

CITY OF HERCULES
CALIFORNIA

ANNUAL FINANCIAL REPORT

For the fiscal year ended
June 30, 2007

CITY OF HERCULES
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For the fiscal year ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules (City), California, as of and for the fiscal year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hercules, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with the *Government Auditing Standards*, we have also issued a report dated June 6, 2008, on our consideration of the City of Hercules' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
June 6, 2008

CITY OF HERCULES

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2007

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, 2007. 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 \$104.3 million. Of this amount \$5.4 million was invested in capital assets net of related debt. There are restricted funds of \$79.2 million for capital projects, debt service and other. The remaining \$19.7 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 \$ 14.1 million for the year including a prior period adjustment of negative \$.5 million, representing a \$16.7 million increase in Governmental and a \$ 2.6 million decrease in Business-Type Activities. The majority of the increase in the Governmental Activities came from the City's cash and investments and the Redevelopment Agency having taxes and assessment revenue more than sufficient to cover the Agency expenses, including debt service and capital outlay. There was a prior period adjustment of \$4.1 million on Statement of Activities for Governmental Activities for an understatement of accounts receivables \$171,500, understatement of deferred charges \$52,859, an understatement of interest payable (\$781,724) and an understatement of advances to other funds \$4,625,014. In addition a negative \$4.6 million was made on the Statement of Activities for Business-type Activities for an understatement of advances from other funds.
- As of the close of the fiscal year, the City's Governmental funds, including the general, special revenue, debt service, capital projects, redevelopment and public financing funds, reported combined ending fund balances of \$93.2 million, an increase of \$1.7 million in comparison with the prior year, which includes a prior period adjustment of \$4.8 million. There is \$2.7 million in the Total Unreserved, Undesignated Fund Balance unavailable for spending at the government's discretion on operating activities and capital projects.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$9.6 million, or 68 percent of total General Fund expenditures/transfers out for the year.
- Total net bonded debt decreased by \$1.2 million during the fiscal year. The decrease was due to the normal annual principal payments on the 2005 tax allocation bonds for the Redevelopment Agency (RDA), 2003A PFA Lease Revenue Bonds, 2003B PFA Lease Revenue Bonds, H.E.L.P Loan and other Long-Term Notes.
- During the fiscal year, the Governmental-Wide Financial Statements' total revenues of \$50 million exceeded total expenses of \$35.3 million, by \$14.7 million. The expenses are slightly higher (4.6%) than expenses for the prior fiscal year. The expense increases are the result of increased operating and maintenance costs for the shared Waste Water Treatment Plant and increased interest expense due to two interest payments for the 2005 Tax Allocation Bonds as opposed to one interest payment in the prior fiscal year. The electric utility enterprise fund also had interest expense associated with the Public Financing Authority Lease Revenue Bond which was not reflected in the prior fiscal year financials. The program revenues, which come from charges for services, operating and capital grants and contributions, increased by 12.1% from the previous year. The revenue increases were primarily due to the investment in distribution system and contributed infrastructure in the business-type activities.

CITY OF HERCULES

Management's Discussion and Analysis *Fiscal Year Ended June 30, 2007*

B. OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The basic financial statements include the City (primary government) and all legally separate entities (component units) for which the government is financially accountable. The City's component units consist of the following: the City of Hercules Redevelopment Agency (RDA), and the Hercules Public Financing Authority (PFA). These component units are, for practical purposes, departments of the City and have been included in the basic financial statements as an integral part of the primary government using the blended method. However, there are also independent financial reports for each of the component units. The City also has a relatively new electric utility, the Hercules Municipal Utility (HMU); an enterprise fund for which is required, for full financial disclosure reasons, a separate financial report is 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.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

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.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Fund Financial Statements, Continued

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

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements, this report also presents certain Required Supplementary Information (RSI) including the City's budgetary comparison schedules for the General Fund and the other major special revenue funds, 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, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the City's financial position. At the 2006-2007 fiscal year end, net assets of the City were \$111.6 million, which is an increase of \$14.1 million from the prior year. The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2007 and 2006.

	Governmental Activities		Business-type Activities		Total		Total % Change
	2007	2006	2007	2006	2007	2006	
Assets:							
Current Assets	\$ 101.6	\$ 96.7	\$ (3.5)	\$ 6.3	\$ 98.1	\$ 103.0	(4.8)%
Other Assets	8.0	10.2	0.1	(3.0)	8.1	7.2	12.5 %
Capital Assets, Net	76.2	63.4	12.6	7.6	88.8	71.0	25.1 %
Total Assets	\$ 185.8	\$ 170.3	\$ 9.2	\$ 10.9	\$ 195.0	\$ 181.2	7.6 %
Liabilities:							
Current Liabilities	\$ 9.9	\$ 9.7	\$ 1.9	\$ 1.0	\$ 11.8	\$ 10.7	10.3 %
Other Liabilities	0.2	0.1	0.0	0.0	0.2	0.1	100.0 %
Long-term Liabilities	71.4	72.9	0.0	0.0	71.5	72.9	(2.0)%
Total Liabilities	\$ 81.5	\$ 82.7	\$ 1.9	\$ 1.0	\$ 83.4	\$ 83.7	(0.4)%
Net Assets:							
Invested in Capital							
Net of Related Debt	\$ 5.4	\$ (11.1)	\$ 12.8	\$ 8.0	\$ 18.2	\$ (3.1)	(687.1)%
Restricted	79.2	61.8	-	0.2	79.2	62.0	27.7 %
Unrestricted	19.7	36.9	(5.5)	1.7	14.2	38.6	(63.2)%
Total Net Assets	\$ 104.3	\$ 87.6	\$ 7.3	\$ 9.9	\$ 111.6	\$ 97.5	14.5 %

At June 30, 2007, the City's Current Assets and Capital Assets increasing significantly over the previous year primarily due to routine acquisition of capital assets, and the availability of more taxes and assessments to cover City expenditures, including debt service and capital outlay. Investment in Capital Assets Net of Related Debt represents a 16% 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 71.0 % is subject to restrictions imposed by the City or by external parties and their use is determined by those restrictions and agreements. The remainder of net assets, or \$14.2 million, may be used to meet the City's ongoing operations.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued*

Statement of Net Assets, *Continued*

City of Hercules
Comparative Analysis of Net Assets
June 30, 2007 and 2006
(Amount in Millions)

	2007	2006	Change \$	Change %
Net Assets:				
Investment in Capital Assets, Net of Related Debt	\$ 18.2	\$ (3.1)	\$ 21.3	(687.1)%
Restricted	79.2	62.0	17.2	27.7 %
Unrestricted	14.2	38.6	(24.4)	(63.2)%
Total Net Assets	\$ 111.6	\$ 97.5	\$ 14.2	14.5 %

The increase of \$21.3 million in the City's Investment in Capital Assets Net of Related Debt was due to the routine acquisition of capital assets, and the availability of more taxes and assessments to cover City expenditures, including debt service and capital outlay. There was an increase in restricted net assets of \$17.2 million primarily due to proceeds of long-term debt restricted for acquisition of capital assets and specific projects and programs.

The City's unrestricted net assets decreased by \$ 24.4 million. This decrease was primarily due to more projects and programs being restricted for specific use.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

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, 2007 and 2006.

	Governmental Activities		Business-type Activities		Total		Total % Change
	2007	2006	2007	2006	2007	2006	
Revenues:							
Program Revenues	\$ 11.8	\$ 12.1	\$ 7.2	\$ 4.9	\$ 19.0	\$ 17.0	11.8 %
General Revenues	30.7	27.6	0.3	0.0	31.0	27.6	12.3 %
Total Revenues	\$ 42.5	\$ 39.7	\$ 7.5	\$ 4.9	\$ 50.0	\$ 44.6	12.1 %
Expenses	29.9	29.3	5.5	4.4	35.3	33.8	4.4 %
Increase in Net Assets before Transfers	\$ 12.6	\$ 10.4	\$ 2.0	\$ 0.4	\$ 14.6	\$ 10.8	35.2 %
Transfers	0.0	(2.0)	(0.0)	2.0	-	-	-
Increase in Net Assets	\$ 12.6	\$ 8.4	\$ 2.0	\$ 2.4	\$ 14.6	\$ 10.8	35.2 %
Net Assets - Beginning	87.6	77.0	9.9	7.5	97.5	84.5	15.4 %
Adjustments	4.1	2.2	(4.6)	0.0	(0.6)	2.2	(127.2)%
Net Assets - Ending	<u>\$ 104.3</u>	<u>\$ 87.6</u>	<u>\$ 7.3</u>	<u>\$ 9.9</u>	<u>\$ 111.6</u>	<u>\$ 97.5</u>	14.5 %

Governmental Activities:

The City's governmental activities increased net assets by \$16.7 million, which was up 19% from last year. Key elements of this change were as follows:

Revenue highlights:

- In the General Revenues category, Property, Sales and Other Tax revenues increased by \$3.19 million in fiscal year 2006-2007 when compared to fiscal year 2005-2006 due to higher assessed property values and new construction primarily in the redevelopment merged project area. Investment earnings and miscellaneous revenues were down \$0.1 million. Interest earnings were up by \$1 million from 2005-2006 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 \$4.1 million that was to account for understatement of accounts receivable \$171,500, understatement of deferred charges \$52,859, an understatement of interest payable (\$781,724) and an understatement of advances to other funds \$4,625,014. As a result, total net assets increased by \$16.7 million (\$12.7 million for the current year and \$4.1 million for the prior year adjustment).

CITY OF HERCULES

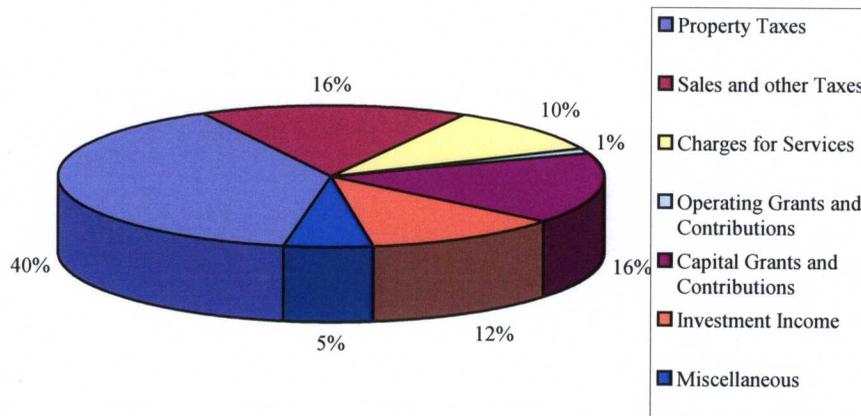
Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

- A decrease of \$.2 million in Program Revenues was due to a \$1.2 million drop in charges for services, a \$.6 million increase in contributed infrastructure from developers and \$.4 million increase in grants and other contributions.

Governmental Activities
Revenues by Source
June 30, 2007



Expense highlights:

Total expenses for governmental activities were \$25.8 million (not including interest on long-term debt of roughly \$4.1 million), which was approximately the same as previous year. Program revenues offset total expenditures as follows:

- Those who directly benefited from programs contributed \$4.4 million in charges for services, a decrease of \$1.2 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 \$7.4 million.

The City received grants totaling \$.4 million from the Bay Area Quality Management District to assist in the street maintenance program, from the State of California to assist in the completion of the new library, mini grants for post recovery and bullet proof vests, and a federal grant from the U.S. Department of Justice, all of which was spent in 2006-2007 fiscal year.

As a result, total expenditures that were funded by tax revenues, investment income and other general revenues amounted to \$30.7 million.

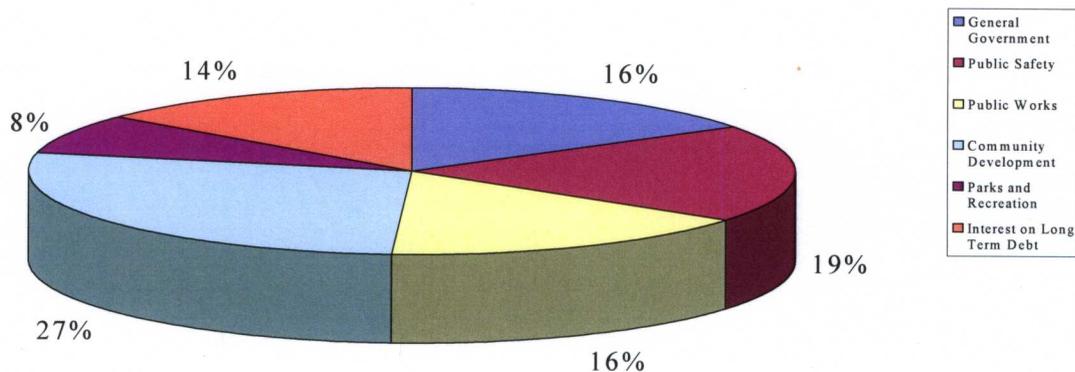
CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

Governmental Activities Expenses by Function/Program June 30, 2007



Functional expenses for the years ended June 30, 2007 and 2006 were as follows (amount in millions):

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2007	2006	2006-2007	2007	2006	2006-2007
General Government	\$ 4.7	\$ 4.1	14.6 %	\$ (1.0)	\$ 2.8	(135.7)%
Public Safety	5.6	4.7	19.1 %	5.1	4.4	15.9 %
Public Works	4.9	4.2	16.7 %	2.2	(1.1)	(300.0)%
Community Development	8.2	10.6	(22.6)%	6.7	6.8	(1.5)%
Parks and Recreation	2.4	2.2	9.1 %	0.9	0.8	12.5 %
Int. on Long-Term Debt	4.1	3.5	17.1 %	4.1	3.5	17.1 %
Total	\$ 29.9	\$ 29.3	2.0 %	\$ 18.0	\$ 17.2	4.7 %

The change in the Total Cost of Services reflected a 2.0% increase over the previous year. The Net Cost of Services reflects an increase of 4.7% over the previous year. The most significant changes in programmatic total and net cost of services were seen in Public Safety, General Government, Public Works and Community Development.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued*

Governmental Activities, Continued

The Community Development total cost of services decreased \$2.4 million as a result of owner participation agreement payments for fiscal year 2004-2005 and fiscal year 2005-2006 paid in the prior fiscal year as compared to the current fiscal year 2006-2007. Public Works total cost for services increased and the net cost of services also increased by \$3.3 million due to additional contributed capital revenue to the City being recorded in the prior fiscal year. The net cost for general government went down \$3.8 million due to an increase in property tax, sales tax, investment earnings and miscellaneous revenues. Interest on Long-Term Debt increased \$.6 million due to two interest payments as compared to one interest payment in the prior fiscal year.

Business Type Activities

The City's business-type activities decreased total net assets by \$2.6 million. Key elements of this decrease were as follows:

Revenue Highlights:

- Total revenues in business-type activities increased by \$2.6 million. This increase was mainly due to a \$3.1 million increase in contributed capital. However there was a \$0.8 million decrease in sewer fees collected, and a \$0.26 million increase in the electric utility fees collected from the prior year.

Expense Highlights:

- Total expenses for the sewer fund were up by \$0.54 million from the prior year also as a result of the growth of the community.
- The expenses for the electric utility were up by \$0.48 million from the prior year again because of the customer base increasing, and therefore operating costs increased proportionately.

Balance Sheet Highlights:

- The \$2.7 million decrease in total net assets partially came from operating income in the two enterprises. The sewer fund had an income loss of \$0.09 million, and the electric utility had an income loss of \$1.0 million.
- The electric utility had an increase of \$4.7 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.

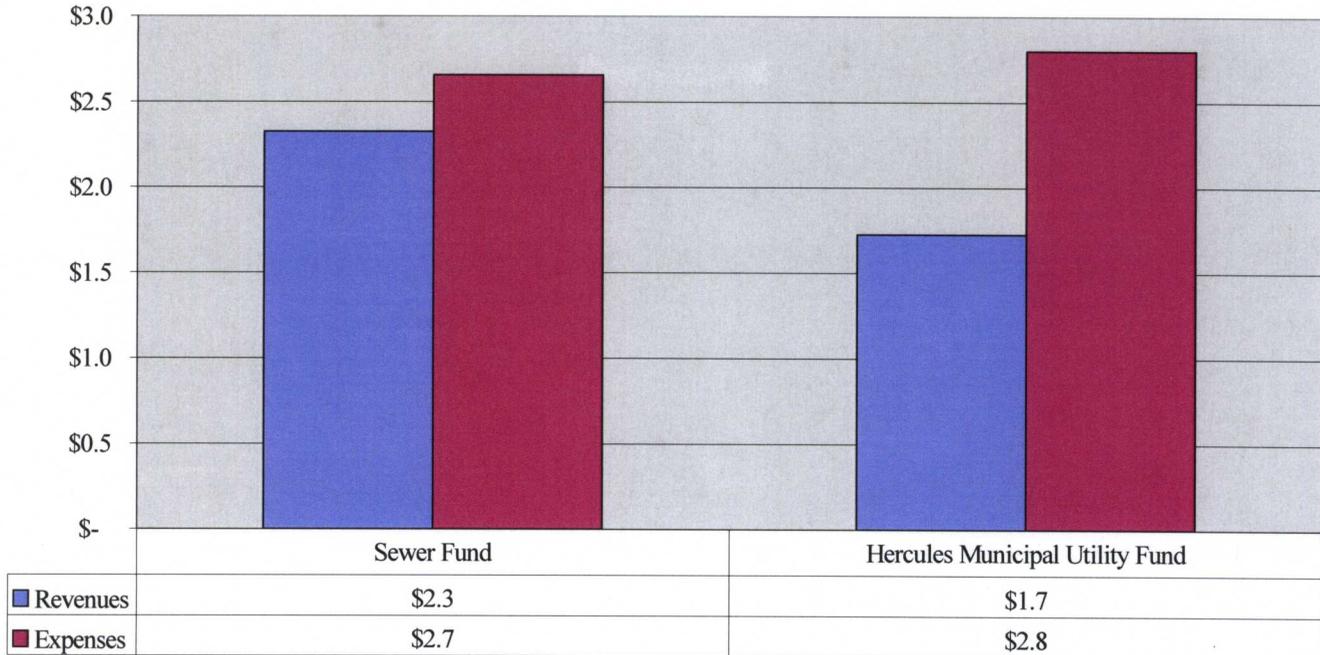
CITY OF HERCULES

*Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007*

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, *Continued*

Business Type Activities, Continued

**Business Type Activities
Revenues and Expenses
June 30, 2007**



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 2006-2007, the City's governmental funds reported combined ending fund balances of \$93.2 million, an increase of \$1.7 million in comparison with the prior year. Of this amount, \$69.9 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 \$2.7 million of which \$3.0 million from other governmental special revenue funds are available for spending at the government's discretion. The net negative \$.3 million has to do with loans to programs that receive monies in arrears.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

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 \$9.6 million, while total fund balance was \$27.1 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, 2007, unreserved fund balance was 67% of total General Fund expenditures and transfers out, while total fund balance was 189 % of total expenditures and transfers out.

The fund balance of the City's General Fund increased by \$1.0 million in fiscal year 2007, as compared to a decrease of \$.93 million in fiscal year 2006. This increase is due to \$2.3 million more in resources coming into the fund from 2005-2006 to 2006-2007 and a prior period adjustment of \$.6 million for an understatement of accounts receivable \$.1 million, an understatement of advances to other funds \$4.6 million, and an understatement of advances from other funds of a negative \$4.1 million and an increase of \$1.2 million in outflows. Total actual costs were maintained within budgeted amounts; however expenditures were \$.56 million more than current revenues. Revenues for the year came in more than projected by \$3.3 million and expenditures were \$0.63 million more than projected.

Proprietary Funds

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

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

With these adjustments, actual expenditures (outflows) for the fiscal year were \$0.63 million over the amended budget. Resources (inflows) available for appropriations were \$3.1 million above budgeted amounts primarily due to higher than anticipated taxes, use of money, administrative fees and intergovernmental fees.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

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, 2007, net capital assets of the governmental activities totaled \$114.7 million and the net capital assets of the business-type activities totaled \$21.0 million, including depreciation on capital assets, which is recognized in the Government-Wide Financial Statements.

The following is a summary of the City's capital assets as of June 30, 2007.

	Governmental		Business-type		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 5.1	\$ 4.1	\$ 0.2	\$ 0.2	\$ 5.3	\$ 4.3
Land Improvement	4.6	3.8	-	-	4.6	3.8
Buildings and Improvements	12.8	12.7	11.3	9.5	24.1	22.2
Machinery and Equipment	2.8	2.5	0.1	0.6	2.9	3.1
Construction in Progress	18.6	11.8	0.1	0.2	18.7	12.0
Infrastructure:	70.8	64.2	9.3	5.1	80.1	69.3
Organizational Costs	-	-	-	-	-	-
Total Capital Assets	\$ 114.7	\$ 99.1	\$ 21.0	\$ 15.6	\$ 135.7	\$ 114.7
Accumulated Depreciation	(38.5)	(35.7)	(8.3)	(8.0)	(46.8)	(43.7)
Net Total Capital Assets	\$ 76.2	\$ 63.4	\$ 12.7	\$ 7.6	\$ 88.9	\$ 71.0

Governmental Activities:

The increase in infrastructure of \$6.6 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 and a transfer of \$2.3 million from construction in progress from 2005-2006 to 2006-2007 to infrastructure for the Sycamore Avenue Realignment and the Sycamore Avenue Extension projects. and the remaining balance were for the Hanna Ranch and Shoreline Land Improvement Projects.

The increase in construction in progress of \$6.7 million is in part a result of \$4.0 million for the library project, \$2.5 million for the corridor Bart development and the remaining balance for the Hercules Rail Station, teen center and the construction of John Muir.

The increase in land of \$1.0 million is the purchase of property at Sycamore and Palm and the corner of Sycamore and San Pablo for future development.

CITY OF HERCULES

Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

Capital Assets including Infrastructure, Continued

Business-type Activities:

The addition of \$5.0 million in capital assets is contributed to the following: in buildings and improvement as a result of upgrades to the existing shared Wastewater Treatment Plant in the sewer enterprise fund; a prior year adjustment from machinery and equipment to infrastructure for the sewer enterprise fund; a prior year adjustment from construction in progress to infrastructure for the electric utility fund; and contributed capital for the electric utility fund.

Long-Term Obligations

As of June 30, 2007, 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 2007 and 2006 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue Bonds	\$ 15.5	\$ 15.8	\$ -	\$ -	\$ 15.5	\$ 15.8
Tax Allocation Bonds	56.8	58.1	-	-	56.8	58.1
Long-term Notes Payable	0.9	0.6	-	-	0.9	0.6
Total Long-Term Obligations	\$ 73.3	\$ 74.5	\$ -	\$ -	\$ 73.3	\$ 74.5

During the 2006-2007 fiscal year the City's Redevelopment Agency issued no new debt. In April 2005 the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency) to develop a 50 unit multifamily rental project. The Agency has authorized the making of a loan in the amount of \$1.6 million to the City of Hercules. As of June 30, 2007, only \$0.40 million has been provided to the City of Hercules. The reason for the decrease in debt is attributable to normal principal payments. There is no direct outstanding debt for business-type activities in the City.

G. REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF HERCULES
STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 33,082,946	\$ 3,275,659	\$ 36,358,605
Cash and investments with fiscal agents	55,593,255		55,593,255
Interest receivable	377,501		377,501
Accounts receivable	572,360	313,512	885,872
Grants receivable	627,551		627,551
Internal balances	7,377,739	(7,377,739)	
Due from agency fund	124,451		124,451
Prepaid expenses	1,845		1,845
Inventory		201,686	201,686
Land held for resale	3,862,040		3,862,040
Loans receivable	6,456,413		6,456,413
Deferred charges - net of accumulated amortization	1,539,855		1,539,855
Intangible asset - net of accumulated amortization		139,657	139,657
Capital assets:			
Nondepreciable:			
Land	5,120,204	150,000	5,270,204
Construction in progress	18,583,969	129,895	18,713,864
Depreciable:			
Buildings, improvements, equipment, infrastructure, and vehicles	90,980,818	20,636,233	111,617,051
Accumulated depreciation	(38,490,861)	(8,297,881)	(46,788,742)
Total assets	<u>185,810,086</u>	<u>9,171,022</u>	<u>194,981,108</u>
LIABILITIES			
Accounts payable	5,698,270	1,746,754	7,445,024
Accrued wages	338,384	21,057	359,441
Accrued interest payable	1,134,605		1,134,605
Deposits payable	517,987	102,441	620,428
Claims and judgments payable	50,666		50,666
Compensated absences, due within one year	310,000	10,000	320,000
Noncurrent liabilities:			
Compensated absences, due in more than one year	172,575	15,855	188,430
Due within one year	1,826,760		1,826,760
Due in more than one year	71,436,520		71,436,520
Total liabilities	<u>81,485,767</u>	<u>1,896,107</u>	<u>83,381,874</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,414,831	12,757,904	18,172,735
Restricted for:			
Debt service	37,659,821		37,659,821
Specific projects and programs	41,562,000		41,562,000
Unrestricted	<u>19,687,667</u>	<u>(5,482,989)</u>	<u>14,204,678</u>
Total net assets	<u>\$ 104,324,319</u>	<u>\$ 7,274,915</u>	<u>\$ 111,599,234</u>

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

CITY OF HERCULES
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 4,732,327	\$ 1,081,378	\$ 421,143	\$ 4,224,182
Public safety	5,627,783	393,293	13,182	100,000
Public works	4,860,582	39,527		2,659,146
Community development	8,162,758	1,450,183		
Parks and recreation	2,381,612	1,467,854		
Interest on long term debt	4,113,746			
Total governmental activities	29,878,808	4,432,235	434,325	6,983,328
Business-type activities:				
Sewer	2,656,815	2,326,109		
Electricity	2,800,831	1,726,533		3,116,229
Total business-type activities	5,457,646	4,052,642		3,116,229
Total government	\$ 35,336,454	\$ 8,484,877	\$ 434,325	\$ 10,099,557

General Revenues

Taxes:

Secured and unsecured property taxes

Sales and use taxes

Utility user taxes

Unrestricted motor vehicle taxes

Gas taxes

Other taxes

Use of money and property

Miscellaneous revenue

Loss on sale of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net Assets, July 1, 2006

Prior period adjustments

Net Assets, July 1, 2006, restated

Net assets, June 30, 2007

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

Net (Expense) Revenue and Change in Net Assets

<u>Net Governmental Activities</u>	<u>Net Business-type Activities</u>	<u>Total</u>
\$ 994,376	\$ -	\$ 994,376
(5,121,308)		(5,121,308)
(2,161,909)		(2,161,909)
(6,712,575)		(6,712,575)
(913,758)		(913,758)
(4,113,746)		(4,113,746)
<u>(18,028,920)</u>		<u>(18,028,920)</u>
	(330,706)	(330,706)
	2,041,931	2,041,931
	<u>1,711,225</u>	<u>1,711,225</u>
<u>(18,028,920)</u>	<u>1,711,225</u>	<u>(16,317,695)</u>
16,777,212		16,777,212
1,820,531		1,820,531
1,823,843		1,823,843
1,883,504		1,883,504
440,641		440,641
777,301		777,301
4,966,716	291,824	5,258,540
2,197,776		2,197,776
(13,500)		(13,500)
40,707	(40,707)	
<u>30,714,731</u>	<u>251,117</u>	<u>30,965,848</u>
<u>12,685,811</u>	<u>1,962,342</u>	<u>14,648,153</u>
87,570,859	9,937,587	97,508,446
<u>4,067,649</u>	<u>(4,625,014)</u>	<u>(557,365)</u>
<u>91,638,508</u>	<u>5,312,573</u>	<u>96,951,081</u>
<u>\$ 104,324,319</u>	<u>\$ 7,274,915</u>	<u>\$ 111,599,234</u>

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

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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*** is used to account for major capital projects undertaken by the Redevelopment Agency.

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

CITY OF HERCULES
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2007

	<u>General Fund</u>	<u>Redevelopment Agency Special Revenue Fund</u>	<u>Redevelopment Agency Debt Service Fund</u>
ASSETS			
Cash and investments	\$ 11,034,759	\$ 5,514,582	\$ -
Cash and investments with fiscal agent			53,024,936
Accounts receivable	485,561	7,742	
Interest receivable	47,304	297,095	
Grants receivable			
Prepaid expenditures	1,845		
Due from agency fund			
Due from other funds	4,209,035		
Loans receivable	250,000	6,206,413	
Land held for resale			
Advances to other funds	<u>17,090,185</u>		
Total assets	<u><u>\$ 33,118,689</u></u>	<u><u>\$ 12,025,832</u></u>	<u><u>\$ 53,024,936</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 446,215	\$ 111,541	\$ 3,204,412
Accrued wages	311,511	2,699	
Deposits payable	517,987		
Claims and judgments payable	50,666		
Deferred revenue		6,503,508	
Due to other funds			4,485,663
Advances from other funds	<u>4,669,631</u>		<u>9,631,967</u>
Total liabilities	<u><u>5,996,010</u></u>	<u><u>6,617,748</u></u>	<u><u>17,322,042</u></u>
Fund Balances:			
Reserved:			
Debt service			35,702,894
Advances	17,090,185		
Prepaid expenditures	1,845		
Petty cash	2,455		
Land held for resale			
Future commitments	423,873	15,625	
Low and moderate income housing		5,392,459	
Unreserved, designated:			
Future projects	9,604,321		
Unreserved, undesignated			
Reported in:			
Special Revenue Funds			
Capital Projects Funds			
Total fund balances	<u><u>27,122,679</u></u>	<u><u>5,408,084</u></u>	<u><u>35,702,894</u></u>
Total liabilities and fund balances	<u><u>\$ 33,118,689</u></u>	<u><u>\$ 12,025,832</u></u>	<u><u>\$ 53,024,936</u></u>

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

Hercules Public Finance Authority Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total
\$ 207,071	\$ -	\$ 14,514,014	\$ 31,270,426
2,568,319			55,593,255
	29,299	49,758	572,360
33,102			377,501
		627,551	627,551
			1,845
		124,451	124,451
	4,209,035	276,628	8,694,698
			6,456,413
	3,862,040		3,862,040
<u>4,474,202</u>		<u>195,429</u>	<u>21,759,816</u>
<u>\$ 7,282,694</u>	<u>\$ 8,100,374</u>	<u>\$ 15,787,831</u>	<u>\$ 129,340,356</u>
\$ -	\$ 386,053	\$ 1,488,916	\$ 5,637,137
		13,036	327,246
			517,987
			50,666
			6,503,508
80,479	4,209,035		8,775,177
			14,301,598
<u>80,479</u>	<u>4,595,088</u>	<u>1,501,952</u>	<u>36,113,319</u>
2,728,013			38,430,907
4,474,202		195,429	21,759,816
			1,845
			2,455
	3,862,040		3,862,040
		4,308	443,806
			5,392,459
		11,068,318	20,672,639
		2,910,717	2,910,717
	(356,754)	107,107	(249,647)
<u>7,202,215</u>	<u>3,505,286</u>	<u>14,285,879</u>	<u>93,227,037</u>
<u>\$ 7,282,694</u>	<u>\$ 8,100,374</u>	<u>\$ 15,787,831</u>	<u>\$ 129,340,356</u>

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CITY OF HERCULES
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 93,227,037

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

Capital assets at historical cost	\$ 112,828,351	
Accumulated depreciation	<u>(37,394,438)</u>	
Net		75,433,913

In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid.
In government-wide statement of activities, it is recognized in the period that it is incurred. (1,134,605)

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

Issuance costs	1,690,340	
Accumulated amortization	<u>(150,485)</u>	
Net		1,539,855

Internal service funds are used by management to charge the costs of certain activities, such as fleet, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 2,490,388

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

2005 Tax Allocation Bonds	(55,050,000)	
Premium on 2005 Tax Allocation Bonds	(2,030,904)	
Deferred loss on refunding for the 2005 Tax Allocation Bonds	271,750	
2003A PFA Lease Revenue Bonds	(6,885,000)	
2003B PFA Lease Revenue Bonds	(8,625,000)	
H.E.L.P. Loan	(400,000)	
Long-term Notes Payable	(544,126)	
Compensated Absences Payable	<u>(472,497)</u>	
Total		(73,735,777)

In the governmental funds balance sheet, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue. 6,503,508

TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES \$ 104,324,319

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

CITY OF HERCULES
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2007

	<u>General Fund</u>	<u>Redevelopment Agency Special Revenue Fund</u>	<u>Redevelopment Agency Debt Service Fund</u>
Revenues:			
Taxes and assessments	\$ 5,516,772	\$ 13,409,462	\$ -
Licenses and permits	508,550		
Fines and forfeitures	167,635		
Use of money and property	1,485,902	174,587	2,315,797
Intergovernmental revenues	1,951,792		
Program income		4,492	
Charges for services	2,221,957	6,413	
Lease revenue			
Other revenues	<u>2,048,683</u>	<u>9,760</u>	
 Total revenues	 <u>13,901,291</u>	 <u>13,604,714</u>	 <u>2,315,797</u>
Expenditures:			
Current:			
General government	3,509,624		
Public safety	5,513,184		
Streets and public works	640,097		
Parks and recreation	2,228,004		
Community development	1,302,116	4,829,356	3,292,458
Lease expense	1,021,940		
Capital outlay			
Debt service:			
Principal			1,250,590
Interest and fiscal agent fees			3,372,366
 Total expenditures	 <u>14,214,965</u>	 <u>4,829,356</u>	 <u>7,915,414</u>
 Excess of revenues over (under) expenditures	 <u>(313,674)</u>	 <u>8,775,358</u>	 <u>(5,599,617)</u>
Other Financing Sources (Uses):			
Proceeds from issuance of long-term debt			
Transfers in	796,432	1,793,950	8,305,948
Transfers out	<u>(118,060)</u>	<u>(8,300,298)</u>	<u>(7,879,613)</u>
 Total other financing sources (uses)	 <u>678,372</u>	 <u>(6,506,348)</u>	 <u>426,335</u>
 Net changes in fund balances	 <u>364,698</u>	 <u>2,269,010</u>	 <u>(5,173,282)</u>
Fund balances - July 1, 2006	26,072,150	3,139,074	40,876,176
Prior period adjustments	<u>685,831</u>		
Fund balances - July 1, 2006, restated	<u>26,757,981</u>	<u>3,139,074</u>	<u>40,876,176</u>
Fund balances - June 30, 2007	<u>\$ 27,122,679</u>	<u>\$ 5,408,084</u>	<u>\$ 35,702,894</u>

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

Hercules Public Finance Authority Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Totals
\$ -	\$ -	\$ 1,953,818	\$ 20,880,052
			508,550
			167,635
289,065		665,735	4,931,086
		5,487,805	7,439,597
			4,492
		467,630	2,696,000
1,021,940			1,021,940
	9	139,324	2,197,776
<u>1,311,005</u>	<u>9</u>	<u>8,714,312</u>	<u>39,847,128</u>
	17,900		3,527,524
		80,340	5,593,524
		2,106,008	2,746,105
			2,228,004
			9,423,930
			1,021,940
	6,061,725	6,506,138	12,567,863
295,000			1,545,590
726,939			4,099,305
<u>1,021,939</u>	<u>6,079,625</u>	<u>8,692,486</u>	<u>42,753,785</u>
<u>289,066</u>	<u>(6,079,616)</u>	<u>21,826</u>	<u>(2,906,657)</u>
		400,000	400,000
	5,809,035	6,869,375	23,574,740
(5,298,179)		(2,533,251)	(24,129,401)
<u>(5,298,179)</u>	<u>5,809,035</u>	<u>4,736,124</u>	<u>(154,661)</u>
<u>(5,009,113)</u>	<u>(270,581)</u>	<u>4,757,950</u>	<u>(3,061,318)</u>
8,100,645	3,775,867	9,527,929	91,491,841
4,110,683			4,796,514
<u>12,211,328</u>	<u>3,775,867</u>	<u>9,527,929</u>	<u>96,288,355</u>
<u>\$ 7,202,215</u>	<u>\$ 3,505,286</u>	<u>\$ 14,285,879</u>	<u>\$ 93,227,037</u>

CITY OF HERCULES
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

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

NET CHANGE IN FUND BALANCES \$ (3,061,318)

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

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

Capital outlay expenditures are therefore added back to fund balances	12,555,260
Depreciation expense not reported in governmental funds	(2,512,867)
Contributed capital not reported in governmental funds	2,659,146

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

Proceeds from issuance of long-term debt	(400,000)
Repayment of debt principal is added back to fund balances	1,545,590
Amortization expense of costs of issuance not reported in governmental funds	(56,344)
Amortization of premium and deferred loss on refunding	62,827

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

Interest payable	(20,924)
Compensated absences	(8,118)

Certain revenues are offset by deferred revenue in the governmental funds because they are not available to pay for current period expenditures. This amount represents the amount by which prior year deferred revenue exceeded current year	1,366,656
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Internal service funds are used by management to charge the costs of certain activities, such as fleet, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.	<u>555,903</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 12,685,811</u></u>
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The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

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

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
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2007

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities - Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 3,275,659	\$ -	\$ 3,275,659	\$ 1,812,520
Accounts receivable - net		313,512	313,512	
Due from other funds		80,479	80,479	
Inventory		201,686	201,686	
Total Current Assets	3,275,659	595,677	3,871,336	1,812,520
Noncurrent Assets:				
Intangible asset, net of amortization		139,657	139,657	
Capital Assets:				
Nondepreciable				
Land	150,000		150,000	
Construction in progress	24,500	105,395	129,895	
Total Nondepreciable Capital Assets	174,500	105,395	279,895	
Depreciable				
Buildings and improvements	11,278,754		11,278,754	
Infrastructure	686,148	8,584,539	9,270,687	
Equipment	46,673	40,119	86,792	1,856,640
Total Depreciable Capital Assets	12,011,575	8,624,658	20,636,233	1,856,640
Less accumulated depreciation	(7,954,500)	(343,381)	(8,297,881)	(1,096,423)
Net depreciable capital assets	4,057,075	8,281,277	12,338,352	760,217
Net Capital Assets	4,231,575	8,386,672	12,618,247	760,217
Total Noncurrent Assets	4,231,575	8,526,329	12,757,904	760,217
Total Assets	\$ 7,507,234	\$ 9,122,006	\$ 16,629,240	\$ 2,572,737

(continued)

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (Continued)
June 30, 2007

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities- Internal Service Funds
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 926,033	\$ 820,721	\$ 1,746,754	\$ 61,133
Accrued wages	2,492	18,565	21,057	11,138
Deposits payable		102,441	102,441	
Total Current Liabilities	928,525	941,727	1,870,252	72,271
Noncurrent Liabilities:				
Advances from other funds		7,458,218	7,458,218	
Compensated absences	5,424	20,431	25,855	10,078
Total Noncurrent Liabilities	5,424	7,478,649	7,484,073	10,078
Total Liabilities	933,949	8,420,376	9,354,325	82,349
NET ASSETS				
Investment in capital assets, net of related debt	4,231,575	8,526,329	12,757,904	760,217
Unrestricted	2,341,710	(7,824,699)	(5,482,989)	1,730,171
Total Net Assets (Deficit)	\$ 6,573,285	\$ 701,630	\$ 7,274,915	\$ 2,490,388

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2007

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities- Internal Service Funds
Operating Revenues:				
Sales and charges for services	\$ 2,322,552	\$ 1,717,561	\$ 4,040,113	\$ 643,998
Other operating revenue	3,557	8,972	12,529	
Total Operating Revenues	<u>2,326,109</u>	<u>1,726,533</u>	<u>4,052,642</u>	<u>643,998</u>
Operating Expenses:				
Contractual services	2,176,642	59,917	2,236,559	
Purchase of electricity		1,218,133	1,218,133	
Administration	297,648	675,753	973,401	491,758
Depreciation and amortization	182,525	339,213	521,738	250,943
Total Operating Expenses	<u>2,656,815</u>	<u>2,293,016</u>	<u>4,949,831</u>	<u>742,701</u>
Operating Income (Loss)	<u>(330,706)</u>	<u>(566,483)</u>	<u>(897,189)</u>	<u>(98,703)</u>
Non-Operating Revenues (Expenses):				
Interest income	231,025	60,799	291,824	35,630
Interest expense		(245,635)	(245,635)	
Gain (loss) on sale of capital assets				(13,500)
Fees and taxes		(262,180)	(262,180)	
Total Non-Operating Revenue(Expenses):	<u>231,025</u>	<u>(447,016)</u>	<u>(215,991)</u>	<u>22,130</u>
Income (Loss) Before Transfers	<u>(99,681)</u>	<u>(1,013,499)</u>	<u>(1,113,180)</u>	<u>(76,573)</u>
Transfers:				
Transfers in		171,682	171,682	595,368
Transfers out	(15,266)	(197,123)	(212,389)	
Total change in net assets before capital contributions	<u>(114,947)</u>	<u>(1,038,940)</u>	<u>(1,153,887)</u>	<u>518,795</u>
Capital contributions		<u>3,116,229</u>	<u>3,116,229</u>	<u>37,108</u>
Change in Net Assets	<u>(114,947)</u>	<u>2,077,289</u>	<u>1,962,342</u>	<u>555,903</u>
Net Assets, July 1, 2006	<u>6,688,232</u>	<u>3,249,355</u>	<u>9,937,587</u>	<u>1,934,485</u>
Prior period adjustment		<u>(4,625,014)</u>	<u>(4,625,014)</u>	
Net Assets, July 1, 2006, restated	<u>6,688,232</u>	<u>(1,375,659)</u>	<u>5,312,573</u>	<u>1,934,485</u>
Net Assets, June 30, 2007	<u>\$ 6,573,285</u>	<u>\$ 701,630</u>	<u>\$ 7,274,915</u>	<u>\$ 2,490,388</u>

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from customers	\$ 2,326,109	\$ 1,815,346	\$ 4,141,455	\$ 643,998
Payments to suppliers and users	(2,563,790)	(698,119)	(3,261,909)	(92,566)
Payments to employees	(58,914)	(409,317)	(468,231)	(336,673)
Net Cash Provided (Used) by Operating Activities	(296,595)	707,910	411,315	214,759
Cash Flow from Non-Capital Financing Activities:				
Fees and taxes		(262,180)	(262,180)	
Transfers in/ (out)	(15,266)	(25,441)	(40,707)	595,368
Net Cash Provided (Used) by Non-Capital Financing Activities	(15,266)	(287,621)	(302,887)	595,368
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(1,874,880)	(3,395,266)	(5,270,146)	(348,101)
Capital contributions		3,116,229	3,116,229	37,108
Interest paid on debt		(245,635)	(245,635)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,874,880)	(524,672)	(2,399,552)	(310,993)
Cash Flows from Investing Activities:				
Interest received	231,025	60,800	291,825	35,630
Net Cash Provided by Investing Activities	231,025	60,800	291,825	35,630
Net Increase (Decrease) in Cash and Cash Equivalents	(1,955,716)	(43,583)	(1,999,299)	534,764
Cash and Cash Equivalents, July 1, 2006	5,231,375	43,583	5,274,958	1,277,756
Cash and Cash Equivalents, June 30, 2007	<u>\$ 3,275,659</u>	<u>\$ -</u>	<u>\$ 3,275,659</u>	<u>\$ 1,812,520</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets				
Cash and investments	<u>\$ 3,275,659</u>	<u>\$ -</u>	<u>\$ 3,275,659</u>	<u>\$ 1,812,520</u>
Total Cash and Investments	<u>\$ 3,275,659</u>	<u>\$ -</u>	<u>\$ 3,275,659</u>	<u>\$ 1,812,520</u>

(continued)

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

CITY OF HERCULES
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2007

	Sewer Fund	Hercules Municipal Utility Fund	Totals	Governmental Activities- Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (330,706)	\$ (566,483)	\$ (897,189)	\$ (98,703)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and amortization	182,525	339,213	521,738	250,943
(Increase) Decrease in Operating Assets:				
Accounts receivable		17,784	17,784	
Inventory		(69,458)	(69,458)	
Due from other funds		453,851	453,851	
Increase (Decrease) in Operating Liabilities:				
Accounts payable	658,748	189,750	848,498	54,462
Accrued wages	(112)	1,154	1,042	7,156
Advances from other funds	(808,373)	271,411	(536,962)	
Compensated absences	1,323	(341)	982	901
Deposits payable		71,029	71,029	
Net Cash Provided (Used) by Operating Activities	<u>\$ (296,595)</u>	<u>\$ 707,910</u>	<u>\$ 411,315</u>	<u>\$ 214,759</u>

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

FIDUCIARY FUND FINANCIAL STATEMENTS

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

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

CITY OF HERCULES
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2007

	Pension Trust Fund	Total Agency Funds	Total
ASSETS			
Cash and investments	\$ 174,015	\$ 9,102,827	\$ 9,276,842
Cash and investments with fiscal agent		7,499,201	7,499,201
Accounts receivable		503,671	503,671
Prepaid expenses		22,398	22,398
	<u>174,015</u>	<u>17,128,097</u>	<u>17,302,112</u>
LIABILITIES			
Liabilities:			
Accounts payable		1,234,427	1,234,427
Due to City's Capital Projects Fund		124,451	124,451
Deposits payable		15,758,979	15,758,979
Compensated absences		10,240	10,240
		<u>17,128,097</u>	<u>17,128,097</u>
NET ASSETS			
Unrestricted	<u>174,015</u>	<u>-</u>	<u>174,015</u>
Total Net Assets	<u>\$ 174,015</u>	<u>\$ -</u>	<u>\$ 174,015</u>

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

CITY OF HERCULES
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
June 30, 2007

	Pension Trust Fund
Additions:	
Investment revenue	\$ 3,371
Contribution from general fund	125,000
Total additions	128,371
Deductions:	
Employee benefits	1,056
Total deductions	1,056
Change in net assets	127,315
Net Assets - July 1, 2006	46,700
Net Assets - June 30, 2007	\$ 174,015

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Hercules Redevelopment Agency

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

Hercules Public Financing Authority

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

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14 as amended by GASB Statement No. 39. The City is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The Agency, 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
June 30, 2007

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. 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
June 30, 2007

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 for 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 cover capital costs for the Hercules Municipal Utility and principal and interest on the Lease Revenue Bonds, Series 2003B issued to cover the financing of the original City Hall debt issue and to generate additional resources to assist in the construction of a new library building.

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

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

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

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

Hercules Municipal Utilities Fund 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 the accrual basis of accounting.

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

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, Custodial Credit Risk, and Concentrations of Credit Risk.

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

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

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
June 30, 2007

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

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

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

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

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

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

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

F. Compensated Absences

Compensated absences are comprised of unpaid vacation and compensated time off. The City accrues the costs of these absences when they are earned. For governmental funds, compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements. For proprietary funds, current and non-current liabilities for compensated absences are recorded as expenses in both the Government-Wide Financial 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 for Debt Service represents amounts accumulated in accordance with a bond indenture or similar covenant.

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

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

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

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

Reserved for Prepays 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
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Use of Restricted/Unrestricted Net Assets

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

I. Property Taxes, Tax Increment and Special Assessment Revenue

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

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

J. Use of Estimates

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

2. CASH AND INVESTMENTS

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

Statement of Net Assets:	
Cash and investments	\$ 36,358,605
Cash and investments with fiscal agents	55,593,255
Statement of Fiduciary Net Assets:	
Cash and investments	9,276,842
Cash and investments with fiscal agents	<u>7,499,201</u>
Total	<u><u>\$ 108,727,903</u></u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 2,705
Deposits with financial institutions	6,545,697
Investments	<u>102,179,501</u>
Total	<u><u>\$ 108,727,903</u></u>

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

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

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

2. CASH AND INVESTMENTS, Continued

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

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

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Interest Rate Risk, Continued

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
State Investment Pool	\$ 1,521,676	\$ 1,521,676	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	3,241,398	2,197,350	96,827	947,221			
U.S. Agency Securities	34,323,971	5,928,800	9,943,720	5,942,510	3,462,635	5,973,660	3,072,646
Held by debt trustees:							
Money Market Funds	11,405,861	11,405,861					
Guaranteed Investment Contracts	49,143,502	43,030,491	6,113,011				
State Investment Pool	2,543,093	2,543,093					
	<u>\$ 102,179,501</u>	<u>\$ 66,627,271</u>	<u>\$ 16,153,558</u>	<u>\$ 6,889,731</u>	<u>\$ 3,462,635</u>	<u>\$ 5,973,660</u>	<u>\$ 3,072,646</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

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

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

Disclosures Relating to Credit Risk

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

2. CASH AND INVESTMENTS, Continued

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 1,521,676	N/A	\$ -	\$ -	\$ -	\$ -	\$ 1,521,676
Certificates of Deposit	3,241,398	N/A					3,241,398
U.S. Agency Securities	34,323,971			34,323,971			
Held by debt trustees:							
Money Market Funds	11,405,861	N/A		11,405,861			
Guaranteed Investment Contracts	49,143,502	N/A					49,143,502
State Investment Pool	2,543,093	N/A					2,543,093
Total	\$ 102,179,501		\$ -	\$ 45,729,832	\$ -	\$ -	\$ 56,449,669

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2007, \$7,300,561 of the City's deposits with financial institutions were in excess of federal depository insurance limits.

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.

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

2. CASH AND INVESTMENTS, Continued

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The LAIF fair value factor of 0.999545022 was used to calculate the fair value of the investments in LAIF. The fair value factor was applied to selected funds by the City.

3. LOANS RECEIVABLE

Loans Receivable

Loans receivable at June 30, 2007, consisted of the following:

Bridge Housing Corporation	\$ 1,696,695
Eden Housing	700,000
Radston's Office Plus	250,000
First Time Homebuyers	1,560,950
Affordable Housing	1,625,000
Business Development Loans	635,508
Employee Loan	250,000
Home Emergency Loans	<u>35,355</u>
Subtotal	6,753,508
Less: Interest receivable	<u>(297,095)</u>
Total	<u>\$ 6,456,413</u>

1. Bridge Housing Corporation

The Agency loaned the Bridge Housing Corporation \$1,400,000 to finance construction of a sixty unit senior citizen housing development next to City Hall. On September 8, 1998, the Agency approved an addition to the loan of \$115,000 for a grand total of \$1,515,000. On January 1, 1999, the loan began to bear interest at the rate of 3.5% per year and is repayable in 2041, subject to certain conditions. The construction of the housing development was completed in September 1999. At June 30, 2007, the Corporation's loan balance was \$1,399,600. In addition, interest of \$297,095 was recorded in the interest receivable of the Redevelopment Agency's Special Revenue Fund balance sheet. Total loan balance was \$1,696,695.

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, 2007 was \$700,000.

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

3. LOANS RECEIVABLE, Continued

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, 2007, 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, 2007 was \$1,560,950.

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 individuals who currently earn less than one hundred twenty percent of the current annual median income for the Contra Costa County area. This is available to City employees as well.

The 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, 2007 was \$1,625,000.

6. Employee Loan

The City loaned \$250,000 to the City Manager for the purchase of a residence within the City of Hercules. The loan is to be repaid from the proceeds of the sale of the house when the contract between the City and the City Manager is terminated. The balance outstanding as of June 30, 2007 was \$250,000.

7. Home Emergency Loans

On September 19, 2002, the Agency entered into several home emergency loans in various amounts with interest at 5% per annum. The principal amount of the loan including interest is to be due and payable in one lump sum if the owners cease to occupy the property or upon any transfer, refinance, sale, or conveyance of all or a part of the property. The balance outstanding as of June 30, 2007 was \$35,355.

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

3. LOANS RECEIVABLE, Continued

8. Business Development Loans

The City and Agency established the Business Development Loan Program (BDLP) to provide low cost financial assistance to businesses within the City of Hercules. The BDLP offers a secured loan of up to \$75,000, of a term not greater than 20 years and a simple interest rate of 3% per annum. All applicants are evaluated and prioritized according to established program criteria and if funded are subject to various terms and conditions and fees. These fees will be deducted from the final loan award by the escrow administrator at the time of funding. The balance outstanding as of June 30, 2007 was \$635,508.

4. DEFERRED REVENUE

Fund Financial Statements

At June 30, 2007, 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	\$ 1,696,695
Eden Housing	700,000
Radston's Office Plus	250,000
First Time Home Buyers	1,560,950
Affordable Housing	1,625,000
Home Emergency Loan	35,355
Business Development Loans	<u>635,508</u>
Total	<u>\$ 6,503,508</u>

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

5. CAPITAL ASSETS

At June 30, 2007, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable Assets:			
Land	\$ 5,120,204	\$ 150,000	\$ 5,270,204
Construction in progress	18,583,969	129,895	18,713,864
Total nondepreciable assets	23,704,173	279,895	23,984,068
Depreciable Assets:			
Land improvements	4,620,342		4,620,342
Building and improvements	12,756,236	11,278,754	24,034,990
Machinery and equipment	2,841,013	86,792	2,927,805
Infrastructure	70,763,227	9,270,687	80,033,914
Total depreciable assets	90,980,818	20,636,233	111,617,051
Less accumulated depreciation	(38,490,861)	(8,297,881)	(46,788,742)
Total depreciable assets, net	52,489,957	12,338,352	64,828,309
Total capital assets, net	\$ 76,194,130	\$ 12,618,247	\$ 88,812,377

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

	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Governmental Activities					
Nondepreciable capital assets:					
Land	\$ 4,145,204	\$ 975,000	\$ -	\$ -	\$ 5,120,204
Construction in progress	11,812,452	9,865,292		(3,093,775)	18,583,969
Total nondepreciable capital assets	15,957,656	10,840,292		(3,093,775)	23,704,173
Depreciable capital assets:					
Land improvements	3,768,190	43,762		808,390	4,620,342
Buildings and improvements	12,717,583	38,653			12,756,236
Machinery and equipment	2,490,550	374,544	(24,081)		2,841,013
Infrastructure	64,212,586	4,265,256		2,285,385	70,763,227
Total depreciable capital assets	83,188,909	4,722,215	(24,081)	3,093,775	90,980,818
Accumulated depreciation:					
Land improvements	(1,382,180)	(334,841)			(1,717,021)
Buildings and improvements	(4,104,006)	(265,976)			(4,369,982)
Machinery and equipment	(1,475,341)	(336,147)	10,581		(1,800,907)
Infrastructure	(28,776,105)	(1,826,846)			(30,602,951)
Total accumulated depreciation	(35,737,632)	(2,763,810)	10,581		(38,490,861)
Net depreciable capital assets	47,451,277	1,958,405	(13,500)	3,093,775	52,489,957
Net capital assets	\$ 63,408,933	\$ 12,798,697	\$ (13,500)	\$ -	\$ 76,194,130

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

5. CAPITAL ASSETS, Continued

Depreciation Allocation

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

Governmental Activities:

General government	\$ 347,317
Public safety	30,119
Public works	2,124,982
Parks and recreation	152,390
Community development	<u>109,002</u>

Total Depreciation Expense-Governmental Activities \$ 2,763,810

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

5. CAPITAL ASSETS, Continued

	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Business-type Activities					
Sewer					
Nondepreciable capital assets:					
Land	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Construction in progress	24,500				24,500
Total nondepreciable capital assets	<u>174,500</u>				<u>174,500</u>
Depreciable capital assets:					
Buildings and improvements	9,529,101	1,749,653			11,278,754
Machinery and equipment	607,594			(560,921)	46,673
Infrastructure		125,227		560,921	686,148
Total depreciable capital assets	<u>10,136,695</u>	<u>1,874,880</u>			<u>12,011,575</u>
Less accumulated depreciation	<u>(7,771,975)</u>	<u>(182,525)</u>			<u>(7,954,500)</u>
Net depreciable capital assets	<u>2,364,720</u>	<u>1,692,355</u>			<u>4,057,075</u>
Net capital assets	<u>\$ 2,539,220</u>	<u>\$ 1,692,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,231,575</u>
Hercules Municipal Utility					
Nondepreciable capital assets:					
Construction in progress	\$ 216,406	\$ 105,395	\$ -	\$ (216,406)	\$ 105,395
Total nondepreciable capital assets	<u>216,406</u>	<u>105,395</u>		<u>(216,406)</u>	<u>105,395</u>
Depreciable capital assets:					
Machinery and equipment	10,627	29,492			40,119
Infrastructure	5,107,754	3,260,379		216,406	8,584,539
Total depreciable capital assets	<u>5,118,381</u>	<u>3,289,871</u>		<u>216,406</u>	<u>8,624,658</u>
Less accumulated depreciation	<u>(211,490)</u>	<u>(131,891)</u>			<u>(343,381)</u>
Net depreciable capital assets	<u>4,906,891</u>	<u>3,157,980</u>		<u>216,406</u>	<u>8,281,277</u>
Net capital assets	<u>\$ 5,123,297</u>	<u>\$ 3,263,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,386,672</u>

Depreciation Allocation

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

Business-Type Activities:	
Sewer	\$ 182,525
Hercules Municipal Utility	<u>131,891</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 314,416</u>

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

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.

	July 1, 2006 Balance	Additions	Reductions	June 30, 2007 Balance	Due Within One Year
Governmental Activities	\$ 473,556	\$ 406,281	\$ 397,262	\$ 482,575	\$ 310,000
Business-type Activities	24,873	30,271	29,289	25,855	10,000
	<u>\$ 498,429</u>	<u>\$ 436,552</u>	<u>\$ 426,551</u>	<u>\$ 508,430</u>	<u>\$ 320,000</u>

7. LONG-TERM OBLIGATIONS

Long-term liability activity for the fiscal year ended June 30, 2007, was as follows:

	July 1, 2006 Balance	Additions	Reductions	June 30, 2007 Balance	Due Within One Year	Due In More Than One Year
Governmental activities:						
2005 Tax Allocation Bonds	\$ 56,260,000	\$ -	\$ 1,210,000	\$ 55,050,000	\$ 1,410,000	\$ 53,640,000
Premium on 2005 Tax Allocation Bonds	2,103,436		72,532	2,030,904	72,532	1,958,372
Deferred loss on refunding for the 2005 Tax Allocation Bonds	(281,455)		(9,705)	(271,750)	(9,705)	(262,045)
2003A PFA Lease Revenue Bonds	7,000,000		115,000	6,885,000	125,000	6,760,000
2003B PFA Lease Revenue Bonds	8,805,000		180,000	8,625,000	185,000	8,440,000
H.E.L.P. Loan		400,000		400,000		400,000
Long-term Notes Payable	584,716		40,590	544,126	43,933	500,193
Governmental activities Long-term liabilities	<u>\$ 74,471,697</u>	<u>\$ 400,000</u>	<u>\$ 1,608,417</u>	<u>\$ 73,263,280</u>	<u>\$ 1,826,760</u>	<u>\$ 71,436,520</u>

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

7. LONG-TERM OBLIGATIONS, Continued

2005 Tax Allocation Bonds

On August 5, 2005, the Redevelopment Agency issued Hercules Merged Project Area Tax Allocation Bonds, Series 2005, in the amount of \$56,260,000. The proceeds of the bonds will be used to finance certain public capital improvements within the Agency's Merged Project Area and refund the Agency 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. The balance at June 30, 2007 is \$55,050,000.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 1,410,000	\$ 2,563,413	\$ 3,973,413
2009	1,460,000	2,508,270	3,968,270
2010	1,520,000	2,450,645	3,970,645
2011	1,575,000	2,390,335	3,965,335
2012	1,640,000	2,327,265	3,967,265
2013-2017	9,245,000	10,545,050	19,790,050
2018-2022	9,085,000	8,235,776	17,320,776
2023-2027	9,595,000	6,073,550	15,668,550
2028-2032	12,225,000	3,874,069	16,099,069
2033-2036	7,295,000	847,825	8,142,825
Subtotal	55,050,000	41,816,198	96,866,198
Plus Premium	2,030,904		2,030,904
Total	<u>\$ 57,080,904</u>	<u>\$ 41,816,198</u>	<u>\$ 98,897,102</u>

In connection with the issuance of the 2005 Tax Allocation Bonds, the Agency recorded a deferred loss on refunding of debt which is reported as part of the long-term debt. This deferred loss was in connection with interest payments made to the escrow agent for future payments of interest. The total amount of the deferred loss was \$291,160 which will be amortized over the life of the bond. The amortization for the fiscal year ended June 30, 2007 was \$9,705 and the accumulated amortization was \$19,410.

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

7. LONG-TERM OBLIGATIONS, Continued

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 for the acquisition, construction and installation of various improvements located within the City. The interest rate on the bonds is at a weekly rate, designated and determined from time to time. The interest is payable on the first business day of each month, commencing July 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by base rental payments of the facility lease. Principal is due annually beginning on December 1, 2006, in amounts ranging from \$115,000 to \$455,000. The bonds mature on December 1, 2033. The balance at June 30, 2007 is \$6,885,000.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 125,000	\$ 275,400	\$ 400,400
2009	130,000	270,525	400,525
2010	135,000	265,077	400,077
2011	145,000	259,800	404,800
2012	150,000	254,000	404,000
2013-2017	880,000	1,173,305	2,053,305
2018-2022	1,130,000	977,906	2,107,906
2023-2027	1,450,000	728,005	2,178,005
2028-2032	1,855,000	407,207	2,262,207
2033-2034	885,000	53,608	938,608
Total	<u>\$ 6,885,000</u>	<u>\$ 4,664,833</u>	<u>\$ 11,549,833</u>

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 to finance a portion of the construction for a public library. The interest rate on the bonds ranges from 2.00% to 5.00%. The interest is payable on semiannually on June 1 and December 1, commencing December 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the facility lease. Principal is due annually beginning on December 1, 2005, in amounts ranging from \$170,000 to \$2,480,000. The bonds mature on December 1, 2033. The balance at June 30, 2007 is \$8,625,000.

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

7. LONG-TERM OBLIGATIONS, Continued

2003B Public Financing Authority Lease Revenue Bonds, Continued

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	205,000	364,110	569,110
2013-2017	1,140,000	1,694,965	2,834,965
2018-2022	1,410,000	1,415,979	2,825,979
2023-2027	1,780,000	1,038,475	2,818,475
2028-2032	2,255,000	556,500	2,811,500
2033-2034	1,065,000	53,875	1,118,875
Total	<u>\$ 8,625,000</u>	<u>\$ 6,638,776</u>	<u>\$ 15,263,776</u>

H.E.L.P. Loan Payable

In April 2005 the City of Hercules entered into an agreement with the California Housing Finance Agency (Agency), a public instrumentality and political subdivision of the State of California to develop a 50-unit multifamily rental project that is a component to a mixed-used development, also consisting of 26,825 square feet of ground-floor commercial space. The Agency has authorized the making of a loan in the amount of \$1,600,000 known as the Housing Enabled by Local Partnerships (HELP) to the City of Hercules for the purpose of assisting in operating a local housing program. Under the terms of this agreement the City of Hercules agrees to reimburse the Agency \$1,600,000, 10 years from April 11, 2005 at a 3% simple per annum interest. Interest is to be charged only on funds disbursed. As of June 30, 2007, only \$400,000 has been provided to the City.

Future debt service requirements on the H.E.L.P. Loan Payable is:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ -	\$ -	\$ -
2009			
2010			
2011			
2012			
2013-2017	(3,128)	153,470	150,342
2018-2022	258,828	41,865	300,693
2023-2027	144,300	5,644	149,944
Total	<u>\$ 400,000</u>	<u>\$ 200,979</u>	<u>\$ 600,979</u>

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

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, 2007, the City's long-term notes payables were as follows.

East Group	\$ 204,786
Bio Rad Laboratories	<u>339,340</u>
Total	<u>\$ 544,126</u>

The annual debt service requirements to maturity for the East Group Notes Payable at June 30, 2007 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 16,470	\$ 15,743	\$ 32,213
2009	17,712	14,467	32,179
2010	19,092	13,094	32,186
2011	20,601	11,614	32,215
2012	22,112	10,018	32,130
2013-2016	<u>108,799</u>	<u>21,543</u>	<u>130,342</u>
Total	<u>\$ 204,786</u>	<u>\$ 86,479</u>	<u>\$ 291,265</u>

The annual debt service requirements to maturity for the Bio Rad Laboratories Notes Payable at June 30, 2007 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 27,463	\$ 26,251	\$ 53,714
2009	29,533	24,122	53,655
2010	31,384	21,833	53,217
2011	34,351	19,366	53,717
2012	36,871	16,704	53,575
2013-2016	<u>179,738</u>	<u>35,913</u>	<u>215,651</u>
Total	<u>\$ 339,340</u>	<u>\$ 144,189</u>	<u>\$ 483,529</u>

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

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, 2007 was \$5,590,000. The liability for these bonds has been removed from the City's books and records, as they are considered defeased.

8. NON-CITY OBLIGATIONS

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

<u>Description</u>	<u>Original Issuance</u>	<u>Balance as of June 30, 2007</u>
Reassessment District 2001-01 (Alfred Nobel)	\$ 9,700,030	\$ 7,065,000
Reassessment District 2005-1 (John Muir Parkway)	6,550,345	6,475,000

9. RISK MANAGEMENT

General Liability Insurance

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

Workers' Compensation

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

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

9. RISK MANAGEMENT, Continued

As of June 30, 2007, the City's estimated claims liabilities were as follows.

General Liability	\$ 7,000
Workers Compensation	<u>43,666</u>
Total	<u>\$ 50,666</u>

Changes in the claims liabilities for the fiscal years ended June 30, 2005, 2006, and 2007, are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2004-2005	\$ 409,438	\$ (342,104)	\$ (57,681)	\$ 9,653
2005-2006	9,653	506,885	(496,940)	19,598
2006-2007	19,598	501,120	(470,052)	50,666

Miscellaneous Coverages

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

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

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

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

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

10. INTERFUND TRANSACTIONS

A. Long-Term Advances

At June 30, 2007, the City had the following long-term advances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Governmental Funds:	Major Governmental Funds:	
Hercules Public Finance Authority	General Fund	\$4,474,202
Debt Service Fund		
General Fund	Redevelopment Agency	
	Debt Service Fund	9,631,967
	Major Proprietary Fund:	
General Fund	Hercules Municipal Utility Fund	7,458,218
Nonmajor Governmental Funds:	Major Governmental Fund:	
Special Revenue Funds:		
Community Development Fund	General Fund	<u>195,429</u>
		<u>\$21,759,816</u>

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

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

Advances to the Non-Major funds were to fund street overlay projects.

B. Due To/From Other Funds

Due to/from other funds as of June 30, 2007 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Governmental Funds:	Major Governmental Funds:	
General Fund	Redevelopment Agency	
	Capital Projects Fund	\$4,209,035
Redevelopment Agency Capital	Redevelopment Agency	
Projects Fund	Debt Service Fund	4,209,035

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

10. INTERFUND TRANSACTIONS, Continued

B. Due To/From Other Funds, Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Proprietary Fund:	Major Governmental Fund:	
Hercules Municipal Utility Fund	Hercules Public Financing Authority	
	Debt Service Fund	\$ 80,479
Nonmajor Governmental Fund:		
City Capital Project Fund	Redevelopment Agency	
	Debt Service Fund	<u>276,628</u>
		<u>\$8,775,177</u>

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

C. Transfers

Transfers for the fiscal year ended June 30, 2007 were as follows:

Interfund transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 796,432	\$ 118,060
Redevelopment Agency Special Revenue Fund	1,793,950	8,300,298
Redevelopment Agency Debt Service Fund	8,305,948	7,879,613
Hercules Public Finance Authority Debt Service Fund		5,298,179
Redevelopment Agency Capital Projects Fund	5,809,035	
Major Proprietary Funds:		
Sewer Fund		15,266
Hercules Municipal Utility Fund	171,682	197,123
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Development Services Fund		257,792
AB 3229 COPS Program Fund		100,000
State Gas Tax Fund		145,000
Community Development Fund		442,308
Development Fee Fund		300,000
Measure C Street Fund		80,000
Developer Park Fees Fund		474,019
Fire Equipment Fund		34
DIF Fund	34	309,181
Fiscal Neutrality Fee Fund		50,000
Grant Fund		369,267

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

10. INTERFUND TRANSACTIONS, Continued

C. Transfers, Continued

Interfund Transfers:	Transfers In	Transfers Out
Capital Projects Fund:		
City Capital Project Fund	\$ 6,869,341	\$ 5,650
Internal Service Funds:		
Vehicle Replacement Fund	287,128	
IT Equipment Replacement Fund	84,575	
Facility Maintenance Fund	223,665	
	\$ 24,341,790	\$ 24,341,790

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 \$470,727 for the fiscal year ended June 30, 2007. The City employer is required to contribute for fiscal year 2006-2007 at an actuarially determined rate of 11.607% of annual covered payroll for miscellaneous employees and 30.518% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost — For fiscal year 2006-2007, the City's annual pension cost of \$1,341,288 for PERS was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2004 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, 2007, was 30 years for miscellaneous and 29 years for safety employees for the prior and current service unfunded liability.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 751,421	100%	\$ -
June 30, 2006	1,029,639	100%	-
June 30, 2007	1,341,288	100%	-

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

12. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

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

B. Commitments

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

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

KB Home Sycamore Avenue Project — An Agreement provides that the Agency will reimburse the Developer for the widening of Sycamore Avenue and the Palm Avenue alignment from either Agency funds, or from bond proceeds. The total amount is estimated to be \$1.3 million and has been included in the Five Year Capital Improvement Plan to be paid from RDA Tax Allocation Bond proceeds.

13. JOINT POWERS AGREEMENTS

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

A. West Contra Costa Transportation Advisory Committee (WCCTAC)

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

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

13. JOINT POWERS AGREEMENTS, Continued

A. West Contra Costa Transportation Advisory Committee (WCCTAC), Continued

The City's payments to WCCTAC are in accordance with a formula under which each member Agency pays a proportionate share of the expenditures based on the number of voting members representing each agency. Audited financial statements can be obtained from the WCCTAC, One Alvarado Square, San Pablo, California 94806. The City has one voting member on the WCCTAC and pays 10% of expenditures, which amounted to \$29,930 for fiscal year 2006-2007.

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

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

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

C. Pinole/Hercules Wastewater Treatment Plant

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

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

14. EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

	Excess Expenditures
<u>Major Governmental Funds:</u>	
General Fund	\$ 626,896
Hercules Public Financing Authority	
Debt Service Fund	117,709
 <u>Nonmajor Governmental Funds:</u>	
Citywide L&L Fund	75,179

City of Hercules
Notes to Basic Financial Statements
June 30, 2007

15. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$4,067,649 was made on the Statement of Activities for Governmental Activities for an understatement of accounts receivable \$171,500, understatement of deferred charges \$52,859, an understatement of interest payable (\$781,724), and an understatement of advances to other funds \$4,625,014.

A prior period adjustment of (\$4,625,014) was made on the Statement of Activities for Business-type Activities for an understatement of advances from other funds.

A prior period adjustment of \$685,831 was made in the General Fund for an understatement of accounts receivable \$171,500, an understatement of advances to other funds \$4,625,014, and an understatement of advances from other funds (\$4,110,683).

A prior period adjustment of \$4,110,683 was made in the Hercules Public Finance Authority Debt Service Fund for an understatement of advances to other funds.

A prior period adjustment of (\$4,625,014) was made in the Hercules Municipal Utility Fund for an understatement of advances from other funds.

16. SUBSEQUENT EVENTS

On July 11, 2007, the Agency issued \$25,890,000 in Tax Allocation Bonds to finance housing related redevelopment activities in the Hercules Merged Project area, make a deposit to the reserve account, and to pay certain costs of issuing the bonds. Payments of interest and principal are due on February 1 and August 1 of each year, and commence on February 1, 2008.

During the July 10, 2007 Agency Board of Directors meeting, the Board adopted a resolution to advance housing set-aside and other Redevelopment Agency funds of approximately \$11,000,000 in order to complete the purchase of the Penterra property, and to authorize the City Manager/Executive Director to sign all documents to close escrow on this purchase.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Hercules
Required Supplementary Information
For the fiscal year ended June 30, 2007

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. The AB-939 JPA and Fire Equipment Special Revenue Funds do not have adopted budgets.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2007, 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
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes and assessments	\$ 5,372,551	\$ 5,372,551	\$ 5,516,772	\$ 144,221
Intergovernmental revenues	49,924	49,924	1,951,792	1,901,868
Licenses and permits	601,644	601,644	508,550	(93,094)
Fines and forfeitures	31,500	31,500	167,635	136,135
Use of money and property	1,780,610	1,780,610	1,485,902	(294,708)
Charges for services	1,869,890	1,869,890	2,221,957	352,067
Other revenues	869,075	869,075	2,048,683	1,179,608
Total revenues	<u>10,575,194</u>	<u>10,575,194</u>	<u>13,901,291</u>	<u>3,326,097</u>
Expenditures:				
Current:				
General government	3,368,118	3,790,068	3,509,624	280,444
Public safety	5,029,094	5,029,094	5,513,184	(484,090)
Streets and public works	616,746	697,246	640,097	57,149
Community development	1,138,096	1,138,096	1,302,116	(164,020)
Parks and recreation	2,363,605	2,363,605	2,228,004	135,601
Lease expense	569,960	569,960	1,021,940	(451,980)
Total expenditures	<u>13,085,619</u>	<u>13,588,069</u>	<u>14,214,965</u>	<u>(626,896)</u>
Excess of revenues over (under) expenditures	<u>(2,510,425)</u>	<u>(3,012,875)</u>	<u>(313,674)</u>	<u>2,699,201</u>
Other Financing Sources (Uses):				
Transfers in	843,062	843,062	796,432	(46,630)
Transfers out			(118,060)	(118,060)
Total other financing sources (uses)	<u>843,062</u>	<u>843,062</u>	<u>678,372</u>	<u>(164,690)</u>
Net changes in fund balance	<u>(1,667,363)</u>	<u>(2,169,813)</u>	<u>364,698</u>	<u>2,534,511</u>
Fund balance - July 1, 2006	26,072,150	26,072,150	26,072,150	
Prior period adjustment			685,831	685,831
Fund balance - July 1, 2006, restated	<u>26,072,150</u>	<u>26,072,150</u>	<u>26,757,981</u>	<u>685,831</u>
Fund balance - June 30, 2007	<u>\$ 24,404,787</u>	<u>\$ 23,902,337</u>	<u>\$ 27,122,679</u>	<u>\$ 3,220,342</u>

CITY OF HERCULES
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget
				Positive
				(Negative)
Revenues:				
Taxes and assessments	\$ 9,827,864	\$ 9,827,864	\$ 13,409,462	\$ 3,581,598
Use of money and property	86,000	86,000	174,587	88,587
Charges for services	10,280	10,280	6,413	(3,867)
Program income			4,492	4,492
Other revenues	3,000	3,000	9,760	6,760
Total revenues	<u>9,927,144</u>	<u>9,927,144</u>	<u>13,604,714</u>	<u>3,677,570</u>
Expenditures:				
Current:				
Community development	4,532,831	6,648,631	4,829,356	1,819,275
Capital outlay	6,000	6,000		6,000
Total expenditures	<u>4,538,831</u>	<u>6,654,631</u>	<u>4,829,356</u>	<u>1,825,275</u>
Excess of revenues over (under) expenditures	<u>5,388,313</u>	<u>3,272,513</u>	<u>8,775,358</u>	<u>5,502,845</u>
Other Financing Sources (Uses):				
Transfers in			1,793,950	1,793,950
Transfers out	(5,875,000)	(6,720,851)	(8,300,298)	(1,579,447)
Total other financing sources (uses)	<u>(5,875,000)</u>	<u>(6,720,851)</u>	<u>(6,506,348)</u>	<u>214,503</u>
Net changes in fund balance	(486,687)	(3,448,338)	2,269,010	5,717,348
Fund balance - July 1, 2006	<u>3,139,074</u>	<u>3,139,074</u>	<u>3,139,074</u>	
Fund balance - June 30, 2007	<u>\$ 2,652,387</u>	<u>\$ (309,264)</u>	<u>\$ 5,408,084</u>	<u>\$ 5,717,348</u>

CITY OF HERCULES
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2007

Funded Status of Miscellaneous Plan (Employer Risk Pool)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (Excess Assets) (A-B)	Funded Status (B/A)	Annual Covered Payroll (C)	UAAL* as a % of Covered Payroll (A-B/C)
6/30/2004	\$ 2,746,095,668	\$ 2,460,944,656	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%
6/30/2005	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%
6/30/2006	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%

Funded Status of Safety Plan (Employer Risk Pool)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (Excess Assets) (A-B)	Funded Status (B/A)	Annual Covered Payroll (C)	UAAL *as a % of Covered Payroll (A-B/C)
6/30/2004	\$ 1,252,474,736	\$ 1,026,500,742	\$ 225,973,994	82.0%	\$ 154,903,754	145.9%
6/30/2005	1,325,510,754	1,105,298,221	220,212,533	83.4%	161,446,071	136.4%
6/30/2006	1,473,284,852	1,252,059,468	221,225,384	85.0%	177,088,890	124.9%

*UAAL – Unfunded actuarial accrued liability

SUPPLEMENTARY INFORMATION

CITY OF HERCULES
REDEVELOPMENT AGENCY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Negative)
Revenues:				
Use of money and property	\$ 900,000	\$ 900,000	\$ 2,315,797	\$ 1,415,797
Total revenues	<u>900,000</u>	<u>900,000</u>	<u>2,315,797</u>	<u>1,415,797</u>
Expenditures:				
Current:				
Community development	4,630,000	4,630,000	3,292,458	1,337,542
Debt service:				
Principal	1,320,000	1,320,000	1,250,590	69,410
Interest and fiscal agent fees	<u>3,271,459</u>	<u>3,271,459</u>	<u>3,372,366</u>	<u>(100,907)</u>
Total expenditures	<u>9,221,459</u>	<u>9,221,459</u>	<u>7,915,414</u>	<u>1,306,045</u>
Excess of revenues over (under) expenditures	<u>(8,321,459)</u>	<u>(8,321,459)</u>	<u>(5,599,617)</u>	<u>2,721,842</u>
Other Financing Sources (Uses):				
Transfers in	5,875,000	5,875,000	8,305,948	2,430,948
Transfers out	<u>(18,070,000)</u>	<u>(18,070,000)</u>	<u>(7,879,613)</u>	<u>10,190,387</u>
Total other financing sources (uses)	<u>(12,195,000)</u>	<u>(12,195,000)</u>	<u>426,335</u>	<u>12,621,335</u>
Net changes in fund balance	(20,516,459)	(20,516,459)	(5,173,282)	15,343,177
Fund balance - July 1, 2006	<u>40,876,176</u>	<u>40,876,176</u>	<u>40,876,176</u>	
Fund balance - June 30, 2007	<u>\$ 20,359,717</u>	<u>\$ 20,359,717</u>	<u>\$ 35,702,894</u>	<u>\$ 15,343,177</u>

CITY OF HERCULES
HERCULES PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Use of money and property	\$ 140,000	\$ 140,000	\$ 289,065	\$ 149,065
Lease revenue	815,230	815,230	1,021,940	206,710
Total revenues	<u>955,230</u>	<u>955,230</u>	<u>1,311,005</u>	<u>355,775</u>
Expenditures:				
Debt service:				
Principal	295,000	295,000	295,000	
Interest and fiscal agent fees	609,230	609,230	726,939	(117,709)
Total expenditures	<u>904,230</u>	<u>904,230</u>	<u>1,021,939</u>	<u>(117,709)</u>
Excess of revenues over (under) expenditures	<u>51,000</u>	<u>51,000</u>	<u>289,066</u>	<u>238,066</u>
Other Financing Sources (Uses):				
Transfers out	(2,571,676)	(2,571,676)	(5,298,179)	(2,726,503)
Total other financing sources (uses)	<u>(2,571,676)</u>	<u>(2,571,676)</u>	<u>(5,298,179)</u>	<u>(2,726,503)</u>
Net changes in fund balance	<u>(2,520,676)</u>	<u>(2,520,676)</u>	<u>(5,009,113)</u>	<u>(2,488,437)</u>
Fund balance - July 1, 2006	8,100,645	8,100,645	8,100,645	
Prior period adjustment			4,110,683	4,110,683
Fund balance - July 1, 2006, restated	<u>8,100,645</u>	<u>8,100,645</u>	<u>12,211,328</u>	<u>4,110,683</u>
Fund balance - June 30, 2007	<u>\$ 5,579,969</u>	<u>\$ 5,579,969</u>	<u>\$ 7,202,215</u>	<u>\$ 1,622,246</u>

CITY OF HERCULES
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Negative)
Revenues:				
Other revenues	\$ -	\$ -	\$ 9	\$ 9
Total revenues			9	9
Expenditures:				
Current:				
General government			17,900	(17,900)
Capital outlay	10,683,500	16,350,249	6,061,725	10,288,524
Total expenditures	10,683,500	16,350,249	6,079,625	10,270,624
Excess of revenues over (under) expenditures	(10,683,500)	(16,350,249)	(6,079,616)	10,270,633
Other Financing Sources (Uses):				
Transfers in	10,683,500	10,683,500	5,809,035	(4,874,465)
Total other financing sources (uses)	10,683,500	10,683,500	5,809,035	(4,874,465)
Net changes in fund balance		(5,666,749)	(270,581)	5,396,168
Fund balance - July 1, 2006	3,775,867	3,775,867	3,775,867	
Fund balance - June 30, 2007	<u>\$ 3,775,867</u>	<u>\$ (1,890,882)</u>	<u>\$ 3,505,286</u>	<u>\$ 5,396,168</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 sub regional 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 specifically for the purchase of fire equipment and an additional fire station.

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NON-MAJOR GOVERNMENTAL FUNDS, Continued

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

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, Hercules Village, Baywood, and Bayside 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.

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2007

Special Revenue Funds

	Development Services Fund	AB 3229 COPS Program Fund	State Gas Tax Fund	Community Development Fund
Assets				
Cash and investments	\$ -	\$ 4,043	\$ 539,386	\$ 660,677
Accounts receivable			43,441	
Grants receivable				
Due from agency fund				
Due from other funds				
Advances to other funds				195,429
Total assets	\$ -	\$ 4,043	\$ 582,827	\$ 856,106
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 2,521	\$ 8,490
Accrued wages				
Total liabilities			2,521	8,490
Fund Balances:				
Reserved:				
Advances				195,429
Future commitments				
Unreserved:				
Designated for future projects		4,043	580,306	652,187
Undesignated				
Total fund balances		4,043	580,306	847,616
Total liabilities and fund balances	\$ -	\$ 4,043	\$ 582,827	\$ 856,106

Special Revenue Funds

Development Fee Fund	STMP Traffic Impact Fund	Measure C Street Fund	State AB-939 Fund
\$ 2,023,193	\$ 92,933	\$ 471,373	\$ 76,446
<hr/>	<hr/>	<hr/>	<hr/>
<u>\$ 2,023,193</u>	<u>\$ 92,933</u>	<u>\$ 471,373</u>	<u>\$ 76,446</u>
\$ -	\$ 5,091	\$ -	\$ 71,319
<hr/>	<hr/>	<hr/>	<hr/>
 	5,091	 	71,319
<hr/>	<hr/>	<hr/>	<hr/>
2,023,193	87,842	471,373	5,127
<hr/>	<hr/>	<hr/>	<hr/>
2,023,193	87,842	471,373	5,127
<hr/>	<hr/>	<hr/>	<hr/>
<u>\$ 2,023,193</u>	<u>\$ 92,933</u>	<u>\$ 471,373</u>	<u>\$ 76,446</u>

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
June 30, 2007

Special Revenue Funds

	Stormwater Assessment Fund	Developer Park Fees Fund	Fire Equipment Fund	DIF Fund
Assets				
Cash and investments	\$ 195,025	\$ 3,489	\$ 78	\$ 6,008,590
Accounts receivable	6,317			
Grants receivable				
Due from agency fund				
Due from other funds				
Advances to other funds				
Total assets	\$ 201,342	\$ 3,489	\$ 78	\$ 6,008,590
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 4,091	\$ -	\$ -	\$ -
Accrued wages	3,691			
Total liabilities	7,782			
Fund Balances:				
Reserved:				
Advances				
Future commitments	3,975		78	
Unreserved:				
Designated for future projects	189,585	3,489		6,008,590
Undesignated				
Total fund balances	193,560	3,489	78	6,008,590
Total liabilities and fund balances	\$ 201,342	\$ 3,489	\$ 78	\$ 6,008,590

Special Revenue Funds

Regional Water Quality Fund	LLAD Fund	Citywide L&L Fund	Fiscal Neutrality Fee Fund	Grant Fund
\$ 40,017	\$ 967,600	\$ 262,160	\$ 2,377,442	\$ 435,906
				9,782
<u>\$ 40,017</u>	<u>\$ 967,600</u>	<u>\$ 262,160</u>	<u>\$ 2,377,442</u>	<u>\$ 445,688</u>
\$ -	\$ 53,497 3,514	\$ 76,510 5,831	\$ -	\$ -
	57,011	82,341		
				255
40,017	910,589	179,819	2,377,442	445,433
40,017	910,589	179,819	2,377,442	445,688
<u>\$ 40,017</u>	<u>\$ 967,600</u>	<u>\$ 262,160</u>	<u>\$ 2,377,442</u>	<u>\$ 445,688</u>

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (Continued)
June 30, 2007

	Capital Project Fund	
	City Capital Project Fund	Totals
Assets		
Cash and investments	\$ 355,656	\$ 14,514,014
Accounts receivable		49,758
Grants receivable	617,769	627,551
Due from agency fund	124,451	124,451
Due from other funds	276,628	276,628
Advances to other funds		195,429
Total assets	\$ 1,374,504	\$ 15,787,831
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 1,267,397	\$ 1,488,916
Accrued wages		13,036
Total liabilities	1,267,397	1,501,952
Fund Balances:		
Reserved:		
Advances		195,429
Future commitments		4,308
Unreserved:		
Designated for future projects		11,068,318
Undesignated	107,107	3,017,824
Total fund balances	107,107	14,285,879
Total liabilities and fund balances	\$ 1,374,504	\$ 15,787,831

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CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2007

Special Revenue Funds

	Development Services Fund	AB 3229 COPS Program Fund	State Gas Tax Fund	Community Development Fund
Revenues:				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Use of money and property		640	29,835	39,170
Intergovernmental revenues		100,000	440,641	
Charges for services				28,500
Other revenues				
Total revenues		100,640	470,476	67,670
Expenditures:				
Current:				
Public safety				
Streets and public works			32,029	
Capital outlay			5,013	28,377
Total expenditures			37,042	28,377
Excess of revenues over (under) expenditures		100,640	433,434	39,293
Other Financing Sources (Uses):				
Proceeds from issuance of long-term debt				
Transfers in				
Transfers out	(257,792)	(100,000)	(145,000)	(442,308)
Total other financing sources (uses)	(257,792)	(100,000)	(145,000)	(442,308)
Net changes in fund balances	(257,792)	640	288,434	(403,015)
Fund balances - July 1, 2006	257,792	3,403	291,872	1,250,631
Fund balances - June 30, 2007	\$ -	\$ 4,043	\$ 580,306	\$ 847,616

Special Revenue Funds

Development Fee Fund	STMP Traffic Impact Fund	Measure C Street Fund	State AB-939 Fund
\$ -	\$ -	\$ -	\$ -
103,689	3,384	19,182	2,658
13,744	39,527	301,839	
		115	
<u>117,433</u>	<u>42,911</u>	<u>321,136</u>	<u>2,658</u>
	42,012	75,300	
		37,686	
	<u>42,012</u>	<u>112,986</u>	
<u>117,433</u>	<u>899</u>	<u>208,150</u>	<u>2,658</u>
<u>(300,000)</u>		<u>(80,000)</u>	
<u>(300,000)</u>		<u>(80,000)</u>	
(182,567)	899	128,150	2,658
<u>2,205,760</u>	<u>86,943</u>	<u>343,223</u>	<u>2,469</u>
<u>\$ 2,023,193</u>	<u>\$ 87,842</u>	<u>\$ 471,373</u>	<u>\$ 5,127</u>

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2007

	Special Revenue Funds			
	Stormwater Assessment Fund	Developer Park Fees Fund	Fire Equipment Fund	DIF Fund
Revenues:				
Taxes and assessments	\$ 308,056	\$ -	\$ -	\$ -
Use of money and property	9,722	15,507	180	250,336
Intergovernmental revenues				364,899
Charges for services				364,899
Other revenues				
Total revenues	317,778	15,507	180	615,235
Expenditures:				
Current:				
Public safety			3,910	76,430
Streets and public works	366,221			8,500
Capital outlay	8,000			
Total expenditures	374,221		3,910	84,930
Excess of revenues over (under) expenditures	(56,443)	15,507	(3,730)	530,305
Other Financing Sources (Uses):				
Proceeds from issuance of long-term debt				34
Transfers in				34
Transfers out		(474,019)	(34)	(309,181)
Total other financing sources (uses)		(474,019)	(34)	(309,147)
Net changes in fund balances	(56,443)	(458,512)	(3,764)	221,158
Fund balances - July 1, 2006	250,003	462,001	3,842	5,787,432
Fund balances - June 30, 2007	\$ 193,560	\$ 3,489	\$ 78	\$ 6,008,590

Special Revenue Funds

Regional Water Quality Fund	LLAD Fund	Citywide L&L Fund	Fiscal Neutrality Fee Fund	Grant Fund
\$ -	\$ 667,786	\$ 977,976	\$ -	\$ -
1,888	34,118	8,996	112,096	(4,200)
			20,960	421,143
	6,715	8,033		7
<u>1,888</u>	<u>708,619</u>	<u>995,005</u>	<u>133,056</u>	<u>416,950</u>
	577,665	1,004,281		3,813
	<u>577,665</u>	<u>1,004,281</u>		<u>3,813</u>
<u>1,888</u>	<u>130,954</u>	<u>(9,276)</u>	<u>133,056</u>	<u>413,137</u>
				400,000
			(50,000)	(369,267)
			(50,000)	30,733
<u>1,888</u>	<u>130,954</u>	<u>(9,276)</u>	<u>83,056</u>	<u>443,870</u>
<u>38,129</u>	<u>779,635</u>	<u>189,095</u>	<u>2,294,386</u>	<u>1,818</u>
<u>\$ 40,017</u>	<u>\$ 910,589</u>	<u>\$ 179,819</u>	<u>\$ 2,377,442</u>	<u>\$ 445,688</u>

(Continued)

CITY OF HERCULES
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Fiscal Year Ended June 30, 2007

	Capital Project Fund	Totals
	City Capital Project Fund	
Revenues:		
Taxes and assessments	\$ -	\$ 1,953,818
Use of money and property	38,534	665,735
Intergovernmental revenues	4,224,182	5,487,805
Charges for services		467,630
Other revenues	124,454	139,324
Total revenues	4,387,170	8,714,312
Expenditures:		
Current:		
Public safety		80,340
Streets and public works		2,106,008
Capital outlay	6,423,249	6,506,138
Total expenditures	6,423,249	8,692,486
Excess of revenues over (under) expenditures	(2,036,079)	21,826
Other Financing Sources (Uses):		
Proceeds from issuance of long-term debt		400,000
Transfers in	6,869,341	6,869,375
Transfers out	(5,650)	(2,533,251)
Total other financing sources (uses)	6,863,691	4,736,124
Net changes in fund balances	4,827,612	4,757,950
Fund balances - July 1, 2006	(4,720,505)	9,527,929
Fund balances - June 30, 2007	\$ 107,107	\$ 14,285,879

CITY OF HERCULES
DEVELOPMENT SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ -	\$ -
Total revenues			
Expenditures:			
Current:			
Streets and public works			
Total expenditures			
Excess of revenues over (under) expenditures			
Other Financing Sources (Uses):			
Transfers out	(257,792)	(257,792)	
Total other financing sources (uses)	(257,792)	(257,792)	
Net changes in fund balance	(257,792)	(257,792)	
Fund balance - beginning of fiscal year	257,792	257,792	
Fund balance - end of fiscal year	\$ -	\$ -	\$ -

CITY OF HERCULES
AB 3229 COPS PROGRAM FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 640	\$ 640
Intergovernmental revenues	100,000	100,000	
Total revenues	<u>100,000</u>	<u>100,640</u>	<u>640</u>
Other Financing Sources (Uses):			
Transfers out	(100,000)	(100,000)	
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	
Net changes in fund balance		640	640
Fund balance - beginning of fiscal year	<u>3,403</u>	<u>3,403</u>	
Fund balance - end of fiscal year	<u>\$ 3,403</u>	<u>\$ 4,043</u>	<u>\$ 640</u>

CITY OF HERCULES
STATE GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 5,000	\$ 29,835	\$ 24,835
Intergovernmental revenues	444,367	440,641	(3,726)
 Total revenues	 449,367	 470,476	 21,109
 Expenditures:			
Current:			
Streets and public works	73,000	32,029	40,971
Capital outlay	1,241,702	5,013	1,236,689
 Total expenditures	 1,314,702	 37,042	 1,277,660
 Excess of revenues over (under) expenditures	 (865,335)	 433,434	 1,298,769
 Other Financing Sources (Uses):			
Transfers in	941,000		(941,000)
Transfers out	(245,000)	(145,000)	100,000
 Total other financing sources (uses)	 696,000	 (145,000)	 (841,000)
 Net changes in fund balance	 (169,335)	 288,434	 457,769
 Fund balance - beginning of fiscal year	 291,872	 291,872	
 Fund balance - end of fiscal year	 \$ 122,537	 \$ 580,306	 \$ 457,769

CITY OF HERCULES
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 12,000	\$ 39,170	\$ 27,170
Charges for services	246,660	28,500	(218,160)
Total revenues	<u>258,660</u>	<u>67,670</u>	<u>(190,990)</u>
Expenditures:			
Capital outlay	291,868	28,377	263,491
Total expenditures	<u>291,868</u>	<u>28,377</u>	<u>263,491</u>
Excess of revenues over (under) expenditures	<u>(33,208)</u>	<u>39,293</u>	<u>72,501</u>
Other Financing Sources (Uses):			
Transfers out	(835,003)	(442,308)	392,695
Total other financing sources (uses)	<u>(835,003)</u>	<u>(442,308)</u>	<u>392,695</u>
Net change in fund balance	(868,211)	(403,015)	465,196
Fund balance - beginning of fiscal year	<u>1,250,631</u>	<u>1,250,631</u>	
Fund balance - end of fiscal year	<u><u>\$ 382,420</u></u>	<u><u>\$ 847,616</u></u>	<u><u>\$ 465,196</u></u>

CITY OF HERCULES
DEVELOPMENT FEE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 30,000	\$ 103,689	\$ 73,689
Charges for services	13,057	13,744	687
Total revenues	<u>43,057</u>	<u>117,433</u>	<u>74,376</u>
Other Financing Sources (Uses):			
Transfers out		(300,000)	(300,000)
Total other financing sources (uses)		<u>(300,000)</u>	<u>(300,000)</u>
Net change in fund balance	43,057	(182,567)	(225,624)
Fund balance - beginning of fiscal year	<u>2,205,760</u>	<u>2,205,760</u>	
Fund balance - end of fiscal year	<u>\$ 2,248,817</u>	<u>\$ 2,023,193</u>	<u>\$ (225,624)</u>

CITY OF HERCULES
STMP TRAFFIC IMPACT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 2,000	\$ 3,384	\$ 1,384
Charges for services	362,645	39,527	(323,118)
Total revenues	364,645	42,911	(321,734)
Expenditures:			
Current:			
Streets and public works	362,645	42,012	320,633
Total expenditures	362,645	42,012	320,633
Net change in fund balance	2,000	899	(1,101)
Fund balance - beginning of fiscal year	86,943	86,943	
Fund balance - end of fiscal year	\$ 88,943	\$ 87,842	\$ (1,101)

CITY OF HERCULES
MEASURE C STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Use of money and property	\$ 2,500	\$ 19,182	\$ 16,682
Intergovernmental revenues	259,419	301,839	42,420
Other revenues	<u>32,163</u>	<u>115</u>	<u>(32,048)</u>
 Total revenues	 <u>294,082</u>	 <u>321,136</u>	 <u>27,054</u>
 Expenditures:			
Current:			
Street and public works		75,300	(75,300)
Capital outlay	<u>502,596</u>	<u>37,686</u>	<u>464,910</u>
 Total expenditures	 <u>502,596</u>	 <u>112,986</u>	 <u>389,610</u>
 Excess of revenues over (under) expenditures	 <u>(208,514)</u>	 <u>208,150</u>	 <u>416,664</u>
 Other Financing Sources (Uses):			
Transfers out	<u>(80,000)</u>	<u>(80,000)</u>	
 Total other financing sources (uses)	 <u>(80,000)</u>	 <u>(80,000)</u>	
 Net change in fund balance	 (288,514)	 128,150	 416,664
 Fund balance - beginning of fiscal year	 <u>343,223</u>	 <u>343,223</u>	
 Fund balance - end of fiscal year	 <u>\$ 54,709</u>	 <u>\$ 471,373</u>	 <u>\$ 416,664</u>

CITY OF HERCULES
STORMWATER ASSESSMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes and assessments	\$ 293,473	\$ 308,056	\$ 14,583
Use of money and property	4,500	9,722	5,222
Total revenues	297,973	317,778	19,805
Expenditures:			
Current:			
Streets and public works	356,122	366,221	(10,099)
Capital outlay	30,000	8,000	22,000
Total expenditures	386,122	374,221	11,901
Excess of revenues over (under) expenditures	(88,149)	(56,443)	31,706
Fund balance - beginning of fiscal year	250,003	250,003	
Fund balance - end of fiscal year	\$ 161,854	\$ 193,560	\$ 31,706

CITY OF HERCULES
DEVELOPER PARK FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 1,500	\$ 15,507	\$ 14,007
Total revenues	1,500	15,507	14,007
Other Financing Sources (Uses):			
Transfers out	(472,000)	(474,019)	(2,019)
Total other financing sources (uses)	(472,000)	(474,019)	(2,019)
Net change in fund balance	(470,500)	(458,512)	11,988
Fund balance - beginning of fiscal year	462,001	462,001	
Fund balance - end of fiscal year	<u>\$ (8,499)</u>	<u>\$ 3,489</u>	<u>\$ 11,988</u>

CITY OF HERCULES
DIF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Use of money and property	\$ 58,050	\$ 250,336	\$ 192,286
Charges for services	<u>3,273,729</u>	<u>364,899</u>	<u>(2,908,830)</u>
 Total revenues	 <u>3,331,779</u>	 <u>615,235</u>	 <u>(2,716,544)</u>
 Expenditures:			
Current:			
Public safety	233,330	76,430	156,900
Streets and public works	<u> </u>	<u>8,500</u>	<u>(8,500)</u>
 Total expenditures	 <u>233,330</u>	 <u>84,930</u>	 <u>148,400</u>
 Excess of revenues over (under) expenditures	 <u>3,098,449</u>	 <u>530,305</u>	 <u>(2,568,144)</u>
 Other Financing Sources (Uses):			
Transfers in		34	34
Transfers out	<u>(1,553,000)</u>	<u>(309,181)</u>	<u>1,243,819</u>
 Total other financing sources (uses)	 <u>(1,553,000)</u>	 <u>(309,147)</u>	 <u>1,243,853</u>
 Net change in fund balance	 1,545,449	 221,158	 (1,324,291)
 Fund balance - beginning of fiscal year	 <u>5,787,432</u>	 <u>5,787,432</u>	 <u> </u>
 Fund balance - end of fiscal year	 <u>\$ 7,332,881</u>	 <u>\$ 6,008,590</u>	 <u>\$ (1,324,291)</u>

CITY OF HERCULES
REGIONAL WATER QUALITY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 600	\$ 1,888	\$ 1,288
Total revenues	600	1,888	1,288
Excess of Revenues Over (Under) Expenditures	600	1,888	1,288
Fund balance - beginning of fiscal year	38,129	38,129	
Fund balance - end of fiscal year	\$ 38,729	\$ 40,017	\$ 1,288

CITY OF HERCULES
LLAD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes and assessments	\$ 656,185	\$ 667,786	\$ 11,601
Use of money and property	7,150	34,118	26,968
Other revenues	6,715	6,715	6,715
Total revenues	663,335	708,619	45,284
Expenditures:			
Current:			
Streets and public works	711,522	577,665	133,857
Total expenditures	711,522	577,665	133,857
Excess of revenues over (under) expenditures	(48,187)	130,954	179,141
Fund balance - beginning of fiscal year	779,635	779,635	
Fund balance - end of fiscal year	\$ 731,448	\$ 910,589	\$ 179,141

CITY OF HERCULES
CITYWIDE L&L FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes and assessments	\$ 997,615	\$ 977,976	\$ (19,639)
Use of money and property	3,000	8,996	5,996
Other revenues	8,033	8,033	8,033
 Total revenues	1,000,615	995,005	(5,610)
 Expenditures:			
Current:			
Streets and public works	929,102	1,004,281	(75,179)
 Total expenditures	929,102	1,004,281	(75,179)
 Excess of revenues over (under) expenditures	71,513	(9,276)	(80,789)
 Fund balance - beginning of fiscal year	189,095	189,095	
 Fund balance - end of fiscal year	\$ 260,608	\$ 179,819	\$ (80,789)

CITY OF HERCULES
FISCAL NEUTRALITY FEE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ 50,000	\$ 112,096	\$ 62,096
Charges for services	19,912	20,960	1,048
Total revenues	<u>69,912</u>	<u>133,056</u>	<u>63,144</u>
Other Financing Sources (Uses):			
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	
Net change in fund balance	19,912	83,056	63,144
Fund balance - beginning of fiscal year	<u>2,294,386</u>	<u>2,294,386</u>	
Fund balance - end of fiscal year	<u><u>\$ 2,314,298</u></u>	<u><u>\$ 2,377,442</u></u>	<u><u>\$ 63,144</u></u>

CITY OF HERCULES
GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ (4,200)	\$ (4,200)
Intergovernmental revenues	2,369,837	421,143	(1,948,694)
Other revenues	7	7	7
Total revenues	2,369,837	416,950	(1,952,887)
Expenditures:			
Capital outlay	330,856	3,813	327,043
Total expenditures	330,856	3,813	327,043
Excess of revenues over (under) expenditures	2,038,981	413,137	(1,625,844)
Other Financing Sources (Uses):			
Proceeds from issuance of long-term debt	3,900,000	400,000	(3,500,000)
Transfers out	(4,697,000)	(369,267)	4,327,733
Total other financing sources (uses)	(797,000)	30,733	827,733
Net change in fund balance	1,241,981	443,870	(798,111)
Fund balance - beginning of fiscal year	1,818	1,818	
Fund balance - end of fiscal year	\$ 1,243,799	\$ 445,688	\$ (798,111)

CITY OF HERCULES
CITY CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 38,534	\$ 38,534
Intergovernmental revenues	4,224,182	4,224,182	
Other revenues	<u> </u>	<u>124,454</u>	<u>124,454</u>
 Total revenues	 <u>4,224,182</u>	 <u>4,387,170</u>	 <u>162,988</u>
Expenditures:			
Capital outlay	<u>28,373,266</u>	<u>6,423,249</u>	<u>21,950,017</u>
 Total expenditures	 <u>28,373,266</u>	 <u>6,423,249</u>	 <u>21,950,017</u>
 Excess of revenues over (under) expenditures	 <u>(24,149,084)</u>	 <u>(2,036,079)</u>	 <u>22,113,005</u>
Other Financing Sources (Uses):			
Transfers in	21,984,190	6,869,341	(15,114,849)
Transfers out	<u> </u>	<u>(5,650)</u>	<u>(5,650)</u>
 Total other financing sources (uses)	 <u>21,984,190</u>	 <u>6,863,691</u>	 <u>(15,120,499)</u>
 Net change in fund balance	 (2,164,894)	 4,827,612	 6,992,506
 Fund balance - beginning of fiscal year	 <u>(4,720,505)</u>	 <u>(4,720,505)</u>	 <u> </u>
 Fund balance - end of fiscal year	 <u><u>\$ (6,885,399)</u></u>	 <u><u>\$ 107,107</u></u>	 <u><u>\$ 6,992,506</u></u>

INTERNAL SERVICE FUNDS

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

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.

The **Facility Maintenance Fund** accumulates funds for the maintenance of facilities used by City Departments.

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2007

	Vehicle Replacement Fund	IT Equipment Replacement Fund	Facility Maintenance Fund	Total
ASSETS				
Current Assets:				
Cash and investments	\$ 1,207,827	\$ 436,172	\$ 168,521	\$ 1,812,520
Total current assets	<u>1,207,827</u>	<u>436,172</u>	<u>168,521</u>	<u>1,812,520</u>
Capital Assets:				
Depreciable				
Machinery and equipment	1,547,354	309,286		1,856,640
Total depreciable capital assets	1,547,354	309,286		1,856,640
Less accumulated depreciation	<u>(953,515)</u>	<u>(142,908)</u>		<u>(1,096,423)</u>
Net depreciable capital assets	<u>593,839</u>	<u>166,378</u>		<u>760,217</u>
Net capital assets	<u>593,839</u>	<u>166,378</u>		<u>760,217</u>
Total noncurrent assets	<u>593,839</u>	<u>166,378</u>		<u>760,217</u>
Total assets	<u>1,801,666</u>	<u>602,550</u>	<u>168,521</u>	<u>2,572,737</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	7,507	8,725	44,901	61,133
Accrued wages		6,931	4,207	11,138
Total current liabilities	<u>7,507</u>	<u>15,656</u>	<u>49,108</u>	<u>72,271</u>
Noncurrent Liabilities:				
Compensated absences		3,070	7,008	10,078
Total liabilities	<u>7,507</u>	<u>18,726</u>	<u>56,116</u>	<u>82,349</u>
NET ASSETS				
Investment in capital assets, net of related debt	593,839	166,378		760,217
Unrestricted	<u>1,200,320</u>	<u>417,446</u>	<u>112,405</u>	<u>1,730,171</u>
Total net assets	<u>\$ 1,794,159</u>	<u>\$ 583,824</u>	<u>\$ 112,405</u>	<u>\$ 2,490,388</u>

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

	Vehicle Replacement Fund	IT Equipment Replacement Fund	Facility Maintenance Fund	Totals
Revenues:				
Charges for services	\$ 198,300	\$ 445,698	\$ -	\$ 643,998
Total revenues	<u>198,300</u>	<u>445,698</u>		<u>643,998</u>
Expenses:				
Administration	434	380,064	111,260	491,758
Depreciation	191,423	59,520		250,943
Total expenses	<u>191,857</u>	<u>439,584</u>	<u>111,260</u>	<u>742,701</u>
Operating Income (Loss)	<u>6,443</u>	<u>6,114</u>	<u>(111,260)</u>	<u>(98,703)</u>
Non-Operating Revenues (Expenses):				
Gain (loss) on sale of capital assets	(13,500)			(13,500)
Interest income	35,630			35,630
Total non-operating Revenues (Expenses)	<u>22,130</u>			<u>22,130</u>
Income (Loss) before transfers	28,573	6,114	(111,260)	(76,573)
Transfers:				
Transfers in	<u>287,128</u>	<u>84,575</u>	<u>223,665</u>	<u>595,368</u>
Total change in net assets before capital contributions	315,701	90,689	112,405	518,795
Capital contributions		<u>37,108</u>		<u>37,108</u>
Change in net assets	315,701	127,797	112,405	555,903
Net Assets, July 1, 2006	<u>1,478,458</u>	<u>456,027</u>		<u>1,934,485</u>
Net Assets, June 30, 2007	<u>\$ 1,794,159</u>	<u>\$ 583,824</u>	<u>\$ 112,405</u>	<u>\$ 2,490,388</u>

CITY OF HERCULES
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007

	Vehicle Replacement Fund	IT Equipment Replacement Fund	Facility Maintenance Fund	Totals
Cash Flows from Operating Activities:				
Receipts from customers	\$ 198,300	\$ 445,698	\$ -	\$ 643,998
Payment to suppliers and users	5,617	(240,365)	142,182	(92,566)
Payment to employees		(139,347)	(197,326)	(336,673)
Net Cash Provided (Used) by Operating Activities	203,917	65,986	(55,144)	214,759
Cash flows from Non-Capital Financing Activities				
Transfers received	287,128	84,575	223,665	595,368
Net Cash Provided by Non-Capital Financing Activities	287,128	84,575	223,665	595,368
Cash flows from Capital and related Financing Activities:				
Contributed capital		37,108		37,108
Acquisition of capital assets	(310,993)	(37,108)		(348,101)
Net Cash Provided by Capital and related Financing Activities	(310,993)			(310,993)
Cash flows from Investing Activities:				
Interest received	35,630			35,630
Net Cash Provided (Used) by Investing Activities	35,630			35,630
Net Increase (Decrease) in Cash and Cash Equivalents	215,682	150,561	168,521	534,764
Cash and Cash Equivalents, July 1, 2006	992,145	285,611		1,277,756
Cash and Cash Equivalents, June 30, 2007	<u>\$ 1,207,827</u>	<u>\$ 436,172</u>	<u>\$ 168,521</u>	<u>\$ 1,812,520</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 6,443	\$ 6,114	\$ (111,260)	\$ (98,703)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	191,423	59,520		250,943
Increase (Decrease) in Operating Liabilities:				
Accounts payable	6,051	3,510	44,901	54,462
Accrued wages		2,949	4,207	7,156
Compensated absences		(6,107)	7,008	901
Net Cash Provided (Used) by Operating Activities	\$ 203,917	\$ 65,986	\$ (55,144)	\$ 214,759

FIDUCIARY FUNDS

Pension Trust Fund:

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

Agency Funds:

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

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

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

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

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

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

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

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

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
WESTCAT TRANSIT				
ASSETS				
Cash and investments	\$ (3,533)	\$ -	\$ -	\$ (3,533)
Total Assets	<u>\$ (3,533)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,533)</u>
LIABILITIES				
Deposits payable	\$ (3,533)	\$ -	\$ -	\$ (3,533)
Total Liabilities	<u>\$ (3,533)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,533)</u>
WEST CONTRA COSTA INTEGRATED WASTE MANAGEMENT AUTHORITY				
ASSETS				
Cash and investments	\$ 5,786,510	\$ 1,053,008	\$ -	\$ 6,839,518
Accounts receivable	299,017	204,654		503,671
Prepaid expense	12,374	10,024		22,398
Notes receivable	141,924		(141,924)	
Total Assets	<u>\$ 6,239,825</u>	<u>\$ 1,267,686</u>	<u>\$ (141,924)</u>	<u>\$ 7,365,587</u>
LIABILITIES				
Accounts payable	\$ 801,707	\$ 111,729	\$ -	\$ 913,436
Compensated absences	11,711		(1,471)	10,240
Deposits payable	5,426,407	1,155,957	(140,453)	6,441,911
Total Liabilities	<u>\$ 6,239,825</u>	<u>\$ 1,267,686</u>	<u>\$ (141,924)</u>	<u>\$ 7,365,587</u>
REASSESSMENT DISTRICT 91-1				
ASSETS				
Cash and investments	\$ 304,035	\$ 15,049	\$ -	\$ 319,084
Total Assets	<u>\$ 304,035</u>	<u>\$ 15,049</u>	<u>\$ -</u>	<u>\$ 319,084</u>
LIABILITIES				
Accounts payable	\$ 304,035	\$ 15,049	\$ -	\$ 319,084
Total Liabilities	<u>\$ 304,035</u>	<u>\$ 15,049</u>	<u>\$ -</u>	<u>\$ 319,084</u>
REASSESSMENT DISTRICT 05-1				
ASSETS				
Cash and investments	\$ 249,268	\$ 111,114	\$ -	\$ 360,382
Cash and investments with fiscal agent	6,263,086	318,733		6,581,819
Total Assets	<u>\$ 6,512,354</u>	<u>\$ 429,847</u>	<u>\$ -</u>	<u>\$ 6,942,201</u>
LIABILITIES				
Due to City's Capital Projects Fund	\$ 7,625	\$ 116,826	\$ -	\$ 124,451
Deposits payable	6,504,729	313,021		6,817,750
Total Liabilities	<u>\$ 6,512,354</u>	<u>\$ 429,847</u>	<u>\$ -</u>	<u>\$ 6,942,201</u>

CITY OF HERCULES
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
A. NOBEL REASSESSMENT DISTRICT				
ASSETS				
Cash and investments	\$ 1,058,040	\$ 121,835	\$ -	\$ 1,179,875
Cash and investments with fiscal agent	872,045	45,337		917,382
Total Assets	\$ 1,930,085	\$ 167,172	\$ -	\$ 2,097,257
LIABILITIES				
Deposits payable	\$ 1,930,085	\$ 167,172	\$ -	\$ 2,097,257
Total Liabilities	\$ 1,930,085	\$ 167,172	\$ -	\$ 2,097,257
TAYLOR WOODROW MAINTENANCE LMOD				
ASSETS				
Cash and investments	\$ 51,783	\$ 2,563	\$ -	\$ 54,346
Total Assets	\$ 51,783	\$ 2,563	\$ -	\$ 54,346
LIABILITIES				
Deposits payable	\$ 51,783	\$ 2,563		\$ 54,346
Total Liabilities	\$ 51,783	\$ 2,563	\$ -	\$ 54,346
HERCULES COMMUNITY LIBRARY				
ASSETS				
Cash and investments	\$ 245,470	\$ 95,717	\$ (4,300)	\$ 336,887
Total Assets	\$ 245,470	\$ 95,717	\$ (4,300)	\$ 336,887
LIABILITIES				
Accounts payable	\$ 4,300	\$ -	\$ (4,300)	\$ -
Deposits payable	241,170	95,717		336,887
Total Liabilities	\$ 245,470	\$ 95,717	\$ (4,300)	\$ 336,887
HERCULES GOLF CLUB				
ASSETS				
Cash and investments	\$ 9,715	\$ 6,553	\$ -	\$ 16,268
Accounts receivable	74		(74)	
Total Assets	\$ 9,789	\$ 6,553	\$ (74)	\$ 16,268
LIABILITIES				
Accounts payable	\$ 658	\$ 1,249	\$ -	\$ 1,907
Deposits payable	9,131	5,304	(74)	14,361
Total Liabilities	\$ 9,789	\$ 6,553	\$ (74)	\$ 16,268



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hercules, California, as of and for the fiscal year ended June 30, 2007 which collectively comprise the City of Hercules' basic financial statements, and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hercules' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hercules' financial statements that is more than inconsequential will not be prevented or detected by the City of Hercules' internal control.

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

OFFICES: BEVERLY HILLS • SANTA MARIA

MEMBER AMERICAN INSTITUTE OF C.P.A.'s • CALIFORNIA SOCIETY OF C.P.A.'s • CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS • CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Hercules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Hercules in a separate letter dated January 19, 2008.

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

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
June 6, 2008

STATISTICAL SECTION

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

	Fiscal Year		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities			
Invested in capital assets, net of related debt	\$ 25,731	\$ (11,063)	\$ 5,415
Restricted	37,692	61,752	79,222
Unrestricted	<u>13,589</u>	<u>36,881</u>	<u>19,687</u>
Total Governmental Activities	<u>\$ 77,012</u>	<u>\$ 87,571</u>	<u>\$ 104,324</u>
Business-type activities			
Invested in capital assets, net of related debt	\$ 5,780	\$ 8,009	\$ 12,758
Restricted	236	236	
Unrestricted	<u>1,486</u>	<u>1,692</u>	<u>(5,483)</u>
Total Business-type activities	<u>\$ 7,503</u>	<u>\$ 9,938</u>	<u>\$ 7,275</u>
Primary government			
Invested in capital assets, net of related debt	\$ 31,511	\$ (3,053)	\$ 18,173
Restricted	37,928	61,989	79,222
Unrestricted	<u>15,076</u>	<u>38,573</u>	<u>14,204</u>
Total primary government	<u>\$ 84,515</u>	<u>\$ 97,508</u>	<u>\$ 111,599</u>

Source: CAFR 2005, 2006, 2007

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

Expenses	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities:			
General government	\$ 8,392	\$ 4,104	\$ 4,732
Public safety	3,897	4,664	5,628
Public works	7,452	4,204	4,860
Community development	2,138	10,623	8,163
Parks and recreation	2,156	2,243	2,382
Interest on long-term debt (Unallocated)	<u>2,447</u>	<u>3,510</u>	<u>4,114</u>
Total governmental activities expense	<u>26,482</u>	<u>29,348</u>	<u>29,878</u>
Business-type activities			
Sewer	1,836	2,112	2,657
Hercules Municipal Utility Fund	<u>1,486</u>	<u>2,320</u>	<u>2,801</u>
Total business-type activities expense	<u>3,322</u>	<u>4,432</u>	<u>5,458</u>
Total primary government expenses	<u><u>\$ 29,804</u></u>	<u><u>\$ 33,780</u></u>	<u><u>\$ 35,337</u></u>
Program Revenues			
Governmental activities:			
Charges for services			
General government	\$ 559	\$ 175	\$ 1,082
Community development	4,904	3,791	1,450
Parks and recreation	1,307	1,425	1,468
Other activities	323	241	433
Operating grants and contributions	1,307	32	434
Capital grants and contributions	<u>15,111</u>	<u>6,416</u>	<u>6,983</u>
Total governmental activities program revenues	23,510	12,080	11,850
Business-type activities:			
Charges for services			
Sewer	2,762	3,163	2,326
Hercules Municipal Utility Fund	1,415	1,701	1,727
Capital grants and contributions	<u>838</u>	<u>0</u>	<u>3,116</u>
Total business-type activities program revenues	<u>5,014</u>	<u>4,864</u>	<u>7,169</u>
Total primary government program revenues	<u><u>\$ 28,525</u></u>	<u><u>\$ 16,944</u></u>	<u><u>\$ 19,019</u></u>

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net (expense)/revenue:			
Governmental activities	\$ (2,972)	\$ (17,268)	\$ (18,029)
Business-type activities	<u>1,692</u>	<u>432</u>	<u>1,711</u>
Total primary government net expense	<u>\$ (1,280)</u>	<u>\$ (16,836)</u>	<u>\$ (16,318)</u>
General Revenue and Other Changes in Net Assets			
Governmental activities:			
Property taxes	\$ 12,144	\$ 13,478	\$ 16,777
Sales and other taxes	6,020	6,856	6,746
Investment earnings	2,638	3,439	4,967
Miscellaneous	1,889	3,855	2,198
Loss on sale of assets	(717)	(9)	(14)
Transfers	<u>(738)</u>	<u>(2,003)</u>	<u>41</u>
Total Governmental activities	<u>21,236</u>	<u>25,616</u>	<u>30,715</u>
Business-type activities			
Investment earnings			292
Transfers	<u>738</u>	<u>2,003</u>	<u>(41)</u>
Total business-type activities	<u>738</u>	<u>2,003</u>	<u>251</u>
Total primary government	<u>\$ 21,974</u>	<u>\$ 27,619</u>	<u>\$ 30,966</u>
Change in Net Assets			
Governmental activities	\$ 18,264	\$ 8,348	\$ 12,686
Business-type activities	<u>2,430</u>	<u>2,435</u>	<u>1,962</u>
Total primary government	<u>\$ 20,695</u>	<u>\$ 10,783</u>	<u>\$ 14,648</u>

Source: CAFR 2005, 2006, 2007

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
	2005	13,134	1,431	1,271	420	383	279	259	138
2006	13,478	1,789	1,669	690	479	295	1,765	168	20,334
2007	16,777	1,824	1,821	441	496	131	1,884	152	23,525

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

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

	<u>2005</u>	<u>Fiscal Year 2006</u>	<u>2007</u>
General Fund			
Reserved	\$ 14,548	\$ 14,262	\$ 17,518
Unreserved	<u>12,190</u>	<u>11,810</u>	<u>9,604</u>
Total General Fund	<u>\$ 26,738</u>	<u>\$ 26,072</u>	<u>\$ 27,123</u>
All other governmental funds			
Reserved and unreserved designated	\$ 28,183	63,618	52,375
Unreserved, reported in:			
Special revenue funds	2,449	6,608	13,979
Capital projects funds		-	107
Redevelopment Agency	<u>(10,393)</u>	<u>(4,807)</u>	<u>(357)</u>
Total all other governmental funds	<u>\$ 20,239</u>	<u>\$ 65,420</u>	<u>\$ 66,104</u>

Source: CAFR 2005, 2006, 2007

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		
	2005	2006	2007
Revenues			
Taxes	\$ 16,303	\$ 18,550	\$ 20,880
Intergovernmental	3,264	3,084	7,440
Licenses and permits	1,086	753	508
Fines and forfeitures	57	64	168
Use of money and property	2,685	3,439	4,931
Program Income			4
Charges for services	5,407	4,665	2,696
Lease income	532	920	1,022
Other revenues	1,650	1,355	2,198
Total Revenues	30,983	32,829	39,847
Expenditures			
General government	8,176	3,792	3,528
Public safety	3,809	4,654	5,593
Public works	1,553	2,266	2,746
Community development	1,155	10,637	9,424
Parks and recreation	1,944	2,116	2,228
Capital outlay	5,469	9,568	12,568
Lease expense	532	920	1,022
Debt service			
Principal	4,287	438	1,546
Interest	2,256	3,120	4,099
Bond issuance cost		1,079	
Total Expenditures	29,182	38,591	42,754
Excess of revenues over (under) expenditures	1,802	(5,761)	(2,907)
Other financing sources (uses)			
Issuance of bonds		56,260	
Premium from Issuance		2,176	
Refunding Payment to escrow		(6,351)	
Proceeds from long-term debt			400
Transfers in	4,418	20,258	23,575
Transfers out	(6,648)	(22,328)	(24,129)
Total other financing sources (uses)	(2,231)	50,015	(154)
Net change in fund balances	\$ (429)	\$ 44,253	\$ (3,061)
Debt as a percentage of noncapital expenditures	27.59%	15.98%	18.70%

Source: CAFR 2005, 2006, 2007

City of Hercules
Assessed Value and Estimated Actual Value of Taxable Property
Current Year
(amounts expressed in thousands)

Fiscal Year Ended June 30	Real Property	Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
2005	2,410,917	29,865	65,569	2,375,214	1.2448
2006	2,821,941	35,128	82,382	2,774,687	1.2343
2007	3,187,086	39,352	83,861	3,142,577	1.2359

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 Overlapping¹ Governments
Last Three Fiscal Years

FISCAL YEAR	Basic Countywide Tax	Town of Hercules	Bart	East Bay Regional Park	Martinez USD	West Contra Costa USD	John Swett School	Community College
2005	1.0000	-	0.0000	0.0057	0.0923	0.1153	0.0273	0.0042
2006	1.0000	-	0.0048	0.0057	0.0904	0.1041	0.0246	0.0047
2007	1.0000		0.0050	0.0085	0.0794	0.1143	0.0244	0.0043

**City of Hercules
Principal Property Taxpayers
June 30, 2007
(amounts expressed in thousands)**

<u>Taxpayer</u>	<u>2007</u>			<u>2006</u>		
	<u>Taxable</u>	<u>Rank</u>	<u>% of Total</u>	<u>Taxable</u>	<u>Rank</u>	<u>% of Total</u>
	<u>Assessed</u>		<u>Assessed</u>	<u>Assessed</u>		<u>Assessed</u>
	<u>Value</u>		<u>Value</u>	<u>Value</u>		<u>Value</u>
Bio-Rad Laboratories	\$ 111,349	1	3.54%	\$ 111,608	1	4.02%
Eden Victoria LP	18,004	2	0.57%	17,651	3	0.64%
HD Development of Maryland	16,542	3	0.53%	16,264	4	0.59%
Santa Clara Vly Housing Group	13,450	4	0.43%			
Walmart Stores Inc	12,684	5	0.40%			
Three Trees Holdings LLC	11,236	6	0.36%	11,015	5	0.40%
Rago Development Corporation	8,604	7	0.27%	8,435	6	0.30%
Tulloch Brian	7,862	8	0.25%	7,708	7	0.28%
Besphil & Co Ltd	7,708	9	0.25%			
Lewis - Hercules LLC	7,584	10	0.24%	7,435	8	0.27%
Greenparks/Sage Franklin Canyon				24,801	2	0.89%
Orinda Investors LP				6,129	9	0.22%
Dathe Robert P. & Charlotta R.				6,065	10	0.22%
All others	<u>2,927,552</u>		<u>93.16%</u>	<u>2,557,576</u>		<u>92.18%</u>
Total	<u>\$ 3,142,577</u>		<u>100.00%</u>	<u>\$ 2,774,687</u>		<u>100.00%</u>

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 ¹		Collections in Subsequent Years ¹	Total Collections to Date	
		Amount	Percentage		Amount	Percentage
2005	13,134	13,134	100%	n/a	13,134	100%
2006	13,478	13,478	100%	n/a	13,478	100%
2007	16,777	16,777	100%	n/a	16,777	100%

¹ 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)

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

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

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

City of Hercules
Direct and Overlapping Governmental Activities Debt
As of June 30, 2007
(amounts expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping Tax and Assessment Debt:			
Bay Area Rapid Transit District	87,185	0.513%	447
Contra Costa Community College District	112,900	1.592%	1,797
John Swett Unified School District	9,720	9.426%	916
West Contra Costa Unified School District	536,504	9.930%	53,275
West Contra Costa Healthcare Parcel Tax Obligations	25,315	10.124%	2,563
East Bay Municipal Utility District	1,095	1.467%	16
East Bay Regional Park District	166,295	0.746%	1,241
City of Hercules 1915 Act Bonds	13,540	100.000%	13,540
Total Gross Overlapping Tax and Assessment Debt	952,554		73,795
Less East Bay Municipal Utility District (100% self-supporting)	-		16
Total Net Overlapping Tax and Assessment Debt	952,554		73,779
Direct and Overlapping General Fund Debt:			
Contra Costa County General Fund Obligations	381,735	1.588%	6,062
Contra Costa County Pension Obligations	515,710	1.588%	8,189
Contra Costa County Board of Education Certificates of Participati	900	1.588%	14
Contra Costa Community College District Certificates of participati	1,165	1.520%	18
West Contra Costa Unified School District Certificates of Participat	26,075	9.930%	2,589
City of Hercules General Fund Obligations	15,510	100.000%	15,510
Total Direct and Overlapping General Fund Debt	941,095		32,383
Gross Combined Total Debt	1,893,649		106,178
Net Combined Total Debt	1,893,649		106,162

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

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

Ratios to 2006-07 Assessed Valuation

Total Gross Overlapping Tax and Assessment Debt	2.320%
Total Net Overlapping Tax and Assessment Debt	2.320%

Ratios to Adjusted Assessed Valuation

Combined Direst Debt (\$15,510,000)	0.770%
Gross Combined Total Debt	5.250%
Net Combined Total Debt	5.250%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

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

	Fiscal Year		
	2005	2006	2007
Debt Limit	366,117	428,560	483,966
Total net debt applicable to limit			
Legal debt margin	366,117	428,560	483,966
Total net debt applicable to the limit as a percentage of debt limit			
Legal Debt Margin Calculation for Fiscal Year 2007:			
Assessed value ¹	3,142,577		
Add back: exempt real property ¹	83,861		
Total assessed value ¹	3,226,438		
Debt limit (15% of total assessed value)	483,966		
Debt applicable to limit:			
General obligation bonds			
Less: Amount set aside for repayment of general obligation debt			
Total net debt applicable to limit			
Legal debt margin	483,966		

Note: Under state finance law, the City of Hercules' outstanding debt should not exceed 15 percent of total assessed

¹Source: Stephen J. Ybarra, Auditor-Controller, Contra Costa County

**City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Special	Less:	Net	Debt Service		<u>Coverage</u>
	<u>Assessment Collections</u>	<u>Operating Expenses</u>	<u>Available Revenue</u>	<u>Principal</u>	<u>Interest</u>	
1997						
1998						
1999						
2000						
2001						
2002						
2003						
2004						
2005						
2006	-	16,136	(16,136)	-	1,246,114	-0.01
2007	-	16,051	(16,051)	1,210,000	2,614,630	0.00

**City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Special	Less:	Net	Debt Service		Coverage
	Assessment Collections	Operating Expenses	Available Revenue	Principal	Interest	
1997	730,317	1,116	729,201	260,000	910,379	0.62
1998	2,687,568	1,361	2,686,207	275,000	891,650	2.30
1999	1,125,671	1,404	1,124,267	295,000	871,447	0.96
2000	1,128,217	12,945	1,115,272	315,000	849,598	0.96
2001	1,551,641	2,135	1,549,506	340,000	825,848	1.33
2002	998,946	7,630	991,316	10,635,000	1,107,784	0.08
2003	958,201	4,996	953,205	435,000	545,675	0.97
2004	1,057,076	4,193	1,052,883	465,000	519,403	1.07
2005	1,009,553	32,463	977,090	490,000	493,385	0.99
2006	993,642	11,523	982,119	625,000	466,281	0.90
2007	941,081	8,659	932,422	730,000	432,513	0.80

**City of Hercules
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Special	Less:	Net	Debt Service		Coverage
	Assessment Collections	Operating Expenses	Available Revenue	Principal	Interest	
1997						
1998						
1999						
2000						
2001						
2002						
2003						
2004						
2005						
2006	434,616	7,172	427,444	-	186,313	2.29
2007	465,924	8,109	457,815	75,345	310,835	1.19

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

Fiscal Year	Population ⁵	Personal Income (in thousands) ³	Per Capita Personal Income ³	Labor Force ¹	Unemployment Rate ¹
2005	23,360	n/a ⁴	n/a ⁴	11,300 ²	3.3% ²
2006	23,834	n/a ⁴	n/a ⁴	11,200 ²	2.9% ²
2007	23,975	n/a ⁴	n/a ⁴	11,600 ⁶	3.1% ⁶

Notes: ¹ Annual Average. Source is EDD

² At June 30

³ Information for Contra Costa County - City information not available.
Source is California Statistical Abstract.

⁴ Information will be provided for these years in later reports. Source: California Statistical Abstract

⁵ Source: California Department of Finance

⁶ At July 20, 2007

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

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

Employer	2007			2006		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Bio-Rad	1184	1	39.37%	1118	1	24.44%
Mechanics Bank	250	2	8.31%	195	2	4.26%
Home Depot	150	3	4.99%	140	3	3.06%
Contra Costa County	146	4	4.86%	115	5	2.51%
Hercules Middle/High School	140	5	4.66%	120	4	2.62%
Albertsons/Sav-On	95	6	3.16%	85	6	1.86%
A&B Diecast	81	7	2.69%	74	7	1.62%
Northview Pacific Laboratories	60	8	2.00%	60	8	1.31%
Franklin Canyon Golf Course	40	9	1.33%	35	11	0.77%
PTRL West Inc	40	10	1.33%			
Big Lots	39	11	1.30%	39	10	0.85%
Pro Media	36	12	1.20%	30	13	0.66%
Prudential California Realty	35	13	1.16%			
Ohlone Elementary School	33	14	1.10%	50	9	1.09%
Round Table Pizza	33	15	1.10%			
Histopathology Reference Lab	30	16	1.00%	33	12	0.72%
Radstons Office Plus	17	17	0.57%		15	
Shields Nursing Center Inc	11	18	0.37%	10	14	0.22%
	<u>2420</u>		<u>80.48%</u>	<u>2104</u>		<u>46.00%</u>

Note: Total City Employment figures not available for 2002

Source: California Employment Development Department

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

Function	June 30		
	2005	2006	2007
General government	20	22	23
Public safety			
Police	27	26	32
Public works	15	22	14
Community development	6	9	9
Parks and recreation	63	54	54
Hercules Municipal Utility	3	5	5
Total	134	138	137

Source: City of Hercules Payroll Records

**City of Hercules
Operating Indicators by Function
Last Three Fiscal Years**

Function	2005	Fiscal Year 2006	2007
Public Safety			
Part 1 crimes ¹	741	625	602
Total Incidents	18,111	19,536	26,078
Police reports	3,081	3,116	3,333
Public Works			
Street resurfacing (miles)	6	10	3
Street lights repaired	50	75	25
Potholes filled (sq. ft.)	175	100	50
Community Development			
Public improvements ² (\$000)	300	16,200	16,200
Total permit valuation (\$000)	55,425	61,550	25,225
Tax increment generated ⁴ (\$000)	6,390	8,917	11,443
% Change in Sales Tax Receipts	24.28% ⁵	31.29%	9.06%
Parks and Recreation			
Community Events (July 4th, Cultural Festival, etc.) (Attendance)	10,000	11,000	13,500
Sports Programs (e.g. basketball, softball)	6,155	5,923	6,050
Child Care programs (Enrollment)	368	300	338
Day/Summer Camps (Enrollment)	333	1,621	1,434
Teen/Youth Council (Enrollment)	90	98	88
Aquatic programs (Enrollment/attendance)	5,813	9,304	8,966
Senior Center (Enrollment/attendance)	27,866	36,000	49,575

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

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

²Measures public construction/improvement within the city.

⁴Measures redevelopment activity within the city.

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

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

Function	Fiscal Year		
	2005	2006	2007
Public Safety			
Police			
Stations	1	1	1
Patrol units	18	18	18
Public Works			
Streets (miles)	57	57	57
Streetlights	1800	1800	1800
Traffic Lights	12	12	12
Sanitary Sewers (miles)	58	58	58
Parks and Recreation			
Parks acreage	104.5	104.5	104.5
Parks	8	9	9
Swimming pools	1	1	1

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