participation agreements repayment loan schedules.

#### *Business Type Activities*

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

##### *Revenue Highlights:*

- Total revenues in business-type activities decreased by \$0.15 million. This decrease was mainly due to a \$0.84 million decrease in contributed capital. However there was a \$0.4 million increase in sewer fees collected, and a \$0.28 million increase in the electric utility fees collected from the prior year. The increase in fees for both utilities resulted from the growth of the community during the year.

##### *Expense Highlights:*

- Total expenses for the sewer fund were up by \$0.28 million from the prior year also as a result of the growth of the community.
- The expenses for the electric utility were up by \$0.83 million from the prior year again because of the customer base increasing, and therefore operating costs increased proportionately.

##### *Balance Sheet Highlights:*

- The \$2.4 million increase in total net assets partially came from operating income in the two enterprises. The sewer fund had operating income of \$1.1 million, and the electric utility had an operating income loss of \$0.6 million.
- The remainder of the increase primarily came from the electric utility which had an increase of \$1.7 million in capital investment, net of related debt which was offset by advances from other funds, primarily the Public Financing Authority's 2003A debt issue.

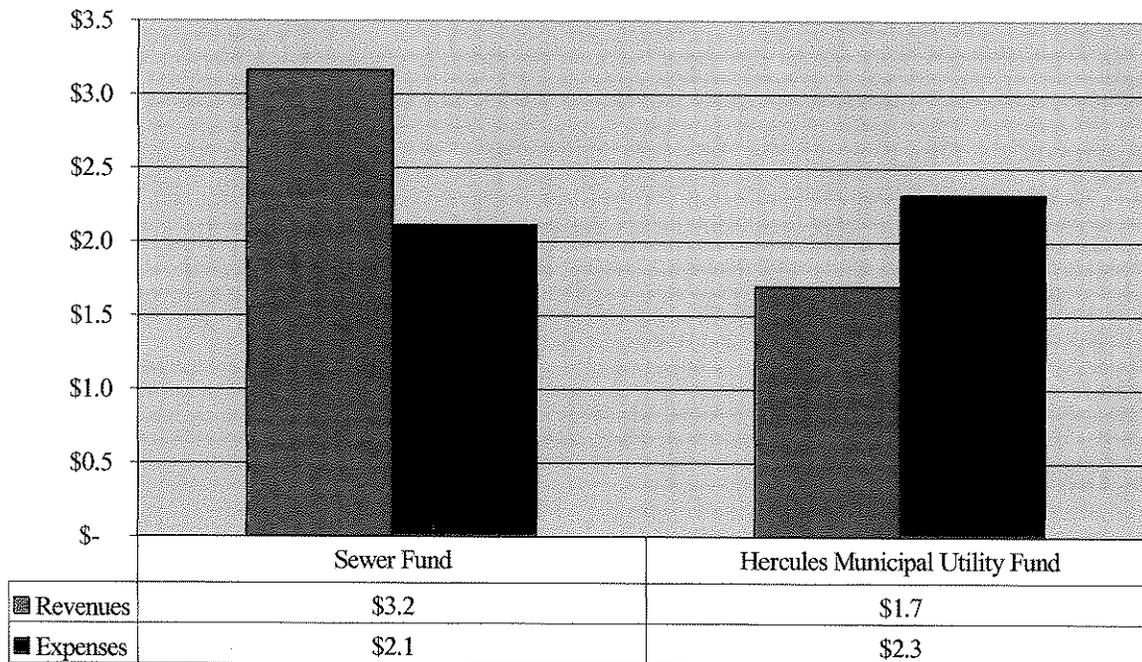
# CITY OF HERCULES

Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2006

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

### Business Type Activities, Continued

Business Type Activities  
Revenues and Expenses  
June 30, 2006



## D. FUND FINANCIAL STATEMENT ANALYSIS

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

### Governmental Funds

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

As of the end of fiscal year 2005-2006, the City's governmental funds reported combined ending fund balances of \$91.5 million, an increase of \$44.3 million in comparison with the prior year. Of this amount, \$77.9 million is reserved to indicate that it is not available for appropriation because it had already been committed for various purposes (see Note 1.G. in the Notes to Basic Financial Statements). The net unreserved fund balances amount to \$0.6 million of which \$3.1 million from redevelopment agency special revenue are available for spending at the government's discretion. The net negative \$2.5 million has to do with loans to programs that receive monies in arrears.

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# CITY OF HERCULES

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## *Management's Discussion and Analysis Fiscal Year Ended June 30, 2006*

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### **D. FUND FINANCIAL STATEMENT ANALYSIS, *Continued***

#### ***Governmental Funds, Continued***

The General Fund is the major operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$11.8 million, while total fund balance was \$26.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. At June 30, 2006, unreserved fund balance was 90% of total General Fund expenditures and transfers out, while total fund balance was 199% of total expenditures and transfers out.

The fund balance of the City's General Fund decreased by \$0.93 million in fiscal year 2006, as compared to a increase of \$2.2 million in fiscal year 2005. This decrease is due to \$0.94 million less in resources coming into the fund from 2004-2005 to 2005-2006 and a decrease of \$0.25 million in inflows. The primary reason for the decrease in fund balance was experienced in decreases in 'charges for services' revenues in police services, engineering services and recreation services. Total actual costs were maintained within budgeted amounts; however expenditures were \$0.93 million more than current revenues thus decreasing total fund balance by \$0.93 million. Revenues for the year came in less than projected by \$0.08 million and expenditures came in by \$0.47 million less than projected.

#### ***Proprietary Funds***

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

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

### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

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

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

For the fiscal year 2005-2006, carryover appropriations totaled \$5.01 million.

With these adjustments, actual expenditures (outflows) for the fiscal year were \$0.47 million under the amended budget. Most of the unspent funds will be reappropriated in the carryover process for fiscal year 2006-2007.

Resources (inflows) available for appropriations were \$0.08 million above budgeted amounts primarily due to higher than anticipated taxes, use of money and intergovernmental fees.

**CITY OF HERCULES****Management's Discussion and Analysis****Fiscal Year Ended June 30, 2006****F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS****Capital Assets including Infrastructure**

Capital assets including infrastructure assets of the City are those assets that are used in the performance of the City's functions. At June 30, 2006, net capital assets of the governmental activities totaled \$99.1 million and the net capital assets of the business-type activities totaled \$15.6 million, including depreciation on capital assets, which is recognized in the Government-Wide Financial Statements.

The following is a summary of the City's capital assets as of June 30, 2006.

	Governmental		Business-type		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 4.1	\$ 4.1	\$ 0.2	\$ 0.2	\$ 4.3	\$ 4.3
Land Improvement	3.8	3.8	-	-	3.8	3.8
Buildings and Improvements	12.7	12.7	9.5	9.4	22.2	22.1
Machinery and Equipment	2.5	2.2	0.6	0.0	3.1	2.2
Construction in Progress	11.8	0.2	0.2	0.2	12.1	0.3
Infrastructure:	64.2	59.0	5.1	3.1	69.3	62.1
Organizational Costs	-	-	-	1.0	-	1.0
Total Capital Assets	\$ 99.1	\$ 82.0	\$ 15.6	\$ 14.0	\$ 114.8	\$ 96.0
Accumulated Depreciation	(35.7)	(33.4)	(8.0)	(8.2)	(43.7)	(41.6)
Net Total Capital Assets	\$ 63.4	\$ 48.6	\$ 7.7	\$ 5.8	\$ 71.1	\$ 54.4

**Governmental Activities:**

The increase in infrastructure of \$5.2 million is the result of reporting requirements for contributed capital under GASB No. 33 as the City accepted infrastructure (streets, sidewalks, etc.) from new subdivisions.

The increase in construction in process of \$11.6 million is in part a result of a prior year adjustment of \$7.5 million for the library project and \$2.3 million for the Sycamore/Palm extension project and the remaining balance were for the Hanna Ranch and Shoreline Projects.

**Business-type Activities:**

The addition of \$2.0 million in infrastructure is the result of the 1.2 mile sewer line upgrade and replacement for the Willow Back Bone Project in the sewer enterprise and the North Shore Business Park Project for the electric utility.

# CITY OF HERCULES

## Management's Discussion and Analysis

Fiscal Year Ended June 30, 2006

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

#### Long-Term Obligations

As of June 30, 2006, the City had outstanding debt issues as listed below. The City's bonded debt is backed by certain specific revenues or General Fund lease payments and carry respectable ratings. The City's long-term obligations for the fiscal years 2006 and 2005 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue Bonds	\$ 15.8	\$ 15.8	\$ -	\$ -	\$ 15.8	\$ 15.8
Tax Allocation Bonds	58.1	6.1	-	-	58.1	6.1
Long-term Notes Payable	0.6	0.6	-	-	0.6	0.6
<b>Total Long-Term Obligations</b>	<b>\$ 74.5</b>	<b>\$ 22.4</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 74.5</b>	<b>\$ 22.4</b>

During the 2005-2006 fiscal year the City's Redevelopment Agency issued new 2005 Tax Allocation Bonds of approximately \$58.3 million and part of which defeased the 2001 Tax Allocation Bonds, which is the primary reason for the increase in total debt outstanding.

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

### G. REQUEST FOR INFORMATION

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

**BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**City of Hercules**  
**Statement of Net Assets**  
**June 30, 2006**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments (Note 2)	\$ 28,160,721	\$ 5,274,958	\$ 33,435,679
Cash and investments with fiscal agents (Note 2)	61,449,594	-	61,449,594
Receivables:			
Accounts	2,432,531	331,296	2,763,827
Grants	1,104,463	-	1,104,463
Interest	193,668	-	193,668
Other	-	132,228	132,228
Interfund balances	(534,330)	534,330	-
Prepaid items	4,757	-	4,757
Land held for resale	3,862,040	-	3,862,040
Total current assets	<u>96,673,444</u>	<u>6,272,812</u>	<u>102,946,256</u>
Noncurrent assets:			
Loans receivables	5,278,699	-	5,278,699
Organizational costs	-	346,980	346,980
Deferred charges	1,543,340	-	1,543,340
Interfund balances	3,370,166	(3,370,166)	-
Capital assets (Note 5):			
Land and nondepreciable assets	15,957,656	390,906	16,348,562
Depreciable assets, net	47,451,277	7,271,611	54,722,888
Total capital assets	<u>63,408,933</u>	<u>7,662,517</u>	<u>71,071,450</u>
Total noncurrent assets	<u>73,601,138</u>	<u>4,639,331</u>	<u>78,240,469</u>
<b>Total assets</b>	<u>170,274,582</u>	<u>10,912,143</u>	<u>181,186,725</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	3,667,822	898,256	4,566,078
Interest payable	373,805	-	373,805
Accrued payroll liabilities	312,113	20,015	332,128
Unearned revenues	1,873,269	-	1,873,269
Claims and judgments payable (Note 9)	19,598	-	19,598
Refundable deposits	1,440,544	31,412	1,471,956
Due to other governments	71,319	-	71,319
Compensated absences - due within one year (Note 6)	319,755	9,990	329,745
Long-term debt - due within one year (Note 7)	1,608,417	-	1,608,417
Total current liabilities	<u>9,686,642</u>	<u>959,673</u>	<u>10,646,315</u>
Noncurrent liabilities:			
Compensated absences - due in more than one year (Note 6)	153,801	14,883	168,684
Long-term debt - due in more than one year (Note 7)	72,863,280	-	72,863,280
Total noncurrent liabilities	<u>73,017,081</u>	<u>14,883</u>	<u>73,031,964</u>
<b>Total liabilities</b>	<u>82,703,723</u>	<u>974,556</u>	<u>83,678,279</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(11,062,764)	8,009,497	(3,053,267)
Restricted for:			
Capital projects	10,755,239	236,382	10,991,621
Debt service	48,976,821	-	48,976,821
Specific projects and programs	2,020,086	-	2,020,086
Total restricted assets	<u>61,752,146</u>	<u>236,382</u>	<u>61,988,528</u>
Unrestricted net assets	36,881,477	1,691,708	38,573,185
<b>Total net assets</b>	<u>\$ 87,570,859</u>	<u>\$ 9,937,587</u>	<u>\$ 97,508,446</u>

See accompanying Notes to Basic Financial Statements.

**City of Hercules**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2006**

Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
General government	\$ 4,103,774	\$ 174,572	\$ 9,626	\$ 1,111,497	\$ 1,295,695
Public safety	4,664,474	113,756	22,507	100,000	236,263
Public works	4,203,693	127,427	-	5,204,957	5,332,384
Community development	10,622,512	3,790,539	-	-	3,790,539
Parks and recreation	2,243,388	1,425,401	-	-	1,425,401
Interest on long-term debt	3,510,081	-	-	-	-
<b>Total governmental activities</b>	<b>29,347,922</b>	<b>5,631,695</b>	<b>32,133</b>	<b>6,416,454</b>	<b>12,080,282</b>
<b>Business-type activities:</b>					
Sewer Fund	2,111,781	3,163,362	-	-	3,163,362
Hercules Municipal Utility Fund	2,320,494	1,700,617	-	-	1,700,617
<b>Total business-type activities</b>	<b>4,432,275</b>	<b>4,863,979</b>	<b>-</b>	<b>-</b>	<b>4,863,979</b>
<b>Total primary government</b>	<b>\$ 33,780,197</b>	<b>\$ 10,495,674</b>	<b>\$ 32,133</b>	<b>\$ 6,416,454</b>	<b>\$ 16,944,261</b>

**General revenues and transfers:**

Taxes:

- Property taxes
- Sales taxes
- Utilities user taxes
- Unrestricted motor vehicles taxes
- Gas taxes
- Other taxes
- Total taxes

Investment earnings

Miscellaneous

Loss on sale of assets

Transfers (Note 9)

**Total general revenues, contributions and transfers**

Change in net assets

Net assets - beginning of year, as restated

Net assets - end of year

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,808,079)	\$ -	\$ (2,808,079)
(4,428,211)	-	(4,428,211)
1,128,691	-	1,128,691
(6,831,973)	-	(6,831,973)
(817,987)	-	(817,987)
(3,510,081)	-	(3,510,081)
<u>(17,267,640)</u>	<u>-</u>	<u>(17,267,640)</u>
-	1,051,581	1,051,581
-	(619,877)	(619,877)
-	431,704	431,704
<u>(17,267,640)</u>	<u>431,704</u>	<u>(16,835,936)</u>
13,478,093	-	13,478,093
1,669,356	-	1,669,356
1,789,425	-	1,789,425
1,764,799	-	1,764,799
690,312	-	690,312
941,793	-	941,793
<u>20,333,778</u>	<u>-</u>	<u>20,333,778</u>
3,439,033	-	3,439,033
3,855,038	-	3,855,038
(8,777)	-	(8,777)
<u>(2,002,977)</u>	<u>2,002,977</u>	<u>-</u>
<u>25,616,095</u>	<u>2,002,977</u>	<u>27,619,072</u>
8,348,455	2,434,681	10,783,136
<u>79,222,404</u>	<u>7,502,906</u>	<u>86,725,310</u>
<u>\$ 87,570,859</u>	<u>\$ 9,937,587</u>	<u>\$ 97,508,446</u>

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**FUND FINANCIAL STATEMENTS**

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## GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

The *Redevelopment Agency Special Revenue 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.

The *Redevelopment Agency Debt Service 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.

The *Hercules Public Finance Authority Debt Service 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.

The *Redevelopment Agency Capital Projects Fund* to used to account for major capital projects undertaken by the Redevelopment Agency.

**City of Hercules**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	Major Funds		
	General Fund	Redevelopment Agency Special Revenue	Redevelopment Agency Debt Service
<b>ASSETS</b>			
Cash and investments	\$ 8,781,394	\$ 3,157,744	\$ -
Cash and investments with fiscal agents	-	-	52,316,051
Receivables:			
Accounts	509,042	-	-
Grants	921,877	-	-
Interest	93,652	-	-
Due from other funds	4,914,243	-	-
Advances to other funds (Note 10)	13,785,838	-	-
Prepaid items	4,757	-	-
Loans receivable	100,000	5,178,699	-
Land held for resale	-	-	-
<b>Total assets</b>	<b>\$ 29,110,803</b>	<b>\$ 8,336,443</b>	<b>\$ 52,316,051</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 671,836	\$ 18,670	\$ 1,608,858
Accrued payroll liabilities	290,925	-	-
Deferred revenues	-	5,178,699	-
Claims and judgments payable	19,598	-	-
Refundable deposits	1,440,544	-	-
Due to other funds	-	-	9,050
Due to other governments	-	-	-
Advances from other funds (Note 10)	615,750	-	9,821,967
<b>Total liabilities</b>	<b>3,038,653</b>	<b>5,197,369</b>	<b>11,439,875</b>
<b>Fund Balances:</b>			
<b>Reserved:</b>			
Advances to other funds	13,785,838	-	-
Prepays and petty cash	6,462	-	-
Future commitments	469,972	34,163	-
Low and moderate income housing	-	39,280	-
Land held for resale	-	-	-
Debt service	-	-	40,876,176
<b>Total reserved</b>	<b>14,262,272</b>	<b>73,443</b>	<b>40,876,176</b>
<b>Unreserved, designated:</b>			
General fund	11,809,878	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>Total unreserved, designated</b>	<b>11,809,878</b>	<b>-</b>	<b>-</b>
<b>Unreserved, undesignated, reported in</b>			
General fund	-	-	-
Special revenue funds	-	3,065,631	-
Capital projects funds	-	-	-
<b>Total unreserved, undesignated</b>	<b>-</b>	<b>3,065,631</b>	<b>-</b>
<b>Total fund balances</b>	<b>26,072,150</b>	<b>3,139,074</b>	<b>40,876,176</b>
<b>Total liabilities and fund balances</b>	<b>\$ 29,110,803</b>	<b>\$ 8,336,443</b>	<b>\$ 52,316,051</b>

See accompanying Notes to Basic Financial Statements.

Major Funds			
Hercules Public Finance Authority Debt Service	Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ 204,644	\$ -	\$ 14,739,183	\$ 26,882,965
7,979,797	-	1,153,746	61,449,594
-	-	1,923,489	2,432,531
-	-	182,586	1,104,463
87,015	-	13,001	193,668
-	-	-	4,914,243
363,519	-	252,231	14,401,588
-	-	-	4,757
-	-	-	5,278,699
-	3,862,040	-	3,862,040
<u>\$ 8,634,975</u>	<u>\$ 3,862,040</u>	<u>\$ 18,264,236</u>	<u>\$ 120,524,548</u>
\$ -	\$ 86,173	\$ 1,275,614	\$ 3,661,151
-	-	17,206	308,131
-	-	1,873,270	7,051,969
-	-	-	19,598
-	-	-	1,440,544
534,330	-	4,905,193	5,448,573
-	-	71,319	71,319
-	-	593,705	11,031,422
<u>534,330</u>	<u>86,173</u>	<u>8,736,307</u>	<u>29,032,707</u>
-	-	-	13,785,838
-	-	-	6,462
-	-	10,706,118	11,210,253
-	-	-	39,280
-	3,862,040	-	3,862,040
8,100,645	-	-	48,976,821
<u>8,100,645</u>	<u>3,862,040</u>	<u>10,706,118</u>	<u>77,880,694</u>
-	-	-	11,809,878
-	-	1,160,987	1,160,987
-	-	-	-
-	-	-	-
-	-	1,160,987	12,970,865
-	-	-	-
-	-	2,381,329	5,446,960
-	(86,173)	(4,720,505)	(4,806,678)
-	(86,173)	(2,339,176)	640,282
8,100,645	3,775,867	9,527,929	91,491,841
<u>\$ 8,634,975</u>	<u>\$ 3,862,040</u>	<u>\$ 18,264,236</u>	<u>\$ 120,524,548</u>

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**City of Hercules**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2006**

Total Fund Balances - Total Governmental Funds \$ 91,491,841

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

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

	Government- Wide Statement of Net Assets	Internal Service Funds	
Non-depreciable	\$ 15,957,656	\$ -	15,957,656
Depreciable, net	47,451,277	676,559	46,774,718
Total capital assets	\$ 63,408,933	\$ 676,559	62,732,374

Revenues which are deferred on the Governmental Funds Balance Sheet because they are not available currently are reported as revenues in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Statement of Net Assets. 5,178,700

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (373,805)

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

Cost of issuance		1,732,253
Accumulated amortization		(188,913)
Deferred charges, net		1,543,340

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Government-Wide Statement of Net Assets. 1,934,485

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

	Government- Wide Statement of Net Assets	Internal Service Funds	
Compensated absences - due within one year	(319,755)	-	(319,755)
Compensated absences - due in more than one year	(153,801)	9,177	(144,624)
Long-term liabilities - due within one year			(1,608,417)
Long-term liabilities - due in more than one year			(72,863,280)
Total long-term liabilities			(74,936,076)

**Net Assets of Governmental Activities** **\$ 87,570,859**

See accompanying Notes to Basic Financial Statements.

**City of Hercules**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2006**

	Major Funds		
	General Fund	Redevelopment Agency Special Revenue	Redevelopment Agency Debt Service
<b>REVENUES:</b>			
Taxes	\$ 5,291,693	\$ 10,366,886	\$ -
Intergovernmental	1,862,909	-	-
Licenses and permits	752,861	-	-
Fines and forfeitures	63,565	-	-
Use of money and property	972,390	81,078	1,589,417
Charges for services	1,736,096	9,100	-
Lease income	-	-	-
Other revenues	924,515	78,961	-
<b>Total revenues</b>	<b>11,604,029</b>	<b>10,536,025</b>	<b>1,589,417</b>
<b>EXPENDITURES:</b>			
Current:			
General government	3,237,801	-	-
Public safety	4,653,921	-	-
Public works	585,566	-	-
Community development	1,340,017	3,767,093	5,520,291
Parks and recreation	2,116,154	-	-
Capital outlay	124,680	-	-
Lease expense	920,285	-	-
Debt service:			
Principal retirement	-	-	262,619
Interest and fiscal charges	-	-	2,440,659
Cost of issuance	-	-	1,079,213
<b>Total expenditures</b>	<b>12,978,424</b>	<b>3,767,093</b>	<b>9,302,782</b>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<b>(1,374,395)</b>	<b>6,768,932</b>	<b>(7,713,365)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Issuance of bonds	-	-	56,260,000
Premium from issuance	-	-	2,175,968
Refunding payment to escrow	-	-	(6,351,160)
Transfers in (Note 9)	616,851	546,369	7,067,040
Transfers out (Note 9)	(170,000)	(12,330,898)	(3,128,194)
<b>Total other financing sources (uses)</b>	<b>446,851</b>	<b>(11,784,529)</b>	<b>56,023,654</b>
<b>Net change in fund balances</b>	<b>(927,544)</b>	<b>(5,015,597)</b>	<b>48,310,289</b>
<b>FUND BALANCES:</b>			
Beginning of year, as restated	26,999,694	8,154,671	(7,434,113)
End of year	\$ 26,072,150	\$ 3,139,074	\$ 40,876,176

See accompanying Notes to Basic Financial Statements.

Major Funds			
Hercules Public Finance Authority Debt Service	Redevelopment Agency Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,891,163	\$ 18,549,742
-	-	1,221,123	3,084,032
-	-	-	752,861
-	-	-	63,565
344,494	-	451,658	3,439,037
-	-	2,920,244	4,665,440
920,285	-	-	920,285
-	-	351,040	1,354,516
<u>1,264,779</u>	<u>-</u>	<u>7,835,228</u>	<u>32,829,478</u>
-	-	554,678	3,792,479
-	-	-	4,653,921
-	-	1,680,638	2,266,204
-	10,509	-	10,637,910
-	-	-	2,116,154
-	635,673	8,806,812	<u>9,567,165</u>
-	-	-	920,285
175,000	-	-	437,619
679,433	-	-	3,120,092
-	-	-	1,079,213
<u>854,433</u>	<u>646,182</u>	<u>11,042,128</u>	<u>38,591,042</u>
<u>410,346</u>	<u>(646,182)</u>	<u>(3,206,900)</u>	<u>(5,761,564)</u>
-	-	-	56,260,000
-	-	-	2,175,968
-	-	-	(6,351,160)
170,000	6,669,175	5,188,662	20,258,097
(2,280,376)	-	(4,418,499)	(22,327,967)
<u>(2,110,376)</u>	<u>6,669,175</u>	<u>770,163</u>	<u>50,014,938</u>
(1,700,030)	6,022,993	(2,436,737)	44,253,374
9,800,675	(2,247,126)	11,964,666	47,238,467
<u>\$ 8,100,645</u>	<u>\$ 3,775,867</u>	<u>\$ 9,527,929</u>	<u>\$ 91,491,841</u>

# City of Hercules

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 44,253,374

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

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

Government- Wide Statement of Net Assets	Internal Service Funds	
\$ 15,084,861	\$ 279,984	14,804,877

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.

Government- Wide Statement of Net Assets	Internal Service Funds	
\$ (2,495,681)	\$ (205,219)	(2,290,462)

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

(97)

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

2,593,984

Repayment of bond principal is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.

6,788,779

Compensated absences was an expenditure in governmental funds, but are accrued compensated absences liabilities in the Government-Wide Statement of Net Assets. This represents the increase for the year.

(203,132)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets.

(56,260,000)

Payment of long-term debt premium was recorded as revenue in governmental funds, but the payment increased long-term liabilities in the Government-Wide Statement of Net Assets.

(2,175,968)

Cost of issuance was an expenditure in governmental funds, but the issuance costs was increased in the Government-Wide Statement of Net Assets. This amount will be amortized over the life of the bond.

890,300

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

(201,076)

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

147,876

**Change in Net Assets of Governmental Activities**

\$ 8,348,455

See accompanying Notes to Basic Financial Statements.

## PROPRIETARY FUND FINANCIAL STATEMENTS

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

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

**City of Hercules**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	Major Enterprise Fund		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Hercules Municipal Utility		
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 5,231,375	\$ 43,583	\$ 5,274,958	\$ 1,277,756
Accounts receivable	-	331,296	331,296	-
Inventory	-	132,228	132,228	-
Due from other funds	-	534,330	534,330	-
Total current assets	5,231,375	1,041,437	6,272,812	1,277,756
Noncurrent assets:				
Organizational costs	-	346,980	346,980	-
Capital assets:				
Land & nondepreciable assets	174,500	216,406	390,906	-
Depreciable assets, net	2,364,720	4,906,891	7,271,611	676,559
Total noncurrent assets	2,539,220	5,470,277	8,009,497	676,559
Total assets	7,770,595	6,511,714	14,282,309	1,954,315
<b>LIABILITIES</b>				
Accounts payable	267,285	630,971	898,256	6,671
Accrued Payroll	2,604	17,411	20,015	3,982
Deposits payable	-	31,412	31,412	-
Compensated absences	4,101	20,772	24,873	9,177
Advances from other funds	808,373	2,561,793	3,370,166	-
Total liabilities	1,082,363	3,262,359	4,344,722	19,830
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,539,220	5,470,277	8,009,497	676,559
Restricted for capital projects	236,382	-	236,382	-
Unrestricted	3,912,630	(2,220,922)	1,691,708	1,257,926
Total net assets	\$ 6,688,232	\$ 3,249,355	\$ 9,937,587	\$ 1,934,485

See accompanying Notes to Basic Financial Statements.

**City of Hercules**  
**Statement of Revenues, Expenses and Change in Net Assets**  
**Proprietary Funds**  
**For the year ended June 30, 2006**

	Major Enterprise Fund		Total Enterprise Funds	Governmental
	Sewer	Hercules Municipal Utility		Activities Internal Service Funds
<b>OPERATING REVENUES:</b>				
Use of money and property	\$ 128,867	\$ 55,425	\$ 184,292	\$ 26,000
Charges for services	3,034,495	1,592,668	4,627,163	-
Other	-	52,524	52,524	540,387
<b>Total operating revenues</b>	<b>3,163,362</b>	<b>1,700,617</b>	<b>4,863,979</b>	<b>566,387</b>
<b>OPERATING EXPENSES:</b>				
Administration	67,176	1,494,832	1,562,008	289,938
Depreciation	149,150	99,349	248,499	205,219
Amortization of organizational costs	-	207,322	207,322	-
Contractual services	1,895,455	518,991	2,414,446	-
<b>Total operating expenses</b>	<b>2,111,781</b>	<b>2,320,494</b>	<b>4,432,275</b>	<b>495,157</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,051,581</b>	<b>(619,877)</b>	<b>431,704</b>	<b>71,230</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Loss on disposal of assets	-	-	-	(8,680)
Transfers in	-	2,280,376	2,280,376	66,893
Transfers out	-	(277,399)	(277,399)	-
<b>Total other financing sources (uses) before capital contribution</b>	<b>-</b>	<b>2,002,977</b>	<b>2,002,977</b>	<b>58,213</b>
Capital contribution	-	-	-	18,433
<b>Change in net assets</b>	<b>1,051,581</b>	<b>1,383,100</b>	<b>2,434,681</b>	<b>147,876</b>
<b>NET ASSETS:</b>				
Beginning of Year	5,636,651	1,866,255	7,502,906	1,786,609
End of Year	\$ 6,688,232	\$ 3,249,355	\$ 9,937,587	\$ 1,934,485

See accompanying Notes to Basic Financial Statements.

**City of Hercules**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2006**

	Major Enterprise Fund		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Sewer	Hercules Municipal Utility		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 3,163,362	\$ 2,447,866	\$ 5,611,228	\$ 566,387
Cash payments to suppliers of goods and services	(1,828,084)	(357,113)	(2,185,197)	(15,561)
Cash payment to employees for services	(60,471)	(1,465,660)	(1,526,131)	(279,282)
Other	-	(583,987)	(583,987)	-
<b>Net cash provided (used) by operating activities</b>	<b>1,274,807</b>	<b>41,106</b>	<b>1,315,913</b>	<b>271,544</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	-	2,280,376	2,280,376	66,893
Transfer out	-	(277,399)	(277,399)	-
<b>Net cash provided (used) by noncapital financing activities</b>	<b>-</b>	<b>2,002,977</b>	<b>2,002,977</b>	<b>66,893</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of capital assets	(684,688)	(2,000,500)	(2,685,188)	(261,551)
<b>Net cash provided (used) by capital and     related financing activities</b>	<b>(684,688)</b>	<b>(2,000,500)</b>	<b>(2,685,188)</b>	<b>(261,551)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>590,119</b>	<b>43,583</b>	<b>633,702</b>	<b>76,886</b>
<b>CASH AND INVESTMENTS:</b>				
Beginning of year	4,641,256	-	4,641,256	1,200,870
End of year	\$ 5,231,375	\$ 43,583	\$ 5,274,958	\$ 1,277,756
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 1,051,581	\$ (619,877)	\$ 431,704	\$ 71,230
Provided (used) by operating activities:				
Depreciation	149,150	99,349	248,499	205,219
Amortization of organizational costs	-	207,322	207,322	-
Changes in operating assets and liabilities:				
Accounts receivable	-	797,893	797,893	-
Other receivable	-	1,880	1,880	-
Inventory	-	(121,773)	(121,773)	-
Due from other funds	-	(534,330)	(534,330)	-
Accounts payable	67,371	252,239	319,610	(15,561)
Deposit payable	-	31,412	31,412	-
Due to other funds	-	(102,181)	(102,181)	-
Accrued payroll liabilities	2,604	17,411	20,015	3,982
Compensated absences	4,101	11,761	15,862	6,674
<b>Net cash provided (used) by operating activities</b>	<b>\$ 1,274,807</b>	<b>\$ 41,106</b>	<b>\$ 1,315,913</b>	<b>\$ 271,544</b>

See accompanying Notes to Basic Financial Statements.

## FIDUCIARY FUND FINANCIAL STATEMENTS

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

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

**City of Hercules**  
**Statement of Fiduciary Net Assets**  
**Expendable Trust and Agency Funds**  
**June 30, 2006**

	Pension Trust Fund	Total Agency Funds
<b>ASSETS</b>		
Cash and investments	\$ 47,756	\$ 7,701,288
Cash and investments with fiscal agents	-	7,135,131
Accounts receivable	-	299,091
Prepaid expense	-	12,374
Notes receivable	-	141,924
<b>Total assets</b>	<u>47,756</u>	<u>\$ 15,289,808</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	1,056	\$ 816,455
Due to bondholders	-	8,734,733
Compensated absences	-	11,711
Due to other governments	-	5,726,909
<b>Total liabilities</b>	<u>1,056</u>	<u>\$ 15,289,808</u>
<b>Net Assets:</b>		
Unrestricted	<u>46,700</u>	
<b>Total net assets</b>	<u>\$ 46,700</u>	

**City of Hercules**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds - Pension Trust Fund**  
**For the year ended June 30, 2006**

	Pension Trust Fund
<b>ADDITIONS:</b>	
Investment earnings:	
Interest	\$ 1,007
<b>Total additions</b>	<u>1,007</u>
<b>DEDUCTIONS:</b>	
Administration	3,108
<b>Total deductions</b>	<u>3,108</u>
<b>Change in net assets</b>	(2,101)
<b>NET ASSETS:</b>	
Beginning of Year	48,801
End of Year	<u>\$ 46,700</u>

See accompanying Notes to Basic Financial Statements.



**City of Hercules**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Reporting Entity*

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

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

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

*Hercules Redevelopment Agency*

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

*Hercules Public Financing Authority*

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

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

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

# City of Hercules

## Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### B. Basis of Accounting and Measurement Focus

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

#### Government-Wide Financial Statements

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

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

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

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

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

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB 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.

# City of Hercules

## Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### B. Basis of Accounting and Measurement Focus, Continued

##### Governmental Fund Financial Statements

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

The following are the description of the major funds:

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

Redevelopment Agency Special Revenue Fund accounts for 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 of the payment of principal and interest on the Redevelopment Agency tax allocation bonds and notes payable.

Hercules Public Finance Authority Debt Service Fund accounts for the accumulation of resources for, and the payment of, principal and interest on the Lease Revenue Bonds, Series 2003A issued to over 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 presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

*Proprietary Fund Financial Statements*

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. In addition, the City has presented the Hercules Municipal Utility Fund as a major fund because the City believes the financial position and activities of the fund are significant to the City as a whole. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

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

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

*Internal Service Funds* accounts for activities related to vehicle replacement and IT equipment replacement.

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

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

*Fiduciary Fund Financial Statements*

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

# City of Hercules

## Notes to Basic Financial Statements, Continued

For the year ended June 30, 2006

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### C. Cash and Investments

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

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

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

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

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

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***D. Capital Assets, Continued***

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

Buildings and improvement	15 - 50 years
Land and improvement	20 years
Machinery and equipment	5 - 20 years
Infrastructure	15 - 50 years

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.

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

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

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Capital assets acquired or constructed for proprietary funds are capitalized in their respective individual funds. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

***E. Long-Term Obligations***

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Long-Term Obligations, Continued*

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 financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*F. Compensated Absences*

Compensated absences comprise unpaid vacation and compensated time off. The City accrues the costs of these absences when they are earned. For governmental funds, compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements. For proprietary funds, current and non-current liabilities for compensated absences are recorded as expenses in both the Government-Wide Financial Statement and the Governmental 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 Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

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

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

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

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

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

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

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*G. Net Assets, Continued*

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

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

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

*H. Use of Restricted/Unrestricted Net Assets*

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

*I. Property Taxes, Tax Increment and Special Assessment Revenue*

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

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

The Agency is required to set aside a portion of the tax increment received to increase and improve the community's supply of low and moderate income housing. The amount set aside each year is required to equal 20% of the tax increment receipts from the redevelopment project areas, which amounted to \$1,783,366 in the fiscal year ended June 30, 2006.

*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, Continued**  
**For the year ended June 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**K. New Pronouncements**

In 2006, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* – The Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* – The Statement addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits* – The Statement provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

**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.

**A. Cash Deposits**

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

At June 30, 2006, the carrying amount of the City's deposits was a negative balance of \$16,724 and the bank balances were \$564,009. The total bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**2. CASH AND INVESTMENTS, Continued**

*B. Investments*

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

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

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

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

The City's investments with the LAIF, a State of California external investment pool, at June 30, 2006, included a small portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

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

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

As of June 30, 2006, the City had \$8,702,697 invested in LAIF, which had invested 2.567% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.998185821 was used to calculate the fair value of the investments in LAIF. The fair value factor was applied to selected funds by the City. All other investments of the City were recorded in the General Fund.

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**2. CASH AND INVESTMENTS, Continued**

**C. Summary of Cash and Investments**

The following is a summary of cash and investments at June 30, 2006:

	Government-Wide Statement of Net Assets			Fund Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	\$ 28,160,721	\$ 5,274,958	\$ 33,435,679	\$ 7,749,044	\$ 41,184,723
Cash and investment with fiscal agents	61,449,594	-	61,449,594	7,135,131	68,584,725
<b>Total cash and investments</b>	<b>\$ 89,610,315</b>	<b>\$ 5,274,958</b>	<b>\$ 94,885,273</b>	<b>\$ 14,884,175</b>	<b>\$ 109,769,448</b>

Investments held in the City Treasury grouped by maturity date at June 30, 2006, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)					
		1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Securities of U.S. Government Agencies:							
FHLB	\$ 22,945,335	\$ 2,971,870	\$ 9,720,950	\$ 4,891,260	\$ 3,900,630	\$ 1,460,625	\$ -
FHLMC	5,963,592	-	958,380	985,400	-	2,939,860	1,079,952
FNMA	2,425,296	-	-	-	-	-	2,425,296
Total Securities of U.S. Government Agencies	31,334,223	2,971,870	10,679,330	5,876,660	3,900,630	4,400,485	3,505,248
Local Agency Investments Funds	8,702,697	8,702,697	-	-	-	-	-
Corporate Obligation	48,750	-	-	-	-	-	-
Certificate of Deposit	1,115,777	-	-	-	-	(1,460,625)	-
Deposits	(16,724)	(16,724)	-	-	-	-	-
<b>Total</b>	<b>\$ 41,184,723</b>	<b>\$ 11,657,843</b>	<b>\$ 10,679,330</b>	<b>\$ 5,876,660</b>	<b>\$ 3,900,630</b>	<b>\$ 2,939,860</b>	<b>\$ 3,505,248</b>

**D. Risk Disclosures**

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

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

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

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**2. CASH AND INVESTMENTS, Continued**

*D. Risk Disclosures, Continued*

At June 30, 2006, the City had the following deposits and investments:

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

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

**3. LOANS AND NOTES RECEIVABLES**

Loans Receivable

Loans receivable at June 30, 2006, consisted of the following:

Bridge Housing Corporation	\$ 1,658,723
Eden Housing	700,000
Radston's Office Plus	250,000
First Time Homebuyers	1,124,250
Affordable Housing	1,425,000
Home Emergency Loan	120,726
<b>Total</b>	<b>\$ 5,278,699</b>

**1. Bridge Housing Corporation**

The Agency loaned the Bridge Housing Corporation \$1,400,000 to finance construction of a sixty unit senior citizen housing development next to City Hall. On September 8, 1998, the Agency approved an addition to the loan of \$115,000 for a grand total of \$1,515,000. On January 1, 1999, the loan began to bear interest at the rate of 3.5% per year and is repayable in 2041, subject to certain conditions. The construction of the housing development was completed in September 1999. At June 30, 2006, the Corporation's loan balance was \$1,399,600. In addition, interest of \$259,123 was recorded in the interest receivable of the City's balance sheet. Total loan balance was \$1,658,723.

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**3. LOANS AND NOTES RECEIVABLES, Continued**

*2. Eden Housing Loan*

On July 1, 2002 the Agency loaned Eden Housing Inc \$700,000 to assist in the development of low and moderate income housing for senior citizens. The loan does not bear any interest. The repayment of the loan is only due and payable if a default has been declared by the Agency, and the Borrower fails to cure the default. Upon expiration of the 55-year Regulatory Agreement, the loan will be forgiven and the Promissory Note will be cancelled by the Agency. The balance outstanding as of June 30, 2006 was \$700,000.

*3. Radston's Office Plus*

On December 5, 2000, the Agency entered a promissory note agreement with the Radston's Office Plus (Payors) in the amount of \$250,000 with interest at 5% per annum. All principal and interest is deferred until December 5, 2010. Commencing on December 5, 2010, the Payors shall pay a lump-sum cash amount of \$125,000 which represent all deferred and unpaid interest only. The remaining \$250,000 bears interest at 5% and will be fully amortized and paid over the next ten years at \$2,652 per month, principal and interest, commencing on December 5, 2010. The loan is secured by a Deed of Trust on real property. At June 30, 2006, the outstanding balance of the loan was \$250,000.

*4. First Time Homebuyers*

The Agency has provided various loan programs for First Time Homebuyers. In general they provide secondary financing for low and moderate buyers in the City of Hercules that have deferred payments in order to allow the buyer to maximize their purchasing capacity. The balance outstanding as of June 30, 2006 was \$1,124,250.

*5. Affordable Housing Loans*

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

The Below Market Rate Program provides secondary financing for low to moderate income who currently earns 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 Rehabilitation and Beautification Program provides financial assistance to rehabilitate properties without such assistance. Borrowers who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area, are eligible for the program.

The balance outstanding as of June 30, 2006 was \$1,425,000.

*6. Home Emergency Loans*

The City loaned \$100,000 to the City Manager for the purchase of a residence within the City of Hercules. The loan is to be repaid from the proceeds of the sale of the house when the contract between the City and the City Manager is terminated. The balance outstanding as of June 30, 2006 was \$100,000.

On September 19, 2002, the Agency entered into several home emergency loan in various amounts with interest at 5% per annum. The principal amount of the loan including interest is to be due and payable in one lump sum if the owners cease to occupy the property or upon any transfer, refinance, sale, or conveyance of all or a part of the property. The balance outstanding as of June 30, 2006 was \$20,726.

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**4. DEFERRED REVENUE**

**A. Government-Wide Financial Statements**

Unearned revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2006, unearned revenues in the Government-Wide Financial Statements were \$1,873,269 for the State of California Library grant.

**B. Fund Financial Statements**

At June 30, 2006, the following deferred revenues were recorded in the Governmental Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Bridge Housing Corporation	\$	1,658,723
Eden Housing		700,000
Radston's Office Plus		250,000
First Time Home Buyers		1,124,250
Affordable Housing		1,425,000
Home Emergency Loan		20,726
State of California Library		1,873,270
<b>Total</b>	<b>\$</b>	<b>7,051,969</b>

**5. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

At June 30, 2006, the City's capital assets consisted of the following:

	Government Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 4,145,205	\$ 150,000	\$ 4,295,205
Construction in progress	11,812,452	240,906	12,053,358
Total nondepreciable assets	15,957,657	390,906	16,348,563
Depreciable Assets:			
Land improvement	3,768,191	-	3,768,191
Building and improvement	12,717,583	9,529,102	22,246,685
Machinery and equipment	2,490,550	618,220	3,108,770
Infrastructure	64,212,586	5,107,754	69,320,340
Total depreciable assets	83,188,910	15,255,076	98,443,986
Less accumulated depreciation	(35,737,634)	(7,983,463)	(43,721,097)
Total depreciable assets, net	47,451,276	7,271,613	54,722,889
Total capital assets, net	\$ 63,408,933	\$ 7,662,519	\$ 71,071,452

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**5. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

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

	Balance July 1, 2005	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2006
<b>Nondepreciable Assets:</b>					
Land	\$ 4,145,204	\$ -	\$ -	\$ -	\$ 4,145,204
Construction in progress	159,557	9,442,485	-	2,210,410	11,812,452
<b>Total nondepreciable assets</b>	<b>4,304,761</b>	<b>9,442,485</b>	<b>-</b>	<b>2,210,410</b>	<b>15,957,656</b>
<b>Depreciable Assets:</b>					
Land improvement	3,768,190	-	-	-	3,768,190
Building and improvement	12,697,679	19,904	-	-	12,717,583
Machinery and equipment	2,191,747	417,518	(118,715)	-	2,490,550
Infrastructure	59,007,669	5,204,954	(37)	-	64,212,586
<b>Total depreciable assets</b>	<b>77,665,285</b>	<b>5,642,376</b>	<b>(118,752)</b>	<b>-</b>	<b>83,188,909</b>
<b>Accumulated Depreciation:</b>					
Land improvement	(1,080,525)	(301,655)	-	-	(1,382,180)
Building and improvement	(3,840,684)	(263,322)	-	-	(4,104,006)
Machinery and equipment	(1,269,389)	(315,927)	109,975	-	(1,475,341)
Infrastructure	(27,161,328)	(1,614,777)	-	-	(28,776,105)
<b>Total accumulated depreciation</b>	<b>(33,351,926)</b>	<b>(2,495,681)</b>	<b>109,975</b>	<b>-</b>	<b>(35,737,632)</b>
<b>Total depreciable assets, net</b>	<b>44,313,359</b>	<b>3,146,695</b>	<b>(8,777)</b>	<b>-</b>	<b>47,451,277</b>
<b>Total capital assets, net</b>	<b>\$ 48,618,120</b>	<b>\$ 12,589,180</b>	<b>\$ (8,777)</b>	<b>\$ 2,210,410</b>	<b>\$ 63,408,933</b>

Depreciation expenses of the governmental activities for the year ended June 30, 2006 are as follows:

General government	\$ 221,967
Public safety	133,035
Public works	1,959,793
Community development	12,345
Parks and recreation	168,541
<b>Total depreciation expense</b>	<b>\$ 2,495,681</b>

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**5. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

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

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Nondepreciable assets:				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Construction in progress	188,073	52,833	-	240,906
Total nondepreciable assets	<u>338,073</u>	<u>52,833</u>	<u>-</u>	<u>390,906</u>
Depreciable assets:				
Buildings and improvement	9,429,835	99,266	-	9,529,101
Machinery and equipment	49,564	568,656	-	618,220
Infrastructure	3,137,301	1,970,453	-	5,107,754
Total depreciable assets	<u>12,616,700</u>	<u>2,638,375</u>	<u>-</u>	<u>15,255,075</u>
Accumulated depreciation				
Buildings and improvement	(7,576,151)	(149,150)	-	(7,725,301)
Machinery and equipment	(48,481)	(873)	-	(49,354)
Infrastructure	(110,333)	(98,476)	-	(208,809)
Total accumulated depreciation	<u>(7,734,965)</u>	<u>(248,499)</u>	<u>-</u>	<u>(7,983,464)</u>
Total depreciable assets, net	<u>4,881,735</u>	<u>2,389,876</u>	<u>-</u>	<u>7,271,611</u>
<b>Total business-type activities</b>	<u><u>\$ 5,219,808</u></u>	<u><u>\$ 2,442,709</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,662,517</u></u>

Depreciation expenses of the business-type activities for the year ended June 30, 2006 are as follows:

Sewer	\$ 149,150
Hercules Municipal Utility	<u>99,349</u>
<b>Total depreciation expense</b>	<u><u>\$ 248,499</u></u>

**B. Fund Financial Statements**

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**6. COMPENSATED ABSENCES**

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

	Balance			Balance June 30, 2006	Classification	
	July 1, 2005	Additions	Retirements		Due Within One Year	Due in More than One Year
Governmental Activities	\$ 263,750	\$ 512,891	\$ (303,085)	\$ 473,556	\$ 319,755	\$ 153,801
Business-Type Activities	9,011	25,332	(9,470)	24,873	9,990	14,883
<b>Total</b>	<b>\$ 272,761</b>	<b>\$ 538,223</b>	<b>\$ (312,555)</b>	<b>\$ 498,429</b>	<b>\$ 329,745</b>	<b>\$ 168,684</b>

**7. LONG-TERM OBLIGATIONS**

Long-term obligation activities for the year ended June 30, 2006, were as follows:

	Balance			Balance June 30, 2006	Classification	
	July 1, 2005	Additions	Retirements		Due Within One Year	Due in More than One Year
2001 Tax Allocation Bonds	\$ 6,285,000	\$ -	\$ (6,285,000)	\$ -	\$ -	\$ -
2005 Tax Allocation Bonds	-	56,260,000	-	56,260,000	1,210,000	55,050,000
Premium on 2005 Tax Allocation Bonds	-	2,175,968	(72,532)	2,103,436	72,532	2,030,904
Deferred amount on refunding for the 2005 Tax Allocation Bonds	-	(291,160)	9,705	(281,455)	(9,705)	(271,750)
2003A PFA Revenue						
Lease Bonds	7,000,000	-	-	7,000,000	115,000	6,885,000
2003B PFA Revenue						
Lease Bonds	8,980,000	-	(175,000)	8,805,000	180,000	8,625,000
Long-term Notes Payable	622,335	-	(37,619)	584,716	40,590	544,126
<b>Total</b>	<b>\$ 22,887,335</b>	<b>\$ 58,144,808</b>	<b>\$ (6,560,446)</b>	<b>\$ 74,471,697</b>	<b>\$ 1,608,417</b>	<b>\$ 72,863,280</b>

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 Subordinate Tax Allocation Bonds, Series 2001. The Bonds mature annually each August 1 from 2006 to 2035, in amounts ranging from \$740,000 to \$2,960,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semiannually on February 1 and August 1. The Bonds maturing on or after August 1, 2016, are subject to optional redemption prior to maturity At the option of the Agency on or after August 1, 2015, as a whole or in part, on any interest payment date, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable exclusively from pledged tax revenues to be derived from the project area and from the amounts on deposit in certain funds and accounts, including the reserve account and the revenue fund.

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**7. LONG-TERM OBLIGATIONS, Continued**

2005 Tax Allocation Bonds, Continued

The annual debt service requirements to maturity at June 30, 2006, were as follows:

For the Years Ending June 30,	Principal	Interest	Total
2007	\$ 1,210,000	\$ 2,565,529	\$ 3,775,529
2008	1,410,000	2,590,430	4,000,430
2009	1,460,000	2,536,395	3,996,395
2010	1,520,000	2,480,145	4,000,145
2011	1,575,000	2,421,145	3,996,145
2012-2016	8,870,000	11,128,915	19,998,915
2017-2021	9,445,000	8,911,769	18,356,769
2022-2026	9,140,000	6,764,836	15,904,836
2027-2031	11,650,000	4,260,824	15,910,824
2032-2035	9,980,000	1,150,974	11,130,974
Total	56,260,000	44,810,962	101,070,962
Plus premium	2,175,968	-	2,175,968
Total	\$ 58,435,968	\$ 44,810,962	\$ 103,246,930

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferral on refunding of debt which is reported as part of long-term debt. This deferral was in connection with interest payments made to the escrow agent for future payments of interest. The total amount deferred was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year 2005-2006 was \$9,705.

2003A Public Financing Authority Lease Revenue Bonds

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

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**7. LONG-TERM OBLIGATIONS, Continued**

2003A Public Financing Authority Lease Revenue Bonds, Continued

The annual debt service requirements to maturity at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 115,000	\$ 130,270	\$ 245,270
2008	125,000	128,130	253,130
2009	130,000	125,804	255,804
2010	135,000	123,384	258,384
2011	145,000	120,872	265,872
2012-2016	835,000	561,371	1,396,371
2017-2021	1,075,000	475,020	1,550,020
2022-2026	1,380,000	364,384	1,744,384
2027-2031	1,765,000	222,296	1,987,296
2032-2034	1,295,000	49,037	1,344,037
<b>Total</b>	<b>\$ 7,000,000</b>	<b>\$ 2,300,568</b>	<b>\$ 9,300,568</b>

2003B Public Financing Authority Lease Revenue Bonds

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

The annual debt service requirements to maturity at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 180,000	\$ 389,960	\$ 569,960
2008	185,000	385,860	570,860
2009	190,000	381,635	571,635
2010	195,000	376,579	571,579
2011	200,000	370,798	570,798
2012-2016	1,100,000	1,739,004	2,839,004
2017-2021	1,345,000	1,480,317	2,825,317
2022-2026	1,700,000	1,121,049	2,821,049
2027-2031	2,150,000	664,149	2,814,149
2032-2034	1,560,000	119,611	1,679,611
<b>Total</b>	<b>\$ 8,805,000</b>	<b>\$ 7,028,962</b>	<b>\$ 15,833,962</b>

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**7. LONG-TERM OBLIGATIONS, Continued**

*Long-term Notes Payable*

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

As of June 30, 2006, the City's long-term notes payables were as follows.

East Group	\$ 220,003
Bio Rad Laboratories	364,713
<b>Total</b>	<u><u>\$ 584,716</u></u>

The annual debt service requirements to maturity for the East Group Notes Payable at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 15,217	\$ 16,922	\$ 32,139
2008	16,470	15,743	32,213
2009	17,712	14,467	32,179
2010	19,092	13,097	32,189
2011	20,601	11,614	32,215
2012-2016	130,911	31,557	162,468
<b>Total</b>	<u><u>\$ 220,003</u></u>	<u><u>\$ 103,400</u></u>	<u><u>\$ 323,403</u></u>

The annual debt service requirements to maturity for the Bio Rad Laboratories Notes Payable at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 25,373	\$ 28,217	\$ 53,590
2008	27,463	26,251	53,714
2009	29,533	24,122	53,655
2010	31,834	21,833	53,667
2011	34,351	19,366	53,717
2012-2016	216,159	52,617	268,776
<b>Total</b>	<u><u>\$ 364,713</u></u>	<u><u>\$ 172,406</u></u>	<u><u>\$ 537,119</u></u>

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**7. LONG-TERM OBLIGATIONS, Continued**

Defeased Debt

2001 Tax Allocation Bonds

The Agency issued 2005 Tax Allocation Bonds to refund the 2001 Tax Allocation Bonds. The Agency issued subordinate tax allocation bonds, series 2001, dated September 4, 2001, totaling \$6,500,000. The purpose of the bonds was to provide funds to finance certain redevelopment activities within, and of benefit to, the Hercules Merged Project Area. The interest rate on the bonds ranges from 4.50% to 6.40%. The interest is payable on each March 1 and September 1 commencing March 1, 2002. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by a pledge of tax revenues in the Merged Project Area. Principal is due annually beginning on September 1, 2005, in amounts ranging from \$215,000 to \$575,000. The economic effect of refunding the bonds was a gain of \$293,279. The outstanding balance as of June 30, 2006 was \$6,060,000.

**8. NON CITY OBLIGATIONS**

Description	Original Issuance	Balance as of June 30, 2006
Reassessment District 2001-01 (Alfred Nobel)	\$ 9,700,030	\$ 7,795,000
Reassessment District 2005-1 (John Muir Parkway)	6,550,345	6,550,345

**9. RISK MANAGEMENT**

General Liability Insurance

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

Workers' Compensation

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

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

As of June 30, 2006, the City's estimated claims liabilities were as follows.

General Liability	\$ 7,625
Workers' Compensation	11,973
<b>Total</b>	<u>\$ 19,598</u>

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**10. INTERFUND TRANSACTIONS, Continued**

*C. Transfers*

Transfers for the year ended June 30, 2006 were as follows:

		Transfers In								Total
		Governmental Activities							Business-Type	
		Major Funds							Activities	
		General Fund	Redevelopment Agency Special Revenue	Redevelopment Agency Debt Service	Hercules Public Finance Authority	Redevelopment Agency Capital Projects	Non-Major Funds	Internal Services Funds	Hercules Municipal Utility	
Transfers Out	Governmental Activities:									
	Major Funds:									
	General Fund	\$ -	\$ -	\$ -	\$ 170,000	\$ -	\$ -	\$ -	\$ -	\$ 170,000
	Redevelopment Agency Special Revenue	-	-	7,067,040	-	5,258,465	5,393	-	-	12,330,898
	Redevelopment Agency Debt Service	-	546,369	-	-	1,410,710	1,171,115	-	-	3,128,194
	Hercules Public Finance Authority	-	-	-	-	-	-	-	2,280,376	2,280,376
	Non-Major Funds	339,452	-	-	-	-	4,012,154	66,893	-	4,418,499
	Sub-total	339,452	546,369	7,067,040	170,000	6,669,175	5,188,662	66,893	2,280,376	22,327,967
	Business-Type Activities:									
	Major Funds:									
Hercules Municipal Utility	277,399	-	-	-	-	-	-	-	277,399	
<b>Total</b>	<b>\$ 616,851</b>	<b>\$ 546,369</b>	<b>\$ 7,067,040</b>	<b>\$ 170,000</b>	<b>\$ 6,669,175</b>	<b>\$ 5,188,662</b>	<b>\$ 66,893</b>	<b>\$ 2,280,376</b>	<b>\$ 22,605,366</b>	

**11. PUBLIC EMPLOYEE RETIREMENT SYSTEM**

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

Funding Policy - Active plan members are required by state statute to contribute 7% for Miscellaneous and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, which amounted to \$376,701 for the year ended June 30, 2006. The City employer is required to contribute for fiscal year 2005-2006 at an actuarially determined rate of 11.629% of annual covered payroll for miscellaneous employees and 33.772% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

**City of Hercules**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**11. PUBLIC EMPLOYEE RETIREMENT SYSTEM, Continued**

Annual Pension Cost – For 2005-2006, the City’s annual pension cost of \$1,029,639 for PERS was equal to the City’s required and actual contribution. The required contribution was determined as part of the June 30, 2003 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, 2006, was 30 years for miscellaneous and 30 years for safety employees for prior and current service unfunded liability.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 515,569	100%	\$ -
June 30, 2005	751,421	100%	-
June 30, 2006	1,029,639	100%	-

**12. COMMITMENTS AND CONTINGENCIES**

**A. Lawsuits**

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

**B. Commitments**

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

**City of Hercules**  
**Required Supplementary Information**  
**For the year ended June 30, 2006**

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**1. BUDGETARY PRINCIPLES**

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

1. In June, the City Manager submits to the City Council a proposed operating budget for the following two fiscal years. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution before July 1.
4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device. Commitments for material and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are encumbered at year-end lapse, and then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2006, based on the calculations by City Management, proceeds of taxes did not exceed the appropriations limit.
7. Budget revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year which were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. The City Manager must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications, with approval of the Finance Director.
8. Certain appropriations carry over and are rebudgeted for the coming year.
9. Budget appropriations for the various governmental funds become effective July 1. The City Council may amend the budget during the two fiscal years. The legal level of budgetary control has been established at the fund level.

**City of Hercules**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2006**

**1. BUDGETARY PRINCIPLES, Continued**

*Budgetary Comparison Schedule, General Fund*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 4,038,300	\$ 4,038,300	\$ 5,291,693	\$ 1,253,393
Intergovernmental	1,390,437	1,390,437	1,862,909	472,472
Licenses and permits	1,273,367	1,273,367	752,861	(520,506)
Fines and forfeitures	35,000	35,000	63,565	28,565
Use of money and property	1,690,225	1,690,225	972,390	(717,835)
Charges for services	2,382,965	2,382,965	1,736,096	(646,869)
Other revenues	877,821	877,821	924,515	46,694
<b>Total revenues</b>	<b>11,688,115</b>	<b>11,688,115</b>	<b>11,604,029</b>	<b>(84,086)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	3,419,242	3,783,258	3,237,801	545,457
Public safety	3,896,232	4,228,915	4,653,921	(425,006)
Public works	855,978	1,138,471	585,566	552,905
Community development	1,049,560	1,149,750	1,340,017	(190,267)
Parks and recreation	2,142,122	2,415,760	2,116,154	299,606
Capital outlay	136,190	169,701	124,680	45,021
Lease expense	569,398	569,398	920,285	(350,887)
<b>Total expenditures</b>	<b>12,068,722</b>	<b>13,455,253</b>	<b>12,978,424</b>	<b>476,829</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(380,607)</b>	<b>(1,767,138)</b>	<b>(1,374,395)</b>	<b>392,743</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	431,836	431,836	616,851	185,015
Transfers out	-	-	(170,000)	(170,000)
<b>Total other financing sources (uses)</b>	<b>431,836</b>	<b>431,836</b>	<b>446,851</b>	<b>15,015</b>
<b>Net change in fund balance</b>	<b>\$ 51,229</b>	<b>\$ (1,335,302)</b>	<b>(927,544)</b>	<b>\$ 407,758</b>
<b>FUND BALANCE:</b>				
Beginning of year, as restated			26,999,694	
End of year			\$ 26,072,150	

**City of Hercules**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2006**

**1. BUDGETARY PRINCIPLES, Continued**

*Budgetary Comparison Schedule, Redevelopment Agency Special Revenue Fund*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 2,226,000	\$ 2,226,000	\$ 10,366,886	\$ 8,140,886
Use of money and property	-	-	81,078	81,078
Charges for services	-	-	9,100	9,100
Other revenues	-	-	78,961	78,961
<b>Total revenues</b>	<b>2,226,000</b>	<b>2,226,000</b>	<b>10,536,025</b>	<b>8,310,025</b>
<b>EXPENDITURES:</b>				
Current:				
General government	1,930,600	2,311,297	3,767,093	(1,455,796)
<b>Total expenditures</b>	<b>1,930,600</b>	<b>2,311,297</b>	<b>3,767,093</b>	<b>(1,455,796)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>295,400</b>	<b>(85,297)</b>	<b>6,768,932</b>	<b>6,854,229</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	546,369	546,369
Transfers out	-	-	(12,330,898)	(12,330,898)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(11,784,529)</b>	<b>(11,784,529)</b>
<b>Net change in fund balance</b>	<b>\$ 295,400</b>	<b>\$ (85,297)</b>	<b>(5,015,597)</b>	<b>\$ (4,930,300)</b>
<b>FUND BALANCE:</b>				
Beginning of year			8,154,671	
End of year			<b>\$ 3,139,074</b>	

**City of Hercules**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2006**

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

Miscellaneous Employees

Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2003	\$ 4,788,950	\$ 5,542,411	\$ 753,461	86.4%	\$ 3,016,844	25.0%
CalPERS Risk Pool Information (See note below)						
6/30/2004	2,460,944,656	2,746,095,668	285,151,012	89.6%	743,691,970	38.3%
6/30/2005	2,588,713,000	2,891,460,651	302,747,651	89.5%	755,046,679	40.1%

Safety Employees

Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2003	\$ 4,518,997	\$ 6,439,631	\$ 1,920,634	70.2%	\$ 1,338,071	143.5%
CalPERS Risk Pool Information (See note below)						
6/30/2004	1,026,500,742	1,252,474,736	225,973,994	82.0%	154,903,754	145.9%
6/30/2005	1,105,298,221	1,325,510,754	220,212,533	83.4%	161,446,071	136.4%

\*Latest information available.

As of the actuarial valuation date of June 30, 2005, the City's retirement plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. The schedule of funding progress presented above for fiscal year 2005 is for the whole pool and not that of the City individually. At the end of Fiscal Year 2003-2004 CalPERS changed the City's plan from a pool with benefits of 2% at 55 to a pool with benefits of 3% at 55 due to the City's enhanced benefit plan. As a result, the 2005 amounts have been restated to reflect this change.

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**SUPPLEMENTARY INFORMATION**

# City of Hercules

## Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Redevelopment Agency Debt Service Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 4,395,500	\$ 4,395,500	\$ -	\$ (4,395,500)
Use of money and property	45,000	45,000	1,589,417	1,544,417
<b>Total revenues</b>	<b>4,440,500</b>	<b>4,440,500</b>	<b>1,589,417</b>	<b>(2,851,083)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	2,830,000	2,830,000	5,520,291	(2,690,291)
Debt Service:				
Principal retirement	438,000	438,000	262,619	175,381
Interest and fiscal charges	1,172,500	1,172,500	2,440,659	(1,268,159)
Cost of issuance	-	-	1,079,213	(1,079,213)
<b>Total expenditures</b>	<b>4,440,500</b>	<b>4,440,500</b>	<b>9,302,782</b>	<b>(4,862,282)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>(7,713,365)</b>	<b>(7,713,365)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of bonds	-	-	56,260,000	56,260,000
Premium from issuance	-	-	2,175,968	2,175,968
Refunding payment to escrow	-	-	(6,351,160)	(6,351,160)
Transfers in	-	-	7,067,040	7,067,040
Transfers out	(1,200,000)	(1,200,000)	(3,128,194)	(1,928,194)
<b>Total other financing sources (uses)</b>	<b>(1,200,000)</b>	<b>(1,200,000)</b>	<b>56,023,654</b>	<b>57,223,654</b>
<b>Net change in fund balance</b>	<b>\$ (1,200,000)</b>	<b>\$ (1,200,000)</b>	<b>48,310,289</b>	<b>\$ 49,510,289</b>
<b>FUND BALANCE:</b>				
Beginning of year			(7,434,113)	
End of year			\$ 40,876,176	

# City of Hercules

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

### Hercules Public Financing Authority Debt Service Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 93,564	\$ 93,564	\$ 344,494	\$ 250,930
Lease revenue	834,398	834,398	920,285	85,887
<b>Total revenues</b>	<b>927,962</b>	<b>927,962</b>	<b>1,264,779</b>	<b>336,817</b>
<b>EXPENDITURES:</b>				
Debt Service:				
Principal retirement	175,000	175,000	175,000	-
Interest and fiscal charges	643,000	643,000	679,433	(36,433)
<b>Total expenditures</b>	<b>818,000</b>	<b>818,000</b>	<b>854,433</b>	<b>(36,433)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>109,962</b>	<b>109,962</b>	<b>410,346</b>	<b>300,384</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	170,000	170,000
Transfers out	(5,631,506)	(5,631,506)	(2,280,376)	3,351,130
<b>Total other financing sources (uses)</b>	<b>(5,631,506)</b>	<b>(5,631,506)</b>	<b>(2,110,376)</b>	<b>3,521,130</b>
<b>Net change in fund balance</b>	<b>\$ (5,521,544)</b>	<b>\$ (5,521,544)</b>	<b>(1,700,030)</b>	<b>\$ 3,821,514</b>
<b>FUND BALANCE:</b>				
Beginning of year			9,800,675	
End of year			<u>\$ 8,100,645</u>	

# City of Hercules

## Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Redevelopment Agency Capital Projects Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 1,533,500	\$ 1,533,500	\$ -	\$ (1,533,500)
<b>Total revenues</b>	<u>1,533,500</u>	<u>1,533,500</u>	<u>-</u>	<u>1,533,500</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	10,509	(10,509)
Capital outlay	2,348,344	2,348,344	635,673	1,712,671
<b>Total expenditures</b>	<u>2,348,344</u>	<u>2,348,344</u>	<u>646,182</u>	<u>1,702,162</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(814,844)	(814,844)	(646,182)	(168,662)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,200,000	1,200,000	6,669,175	5,469,175
Transfers out	(1,200,000)	(1,020,000)	-	1,020,000
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>180,000</u>	<u>6,669,175</u>	<u>6,489,175</u>
<b>Net change in fund balance</b>	<u>\$ (814,844)</u>	<u>\$ (634,844)</u>	<u>6,022,993</u>	<u>\$ 6,657,837</u>
<b>FUND BALANCE:</b>				
Beginning of year, as restated			(2,247,126)	
End of year			<u>\$ 3,775,867</u>	

## NON-MAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

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

## NON-MAJOR GOVERNMENTAL FUNDS, Continued

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

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

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

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

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

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

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

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

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City of Hercules  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2006

	Special Revenue				
	Development Services Fund	AB 3229 COPS Program Fund	State Gas Tax Fund	Community Development Fund	Development Fee Fund
<b>ASSETS</b>					
Cash and investments	\$ 257,792	\$ 3,403	\$ 720,750	\$ 999,374	\$ 2,205,760
Cash and investments with fiscal agents	-	-	-	-	-
Receivables:					
Accounts	-	-	43,417	-	-
Grants	-	-	-	-	-
Interest	-	-	-	-	-
Advance to other funds	-	-	-	252,231	-
<b>Total assets</b>	<b>\$ 257,792</b>	<b>\$ 3,403</b>	<b>\$ 764,167</b>	<b>\$ 1,251,605</b>	<b>\$ 2,205,760</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ 18,590	\$ 974	\$ -
Accrued payroll liabilities	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Advances from other funds	-	-	453,705	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>472,295</b>	<b>974</b>	<b>-</b>
<b>Fund Balances:</b>					
<b>Reserved:</b>					
Future commitments	257,792	3,403	291,872	1,250,631	2,205,760
Total reserved	257,792	3,403	291,872	1,250,631	2,205,760
<b>Unreserved, designated:</b>					
Future projects	-	-	-	-	-
Total unreserved, designated	-	-	-	-	-
<b>Unreserved, undesignated</b>					
Total fund balances	257,792	3,403	291,872	1,250,631	2,205,760
<b>Total liabilities and fund balances</b>	<b>\$ 257,792</b>	<b>\$ 3,403</b>	<b>\$ 764,167</b>	<b>\$ 1,251,605</b>	<b>\$ 2,205,760</b>

Special Revenue

STMP Traffic Impact Fund	Measure C Street Fund	State AB-939 Fund	Stormwater Assessment Fund	Developer Park Fees Fund	Fire Equipment Fund	DIF Fund	Regional Water Quality Fund
\$ 86,943	\$ 483,223	\$ 73,788	\$ 257,838	\$ 462,001	\$ 3,842	\$ 5,800,760	\$ 38,129
-	-	-	-	-	-	-	-
-	-	-	6,098	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 86,943</u>	<u>\$ 483,223</u>	<u>\$ 73,788</u>	<u>\$ 263,936</u>	<u>\$ 462,001</u>	<u>\$ 3,842</u>	<u>\$ 5,800,760</u>	<u>\$ 38,129</u>
\$ -	\$ -	\$ -	\$ 10,215	\$ -	\$ -	\$ 13,328	\$ -
-	-	-	3,718	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	71,319	-	-	-	-	-
-	140,000	-	-	-	-	-	-
-	140,000	71,319	13,933	-	-	13,328	-
-	-	2,469	250,003	462,001	3,842	5,787,432	-
-	-	2,469	250,003	462,001	3,842	5,787,432	-
-	343,223	-	-	-	-	-	38,129
-	343,223	-	-	-	-	-	38,129
86,943	-	-	-	-	-	-	-
86,943	343,223	2,469	250,003	462,001	3,842	5,787,432	38,129
<u>\$ 86,943</u>	<u>\$ 483,223</u>	<u>\$ 73,788</u>	<u>\$ 263,936</u>	<u>\$ 462,001</u>	<u>\$ 3,842</u>	<u>\$ 5,800,760</u>	<u>\$ 38,129</u>

Special Revenue				Capital Project	Debt Service	Total
LLAD Fund	Citywide L&L Fund	Fiscal Neutrality Fee Fund	Grant Fund	City Capital Project Fund	General Obligation Bond Fund	Total Non-Major Governmental Funds
\$ 811,861	\$ 239,333	\$ 2,294,386	\$ -	\$ -	\$ -	\$ 14,739,183
-	-	-	-	1,153,746	-	1,153,746
-	704	-	-	1,873,270	-	1,923,489
-	-	-	182,586	-	-	182,586
-	-	-	-	13,001	-	13,001
-	-	-	-	-	-	252,231
<u>\$ 811,861</u>	<u>\$ 240,037</u>	<u>\$ 2,294,386</u>	<u>\$ 182,586</u>	<u>\$ 3,040,017</u>	<u>\$ -</u>	<u>\$ 18,264,236</u>
\$ 28,871	\$ 40,809	\$ -	\$ -	\$ 1,162,827	\$ -	\$ 1,275,614
3,355	10,133	-	-	-	-	17,206
-	-	-	-	1,873,270	-	1,873,270
-	-	-	180,768	4,724,425	-	4,905,193
-	-	-	-	-	-	71,319
-	-	-	-	-	-	593,705
<u>32,226</u>	<u>50,942</u>	<u>-</u>	<u>180,768</u>	<u>7,760,522</u>	<u>-</u>	<u>8,736,307</u>
-	189,095	-	1,818	-	-	10,706,118
-	189,095	-	1,818	-	-	10,706,118
779,635	-	-	-	-	-	1,160,987
779,635	-	-	-	-	-	1,160,987
-	-	2,294,386	-	(4,720,505)	-	(2,339,176)
779,635	189,095	2,294,386	1,818	(4,720,505)	-	9,527,929
<u>\$ 811,861</u>	<u>\$ 240,037</u>	<u>\$ 2,294,386</u>	<u>\$ 182,586</u>	<u>\$ 3,040,017</u>	<u>\$ -</u>	<u>\$ 18,264,236</u>

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# City of Hercules

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

### Non-Major Governmental Funds

For the year ended June 30, 2006

	Special Revenue				
	Development Services Fund	AB 3229 COPS Program Fund	State Gas Tax Fund	Community Development Fund	Development Fee Fund
<b>REVENUES:</b>					
Taxes	\$ -	\$ -	\$ 690,312	\$ -	\$ -
Intergovernmental	-	100,000	-	-	-
Use of money and property	-	192	9,327	208,550	48,568
Charges for services	-	-	-	255,000	372,002
Other revenues	-	-	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>100,192</b>	<b>699,639</b>	<b>463,550</b>	<b>420,570</b>
<b>EXPENDITURES:</b>					
Current:					
General government	-	-	233,847	-	-
Public works	-	-	-	-	-
Capital outlay	-	-	30,834	182,451	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>264,681</b>	<b>182,451</b>	<b>-</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>					
	-	100,192	434,958	281,099	420,570
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	-	-	-	-
Transfers out	-	(100,000)	(145,500)	(31,393)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(100,000)</b>	<b>(145,500)</b>	<b>(31,393)</b>	<b>-</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>					
	-	192	289,458	249,706	420,570
<b>FUND BALANCES:</b>					
Beginning of year	257,792	3,211	2,414	1,000,925	1,785,190
End of year	\$ 257,792	\$ 3,403	\$ 291,872	\$ 1,250,631	\$ 2,205,760

Special Revenue

STMP Traffic Impact Fund	Measure C Street Fund	State AB-939 Fund	Stormwater Assessment Fund	Developer Park Fees Fund	Fire Equipment Fund	DIF Fund	Regional Water Quality Fund
\$ -	\$ 286,829	\$ -	\$ 294,410	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
7,268	7,205	2,469	6,904	2,358	-	80,133	788
127,427	-	-	-	-	-	2,000,755	-
-	-	-	-	-	-	-	-
134,695	294,034	2,469	301,314	2,358	-	2,080,888	788
209,460	-	-	-	-	55	109,355	-
-	-	-	348,528	-	-	-	-
-	-	-	-	-	-	-	-
209,460	-	-	348,528	-	55	109,355	-
(74,765)	294,034	2,469	(47,214)	2,358	(55)	1,971,533	788
-	-	-	-	1,028,150	-	1,971,850	-
-	(80,000)	-	-	(666,369)	-	(5,403)	-
-	(80,000)	-	-	361,781	-	1,966,447	-
(74,765)	214,034	2,469	(47,214)	364,139	(55)	3,937,980	788
161,708	129,189	-	297,217	97,862	3,897	1,849,452	37,341
\$ 86,943	\$ 343,223	\$ 2,469	\$ 250,003	\$ 462,001	\$ 3,842	\$ 5,787,432	\$ 38,129

Special Revenue				Capital Project	Debt Service	Total
LLAD	Citywide	Fiscal	Grant	City	General	Total
Fund	L&L	Neutrality Fee	Fund	Capital Project	Obligation	Non-Major
Fund	Fund	Fund	Fund	Fund	Bond	Governmental
Fund	Fund	Fund	Fund	Fund	Fund	Funds
\$ 623,686	\$ 995,069	\$ -	\$ -	\$ -	\$ 857	\$ 2,891,163
-	-	-	9,626	1,111,497	-	1,221,123
14,068	8,483	55,345	-	-	-	451,658
-	-	165,060	-	-	-	2,920,244
-	-	-	336,540	14,500	-	351,040
637,754	1,003,552	220,405	346,166	1,125,997	857	7,835,228
-	-	-	70	1,891	-	554,678
335,339	996,771	-	-	-	-	1,680,638
-	-	-	2,279	8,591,248	-	8,806,812
335,339	996,771	-	2,349	8,593,139	-	11,042,128
302,415	6,781	220,405	343,817	(7,467,142)	857	(3,206,900)
-	-	-	-	2,188,662	-	5,188,662
-	-	(48,863)	(340,383)	(3,000,000)	(588)	(4,418,499)
-	-	(48,863)	(340,383)	(811,338)	(588)	770,163
302,415	6,781	171,542	3,434	(8,278,480)	269	(2,436,737)
477,220	182,314	2,122,844	(1,616)	3,557,975	(269)	11,964,666
\$ 779,635	\$ 189,095	\$ 2,294,386	\$ 1,818	\$ (4,720,505)	\$ -	\$ 9,527,929

# City of Hercules

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

### Development Services Special Revenue Fund

For the year ended June 30, 2006

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

**City of Hercules**

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

**AB 3229 COPS Program Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Use of money and property	-	-	192	192
<b>Total revenues</b>	<u>100,000</u>	<u>100,000</u>	<u>100,192</u>	<u>192</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(100,000)	(100,000)	(100,000)	-
<b>Total other financing sources (uses)</b>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ -</u>	<u>\$ -</u>	192	<u>\$ 192</u>
<b>FUND BALANCE:</b>				
Beginning of year			3,211	
End of year			<u>\$ 3,403</u>	

# City of Hercules

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

### State Gas Tax Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 475,291	\$ 475,291	\$ 690,312	\$ 215,021
Use of money and property	-	-	9,327	9,327
<b>Total revenues</b>	<b>475,291</b>	<b>475,291</b>	<b>699,639</b>	<b>224,348</b>
<b>EXPENDITURES:</b>				
General government	-	-	233,847	(233,847)
Capital outlay	496,823	496,823	30,834	465,989
<b>Total expenditures</b>	<b>496,823</b>	<b>496,823</b>	<b>264,681</b>	<b>232,142</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(21,532)</b>	<b>(21,532)</b>	<b>434,958</b>	<b>456,490</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(145,500)	(145,500)	(145,500)	-
<b>Total other financing sources (uses)</b>	<b>(145,500)</b>	<b>(145,500)</b>	<b>(145,500)</b>	<b>-</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (167,032)</b>	<b>\$ (167,032)</b>	<b>289,458</b>	<b>\$ 456,490</b>
<b>FUND BALANCE:</b>				
Beginning of year			2,414	
End of year			\$ 291,872	

# City of Hercules

## Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Community Development Special Revenue Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 738,600	\$ 738,600	\$ -	\$ (738,600)
Intergovernmental	-	-	-	-
Use of money and property	-	-	208,550	208,550
Charges for services	-	-	255,000	255,000
<b>Total revenues</b>	<u>738,600</u>	<u>738,600</u>	<u>463,550</u>	<u>(275,050)</u>
<b>EXPENDITURES:</b>				
Capital outlay	294,800	294,800	182,451	112,349
<b>Total expenditures</b>	<u>294,800</u>	<u>294,800</u>	<u>182,451</u>	<u>112,349</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>443,800</u>	<u>443,800</u>	<u>281,099</u>	<u>(162,701)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(31,393)	(31,393)	(31,393)	-
<b>Total other financing sources (uses)</b>	<u>(31,393)</u>	<u>(31,393)</u>	<u>(31,393)</u>	<u>-</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ 412,407</u>	<u>\$ 412,407</u>	249,706	<u>\$ (162,701)</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,000,925	
End of year			<u>\$ 1,250,631</u>	

**City of Hercules**

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

**Development Fee Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 48,568	\$ 48,568
Charges for services	-	-	372,002	372,002
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>420,570</b>	<b>420,570</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<b>\$ -</b>	<b>\$ -</b>	<b>420,570</b>	<b>\$ 420,570</b>
<b>FUND BALANCE:</b>				
Beginning of year			1,785,190	
End of year			<b>\$ 2,205,760</b>	

# City of Hercules

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

### STMP Traffic Impact Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ -	\$ -	\$ 7,268	\$ 7,268
Charges for services	346,869	346,869	127,427	(219,442)
<b>Total revenues</b>	<u>346,869</u>	<u>346,869</u>	<u>134,695</u>	<u>(212,174)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	209,460	(209,460)
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>209,460</u>	<u>(209,460)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ 346,869</u>	<u>\$ 346,869</u>	(74,765)	<u>\$ (421,634)</u>
<b>FUND BALANCE:</b>				
Beginning of year			161,708	
End of year			<u>\$ 86,943</u>	

# City of Hercules

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

### Measure C Street Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 291,740	\$ 291,740	\$ 286,829	\$ (4,911)
Use of money and property	-	-	7,205	7,205
<b>Total revenues</b>	<b>291,740</b>	<b>291,740</b>	<b>294,034</b>	<b>2,294</b>
<b>EXPENDITURES:</b>				
Capital outlay	223,177	223,177	-	223,177
<b>Total expenditures</b>	<b>223,177</b>	<b>223,177</b>	<b>-</b>	<b>223,177</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>68,563</b>	<b>68,563</b>	<b>294,034</b>	<b>225,471</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(80,000)	(80,000)	(80,000)	-
<b>Total other financing sources (uses)</b>	<b>(80,000)</b>	<b>(80,000)</b>	<b>(80,000)</b>	<b>-</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (11,437)</b>	<b>\$ (11,437)</b>	<b>214,034</b>	<b>\$ 225,471</b>
<b>FUND BALANCE:</b>				
Beginning of year			129,189	
End of year			\$ 343,223	

City of Hercules

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

State AB 939 Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 2,469	\$ 2,469
<b>Total revenues</b>	-	-	2,469	2,469
<b>NET CHANGE IN FUND BALANCE</b>				
	\$ -	\$ -	2,469	\$ 2,469
<b>FUND BALANCE:</b>				
Beginning of year			-	
End of year			\$ 2,469	

# City of Hercules

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

### Stormwater Assessment Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 293,473	\$ 293,473	\$ 294,410	\$ 937
Use of money and property	-	-	6,904	6,904
<b>Total revenues</b>	<u>293,473</u>	<u>293,473</u>	<u>301,314</u>	<u>7,841</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	274,587	283,199	348,528	(65,329)
<b>Total expenditures</b>	<u>274,587</u>	<u>283,199</u>	<u>348,528</u>	<u>(65,329)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ 18,886</u>	<u>\$ 10,274</u>	(47,214)	<u>\$ (57,488)</u>
<b>FUND BALANCE:</b>				
Beginning of year			297,217	
End of year			<u>\$ 250,003</u>	

**City of Hercules**

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

**Developer Park Fees Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 2,358	\$ 2,358
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>2,358</u>	<u>2,358</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>-</u>	<u>-</u>	<u>2,358</u>	<u>2,358</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	1,028,150	1,028,150
Transfers out	-	(666,369)	(666,369)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(666,369)</u>	<u>361,781</u>	<u>1,028,150</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ -</u>	<u>\$ (666,369)</u>	<u>364,139</u>	<u>\$ 1,030,508</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>97,862</u>	
End of year			<u>\$ 462,001</u>	

# City of Hercules

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

### Fire Equipment Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	55	(55)
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>55</u>	<u>(55)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(55)</u>	<u>\$ (55)</u>
<b>FUND BALANCE:</b>				
Beginning of year			3,897	
End of year			<u>\$ 3,842</u>	

# City of Hercules

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

### DIF Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 80,133	\$ 80,133
Charges for services	5,651,042	5,651,042	2,000,755	(3,650,287)
<b>Total revenues</b>	<u>5,651,042</u>	<u>5,651,042</u>	<u>2,080,888</u>	<u>(3,570,154)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	109,355	(109,355)
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>109,355</u>	<u>(109,355)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>5,651,042</u>	<u>5,651,042</u>	<u>1,971,533</u>	<u>(3,570,154)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	1,971,850	1,971,850
Transfers out	-	-	(5,403)	(5,403)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>1,966,447</u>	<u>1,966,447</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ 5,651,042</u>	<u>\$ 5,651,042</u>	<u>3,937,980</u>	<u>\$ (1,603,707)</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,849,452	
End of year			<u>\$ 5,787,432</u>	

**City of Hercules**

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

**Regional Water Quality Fee Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 788	\$ 788
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>788</u>	<u>788</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	788	<u>\$ 788</u>
<b>FUND BALANCE:</b>				
Beginning of year			37,341	
End of year			<u>\$ 38,129</u>	

City of Hercules

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

LLAD Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 271,060	\$ 271,060	\$ 623,686	\$ 352,626
Use of money and property	-	-	14,068	14,068
<b>Total revenues</b>	<u>271,060</u>	<u>271,060</u>	<u>637,754</u>	<u>366,694</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	277,004	586,971	335,339	251,632
<b>Total expenditures</b>	<u>277,004</u>	<u>586,971</u>	<u>335,339</u>	<u>251,632</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ (5,944)</u>	<u>\$ (315,911)</u>	302,415	<u>\$ 618,326</u>
<b>FUND BALANCE:</b>				
Beginning of year			477,220	
End of year			<u>\$ 779,635</u>	

# City of Hercules

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

### Citywide L&L Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 1,025,000	\$ 1,025,000	\$ 995,069	\$ (29,931)
Use of money and property	-	-	8,483	8,483
Other revenues	-	-	-	-
<b>Total revenues</b>	<u>1,025,000</u>	<u>1,025,000</u>	<u>1,003,552</u>	<u>(21,448)</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	1,182,664	1,226,816	996,771	230,045
<b>Total expenditures</b>	<u>1,182,664</u>	<u>1,226,816</u>	<u>996,771</u>	<u>230,045</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ (157,664)</u>	<u>\$ (201,816)</u>	6,781	<u>\$ 208,597</u>
<b>FUND BALANCE:</b>				
Beginning of year			182,314	
End of year			<u>\$ 189,095</u>	

# City of Hercules

## Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Fiscal Neutrality Fee Special Revenue Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 48,863	\$ 48,863	\$ 55,345	\$ 6,482
Charges for services	-	-	165,060	165,060
<b>Total revenues</b>	<u>48,863</u>	<u>48,863</u>	<u>220,405</u>	<u>171,542</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>48,863</u>	<u>48,863</u>	<u>220,405</u>	<u>171,542</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(48,863)	(48,863)	(48,863)	-
<b>Total other financing sources (uses)</b>	<u>(48,863)</u>	<u>(48,863)</u>	<u>(48,863)</u>	<u>-</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>171,542</u>	<u>\$ 171,542</u>
<b>FUND BALANCE:</b>				
Beginning of year			2,122,844	
End of year			<u>\$ 2,294,386</u>	

# City of Hercules

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

### Grant Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ -	\$ -	\$ 9,626	\$ 9,626
Other revenues	-	-	336,540	336,540
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>346,166</b>	<b>346,166</b>
<b>EXPENDITURES:</b>				
General government	-	-	70	(70)
Capital outlay	-	-	2,279	(2,279)
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>2,349</b>	<b>(2,349)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>343,817</b>	<b>343,817</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(340,383)	(340,383)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(340,383)</b>	<b>(340,383)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>3,434</b>	<b>\$ 3,434</b>
<b>FUND BALANCE:</b>				
Beginning of year			(1,616)	
End of year			\$ 1,818	

# City of Hercules

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

### City Capital Project Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ -	\$ -	\$ 1,111,497	\$ 1,111,497
Other revenues	-	-	14,500	14,500
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>1,125,997</b>	<b>1,125,997</b>
<b>EXPENDITURES:</b>				
Current				
General government	-	-	1,891	(1,891)
Capital outlay	134,000	12,567,869	8,591,248	3,976,621
<b>Total expenditures</b>	<b>134,000</b>	<b>12,567,869</b>	<b>8,593,139</b>	<b>3,974,730</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(134,000)</b>	<b>(12,567,869)</b>	<b>(7,467,142)</b>	<b>5,100,727</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	3,000,000	4,686,369	2,188,662	(2,497,707)
Transfers out	-	-	(3,000,000)	(3,000,000)
<b>Total other financing sources (uses)</b>	<b>3,000,000</b>	<b>4,686,369</b>	<b>(811,338)</b>	<b>(5,497,707)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 2,866,000</b>	<b>\$ (7,881,500)</b>	<b>(8,278,480)</b>	<b>\$ (396,980)</b>
<b>FUND BALANCE:</b>				
Beginning of year			3,557,975	
End of year			\$ (4,720,505)	

# City of Hercules

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

### General Obligation Bond Debt Service Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ 857	\$ 857
Use of money and property	-	-	-	-
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>857</u>	<u>857</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>-</u>	<u>-</u>	<u>857</u>	<u>857</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(588)	(588)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(588)</u>	<u>(588)</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>269</u>	<u>\$ 269</u>
<b>FUND BALANCE:</b>				
Beginning of year			(269)	
End of year			<u>\$ -</u>	

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## INTERNAL SERVICE FUNDS

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

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

**City of Hercules**  
**Statement of Net Assets**  
**Internal Service Fund**  
**For the year ended June 30, 2006**

	Vehicle Replacement	IT Equipment Replacement	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 992,145	\$ 285,611	\$ 1,277,756
Total current assets	992,145	285,611	1,277,756
Capital assets:			
Depreciable assets, net	487,769	188,790	676,559
Total assets	1,479,914	474,401	1,954,315
<b>LIABILITIES</b>			
Accounts payable	1,456	5,215	6,671
Accrued payroll liabilities	-	3,982	3,982
Compensated absences payable	-	9,177	9,177
Total liabilities	1,456	18,374	19,830
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	487,769	188,790	676,559
Unrestricted	990,689	267,237	1,257,926
Total net assets	\$ 1,478,458	\$ 456,027	\$ 1,934,485

**City of Hercules**  
**Statement of Activities and Changes in Net Assets**  
**Internal Service Fund**  
**For the year ended June 30, 2006**

	Vehicle Replacement	IT Equipment Replacement	Total
<b>OPERATING REVENUES:</b>			
Use of money & property	\$ 26,000	\$ -	\$ 26,000
Charges for services	175,428	364,959	540,387
<b>Total operating revenues</b>	<b>201,428</b>	<b>364,959</b>	<b>566,387</b>
<b>OPERATING EXPENSES:</b>			
Administration	-	289,938	289,938
Depreciation	152,780	52,439	205,219
<b>Total operating expenses</b>	<b>152,780</b>	<b>342,377</b>	<b>495,157</b>
<b>OPERATING INCOME (LOSS)</b>	<b>48,648</b>	<b>22,582</b>	<b>71,230</b>
<b>OTHER FINANCING SOURCES:</b>			
Loss on disposal of assets	(8,680)	-	(8,680)
Transfers in	66,893	-	66,893
<b>Total other financing sources before capital contribution</b>	<b>58,213</b>	<b>-</b>	<b>58,213</b>
Capital contribution	-	18,433	18,433
<b>Change in net assets</b>	<b>106,861</b>	<b>41,015</b>	<b>147,876</b>
<b>NET ASSETS:</b>			
Beginning of year	1,371,597	415,012	1,786,609
End of year	<b>\$ 1,478,458</b>	<b>\$ 456,027</b>	<b>\$ 1,934,485</b>

**City of Hercules**  
**Combining Statement of Fiduciary Net Assets**  
**Fiduciary Fund - Pension Trust Fund**  
**For the year ended June 30, 2006**

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	Pension Trust Fund
<b>ASSETS</b>	
Cash and investments	\$ 47,756
<b>Total assets</b>	<u>47,756</u>
<b>LIABILITIES</b>	
Accounts payable	<u>1,056</u>
<b>Total net assets</b>	<u>1,056</u>
<b>NET ASSETS</b>	
Unrestricted	<u>46,700</u>
<b>Total net assets</b>	<u>\$ 46,700</u>

**City of Hercules**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Fund - Pension Trust Fund**  
**For the year ended June 30, 2006**

	Pension Trust Fund
<b>ADDITIONS:</b>	
Investment earnings:	
Interest	\$ 1,007
<b>Total additions</b>	<u>1,007</u>
<b>DEDUCTIONS:</b>	
Administration	3,108
<b>Total deductions</b>	<u>3,108</u>
<b>Change in net assets</b>	(2,101)
<b>NET ASSETS:</b>	
Beginning of year	48,801
End of year	<u>\$ 46,700</u>

**City of Hercules**  
**Combining Statement of Changes in Assets and Liabilities**  
**Fiduciary Funds - Agency Funds**  
**For the year ended June 30, 2006**

	Balance July 1, 2005	Net Changes in Assets and Liabilities	Balance June 30, 2006
<b><u>WESTCAT TRANSIT</u></b>			
<b>Assets:</b>			
Cash and investments	\$ (4,756)	\$ 1,223	\$ (3,533)
<b>Total assets</b>	<b>\$ (4,756)</b>	<b>\$ 1,223</b>	<b>\$ (3,533)</b>
<b>Liabilities:</b>			
Due to other governments	\$ (4,756)	\$ 1,223	\$ (3,533)
<b>Total liabilities</b>	<b>\$ (4,756)</b>	<b>\$ 1,223</b>	<b>\$ (3,533)</b>
<b><u>WEST CONTRA COSTA INTEGRATED WASTE MANAGEMENT AUTHORITY</u></b>			
<b>Assets:</b>			
Cash and investments	\$ 4,497,823	\$ 1,288,687	\$ 5,786,510
Accounts receivable	317,153	(18,136)	299,017
Prepaid expense	316	12,058	12,374
Notes receivable	277,737	(135,813)	141,924
<b>Total assets</b>	<b>\$ 5,093,029</b>	<b>\$ 1,146,796</b>	<b>\$ 6,239,825</b>
<b>Liabilities:</b>			
Accounts payable	\$ 143,635	\$ 658,072	\$ 801,707
Compensated absences	10,685	1,026	11,711
Due to other governments	4,938,709	487,698	5,426,407
<b>Total liabilities</b>	<b>\$ 5,093,029</b>	<b>\$ 1,146,796</b>	<b>\$ 6,239,825</b>
<b><u>REASSESSMENT DISTRICT 91-1</u></b>			
<b>Assets:</b>			
Cash and investments	\$ 296,489	\$ 7,546	\$ 304,035
<b>Total assets</b>	<b>\$ 296,489</b>	<b>\$ 7,546</b>	<b>\$ 304,035</b>
<b>Liabilities:</b>			
Due to other governments	\$ 296,489	\$ 7,546	\$ 304,035
<b>Total liabilities</b>	<b>\$ 296,489</b>	<b>\$ 7,546</b>	<b>\$ 304,035</b>
<b><u>REASSESSMENT DISTRICT 05-01</u></b>			
<b>Assets:</b>			
Cash and investments	\$ -	\$ 249,268	\$ 249,268
Cash and investments with fiscal agents	-	6,263,086	6,263,086
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 6,512,354</b>	<b>\$ 6,512,354</b>
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 7,625	\$ 7,625
Due to bondholders	-	6,504,729	6,504,729
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 6,512,354</b>	<b>\$ 6,512,354</b>

(Continued)

# City of Hercules

## Combining Statement of Changes in Assets and Liabilities, Continued

### Fiduciary Funds - Agency Funds

For the year ended June 30, 2006

	Balance July 1, 2005	Net Changes in Assets and Liabilities	Balance June 30, 2006
<b><u>A. NOBEL REASSESSMENT DISTRICT</u></b>			
<b>Assets:</b>			
Cash and investments	\$ 852,322	\$ 205,718	\$ 1,058,040
Cash and investments with fiscal agents	838,070	33,975	872,045
<b>Total assets</b>	<b>\$ 1,690,392</b>	<b>\$ 239,693</b>	<b>\$ 1,930,085</b>
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 2,165	\$ 2,165
Due to bondholders	1,690,392	237,528	1,927,920
<b>Total liabilities</b>	<b>\$ 1,690,392</b>	<b>\$ 239,693</b>	<b>\$ 1,930,085</b>
<b><u>Taylor Woodrow Maintenance LMOD</u></b>			
<b>Assets:</b>			
Cash and investments	\$ 50,496	\$ 1,287	\$ 51,783
<b>Total assets</b>	<b>\$ 50,496</b>	<b>\$ 1,287</b>	<b>\$ 51,783</b>
<b>Liabilities:</b>			
Due to bondholders	\$ 50,496	\$ 1,287	\$ 51,783
<b>Total liabilities</b>	<b>\$ 50,496</b>	<b>\$ 1,287</b>	<b>\$ 51,783</b>
<b><u>Hercules Community Library</u></b>			
<b>Assets:</b>			
Cash and investments	\$ 120,815	\$ 124,655	\$ 245,470
<b>Total assets</b>	<b>\$ 120,815</b>	<b>\$ 124,655</b>	<b>\$ 245,470</b>
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 4,300	\$ 4,300
Due to bondholders	120,815	120,355	241,170
<b>Total liabilities</b>	<b>\$ 120,815</b>	<b>\$ 124,655</b>	<b>\$ 245,470</b>
<b><u>Hercules Golf Club</u></b>			
<b>Assets:</b>			
Cash and investments	\$ 7,249	\$ 2,466	\$ 9,715
Accounts receivable	-	74	74
<b>Total assets</b>	<b>\$ 7,249</b>	<b>\$ 2,540</b>	<b>\$ 9,789</b>
<b>Liabilities:</b>			
Accounts payable	\$ 4,019	\$ (3,361)	\$ 658
Due to bondholders	3,230	5,901	9,131
<b>Total liabilities</b>	<b>\$ 7,249</b>	<b>\$ 2,540</b>	<b>\$ 9,789</b>

(Concluded)

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## STATISTICAL INFORMATION

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

<b>Contents</b>	<b>Page</b>
Financial Trends	123 - 128

*These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.*

Revenue Capacity	129 - 132
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*These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.*

Debt Capacity	133 - 139
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*These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.*

Demographic and Economic Information	140 - 141
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*These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.*

Operating Information	142 - 144
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*These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.*

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

	Fiscal Year		
	2004	2005	2006
<b>Governmental activities:</b>			
Invested in capital assets, net of related debt	\$ 8,579	\$ 25,731	(11,063)
Restricted	18,255	37,692	61,752
Unrestricted	31,913	13,589	36,881
<b>Total Governmental Activities</b>	<b>\$ 58,748</b>	<b>\$ 77,012</b>	<b>87,571</b>
<b>Business-type activities:</b>			
Invested in capital assets, net of related debt	\$ 4,762	\$ 5,780	8,009
Restricted	236	236	236
Unrestricted	75	1,486	1,692
<b>Total Business-type activities</b>	<b>\$ 5,073</b>	<b>\$ 7,503</b>	<b>9,938</b>
<b>Primary government:</b>			
Invested in capital assets, net of related debt	\$ 13,341	\$ 31,511	(3,053)
Restricted	18,492	37,928	61,989
Unrestricted	31,988	15,076	38,573
<b>Total primary government</b>	<b>\$ 63,820</b>	<b>\$ 84,515</b>	<b>97,508</b>

Source: CAFR 2004, 2005, and 2006

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

	Fiscal Year		
	2004	2005	2006
<b>Expenses</b>			
Governmental Activities:			
General government	\$ 6,203	\$ 8,392	4,104
Public safety	3,583	3,897	4,664
Public works	3,261	7,452	4,204
Community development	1,288	2,138	10,623
Parks and recreation	1,735	2,156	2,243
Interest on long-term debt (Unallocated)	1,472	2,447	3,510
<b>Total governmental activities expense</b>	<b>17,543</b>	<b>26,482</b>	<b>29,348</b>
Business-type activities			
Sewer	1,845	1,836	2,112
Hercules Municipal Utility Fund	974	1,486	2,320
<b>Total business-type activities expense</b>	<b>2,819</b>	<b>3,322</b>	<b>4,432</b>
<b>Total primary government expenses</b>	<b>\$ 20,361</b>	<b>\$ 29,804</b>	<b>33,780</b>
<b>Program Revenues</b>			
Governmental activities:			
Charges for services			
General government	\$ 254	\$ 559	175
Community development	6,301	4,904	3,791
Parks and recreation	1,013	1,307	1,425
Other activities	547	323	241
Operating grants and contributions	503	1,307	32
Capital grants and contributions	47	15,111	6,416
<b>Total governmental activities program revenues</b>	<b>8,666</b>	<b>23,510</b>	<b>12,080</b>
Business-type activities:			
Charges for services			
Sewer	2,461	2,762	3,163
Hercules Municipal Utility Fund	546	1,415	1,701
Capital grants and contributions	-	838	0
<b>Total business-type activities program revenues</b>	<b>3,007</b>	<b>5,014</b>	<b>4,864</b>
<b>Total primary government program revenues</b>	<b>\$ 11,673</b>	<b>\$ 28,525</b>	<b>\$ 16,944</b>

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

	Fiscal Year		
	2004	2005	2006
<b>Net (expense)/revenue:</b>			
Governmental activities	\$ (8,877)	\$ (2,972)	\$ (17,268)
Business-type activities	188	1,692	432
<b>Total primary government net expense</b>	<b>\$ (8,689)</b>	<b>\$ (1,280)</b>	<b>\$ (16,836)</b>
<b>General Revenue and Other Changes in Net Assets</b>			
Governmental activities:			
Property taxes	\$ 9,130	\$ 12,144	13,478
Sales and other taxes	4,780	6,020	6,856
Investment earnings	(199)	2,638	3,439
Miscellaneous	(225)	1,889	3,855
Loss on sale of assets	-	(717)	(9)
Transfers	(543)	(738)	(2,003)
<b>Total Governmental activities</b>	<b>12,944</b>	<b>21,236</b>	<b>25,616</b>
Business-type activities			
Investment earnings			
Transfers	543	738	2,003
<b>Total business-type activities</b>	<b>543</b>	<b>738</b>	<b>2,003</b>
<b>Total primary government</b>	<b>\$ 13,487</b>	<b>\$ 21,974</b>	<b>\$ 27,619</b>
<b>Change in Net Assets</b>			
Governmental activities	\$ 4,067	\$ 18,264	\$ 8,348
Business-type activities	731	2,430	2,435
<b>Total primary government</b>	<b>\$ 4,798</b>	<b>\$ 20,695</b>	<b>\$ 10,783</b>

Source: CAFR 2004, 2005, and 2006

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

Fiscal Year	Property Tax	Utility Users Tax	Sales Tax	Gas Tax	Franchise Tax	Transfer Tax	Transportation Tax	Business License Tax	Total
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	20,334

<sup>1</sup> Gas tax and Transportation tax shown in CAFR as intergovernmental, and Business License Tax as Licenses and Permits. reported in the CAFR as tax was intergovernmental.

Source: City of Hercules

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

	Fiscal Year		
	2004	2005	2006
<b>General Fund</b>			
Reserved	\$ 14,724	\$ 14,548	14,262
Unreserved	9,784	12,190	11,810
<b>Total General Fund</b>	<b>\$ 24,508</b>	<b>\$ 26,738</b>	<b>\$ 26,072</b>
<b>All other governmental funds</b>			
Reserved	\$ 26,518	\$ 28,183	63,618
Unreserved, reported in:			
Special revenue funds	5,118	2,449	6,608
Redevelopment Agency	(8,738)	(10,393)	(4,807)
<b>Total all other governmental funds</b>	<b>\$ 22,898</b>	<b>\$ 20,239</b>	<b>\$ 65,420</b>

Source: CAFR 2004, 2005, 2006

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

	Fiscal Years		
	2004	2005	2006
<b>Revenues</b>			
Taxes	\$ 11,050	\$ 16,303	\$ 18,550
Intergovernmental	1,570	3,264	3,084
Licenses and permits	1,876	1,086	753
Fines and forfeitures	57	57	64
Use of money and property	443	2,685	3,439
Charges for services	6,430	5,407	4,665
Lease income	315	532	920
Other revenues	1,107	1,650	1,355
<b>Total Revenues</b>	<b>22,850</b>	<b>30,983</b>	<b>32,829</b>
<b>Expenditures</b>			
General government	5,798	8,176	3,792
Public safety	3,536	3,809	4,654
Public works	1,896	1,553	2,266
Community development	1,288	1,155	10,637
Parks and recreation	1,564	1,944	2,116
Capital outlay	3,170	5,469	9,568
Lease expense	315	532	920
Debt service			
Principal	4,370	4,287	438
Interest	1,381	2,256	3,120
Bond issuance cost	706	-	1,079
<b>Total Expenditures</b>	<b>24,025</b>	<b>29,182</b>	<b>38,591</b>
<b>Excess of revenues</b>			
<b>over (under) expenditures</b>	\$ (1,175)	\$ 1,802	\$ (5,762)
<b>Other financing sources (uses)</b>			
Issuance of bonds	-	-	56,260
Premium from Issuance	-	-	2,176
Refunding Payment to escrow	-	-	(6,351)
Capital Contributions to HMU	-	-	-
Proceeds from long-term debt	9,150	-	-
Transfers in	5,105	4,418	20,258
Transfers out	(5,694)	(6,648)	(22,328)
<b>Total other financing sources (uses)</b>	<b>8,561</b>	<b>(2,231)</b>	<b>50,015</b>
<b>Net change in fund balances</b>	<b>\$ 7,386</b>	<b>\$ (429)</b>	<b>\$ 44,253</b>
Debt as a percentage of noncapital expenditures	30.96%	27.59%	15.98%

Source: CAFR 2004, 2005, 2006

# City of Hercules

## Assessed Value and Estimated Actual Value of Taxable Property

### Current Year

(amounts expressed in thousands)

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Fiscal Year Ended June 30	Real Property	Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
2004	\$ 1,970,445	\$ 30,814	\$ 59,112	\$ 1,942,148	1.2434
2005	2,410,917	29,865	65,569	2,375,214	1.2448
2006	2,821,941	35,128	82,382	2,774,687	1.2340

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

Source: Stephen J. Ybarra, Auditor of the County of Contra Costa

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

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Fiscal Year	Basic Countywide Tax	Town of Hercules	Bart	East Bay Regional Park	Martinez USD	West Contra Costa USD	John Swett School	Community College
2004	1.0000	-	0.0000	0.0057	0.1000	0.1064	0.0275	0.0038
2005	1.0000	-	0.0000	0.0057	0.0923	0.1153	0.0273	0.0042
2006	1.0000	-	0.0048	0.0057	0.0904	0.1041	0.0246	0.0047

**City of Hercules**  
**Principal Property Taxpayers**  
**June 30, 2006**  
(amounts expressed in thousands)

Taxpayer	2006			2004		
	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value
Bio-Rad Laboratories	\$ 111,608	1	4.02%	\$ 74,766	1	4.31%
Greenparks/Sage Franklin Canyon	24,801	2	0.89%			
Eden Victoria LP	17,651	3	0.64%			
HD Development of Maryland	16,264	4	0.59%			
Three Trees Holdings LLC	11,015	5	0.40%	5,899	8	0.34%
Rago Development Corporation	8,435	6	0.30%			
Tulloch Brian	7,708	7	0.28%			
Lewis - Hercules LLC	7,435	8	0.27%			
Orinda Investors LP	6,129	9	0.22%			
Dathe Robert P. & Charlotta R.	6,065	10	0.22%	5,837	9	0.34%
Uy Gary Z./Marissa C.				35,610	2	2.05%
WL Homes Bayside LLC				21,328	3	1.23%
LCRI Investments LLC				10,601	4	0.61%
Freitas Diana				10,223	5	0.59%
Padua Roderick/Pilling V.				8,118	6	0.47%
Koziol Dave				6,108	7	0.35%
Serb Andres C. & Janet C.				5,709	10	0.33%
All others	2,557,576		92.18%	1,548,741		89.37%
<b>Total</b>	<b>\$ 2,774,687</b>		<b>100.00%</b>	<b>\$ 1,732,941</b>		<b>100.00%</b>

Source: Contra Costa County Assessors Office

**City of Hercules**  
**Property Tax Levies and Collections**  
**Last Three 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 <sup>1</sup>		Collections in Subsequent Years <sup>1</sup>	Total Collections to Date	
		Amount	Percentage		Amount	Percentage
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%

<sup>1</sup>Teeter Plan

Source: City of Hercules

**City of Hercules**  
**Ratios of General Bonded Debt Outstanding**  
**Last Three Fiscal Years**

(amounts expressed in thousands, except per capita amount)

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Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
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The City of Hercules has no debt of this type, so this schedule is not required.

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

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Labor Force	Unemployment Rate
2004	21,814	n/a	n/a	11,100	4.0%
2005	23,360	n/a	n/a	11,300	3.3%
2006	23,834	n/a	n/a	11,200	2.9%

Notes: <sup>1</sup> Annual Average. Source is EDD

<sup>2</sup> At June 30

<sup>3</sup> Information for Contra Costa County - City information not available.

Source is California Statistical Abstract.

<sup>4</sup> Information will be provided for these years in later reports. Source: California Statistical Abstract, Tables D-8 and D-9

<sup>5</sup> Source: California Statistical Abstract Table B-4

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

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

Employer	2006			2005		
	Employees	Rank	Percentage of Total City Employment <sup>1</sup>	Employees	Rank	Percentage of Total City Employment
Bio-Rad	1118	1	24.44%	1700	1	37.17%
Mechanics Bank	195	2	4.26%	211	3	4.61%
Home Depot	140	3	3.06%	150	4	3.28%
Hercules Middle/High School	120	4	2.62%	0		
Contra Costa County	115	5	2.51%	275	2	6.01%
Albertsons/Sav-On	85	6	1.86%	75	5	1.64%
A&B Diecast	74	7	1.62%	50		
Northview Pacific Laboratories	60	8	1.31%	50	9	1.09%
Ohlone Elementary School	50	9	1.09%	59	8	1.29%
Bit Lots	39	10	0.85%			
Franklin Canyon Golf Course	35	11	0.77%	50	9	1.09%
Histopathology Reference Lab	33	12	0.72%	50	9	1.09%
Pro Media	30	13	0.66%	45		
Shields Nursing Center Inc	10	14	0.22%	72	6	1.57%
Thru Lite Care Provider Center	0	15	0.00%	72	6	1.57%
Radsons Office Plus		16		26		

<sup>1</sup>Note: Total City Employment figures not available for 2001

Source: California Employment Development Department

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

Function	Fiscal Year		
	2004	2005	2006
Public Safety			
Police			
Stations	1	1	1
Patrol units	18	18	18
Public Works			
Streets (miles)	56	57	57
Streetlights	1800	1800	1800
Traffic Lights	8	12	12
Sanitary Sewers (miles)	58	58	58
Parks and Recreation			
Parks acreage	104.5	104.5	104.5
Parks	8	8	9
Swimming pools	1	1	1

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