08-0447

NEW ISSUE – BOOK-ENTRY ONLY **RATING**

Standard & Poor's: AA-
(See "CONCLUDING INFORMATION -- Rating on the Bonds" herein)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California. ***The Authority has taken no action to cause, and does not intend, interest on the Bonds to be excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes.*** *See "LEGAL MATTERS — Tax Matters" herein.*

$10,080,000
HERCULES PUBLIC FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, SERIES 2009
(BIO-RAD PROJECT)

Dated: Date of Delivery **Due: July 1, as shown on the inside cover hereof**

The Hercules Public Financing Authority (the "Authority") will issue its Taxable Lease Revenue Bonds, Series 2009 (Bio-Rad Project) (the "Bonds") pursuant to an Indenture, dated as of July 1, 2009 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds are payable from Revenues comprised of (i) all payments to the Trustee (as assignee of the Authority) pursuant to the Lease (as defined and described herein), (ii) the City Advances (as defined and described herein), (iii) all amounts held in the funds and accounts created under the Indenture, and (iv) all other receipts of the Trustee (as assignee of the Authority) attributable to the ownership, leasing or operation of the Leased Premises (as defined herein). See "SOURCES OF PAYMENT FOR THE BONDS" herein.

Interest on the Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2010. The Bonds will be issued as fully registered bonds, without coupons, in the denomination of $5,000 or any integral multiple thereof. The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interest in the Bonds. For so long as the Bonds are registered in the name of Cede & Co., the Trustee will make all payments of principal and interest on the Bonds to DTC, which, in turn, is obligated to remit such principal and interest to DTC Participants (defined herein) for subsequent disbursement to the Beneficial Owners (defined herein) of the Bonds. See "THE BONDS" herein.

The Bonds are subject to optional redemption, special mandatory redemption and mandatory sinking account redemption. See "THE BONDS – Redemption" herein.

The Bonds are limited obligations of the Authority payable solely from and secured solely by a pledge of the Revenues. The Bonds are not a debt of the City of Hercules (the "City"), the Hercules Redevelopment Agency (the "Agency"), the State of California (the "State") or any of its political subdivisions, and none of the Agency, the City, the State nor any of its political subdivisions is liable therefor. Neither the members of the Authority, the Agency or the City, nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "BONDHOLDERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Bonds are offered, when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed on for the Authority and the City by the City Attorney and for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about July 29, 2009 through the facilities of DTC.

KINSELL, NEWCOMB DE DIOS, INC.
INVESTMENT BANKING

Dated: July 15, 2009.

RCVD JUL 30 '09

MATURITY SCHEDULE

$10,080,000
HERCULES PUBLIC FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, SERIES 2009
(BIO-RAD PROJECT)
BASE CUSIP NO.: 427061†

$665,000 6.000% Term Bonds due July 1, 2014 – Yield: 6.350% CUSIP†: AZ9
$830,000 7.000% Term Bonds due July 1, 2019 – Yield: 7.400% CUSIP†: BA3
$2,950,000 8.250% Term Bonds due July 1, 2029 – Yield: 8.500% CUSIP†: BB1
$5,635,000 8.400% Term Bonds due July 1, 2038 – Yield: 8.820% CUSIP†: BC9

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† CUSIP Copyright 2009. American Bankers' Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the Authority nor the Underwriter guarantees the accuracy of the CUSIP data herein.

HERCULES PUBLIC FINANCING AUTHORITY
(COUNTY OF CONTRA COSTA, CALIFORNIA)

AUTHORITY BOARD/CITY COUNCIL

Joe Eddy McDonald, President/Mayor
Kris Valstad, Vice President/Vice Mayor
Ed Balico, Councilmember/Board Member
Donald Kuehne, Councilmember/Board Member
Joanne Ward, Councilmember/Board Member

AUTHORITY/CITY STAFF

Nelson E. Oliva, Executive Director/City Manager
Timothy Hansen, Treasurer
Gloria Leon, Finance Director

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel
Fulbright & Jaworski L.L.P.
Los Angeles, California

Trustee and Dissemination Agent
The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Information Subject to Change. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

$10,080,000
HERCULES PUBLIC FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, SERIES 2009
(BIO-RAD PROJECT)

This Official Statement, which includes the cover page and appendices (the "Official Statement"), is provided to furnish certain information concerning the sale by the Hercules Public Financing Authority of its Taxable Lease Revenue Bonds, Series 2009 (Bio-Rad Project) (the "Bonds") in the aggregate principal amount of $10,080,000. Capitalized terms used herein and not otherwise defined shall have the meanings give to them in "APPENDIX A – SUMMARY OF THE INDENTURE."

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "BONDHOLDERS' RISKS" herein).

The Authority

The Hercules Public Financing Authority (the "Authority") is a joint exercise of powers agency organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Joint Powers Act"). The City of Hercules (the "City") and the Hercules Redevelopment Agency (the "Agency") formed the Authority by the execution of a joint exercise of powers agreement dated as of January 24, 2001. The members of the City Council of the City comprise the Authority Board of Directors.

The City

The City of Hercules was incorporated as a general law city on December 15, 1900. The City is located in Contra Costa County (the "County") approximately 40 minutes from San Francisco across the San Francisco Bay and about one hour from Sacramento. See "APPENDIX C – CERTAIN INFORMATION REGARDING THE CITY OF HERCULES."

Purpose

The Bonds are being delivered for the purpose of financing the acquisition of certain commercial condominium property, consisting of approximately 96,847 square feet located at 203-295 Linus Pauling Drive within the City (the "Leased Premises") from the City, purchasing a GIC (as defined herein; see "SOURCES OF PAYMENT FOR THE BONDS – Lease Agreement" herein), funding a reserve fund for the Bonds and to paying the costs of issuance of the Bonds. In connection with the purchase of the Leased Premises, the City will assign its rights, title and interests in that certain Lease Agreement, dated as of August 14, 2008 (the "Lease"), by and between the City and Bio-Rad Laboratories, Inc. See "SOURCES OF PAYMENT FOR THE BONDS – Lease" herein.

Security and Sources of Repayment

The Bonds are being issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Joint Powers Act, and an Indenture, dated as of July 1, 2009 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). See "APPENDIX A – SUMMARY OF THE INDENTURE."

Revenues. The Bonds are payable from "Revenues," comprised of (i) all payments to the Trustee (as assignee of the Authority) pursuant to the Lease; (ii) the City Advances; (iv) all amounts held in the funds and accounts created under the Indenture, together with earnings thereon; and (v) all other receipts of the Trustee (as assignee of the Authority) attributable to the ownership, leasing or operation of the Leased Premises. See "SOURCES OF PAYMENT FOR THE BONDS" herein.

Cooperation Agreement. The Authority and the City have entered into the Cooperation Agreement, dated as of July 1, 2009 (the "Cooperation Agreement"). Under the Cooperation Agreement, the City has agreed to make certain advances (the "City Advances") to the Authority to the extent rental payments under the Lease are not sufficient to pay debt service on the Bonds. The City Advances are deemed to be loans to the Authority and shall be reimbursed to the City as provided in the Indenture. The City Advances are secured by a contingent pledge of the City's general fund. See "SOURCES OF PAYMENT FOR THE BONDS – Cooperation Agreement" herein.

Reserve Fund. To the extent required as described herein, the Reserve Fund is to be used to pay principal and interest on the Bonds when due. See "SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund" herein.

Deed of Trust. The Bonds are also secured by a Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated as of July 1, 2009 (the "Deed of Trust"), held by the Trustee. See "SOURCES OF PAYMENT FOR THE BONDS – Deed of Trust" herein.

Legal Matters

All legal proceedings in connection with the issuance of the Bonds are subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed on for the Authority and the City by the City Attorney and for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel.

Professional Services

The Bank of New York Mellon Trust Company, N.A. will serve as trustee under the Indenture. The Trustee will act on behalf of the Bondowners for the purpose of receiving all moneys required to be paid to the Trustee, to allocate, use and apply the same, to hold, receive and disburse the Revenues and other funds held under the Indenture, and otherwise to hold all the offices and perform all the functions and duties provided in the Indenture to be held and performed by the Trustee. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

The City's financial statements for the Fiscal Year ended June 30, 2007, attached hereto as "APPENDIX B," have been audited by Caporicci & Larson, Certified Public Accountants, Oakland, California. Caporicci & Larson was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in the Official Statement, and no opinion is expressed by Caporicci & Larson with respect to any event subsequent to the date of its report.

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by the Authority from sources which are believed to be reliable and such information is believed to be accurate and complete but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by Disclosure Counsel or the Underwriter. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the Authority or the City since the date hereof.

Availability of Legal Documents

The summaries and references contained herein with respect to the Indenture, the Lease, the Cooperation Agreement, the Deed of Trust, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Underwriter. Copies of these documents may be obtained after delivery of the Bonds at the corporate trust office of the Trustee, or from the Authority.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates per annum as set forth on the inside front cover of this Official Statement. The Bonds will be issued in authorized denominations of $5,000 or integral multiples thereof and will be dated their date of delivery.

Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2010 (each, a "Bond Payment Date"), and will be calculated on the basis of a 360-day year of twelve 30-day months. Each Bond shall bear interest from the Bond Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated after a Record Date and on or before the next Bond Payment Date, in which event it shall bear interest from such Bond Payment Date, or (b) authenticated on or before the first Record Date, in which event it shall bear interest from its dated date; provided, however, that if at the time of authentication of any Bond interest is in default, such Bond shall bear interest from the date to which interest has been paid.

The Bonds will be initially delivered as one fully registered certificate for each maturity and will be delivered by means of the book-entry system of DTC. While the Bonds are held in DTC's book-entry only system, all such payments will be made to Cede & Co, as the registered owner of the Bonds. See "APPENDIX G – BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption. The Bonds maturing on or after July 1, 2020 shall be subject to optional redemption prior to their respective maturity dates as a whole or in part on any date on or after July 1, 2019, by such maturities as may be designated by the Authority to the Trustee at least forty-five (45) days prior to the date fixed for redemption, or, if the Authority fails to so designate, in inverse order of

maturity, and by lot within a maturity, at the redemption price equal to the sum of the principal amount of the Bonds to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

Special Mandatory Redemption. The Bonds are subject to mandatory redemption on any Bond Payment Date, in whole or in part, from Net Proceeds following the deposit by the Trustee in the Redemption Fund of Net Proceeds deposited by the Authority under the Indenture, proceeds from exercise of the purchase option under the Lease or proceeds from foreclosure under the Deed of Trust, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption. The Bonds maturing on July 1, 2014 are subject to mandatory redemption in part on the dates in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

July 1	**Principal Amount**
2010	$165,000
2011	115,000
2012	120,000
2013	130,000
2014*	135,000

*Maturity

The Bonds maturing on July 1, 2019 are subject to mandatory redemption in part on the dates in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

July 1	**Principal Amount**
2015	$145,000
2016	155,000
2017	165,000
2018	175,000
2019*	190,000

*Maturity

The Bonds maturing on July 1, 2029 are subject to mandatory redemption in part on the dates in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

July 1	Principal Amount
2020	$200,000
2021	220,000
2022	235,000
2023	255,000
2024	275,000
2025	300,000
2026	325,000
2027	350,000
2028	380,000
2029*	410,000

*Maturity

The Bonds maturing on July 1, 2038 are subject to mandatory redemption in part on the dates in the following years in the following amounts at a redemption price equal to the principal amount thereof together with accrued interest to the date fixed for redemption, without premium:

July 1	Principal Amount
2030	$445,000
2031	480,000
2032	520,000
2033	565,000
2034	615,000
2035	665,000
2036	720,000
2037	780,000
2038*	845,000

*Maturity

In the event of a partial redemption of Bonds pursuant to special mandatory redemption or optional redemption described above, the foregoing annual sinking account payments shall be reduced in equal percentages, as nearly as practicable, provided that the reductions shall be made in multiples of $5,000.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of Bonds and less than all Outstanding Bonds are called for redemption, the Trustee shall select Bonds for redemption, from the Outstanding Bonds not previously called for redemption, in Authorized Denominations, with respect to a special mandatory redemption on a pro rata basis among maturities and by lot within a maturity, and in the case of an optional redemption from such maturities as are designated in a Certificate of the Authority.

Notice of Redemption. When redemption is authorized or required, the Trustee shall give notice of the redemption of the Bonds. Such notice shall specify: (a) that the Bonds or a designated portion

thereof are to be redeemed, (b) the CUSIP numbers and, if less than all of the Bonds of a maturity are to be redeemed, the serial numbers of the Bonds to be redeemed, (c) the date of redemption, (d) the place or places where the redemption will be made, (e) the following descriptive information regarding the Bonds: date, interest rates and stated maturity dates, and (f) that a new Bond in an amount equal to that portion not so redeemed will be executed by the Trustee and delivered to the Owner in the event of a partial redemption. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, and that from and after such date, provided that moneys therefore have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

Notice of such redemption shall be mailed by first-class mail, postage prepaid, to the City, to all municipal Securities Depositories and to at least one national Information Service which the City shall designate to the Trustee, and the respective Owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books, at least 30 days, but not more than 60 days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Trustee or the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds which shall be of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and the of the same interest rate and the same maturity. Such partial redemption shall be valid upon payment of the amount thereby required to be paid to such Owner, and the Authority and the Trustee shall be released and discharged from all liability to the extent of such payment.

Effect of Redemption. Notice having been given as aforesaid, and the moneys for the redemption (including the interest to the applicable date of redemption), having been set aside in the Redemption Fund, the Bonds shall become due and payable on said date of redemption, and, upon presentation and surrender thereof at the Principal Office, said Bonds shall be paid at the unpaid principal price with respect thereto, plus interest accrued and unpaid to said date of redemption.

If, on said date of redemption, moneys for the redemption of all the Bonds to be redeemed, together with interest to said date of redemption, shall be held by the Trustee so as to be available therefor on such date of redemption, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said date of redemption, interest with respect to the Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed.

Bonds Debt Service Schedule

Scheduled annual debt service payments for the Bonds are set forth in the following table.

Bond Year Ending July 1	Principal	Interest	Annual Total
2010	$165,000.00	$751,348.28	$916,348.28
2011	115,000.00	804,815.00	919,815.00
2012	120,000.00	797,915.00	917,915.00
2013	130,000.00	790,715.00	920,715.00
2014	135,000.00	782,915.00	917,915.00
2015	145,000.00	774,815.00	919,815.00
2016	155,000.00	764,665.00	919,665.00
2017	165,000.00	753,815.00	918,815.00
2018	175,000.00	742,265.00	917,265.00
2019	190,000.00	730,015.00	920,015.00
2020	200,000.00	716,715.00	916,715.00
2021	220,000.00	700,215.00	920,215.00
2022	235,000.00	682,065.00	917,065.00
2023	255,000.00	662,677.50	917,677.50
2024	275,000.00	641,640.00	916,640.00
2025	300,000.00	618,952.50	918,952.50
2026	325,000.00	594,202.50	919,202.50
2027	350,000.00	567,390.00	917,390.00
2028	380,000.00	538,515.00	918,515.00
2029	410,000.00	507,165.00	917,165.00
2030	445,000.00	473,340.00	918,340.00
2031	480,000.00	435,960.00	915,960.00
2032	520,000.00	395,640.00	915,640.00
2033	565,000.00	351,960.00	916,960.00
2034	615,000.00	304,500.00	919,500.00
2035	665,000.00	252,840.00	917,840.00
2036	720,000.00	196,980.00	916,980.00
2037	780,000.00	136,500.00	916,500.00
2038	845,000.00	70,980.00	915,980.00
Total	$10,080,000.00	$16,541,520.78	$26,621,520.78

ESTIMATED SOURCES AND USES OF FUNDS

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources of Funds	
Principal Amount of Bonds	$10,080,000.00
Lee: Original Issue Discount	(350,398.55)
Less: Underwriter's Discount	(151,200.00)
Total Sources	$9,578,401.45
Uses of Funds	
Acquisition of Leased Premises	$7,047,686.45
Reserve Fund	920,715.00
Costs of Issuance Fund[2]	1,610,000.00
Total Uses	$9,578,401.45

(1) Amounts deposited in the Costs of Issuance Fund will be used to pay costs of issuance of the Bonds, including fees of Bond Counsel, Disclosure Counsel, the Trustee, rating fees, costs of printing the Official Statement, purchase price of the GIC and other costs of delivery of the Bonds.

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority, issued under and secured by the Indenture, payable solely from (i) all payments to the Trustee (as assignee of the Authority) pursuant to the Lease; (ii) the City Advances; (iii) all amounts held in the funds and accounts created under the Indenture, together with earnings thereon; and (iv) all other receipts of the Trustee (as assignee of the Authority) attributable to the ownership, leasing or operation of the Leased Premises (collectively, the "Revenues").

Lease Agreement

In connection with the issuance of the Bonds, the City will assign its rights, title and interest in the Lease Agreement, dated as of August 14, 2008 (the "Lease"), by and between the City and Bio-Rad Laboratories, Inc. ("Bio-Rad"). Pursuant to the Lease, Bio-Rad makes rental payments ("Base Rent") that escalates over time. Furthermore, Bio-Rad has a purchase option under the Lease, which if exercised the proceeds would be used to redeem the Bonds. See "APPENDIX G – BIO-RAD LEASE AGREEMENT." As show below, the Base Rent payments are insufficient to pay debt service on the Bonds until the bond year ending July 1, 2023. The Authority will purchase a guaranteed investment contract ("GIC") from GE Funding Capital Market Services, Inc., an indirect subsidiary of and beneficiary of a guarantee from General Electric Capital Corporation, which is rate "AA+" (stable outlook) by Standard & Poor's and "AA2" (stable outlook) by Moody' Investors Service, that will make up the shortfall.

Bond Year Ending July 1	Debt Service	Base Rent	(Shortfall)/Surplus
2010	$916,348	$682,530	($233,818)
2011	919,815	705,246	(214,569)
2012	917,915	727,962	(189,953)
2013	920,715	750,678	(170,037)
2014	917,915	773,394	(144,521)
2015	919,815	796,110	(123,705)
2016	919,665	818,826	(100,839)
2017	918,815	841,542	(77,273)
2018	917,265	864,258	(53,007)
2019	920,015	886,974	(33,041)
2020	916,715	895,970	(20,745)
2021	920,215	902,222	(17,993)
2022	917,065	908,474	(8,591)
2023	917,678	914,726	(2,952)
2024	916,640	920,978	4,338
2025	918,953	927,230	8,278
2026	919,203	933,482	14,280
2027	917,390	939,734	22,344
2028	918,515	945,986	27,471
2029	917,165	957,838	40,673
2030	918,340	974,110	55,770
2031	915,960	979,792	63,832
2032	915,640	983,224	67,584
2033	916,960	986,656	69,696
2034	919,500	990,088	70,588
2035	917,840	993,520	75,680
2036	916,980	996,952	79,972
2037	916,500	1,000,384	83,884
2038	915,980	1,003,816	87,836

Bio-Rad is listed on the New York Stock Exchange under the symbol "BIO" and "BIOb." The internet website address for Bio-Rad is www.bio-rad.com. This internet address is included for reference only and the information on this internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. According to their website, Bio-Rad has remained at the center of scientific discovery for more than 50 years, manufacturing and distributing a broad range of products for the life science research and clinical diagnostic markets. The company is renowned worldwide among hospitals, universities, and major research institutions, as well as in biotechnology and pharmaceutical companies for its commitment to quality and customer service. Founded in 1952, Bio-Rad is headquartered in Hercules, California, and serves research and industry customers worldwide through its global network of operations. The company employs approximately 6,500 people globally and had revenues exceeding $1.7 billion in 2008.

Cooperation Agreement

City Advances. The City has agreed to pay to the Authority no later than 5 days prior to any Bond Payment Date, for deposit into the Revenue Fund, City Advances in an amount equal to the amount by which the amount on deposit in the Interest Account or the Principal Account of the Debt Service Fund

on such date is less than the amount required to be deposited into the Interest Account or the Principal Account of the Debt Service Fund for payment of principal of and interest on the Bonds on such Bond Payment Date. City Advances shall be made on an as-needed basis, in whole or in part, from any available funds of the City in the City's General Fund. In such event, the City shall take such actions as may be necessary to amend the City's General Fund budget to include the City Advances, in whole or in part, and make the necessary appropriations therefor. The covenants on the part of the City shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Cooperation Agreement agreed to be carried out and performed by the City.

All payments required by the City under the Cooperation Agreement shall be the absolute obligations of the City, not subject to deduction or offset of any kind, including, without limitation, offset of amounts owing to the City under the Cooperation Agreement and under the Indenture. City Advances made by the City shall be deemed to be a loan to the Authority and shall be reimbursable to the City as provided in the Indenture.

See "CITY FINANCIAL INFORMATION" herein.

Flow of Funds

Revenue Fund. All Revenues (other than City Advances, which shall be deposited directly by the Trustee into the Interest Account and/or the Principal Account of the Debt Service Fund as necessary to pay debt service on the on the Bonds on the next Bond Payment Date) shall be deposited when received into the Revenue Fund.

Except as otherwise provided in the Indenture, moneys in the Revenue Fund shall be paid by the Trustee as follows and in the following order of priority:

FIRST: on the tenth day of each month, commencing August 10, 2009, for deposit in the Interest Account of the Debt Service Fund an amount (after taking into consideration earnings therein) equal to (a) one-third (1/3rd) of the interest due on the Bonds on January 1, 2010 and thereafter commencing November 10, 2009; (b) one-sixth (1/6th) of the interest due on the Bonds on the next Bond Payment Date; and (c) all amounts due as to interest on the Bonds on the tenth day of any previous calendar month pursuant to this paragraph which have not otherwise been credited to the Interest Account of the Debt Service Fund pursuant of this paragraph;

SECOND: on the tenth day of each month, commencing August 10, 2009, for deposit in the Principal Account of the Debt Service Fund, an amount (after taking into consideration earnings therein) equal to (a) one-ninth (1/9th) of the principal due on the Bonds on July 1, 2010 and thereafter commencing May 10, 2010; (b) one-twelfth (1/12th) of the principal due on the Bonds on the next Bond Payment Date on which principal is payable; and (c) all amounts due as to principal on the Bonds on the tenth day of any previous calendar month pursuant to this paragraph which have not otherwise been credited to the Principal Account of the Debt Service Fund pursuant of this paragraph;

THIRD: on July 2 of each year, for deposit in the Reserve Fund such amount as may be necessary to maintain a balance therein equal to the Reserve Requirement;

FOURTH: on July 2 of each year, for deposit in the City Advance Reimbursement Fund, amounts required to reimburse the City Advances pursuant to the Cooperation Agreement and the Indenture; and

SIXTH: on July 2 of each year, to the City to be used for any lawful purposes.

Reserve Fund

All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable in the event of any deficiency at any time in the Debt Service Fund, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all Bonds then Outstanding.

Deed of Trust

The Authority has entered into the Deed of Trust which grants to the Trustee rights, titles, interests, estates, powers and privileges that the Authority now has or may acquire in the future in or to the Lease Premises. Upon the occurrence of any Event of Default specified in the Deed of Trust, the Trustee may exercise its rights and remedies under the Deed of Trust including foreclosure.

No assurance can be given that in the event the Trustee exercises its rights and remedies under the Deed of Trust including foreclosure, sufficient moneys will be available to debt service on the Bonds.

Insurance

Pursuant to the Indenture, the Authority is required to procure or cause to be procured and maintain or cause to be maintained through the term of the Indenture for the Leased Premises insurance against the following risks in the following respective amounts:

(1) insurance against loss or damage to the Leased Premises or such structure or item of furniture or equipment caused by fire or lightning, with an extended coverage endorsement and vandalism and malicious mischief insurance, which such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The insurance required by this paragraph shall be in an amount equal to the replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Premises but shall be not less than the principal amount of the Outstanding Bonds (except that such insurance may be subject to deductible clauses of not to exceed ten percent (10%) of the amount of any one loss);

(2) workers' compensation insurance covering all employees working in or on the Leased Premises, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work; and the Authority shall also require any other person or entity working in or on the Leased Premises to carry the foregoing amount of workers' compensation insurance; and

(3) a standard comprehensive public entity liability insurance policy or policies in protection of the Authority, and its directors, officers and employees and the Trustee, indemnifying and defending such parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the possession, operation or use of the Leased Premises. Such public liability and property damage insurance shall be in the form of a single limit policy in the amount of not less than three million dollars ($3,000,000), subject to a deductible clause of not to exceed $250,000, covering all such risks.

These required insurance coverage may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers agency created for such purpose or other program providing pooled insurance. The Trustee shall be named as a loss payee.

CITY FINANCIAL INFORMATION

Assessed Valuation and Property Taxes

The following table sets forth a five-year history of the City's assessed property valuation.

City of Hercules
Assessed Valuation History

Fiscal Year	Local Secured	Utility	Unsecured	Total
2004-05	$2,383,718,782	$419,155	$28,727,797	$2,412,865,734
2005-06	2,785,164,540	418,560	28,687,771	2,814,270,871
2006-07	3,137,802,267	359,783	42,879,798	3,181,041,848
2007-08	3,375,323,975	0	46,134,335	3,421,458,310
2008-09	3,267,521,308	0	47,129,903	3,314,651,211

Source: County of Contra Costa.

The following table sets forth a five-year history of the City's secured tax levy. The City operates under the Teeter Plan and receives 100% of the property tax levy from the County, irrespective of delinquencies. These amounts listed below are net of any Redevelopment Agency tax increment and the unsecured levy and do not include collections for the City's general obligation bond issue, two assessment bond issues, and assessments for garbage delinquencies, sewer operations and landscaping and lighting.

City of Hercules
Tax Levies

Fiscal Year	Secured Tax Levy
2004-05	$1,042,461
2005-06	1,027,071
2006-07	1,360,908
2007-08	1,252,585
2008-09	1,177,095

Source: County of Contra Costa.

General Long-Term Debt

The following table sets forth the City's debt as of June 30, 2008.

City of Hercules
General Long-Term Debt

Description	Balance as of June 30, 2008
2003A Lease Revenue Bonds	$6,760,000
2003B Lease Revenue Bonds	8,440,000
H.E.L.P. Loan	1,146,707
Total General Long-Term Debt	$16,346,707

Source: City of Hercules.

Statement of Direct and Overlapping Debt

The direct and overlapping debt of the City as of May 1, 2009 is shown in the following table.

City of Hercules
Statement of Director and Overlapping Indebtedness
(as of May 1, 2009)

2008-09 Assessed Valuation:	$3,314,651,211
Redevelopment Incremental Valuation:	1,259,372,145
Adjusted Assessed Valuation:	$2,055,279,066

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 5/1/09
Bay Area Rapid Transit District	0.466%	$ 2,056,738
Contra Costa Community College District	1.489	2,621,385
John Swett Unified School District	8.741	823,839
West Contra Costa Unified School District	9.245	58,818,561
West Contra Costa Healthcare Parcel Tax Obligations	9.384	2,243,245
East Bay Regional Park District	0.687	864,590
California Statewide Community Development Authority 1915 Act Bonds	100.	1,231,615
City of Hercules 1915 Act Bonds	100.	11,850,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$80,509,973
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Contra Costa County General Fund Obligations	1.484%	$ 4,451,703
Contra Costa County Pension Obligations	1.484	7,315,897
Contra Costa Community College District Certificates of Participation	1.489	16,528
West Contra Costa Unified School District Certificates of Participation	9.245	2,162,406
City of Hercules General Fund Obligations	**100.**	**14,880,000**(1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$28,826,534
COMBINED TOTAL DEBT		$109,336,507(2)

(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:
Total Overlapping Tax and Assessment Debt.....2.43%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($14,880,000) 0.72%
Combined Total Debt.....5.32%

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

Source: California Municipal Statistics, Inc.

Financial Statements

The City is audited annually by an independent auditor. The City's audited general fund balance sheets for Fiscal Years 2004-05, 2005-06 and 2006-07 and unaudited balance sheet for Fiscal Year 2007-08 are presented below. The table following presents audited general fund revenues, expenditures, and fund balances for Fiscal Years 2004-05, 2005-06 and 2006-07 and unaudited general fund revenues, expenditures, and fund balances for Fiscal Year 2007-08.

City of Hercules
General Fund Balance Sheet
Fiscal Years Ending June 30

	2005	2006	2007	2008
ASSETS				
Cash and investments	$15,059,655	$8,781,394	$11,034,759	$12,948,501
Accounts receivable	418,440	1,524,571	485,561	761,268
Interest receivable	--	--	47,304	147,383
Due from other funds	361,860	4,914,243	4,209,035	1,044,047
Advances to other funds	14,165,838	13,785,838	17,090,185	18,336,986
Prepaid expenditures	65,563	4,757	1,845	2,817
Loan receivable	100,000	100,000	250,000	250,000
Total Assets	$30,171,356	$29,110,803	$33,118,689	$33,491,002
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 514,366	$ 671,836	$ 446,215	$ 303,153
Accrued wages	212,841	290,925	311,511	348,244
Compensated absences	261,247	--	--	--
Deferred revenue	9,515	--	--	--
Claims and judgments payable	9,653	19,598	50,666	64,979
Deposits payable	1,687,079	1,440,544	517,987	424,781
Due to other funds	68,600	--	--	--
Advances from other funds	669,608	615,750	4,669,631	5,529,960
Total Liabilities	$3,432,909	$3,038,653	$5,996,010	$6,991,117
Fund Balances:				
Reserved	$14,548,316	$14,262,272	$17,516,358	$19,135,244
Unreserved, designated	12,190,131	11,809,878	9,604,321	7,364,641
Total Fund Balances	$26,738,447	$26,072,150	$27,122,679	$26,499,885
Total Liabilities and Fund Balances	$30,171,356	$29,110,803	$31,118,689	$33,491,002

Source: City of Hercules.

City of Hercules
General Fund
Statement Of Revenues, Expenditures and Changes in Fund Balance
Fiscal Years Ending June 30

	2005	2006	2007	2008
REVENUES				
Taxes and assessments	$ 4,549,517	$ 5,291,693	$5,516,722	$5,414,588
Intergovernmental revenues	1,950,564	1,862,909	1,951,792	1,991,472
Licenses and permits	1,078,260	752,861	508,550	337,291
Fines and forfeitures	57,368	63,565	167,635	134,502
Use of money and property	1,860,273	972,390	1,485,902	1,805,821
Charges for services	1,898,126	1,736,096	2,221,957	2,044,478
Other revenues	1,143,705	924,515	2,048,683	2,199,002
Total revenues	$12,545,288	$11,604,029	$13,901,291	$13,927,154
EXPENDITURES				
Current:				
General government	$ 3,266,213	$ 3,237,801	$ 3,509,624	$ 4,373,374
Public safety	3,809,073	4,653,921	5,513,184	5,255,248
Streets and Public works	133,617	585,566	640,097	371,196
Community development	1,155,166	1,340,017	1,302,116	1,664,024
Parks and recreation	1,943,863	2,116,154	2,228,004	2,424,980
Capital outlay	338,834	124,680	--	16,593
Lease Expense	532,096	920,285	1,021,940	1,132,585
Total expenditures	$11,178,862	$12,978,424	$14,214,965	$15,238,000
Excess of revenues over(under) expenditures	1,366,426	(1,374,395)	(313,674)	(1,310,846)
OTHER FINANCING SOURCES (USES)				
Transfers in	863,589	616,851	796,432	709,518
Transfers out	--	(170,000)	(118,060)	(42,000)
Total other financing sources (uses)	863,589	446,851	678,372	667,518
Net change in fund balances	2,230,015	(927,544)	364,698	(643,328)
FUND BALANCES				
Beginning of year, as restated	$24,508,432	$26,999,694	$26,757,981	$27,143,213
End of year	$26,738,447	$26,072,150	$27,122,679	$26,499,885

Source: City of Hercules.

Budgetary Principles

The City follows these procedures in establishing the budgetary data reflected in the financial statements. The following policies may be re-evaluated and changed by the City Council at any time.

1. The City re-implemented a one-year budget program starting in Fiscal Year 2007-08. In June preceding the budget year, the City Manager submits to the City Council a proposed operating and capital budget for such budget year. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted through passage of a resolution before July 1.

4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Counsel.

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.

Revenue and Expenditure Analysis

Revenues from the general fund totaled $13,901,291 in Fiscal Year 2006/2007 compared to $13,927,154 in 2007/2008.

The major revenue source for the general fund continues to be taxes, which represents approximately 39% of total general fund revenues.

The following summarizes the various general fund revenue sources for the Fiscal Year 2007/2008:

City of Hercules
General Fund Revenue Source
Fiscal Year Ending June 30, 2008

Taxes and assessments	$ 5,414,588
Licenses and permits	337,291
Fines and forfeitures	134,502
Use of money and property	1,805,821
Intergovernmental revenues	1,991,472
Charges for services	2,044,478
Other revenues	2,199,002
TOTAL	$13,927,154

Source: City of Hercules.

The assessed valuation for Fiscal Year 2008/2009 totaled $3,314,651,211, which represents a decrease over the prior fiscal year of approximately 3.1% due to general decrease in property values.

A sales tax is imposed on retail sale or consumption of personal property. Sales tax revenues are determined by the total taxable transactions within a jurisdiction and distributed by the State Board of Equalization to the jurisdiction where the sale took place. Sales taxes collected from merchants with no permanent place of business (i.e., manufacturers, construction contractors, etc.) are accumulated to a County-wide or State-wide (out-of-state businesses) pool and distributed to cities and counties in proportion to their collections from all sales taxpayers.

The value and volume of these taxable transactions are in turn dependent on economic and other factors which will influence the City. Such factors included the level of inflation affecting the price of goods and services subject to the sales tax, the rate of population growth in the general area, the characteristics of retail developments, including the relative size of market service areas, the sensitivity of the types of businesses within the City to changes in the economy, and competing retail establishments outside the City. A deterioration of economic and other factors influencing taxable sales generated in the City, would reduce the level of taxable sales generated in the City, thereby reducing sales tax revenues.

Expenditures for the general fund totaled $15,238,000 in Fiscal Year 2007/2008. The major general fund expenditures are summarized as follows:

City of Hercules
General Fund Expenditure Source
Fiscal Year Ending June 30, 2008

General government	$ 4,373,374
Public safety	5,255,248
Streets and public works	371,196
Parks and recreation	2,424,980
Community development	1,664,024
Lease expense	1,132,585
Capital outlay	16,593
TOTAL	$15,238,000

Source: City of Hercules.

Public Employee Retirement System

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

Funding Policy – Active plan members are required by state statute to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, which amounted to $515,883 for the year ended June 30, 2007. The city employer is required to contribute for fiscal year 2007-2008 at an actuarially determined rate of 11.526% of annual covered payroll for miscellaneous employees and 29,725% for safety

employees respectively. The contribution requirements of plan members and the City are established and may be amended by PERS.

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

City of Hercules
Three Year Trend Information For PERS

Fiscal Year	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%	--

Labor Relations

As of June 30, 2008, the City had approximately 92 full-time and 107 seasonal employees. The City has a Memorandum of Understanding with the Hercules Police Officers Association. Under California law, police officers are not allowed to strike. The City has one bargaining unit (Teamsters Local 315 Union) for miscellaneous full time and part time employees.

Litigation

There are several lawsuits and claims pending against the City. In the opinion of the City officials, the aggregate amount of liability that the City might incur as a result of adverse decisions in such cases would be covered under the insurance maintained by the City or if not covered by such insurance, would not significantly impact the City's financial position.

Investments and Investment Policy

The basic premise underlying the City's investment policy is to insure that money is always safe and available when needed. Staff actively manages the City's portfolio in order to take advantage of changing economic conditions. Through daily projected cash flow analysis, the City will attempt to fully invest all idle cash. To ensure maximum safety of City assets, it is also the policy of the City to diversify its investment portfolio. To this extent, the Finance Director, with City Manager approval may, from time to time, make use of investment advisors and also may, from time to time, place certain City funds with investment managers in accordance with City policy.

The City also strives to make investments which benefit the local area and are consistent with municipal plans and policies. Priority is given to investments which promote community economic development, such as doing business with local banks, provided that the criteria for safety, liquidity and yield are met.

Criteria for selecting investments and order of priority are:

1. Safety: The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The City only operates in those investments that are considered very safe.

2. Liquidity: This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds occurs occasionally.

3. Yield: Yield is the potential dollar earnings an investment can provide and sometimes is described as the rate of return. Yield should become a consideration only after the basic requirement of safety and liquidity have been met.

Pursuant to City policy, the Finance Director must render a monthly investment report to the City Manager and the City Council indicating the type of investment, institution, date of purchase, date of maturity, amount of deposit, coupon rate of interest, investment yield, and if applicable, current market value. The monthly report is intended to provide assurance that the investment portfolio is in compliance with the City's Investment Policy and that it is sufficiently liquid to meet the City's expenditures for the next six months.

BONDHOLDERS' RISKS

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and/or interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

General

The Bonds constitute limited obligations of the Authority payable solely from Revenues, as described herein. The Authority has no taxing power. The obligation of the City to make City Advances does not constitute an obligation of the City which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Availability of Remedies

The remedies available to the Trustee, the Authority and the owners of the Bonds upon an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including, specifically, the Bankruptcy Code, the remedies provided in the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations expressed herein, including those imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors' generally and laws relating to fraudulent conveyances.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, pricing of issues for which a

market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

Abatement

The amount of Base Rent due under the Lease will be adjusted or abated during any period in which by reason of damage or destruction to the Leased Premises or eminent domain proceedings there is substantial interference with the use and possession of the Leased Premises. Notwithstanding the provisions of the Lease specifying the extent of abatement in the event of the Bio-Rad's failure to have use and possession of the Leased Premises, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rent may not be sufficient to pay all of that portion of the remaining principal and interest represented by the Bonds.

Bondholders' Risks Relating to City Advances

General. The City Advances due under the Cooperation Agreement are payable from funds lawfully available to the City. If the amounts which the City is obligated to loan the Authority in a fiscal year exceed the City's revenues and available reserves for such year, the City may choose to make some payments rather than making other payments, including City Advances, based on the perceived needs of the City. See CITY FINANCIAL INFORMATION" for a more detailed discussion of revenues deposited in and expenditures from the City's General Fund. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues and available reserves or is required to expend available revenues and available reserves to preserve the public health, safety and welfare. For more information regarding California Constitutional limits on expenditures see "Constitutional Limitation on Taxes and Expenditures" below.

Nothing in the Cooperation Agreement prohibits the City from entering into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds. To the extent that additional obligations are incurred by the City, the funds available to pay City Advances could decrease.

A variety of national, state or regional factors, which are beyond the control of the City's fiscal policies, as well as the City's fiscal policies could reduce the amount of the City's General Fund revenues. To the extent that City revenues decrease, the funds available to pay City Advances could decrease. A significant portion of the City's General Fund revenues for fiscal year 2009-10 are expected to come from taxes. If a slow-down in development occurs, the amounts of taxes, as well as many other types of revenues, collected by the City may be adversely affected. Property value and development growth in the City will be subject to the fluctuation of the real estate market throughout the term of the Bonds.

State Finances. *Information regarding the State Budget is regularly available at various State-maintained websites. The Fiscal Year 2008-09 State Budget and the 2009-10 State Budget further described below may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Authority, and the Authority takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.*

Budget Reform and 2009 Budget Act

On February 19, 2009, the State Legislature passed a budget-balancing reform package signed by Governor Schwarzenegger on February 20, 2009 (the "2009 Budget Act"), intended to close the State's projected $41.6 billion deficit through June of 2010. The 2009 Budget Act, enacted nearly five months ahead of the constitutional deadline, was designed to address the deficit forecasts and to achieve budget solutions for both the 2008-09 and 2009-10 Fiscal Years. The Department of Finance has reported that California's chronic and cyclic budget crises are largely attributable to the use of higher than normal revenues to create permanent, ongoing spending commitments and tax cuts. The 2009 Budget Act and accompanying legislation are designed to end this cycle by preventing government from spending revenue above the long-term trend line and by creating a substantial "Rainy Day" fund of up to 12.5 percent of General Fund revenue for use only during times when revenue is insufficient to fund a moderate, population-and-inflation-based growth in spending.

Certain of these reforms, to be effective, required voter approval as constitutional amendments at a Statewide election held on May 19, 2009. The relevant propositions requiring voter approval were: (i) Proposition 1A, which would have amended the rules concerning the deposits into and withdrawals from the State's Budget Stabilization Fund (the "BSF") and would have limited the Governor's ability to stop a transfer to the BSF; (ii) Proposition 1B, which would have eliminated certain State funding for K-14 education (as a result of the suspension of the minimum funding guarantee) in Fiscal Years 2007-08 and 2008-09 and replaced such amounts with $9.3 billion in supplemental payments beginning in Fiscal Year 2011-12; (iii) Proposition 1C, which would have permitted the State to sell $5 billion in bonds secured by future lottery profits; (iv) Proposition 1D, which would have temporarily reallocated to the State General Fund certain amounts previously dedicated to childhood development programs; (v) Proposition 1E, which would have temporarily reallocated to the State General Fund certain amounts previously dedicated to mental health services; and (vi) Proposition 1F, which limits pay raises to State elected officials in certain cases when the State ends the year with a deficit (collectively, the "State Budget Propositions"). On May 19, 2009, voters rejected all of the State Budget Propositions, with the exception of Proposition 1F. See "2009 May Revision" herein.

The 2009 Budget Act provides for $15 billion of expenditure reductions, $11.4 billion of borrowing, $12.8 billion of additional tax revenue and $2 billion of federal moneys. Certain of these expenditure reductions may affect the City's Fiscal Year 2009-10 budget. The 2009 Budget Act includes reductions in State funding for county public hospitals and social services programs including CalWORKs, Supplemental Security Income/State Supplementary Payment, Medi-Cal, In-Home Supportive Services and other social service programs.

The Legislative Analyst's Office released a report on May 7, 2009 entitled "California's Cash Flow Crisis: May 2009 Update" (the "LAO Update"). The LAO Update recommends prompt legislative action to address massive cash flow shortfalls that the State may face as early as July 2009. While the State Department of Finance in March 2009 projected the need for the State to issue $13 billion of revenue anticipated notes or revenue anticipation warrants in Fiscal Year 2009-10, the LAO Update estimates that, based on subsequent developments, the State's cash-flow borrowing need would be $17 billion if Propositions 1C, 1D and 1E were to be passed by the voters at the May 19, 2009 election and $23 billion if the voters were to reject those propositions.

2009 May Revision

On May 14, 2009, the Governor released proposals to revise the 2009 Budget Act (the "2009 May Revision") in response to an emerging budget shortfall since the adoption of the 2009 Budget Act. The 2009 May Revision projects a $15.4 billion deficit in the State's budget during Fiscal Year 2009-10, assuming voter approval of the State Budget Propositions. As a result of voter rejection of all but one of the State Budget Propositions, the projected deficit increases to $21.3 billion.

The 2009 May Revision includes the Governor's proposed budget solutions assuming approval of the State Budget Propositions, as well as a set of contingency proposals should the State Budget Propositions fail. The 2009 May Revision is available on the website of the State Department of Finance at http://www.dof.ca.gov. *The information on such website is prepared by the State Department of Finance and not by the Authority, and the Authority takes no responsibility for the continued accuracy of the internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by this reference.*

The 2009 May Revision does not propose any significant tax increases, but instead addresses the shortfall with a combination of spending cuts, revenue accelerations, fee increases and significant cash-flow borrowing. The base spending cuts include a $3 billion reduction in education expenditures, a $750 million reduction in Medi-Cal spending, a $249 million reduction in Supplemental Security Income/State Supplementary Payment cash grants to aged/disabled individuals and a $157 million reduction in CalWorks welfare grants. The 2009 May Revision also contemplates the issuance of $6 billion of registered reimbursement warrants, although it recognizes that the State's total cash-flow borrowing need will be substantially greater.

The contingency proposals of the 2009 May Revision triggered by voter rejection of key State Budget Propositions include an additional $2.3 billion of cuts to education, $390 million of cuts to prisons and substance abuse treatment (including the transfer of up to 23,000 low-level offenders to county jails), an additional $500 million of cuts to various social services, and a $2 billion borrowing, pursuant to Proposition 1A adopted by the voters in November 2004, of 8% of the property tax revenues received by local governments. This borrowing must be repaid within three years, with interest, as provided in the State Constitution. The City does not believe that this borrowing, if undertaken by the State, would have a material adverse impact on the City's ability to make City Advances.

The Governor and the State Legislature are continuing to consider substantial revisions to the 2009 Budget Act in light of voter rejection of key State Budget Propositions and the continued deterioration of the State's financial condition. The Authority cannot accurately predict such revisions or the final impact of the State Budget on City revenues and expenditures in 2009-10 or beyond.

Future State Budgets

Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other cities and counties in the State. The Authority cannot predict the extent of the budgetary problems the State will encounter in this or in any future Fiscal Year, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the Authority cannot predict the final outcome of current or future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets are being and will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Authority has no control.

Constitutional Limitation on Taxes and Expenditures. There are a number of provisions in the State of California Constitution that limit the ability of the City to raise and expend revenues. Contained below is a description of some of these limitations. In addition to the ones discussed in this section below, other initiative measures could be adopted from time to time further affecting the City's revenues and finances.

Property Tax Limitations - Article XIIIA. California voters, on June 6, 1978, approved an amendment (commonly referred to as "Proposition 13" or the "Jarvis-Gann Initiative") to the California Constitution. This amendment, which added Article XIIIA to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash

value of property to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors.

Article XIIIA further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII was adopted in August 1986 by initiative that exempts from the one percent limitation any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds *(Amador Valley Joint Union School District v. State Board of Equalization)*.

In the general election held on November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIIIA. Proposition 58 amended Article XIIIA to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIIIA, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first $1,000,000 of other property between parents and children. Proposition 60 amended Article XIIIA to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other minor or technical ways.

Article XIIIA Implementing Legislation. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based on their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in California no longer record property values on tax rolls at the assessed value of 25 percent of market value, which was expressed as $4 per $100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. Unless otherwise noted, all taxable property value included in this Official Statement (unless noted differently) is shown at 100 percent of market value and all tax rates reflect the $1 per $100 of taxable value.

Challenges to Article XIIIA. California trial and appellate courts have upheld the constitutionality of Article XIIIA's assessment rules in three significant cases. The United States Supreme Court, in an appeal to one of these cases, upheld the constitutionality of Article XIIIA's tax

assessment system. The City cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the City's receipt of property tax revenues should a future decision hold unconstitutional the method of assessing property.

Appropriations Limitations: Article XIIIB. On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIIIB to the California Constitution. Article XIIIB limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the government entity. The "base year" for establishing such appropriations limit is the 1978-79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Revenues received in excess of the appropriations limit must be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Proposition 218: Article XIIIC and Article XIID. On November 5, 1996, California voters approved Proposition 218, "the Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the California Constitution, providing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments, and property-related fees and charges.

The general financial condition of the City may be affected by provisions of Article XIIIC and Article XIIID. In particular, provisions of Article XIIIC (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIIID that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (ii) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the provisions of Proposition 218 or the possible effects of Proposition 218. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 may impact the City's ability to make Rental Payments. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Proposition 62. On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. The City does not believe any of the taxes constituting City revenues are levied in violation of Proposition 62.

Unitary Property. AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102 percent of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Future Initiatives. Articles XIIIA, XIIIB, XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's Constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture, the Lease or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture and the Lease are subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Fulbright & Jaworski L.L.P., Los Angeles, California, as Bond Counsel, will render an opinion which states that the Indenture, the Deed of Trust and the Cooperation Agreement are valid and binding contracts of the Authority and/or the City, as applicable, and are enforceable in accordance with their terms. The legal opinion of Bond Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity.

None of the Authority or the City have any knowledge of any fact or other information which would indicate that the Indenture, the Deed of Trust or the Cooperation Agreement are not so enforceable against the Authority or the City, as applicable, except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the Authority and the City by the City Attorney and for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Tax Matters

State Tax Exemption. In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California.

Federal Income Tax Consequences. The following is a general summary of the federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of federal income taxation that may be relevant to a particular investor in the Bonds in light of the investor's particular personal investment circumstances, including, but not limited to, the application of the original issue discount provisions of the Internal Revenue Code of 1986 (the "Code"), or to certain types of investors subject to special treatment under federal income tax laws (including insurance companies, tax exempt organizations, non-U.S. persons, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Bonds). The summary is therefore limited to certain issues relating to investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the Service with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

Bond Counsel has rendered no opinion regarding the exclusion pursuant to section 103(a) of the Code of interest on the Bonds from gross income. However, the Authority has taken no action to cause, and does not intend, interest on the Bonds to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. The Authority intends to treat the Bonds as debt instruments for all federal income tax purposes, including any applicable reporting requirements under the Code. **THE AUTHORITY EXPECTS THAT THE INTEREST PAID ON A BOND GENERALLY WILL BE INCLUDED IN THE GROSS INCOME OF THE OWNER THEREOF FOR FEDERAL INCOME TAX PURPOSES WHEN RECEIVED OR ACCRUED, DEPENDING UPON THE TAX ACCOUNTING METHOD OF THAT OWNER.**

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

Internal Revenue Service Circular 230 Notice

You should be aware that:

(a) the discussion in this Official Statement with respect to U.S. federal income tax consequences of owning the Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer:

(b) such discussion was written in connection with the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and

(c) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230 with respect to the discussion below on the Bonds.

Gain or Loss on Disposition. Subject to certain deferral or nonrecognition provisions of the Code, an owner will realize and generally recognize in accordance with its tax accounting method gain or loss on the sale or exchange of a Bond equal to the difference between the sale or exchange price (exclusive of the amount paid for accrued interest) and the owner's tax basis in the Bond. Generally, the owner's tax basis in a Bond will be the owner's initial cost, adjusted to reflect accrued original issue discount or amortizable bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on whether the Bonds have been held for more than the applicable period. The deductibility of net capital losses in any year is subject to limitations.

Market Discount. Any owner who purchases a Bond at a price that reflects market discount in excess of a prescribed *de minimis* amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize gain on the Bond as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition to the extent that such gain does not exceed the accrued market discount. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Bond as ordinary income to the extent of any remaining accrued market discount or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. In addition, the Internal Revenue Service has provided guidance in Revenue Procedure 92-67 with regard to the application of these provisions of the Code. Under those rules, generally market discount is to be determined on a ratable accrual basis; however, the taxpayer may elect on a bond-by-bond basis instead to determine the accrual of market discount on that bond on a constant interest basis.

An owner of a Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such Bonds or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or continued to purchase or carry a Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Bond. The amount of such net direct interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Bond for the days during the taxable year on which the owner held the Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium. An owner of a Bond purchased at a cost greater than the sum of all amounts payable on the Bond after the acquisition date (other than payments of qualified stated interest) will have bond premium that is amortizable in accordance with the provisions of section 171 of the Code. If the

holder elects to amortize the premium under section 171 of the Code (which election will apply to all bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable bond premium for any year is generally treated as an offset to the qualified stated interest otherwise includible in income for the year, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. To the extent that amortizable bond premium for any year exceeds the otherwise includible qualified stated interest for that year, subject to other applicable limitations such amortizable bond premium is allowed as a deduction to the extent of the excess of the owner's total interest income inclusions for prior years in respect of the Bond over the total amount treated by the owner as bond premium deductions in respect of the Bond for prior years. Purchasers of any Bonds who acquire such Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for Federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

Defeasance. Persons considering the purchase of a Bond should be aware that the bond documents permit the issuer of the Bonds under certain circumstances to deposit of monies or securities with the Trustee, resulting in the release of the security interests created under the Indenture (a "defeasance"). Such a defeasance could result in the realization by the owner of the Bond of gain or loss, without any corresponding receipts of monies by the owner. Such gain or loss generally would be subject to recognition, as in the case of a sale or exchange described above. In addition, for federal income tax purposes, the character and time of receipt of payments on the Bonds subsequent to any such defeasance could also be affected. Holders are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

Reporting of Interest Payments. Subject to certain exceptions, interest payments made to owners with respect to the Bonds will be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address and TIN of the owner. A copy of Form 1099 will be sent to each owner of a Bond for federal income tax purposes.

Backup Withholding. Under section 3406 of the Code, an owner of the Bonds who is a United States person, as defined in section 7701(a)(3) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Bonds. This withholding applies if such owner of Bonds: (i) fails to furnish to the payor such registered owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor or such owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain owners of the Bonds. OWNERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH EXEMPTION.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business and provided that such withholding is not reduced or eliminated by treaty. Assuming the interest received by the owner of the Bond is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as

portfolio interest if (i) the owner provides a statement to the payor certifying, under penalties of perjury, that the owner is not a United States person and providing the name and address of the owner, (ii) such interest is treated as not effectively connected with the owner's United States trade or business, (iii) interest payments are not made to a person within a foreign country that the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion, (iv) interest payable with respect to the Bond is not deemed contingent interest within the meaning of the portfolio debt provision, (v) the owner is not a controlled foreign corporation, within the meaning of section 957 of the Code, and (vi) the owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under sections 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor has no actual knowledge that such person is a United States person.

Absence of Litigation

The City and the Authority will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture, the Lease or the Cooperation Agreement, or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture, the Lease and the Cooperation Agreement are to be authenticated or delivered or the Bonds are to be delivered or affecting the validity thereof.

CONCLUDING INFORMATION

Rating on the Bonds

Standard & Poor's has assigned their rating of "AA-" to the Bonds. Such rating reflects only the views of the rating agency and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The Authority chose not to seek a Moody's Investors Service rating after receiving an indication of a lower rating than that assigned by Standard & Poor's.

Underwriting

The Underwriter has agreed to purchase the Bonds at a price of $9,578,401.45, which represents the principal amount of the Bonds less original issue discount of $350,398.55 and less an underwriter's discount of $151,200.00. The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds at the price or prices indicated above if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The offering price or prices (or yield or yields) may be changed from time to time by the Underwriter.

Continuing Disclosure

The Authority will covenant to provide annually certain financial information and operating data relating to the Authority and the City, by not later than March 31 of each year, commencing March 31, 2010 (the "Annual Report"), and to provide notices of the occurrence of certain other enumerated events if deemed by the Authority to be material. The Annual Report will be filed by the Trustee on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (the "Repositories") and a State repository, if any, and may also be obtained from the Trustee. The notices of material events will be timely filed by the Authority with the Municipal Securities Rulemaking Board and the State repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the continuing disclosure obligation are set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT." The Authority has never failed to comply with any undertaking to provide any required continuing disclosure under federal securities law.

Additional Information

The summaries and references contained herein with respect to the Indenture, the Lease, the Cooperation Agreement, the Deed of Trust, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Bonds are qualified in their entirety by reference to the form hereof included in the Indenture. Copies of the Indenture, the Lease, the Deed of Trust and the Cooperation Agreement are available for inspection during the period of initial offering on the Bonds at the offices of the Underwriter. Copies of these documents may be obtained after delivery of the Bonds from the Authority through the Executive Director, 111 Civic Drive, Hercules, California 94547.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

Execution

The execution of this Official Statement by the Executive Director has been duly authorized by the Authority.

HERCULES PUBLIC FINANCING AUTHORITY

By: /s/ Nelson E. Oliva
Executive Director

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APPENDIX A

SUMMARY OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof. Capitalized terms used in this summary which are not otherwise defined in this Official Statement have the respective meanings given such terms in the Indenture.

Certain Definitions

The following terms have the following meanings in the Indenture and in this summary:

"**Administrative Expenditures**" means any expenditures of the Authority or the Trustee for insurance, fees and expenses of auditing, fees and expenses of the Trustee payable under the Indenture or the Lease, and all other expenditures reasonably and necessarily incurred by the Authority or the Trustee by reason of the financing and refinancing of the costs of the Leased Premises, including (without limitation) legal, financing and administrative expenses and expenses incurred by the Authority or the Trustee to compel full and punctual performance of the provisions of the Lease in accordance with the terms thereof.

"**Annual Debt Service**" means, for each Bond Year, the sum of (1) the interest falling due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds are redeemed from mandatory sinking account payments or at maturity as scheduled, (2) the principal amount of the Outstanding Serial Bonds payable by their terms in such Bond Year, and (3) the principal amount of the Outstanding Term Bonds scheduled to be paid or redeemed from mandatory sinking account payments in such Bond Year.

"**Authorized Denominations**" shall mean $5,000 or any integral multiple of $5,000.

"**Authorized Investments**" means, if and to the extent permitted by law:

(i) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as Stripped Treasury Coupons rated or assessed in the highest Rating Category by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities.

(ii) Bonds or notes which are exempt from federal income taxes and for the payment of which cash or obligations described in clause (1) of this definition in an amount sufficient to pay the principal of, premium, if any, and interest on when due have been irrevocably deposited with a trustee or other fiscal depositary and which are rated in the highest Rating Category by S&P and Moody's.

(iii) Obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; provided that with respect to the funds and accounts established under the Indenture, such obligations shall at no time exceed an amount equal to ten percent (10%) of the aggregate principal amount of the Bonds Outstanding.

(iv) Deposit accounts, certificates of deposit or savings accounts (i) fully insured by the Federal Deposit Insurance Corporation or (ii) with banks whose short term obligations are rated no lower than A-1 by S&P and P-1 by Moody's, including those of the Trustee and its affiliates.

(v) Federal funds or banker's acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" by Moody's and "A-l" or "A" or better by S&P (including the Trustee and its affiliates).

(vi) Repurchase obligations with a term not exceeding 30 days pursuant to a written agreement between the Trustee and either a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the SIPC or a federally chartered commercial bank whose long-term debt obligations are rated A or better by S&P and Moody's, with respect to any security described in clause (1); provided that the securities which are the subject of such repurchase obligation (i) must be free and clear of all liens, (ii) in the case of a SIPC dealer, were not acquired pursuant to a repurchase or reverse repurchase agreement, (iii) must be deposited with the Trustee and maintained through weekly market valuations in an amount equal to 104% of the invested funds plus accrued interest; and further provided that the Trustee must have a valid first perfected security interest in such securities.

(vii) Taxable government money market portfolios that have a rating by S&P of Am-G or Am or better and rated in one of the three highest rating categories of Moody's consisting of securities issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, subject to a maximum permissible limit equal to six months of principal and interest on the Bonds, including those portfolios of the Trustee and its affiliates.

(viii) Tax-exempt government money market portfolios that have a rating by S&P of Am-G or Am or better and rated in one of the three highest rating categories of Moody's consisting of securities which are rated in the highest Rating Categories of S&P and Moody's subject to a maximum permissible limit equal to six months of principal and interest on the Bonds.

(ix) Money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AAAm-G or AAAm and rated in one of the two highest Rating Categories of Moody's, including those managed or advised by the Trustee or its affiliates.

(x) The Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

(xi) Investment agreements with a domestic or foreign bank or corporation the long-term debt or claims paying ability of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds; (b) the invested funds are available for withdrawal without penalty or premium, pursuant to the investment agreement upon not more than seven days' prior notice; the Authority and the Trustee agrees to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other general unsecured obligation of, the provider thereof; (d) the Authority or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Trustee) that such

investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Trustee and Authority; (e) the investment agreement shall provide that if during its term: (1) the provider's (or its guarantor's) rating by either S&P or Moody's falls below "AA" or "Aa", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and (2) the provider's (or its guarantor's) rating by either S&P or Moody's is withdrawn or suspended or falls below "A" or "A", respectively, the provider must at the direction of the Authority or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee; (f) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and (g) the investment agreement must provide that if during its term (1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(xii) GIC.

"Authorized Representative" means the President, Vice President, Executive Director, Treasurer, or Secretary of the Authority, or any other person designated as an Authorized Representative by a Certificate of the Authority signed by its President and filed with the Authority and the Trustee.

"Base Rent" means the amounts specified as such in the Lease, as such amounts may be adjusted from time to time in accordance with the terms thereof.

"Bond Counsel" means an attorney or firm of attorneys of recognized national standing in the field of municipal finance selected by the Authority.

"Bond Payment Date" means (a) the first Business Day of each January 1 and July 1 commencing on January 1, 2010.

"Bond Year" means each twelve-month period extending from July 2 in one calendar year to July 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year for the Bonds shall extend from the Closing Date to July 1, 2010.

"Business Day" means any day other than: (i) a Saturday or Sunday or legal holiday in the State of California, (ii) a day on which any of the Trustee is authorized to close, (iii) any day on which banking institutions located in the cities where the principal corporate trust office of the Trustee is located, are

authorized or obligated by law or executive order to remain closed; and (iv) a day on which the New York Stock Exchange is closed.

"Certificate," "Statement," "Request," "Requisition" or **"Order"** means, respectively, a written certificate, statement, request, requisition or order in its name by an Authorized Representative. Any such instrument and supporting opinions or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall be the statement provided for in the Indenture.

"City Advances" means amounts advanced by the City pursuant to the Cooperation Agreement.

"Closing Date" means the date on which the Bonds are delivered by the Authority to the original purchaser thereof.

"Continuing Disclosure Agreement" means any continuing disclosure agreement or continuing disclosure certificate by the Authority relating to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"**Cooperation Agreement**" means the Cooperation Agreement, dated as of July 1, 2009, by and between the City and the Authority.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority or the City, relating to the authorization, issuance, sale and delivery of the Bonds, including, but not limited to, printing expenses, title insurance policy premiums with respect to the Leased Premises, rating agency fees, any premium or other fees with respect to insurance provided in connection with the issuance of the Bonds, including but not limited to, municipal bond insurance, rental interruption insurance and other types of insurance as may be required by the Cooperation Agreement, filing and recording fees, any and all costs associated with condemnation proceedings with respect to the Leased Premises, initial fees and charges and the first annual administrative fee of the Trustee, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, and any other costs, charges or fees in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the fund so designated and established pursuant to the Indenture.

"Debt Service Fund" means the fund so designated and established pursuant to the Indenture.

"Deed" means the Deed of Trust, Assignment of Leases and Rents and Security Agreement dated as of July 29, 2009.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Event of Default" means any of the events specified in the Indenture.

"Fiscal Year" means the year beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official fiscal year period of the Authority.

"GIC" means the guaranteed investment contract issued by GE Funding Capital market Services, Inc. and delivered on the Closing Date.

"Information Services" means Financial Information, Inc.'s "Daily Called Special Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Municipal News Reports; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Insurance Consultant" means an individual or firm employed by the Authority as an independent insurance consultant, experienced in the field of risk management.

"Joint Powers Agreement" means that certain Joint Exercise of Powers Agreement, dated as of January 24, 2001, by and between the City and the Agency creating the Authority for the purposes, among other things, of assisting in the financing of Public Capital Improvements, as such term is defined in Section 6585(g) of the California Government Code, together with any amendments thereof and supplements thereto.

"JPA Law" means Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code.

"Lease" means that certain Lease Agreement, dated as of August 14, 2008, by and between the City, as lessor, and Bio-Rad Laboratories, Inc., as lessee, or any future lease relating to the Leased Premises.

"Leased Premises" means the commercial condominium property, consisting of approximately 96,847 square feet located at 203-295 Linus Pauling Drive in the City as described in Exhibit A to the Lease.

"Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service for the current or any future Bond Year following the anticipated issuance of the Bonds.

"Moody's" means Moody's Investors Service or any successor corporation thereto.

"Net Proceeds" means any insurance proceeds or condemnation award paid with respect to the Leased Premises remaining after payment therefrom of all expenses incurred in the collection thereof.

"Nominee" means the nominee of the Depository, which may be the Depository, or any nominee substituted by the Depository pursuant to the Indenture.

"Outstanding," when used as of any particular time with reference to the Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore issued by the Authority except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds for the payment or redemption of which moneys or securities in the necessary amount (as provided in the Indenture) shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture; (iii) Bonds in lieu of, or in substitution for, other Bonds which shall have been authorized, executed, issued and delivered by the Authority pursuant to the Indenture.

"Owner" or **"Bondowner"** means the Person or Persons whose name appears on the registration books maintained by the Trustee as the registered owner of a Bond or Bonds.

"Permitted Encumbrances" means as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Lease; (iii) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law after the date of the Lease; (iv) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that exist of record as of the date of initial issuance of the Bonds and that the Authority certifies in a Certificate will not materially impair the use of the Leased Premises by the Tenant; and (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Authority and the Tenant consent in writing.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Office" means the principal corporate trust office of the Trustee in Los Angeles, California, or the principal corporate trust office of any successor Trustee except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"**Project Costs**" means any costs or expenses incurred in connection with the acquisition, improvement and equipping of the Leased Premises.

"**Qualified Reserve Fund Credit Instrument**" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met: (i) the long-term credit rating of such bank is within the highest rating category of Moody's or S&P, or the claims paying ability of such insurance company is rated within the highest rating category of A.M. Best & Company, at the time of delivery of such letter of credit or surety bond; (ii) such letter of credit or surety bond has a term of at least 12 months; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder amounts necessary to carry out the purposes specified in the Indenture.

"Rating Category" means one of the general rating categories of S&P or Moody's, as the case may be, without regard to any refinement or graduation of such rating category by numerical modifier or otherwise.

"Record Date" means the close of business on the fifteenth day of the month immediately preceding each Bond Payment Date.

"Redemption Fund" means the fund so designated and established pursuant to the Indenture.

"**Reserve Fund Deficiency**" means, as of any calculation date, the difference between the Reserve Requirement and the aggregate amount on deposit in the Reserve Fund.

"Reserve Fund" means the fund so designated and established pursuant to the Indenture.

"Reserve Requirement" means, as of any calculation date in a Bond Year, an amount equal to: (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average Annual Debt Service for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

"Revenues" means (i) all payments to the Trustee (as assignee of the Authority) pursuant to the Lease; (ii) the City Advances; (iii) all amounts held in the funds and accounts created under the Indenture, together with earnings thereon; and (iv) all other receipts of the Trustee (as assignee of the Authority) attributable to the ownership, leasing or operation of the Leased Premises.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, New York, New York 10041, Fax: (212) 855-7320 or 855-1000, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Serial Bonds" means the Bonds falling due by their terms in specified years, for which no mandatory sinking account payments are provided.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture or a Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

"Special Record Date" means the date established by the Trustee pursuant to the Indenture.

"S&P" means Standard & Poor's or any successor corporation thereto.

"State" means the State of California.

"Supplemental Indenture" means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such supplemental indenture is specifically authorized under the Indenture.

"Tenant" means any tenant of the Leased Premises.

"Term Bonds" means the Bonds payable at or before their specified maturity date or dates from mandatory sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Pledge and Assignment; Equal Security

The Bonds are secured by a pledge of and lien on all of the Revenues (except as otherwise provided in the Indenture) and upon all of the moneys in the funds and accounts established under the Indenture. Except for the Revenues and such moneys, no funds or properties of the Authority shall be pledged to, or otherwise liable for, the payment of principal of, premium (if any) or interest on the Bonds. Under the Indenture, the Authority grants to the Trustee, for the benefit of the Owners, a lien on and a security interest in the Lease, the Cooperation Agreement and the Revenues, including all moneys in the funds held by the Trustee under the Indenture, including, without limitation, the Debt Service Fund, and all such moneys shall be held by the Trustee in trust and applied to the respective purposes specified in the Indenture and in the Cooperation Agreement and the Lease. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be

deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and subject to the provisions of the Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority that have been assigned to the Trustee and all of the obligations of the Tenant under the Lease and all of the obligations of the City under the Cooperation Agreement.

All the Pledged Tax Revenues and all money in the Revenue Fund and in the funds or accounts so specified and provided for in the Indenture, as well the special fund into which the Agency is required to deposit tax increment revenues as required under the Law, whether held by the Agency or the Trustee (except the Rebate Fund), are irrevocably pledged to the punctual payment of the interest on and principal of and redemption premiums, if any, on the Bonds, and the Pledged Tax Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth in the Indenture. This pledge shall constitute a first lien on the Pledged Tax Revenues and such other money for the payment of all Bonds in accordance with the terms of the Indenture.

Establishment of Funds and Accounts; Flow of Funds

The Trustee shall establish, maintain and hold in trust the following funds and accounts under the Indenture: (a) Costs of Issuance fund; (b) Revenue Fund; (c) Insurance and Condemnation Award Fund (d) City Advance Reimbursement Fund; (e) Debt Service Fund (in which there is further established a Principal Account and an Interest Account); (f) Redemption Fund; and (g) Reserve Fund.

Costs of Issuance Fund. The Trustee shall establish and maintain a fund designated as the "Costs of Issuance Fund." Moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance relating to the Bonds upon submission to the Trustee of a Request of the Authority stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred and (iv) that such payment is a proper charge against said fund. On the date that is 180 days following the Closing Date, or upon receipt of a Certificate of the Authority stating that amounts in such fund are no longer required for the payment of such Costs of Issuance, any amounts then remaining in such account shall be withdrawn therefrom by the Trustee and transferred to the Revenue Fund. Upon such transfer, the Costs of Issuance Fund shall be closed.

Revenue Fund. All Revenues (other than City Advances) shall be deposited when received into the Revenue Fund. Except as otherwise provided in the Indenture, moneys in the Revenue Fund shall be paid by the Trustee as follows and in the following order of priority:

FIRST: on the tenth day of each month, commencing August 10, 2009, for deposit in the Interest Account of the Debt Service Fund an amount (after taking into consideration earnings therein) equal to (a) one-third (1/3rd) of the interest due on the Bonds on January 1, 2010 and thereafter commencing November 10, 2009; (b) one-sixth (1/6th) of the interest due on the Bonds on the next Bond Payment Date; and (c) all amounts due as to interest on the Bonds on the tenth day of any previous calendar month pursuant to this paragraph which have not otherwise been credited to the Interest Account of the Debt Service Fund pursuant of this paragraph;

SECOND: on the tenth day of each month, commencing August 10, 2009, for deposit in the Principal Account of the Debt Service Fund, an amount (after taking into consideration earnings therein) equal to (a) one-ninth (1/9th) of the principal due on the Bonds on July 1, 2010 and thereafter commencing May 10, 2010; (b) one-twelfth (1/12th) of the principal due on the Bonds on the next Bond

Payment Date on which principal is payable; and (c) all amounts due as to principal on the Bonds on the tenth day of any previous calendar month pursuant to this paragraph which have not otherwise been credited to the Principal Account of the Debt Service Fund pursuant of this paragraph;

THIRD: on July 2 of each year, for deposit in the Reserve Fund such amount as may be necessary to maintain a balance therein equal to the Reserve Requirement;

FOURTH: on July 2 of each year, for deposit in the City Advance Reimbursement Fund, amounts required to reimburse the City Advances pursuant to the Cooperation Agreement and the Indenture;

FIFTH: on July 2 of each year, to the City to be used for any lawful purposes.

Anything contained to the contrary in the Indenture notwithstanding, moneys deposited at any time in the Revenue Fund as the result of payments by the Authority or the Trustee of the proceeds of all or any part of the Leased Premises taken in the exercise of the power of eminent domain (or similar proceedings or related agreements) and related payments, insurance proceeds payable in connection with the loss, damage or destruction of the Leased Premises and related payments with respect to the Leased Premises as provided by the Lease shall be paid to the Insurance and Condemnation Award Fund by the Trustee immediately after the deposit thereof. If, 60 days prior to any Bond Payment Date, the amount available in the Interest Account of the Debt Service Fund shall be less than the amount of interest due with respect to the Bonds on such Bond Payment Date, or the amount available in the Principal Account of the Debt Service Fund shall be less than the amount of the principal (including sinking account payment) due on such Bond Payment Date, the Trustee shall notify the City of the amount of such deficiency and shall request the City to make the payment required under the Cooperation Agreement. Upon receipt thereof, the Trustee shall deposit such payment in the Interest Account or the Principal Account, as applicable. All amounts received by the Trustee from the City pursuant to this provision be deemed City Advances.

Debt Service Fund. All amounts in the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable.

Insurance and Condemnation Award Fund. Moneys in the Insurance and Condemnation Award Fund shall be applied by the Trustee for the following purposes: (a) Disbursement to or at the written direction of an Authorized Representative in accordance with requisitions meeting the requirements of subsection (c) of this provision to pay the costs of repair or replacement of property lost, damaged, destroyed or taken in accordance with the Lease; (b) Deposit by the Trustee in the Redemption Fund for the special mandatory redemption of Bonds; (c) payments and transfers from the Insurance and Condemnation Award Fund shall be made by the Trustee to pay costs of restoring or replacing the Leased Premises in accordance with the documents delivered by the Authority pursuant to the Lease (the "Restoration Project") pursuant to requisitions signed by an Authorized Representative describing in reasonable detail the purposes for which such moneys are to be used and the amount thereof and certifying that the amount then being requested constitutes a proper cost of the Restoration Project which is then due or which has been paid by the Authority and which has not previously been the subject of a requisition from the Insurance and Condemnation Award Fund.

City Advance Reimbursement Fund. The Trustee shall use all amounts deposited in the City Advance Reimbursement Fund, as such amounts become available, to reimburse the City for all outstanding City Advances, plus interest accrued thereon. City Advances shall accrue interest at the yield on the Bonds until repaid.

Reserve Fund. All moneys in the Reserve Fund in excess of the Reserve Requirement shall be transferred to the Revenue Fund. All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and interest on the Bonds as the same shall become due and payable in the event of any deficiency at any time in the Debt Service Fund, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all then Outstanding. The Reserve Requirement may be satisfied by crediting to the Reserve Fund moneys or a Qualified Reserve Fund Credit Instrument or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement. Upon deposit of a Qualified Reserve Fund Credit Instrument, the Trustee shall transfer any excess amounts then on deposit in the Reserve Fund to the Authority. In any case where the Reserve Fund is funded with a combination of cash and a Qualified Reserve Fund Credit Instrument, the Trustee shall deplete all cash balances before drawing on the Qualified Reserve Fund Credit Instrument. With regard to a draw on the Reserve Fund, any available moneys on deposit in the Revenue Fund in an amount equal to the Reserve Fund Deficiency (plus all interest which would have accrued on the amount of such Reserve Fund Deficiency while on deposit in the Reserve Fund) shall be used first to reinstate any Qualified Reserve Fund Credit Instruments, and second, to replenish the cash in the Reserve Fund.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by the Trustee solely in Authorized Investments. Upon written request of an Authorized Representative of the Authority, the Trustee shall invest all moneys as directed by such Authority Representative, provided such moneys are invested solely in Authorized Investments; provided, however, that the Trustee shall have received at least two (2) Business Days prior to the date of any such proposed investment or reinvestment, written directions of the Authority specifying the Authority's request for investment or reinvestment. In the absence of any written direction from the Authority, the Trustee shall invest such moneys solely in the investments described in subparagraph (ix) of the definition of "Authorized Investments" provided that as long as the Trustee is The Bank of New York Mellon Trust Company, N.A. , the Trustee shall invest such money in the money market fund set forth in the letter of authorization and direction executed by the Authority and delivered to the Trustee. If no specific money market fund has been specified by the Authority, the Trustee shall make a request to the Authority for investment directions. Such moneys shall be held in cash, uninvested, until specific investment directions are provided by the Authority to the Trustee. Authorized Investments may be purchased at such prices as the Authority may in its discretion determine. All Authorized Investments shall be acquired subject to such additional limitations or requirements consistent with the foregoing as may be established by the Authority. Moneys in the funds and accounts shall be invested in Authorized Investments maturing not later than the date on which it is estimated that such moneys will be required by the Trustee or the Authority. Authorized Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Authorized Investments for repurchase under such agreement. Authorized Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. All interest, profits and other income received from the investment of moneys in any fund or account shall be deposited therein. For the purpose of determining the amount in any fund, all Authorized Investments credited to such fund shall be valued at the lesser of (i) cost (exclusive of brokerage commissions or accrued interest, if any); (ii) the par amount thereof; or (iii) the market value thereof.

The Trustee may commingle moneys on deposit in any of the funds or accounts established pursuant to the Indenture and held by the Trustee into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fees therefor. The Trustee

may sell, or present for redemption, any Authorized Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss on any investment made pursuant to the Indenture or resulting from any such sale which the Trustee reasonably makes in good faith. Any Authorized Investments that are registerable securities shall be registered in the name of the Trustee. The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture. The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

Covenants of the Authority

Punctual Payment. The Authority covenants and agrees that it will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds together with the premium thereon, if any, on the date, at the place and in the manner provided in said Bonds, solely from the Revenues and other funds as provided in the Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or to a change in the amount or time of any mandatory sinking account payment or the time of payment of any claims for interest, whether by the purchase or funding of such Bonds or claims of interest or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of, or claims for, interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Authority covenants and agrees that it will not issue any other obligations payable as to either principal or interest from the Revenues which have, or purport to have any lien upon the Revenues superior to or on a parity with the lien of the Bonds.

Against Additional Indebtedness. The Authority covenants and agrees that it will not issue any other bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable, as to either principal or interest, from all or any part of Revenues.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legally valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall, subject to the provisions of the Indenture, at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondowners under the Indenture against all claims and demands of all persons whomsoever.

The Authority shall preserve and protect the security of the Bonds and the rights of the Owners and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay at maturity, or to call and redeem prior to maturity, all Outstanding Bonds plus unpaid interest thereon to maturity, the Authority will (through its proper members, officers, agents or employees) faithfully perform and abide by all the covenants, undertakings and provisions contained in the Indenture or in any Bond issued under the Indenture for the benefit of the Owners.

Accounting Records and Financial Statements. The Authority covenants and agrees that it will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Revenues and of the funds and accounts provided for in the Indenture. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee (who shall have no duty to inspect) or the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding or their representative authorized in writing. The parties to the Indenture acknowledge that any such books, records or accounts will be maintained by the Trustee so long as all Base Rent payments are made directly from the Tenant to the Trustee and that the Authority shall not be responsible for keeping such books, records or accounts unless Base Rent payments are received by it.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim to take the benefit or advantage of, any stay or extension of law now or at any time in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority shall make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Maintenance of the Leased Premises. The Authority agrees that, at all times during the term of the Indenture, it will, at its own cost and expense, maintain, preserve and keep the Leased Premises and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals.

Insurance. The Authority shall procure or cause to be procured and maintain or cause to be maintained through the term of the Indenture for the Leased Premises insurance against the following risks in the following respective amounts: (i) insurance against loss or damage to the Leased Premises or such structure or item of furniture or equipment caused by fire or lightning, with an extended coverage endorsement and vandalism and malicious mischief insurance, which such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. The insurance required by this paragraph shall be in an amount equal to the replacement cost (without deduction for depreciation) of improvements located or to be located on the Leased Premises but shall be not less than the principal amount of the Outstanding Bonds (except that such insurance may be subject to deductible clauses of not to exceed ten percent (10%) of the amount of any one loss); (b) workers' compensation insurance covering all employees working in or on the Leased Premises, in the same amount and type as other workers' compensation insurance maintained by the City for similar employees doing similar work; and the Authority shall also require any other person or entity working in or on the Leased Premises to carry the foregoing amount of workers' compensation insurance; (c) a standard comprehensive public entity liability insurance policy or policies in protection of the Authority, and its directors, officers and

employees and the Trustee, indemnifying and defending such parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the possession, operation or use of the Leased Premises. Such public liability and property damage insurance shall be in the form of a single limit policy in the amount of not less than three million dollars ($3,000,000), subject to a deductible clause of not to exceed $250,000, covering all such risks; and (d) a CLTA standard coverage title policy of title insurance on the Leased Premises in an amount at least equal to the initial aggregate amount of the principal amount of Base Rent payments issued by a company of recognized standing duly authorized to issue the same. The title policy or policies shall insure the Authority's fee title with respect to the Leased Premises, subject only to Permitted Encumbrances.

Insurance coverage required by paragraphs (a), (b), (c) and (d) may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers agency created for such purpose or other program providing pooled insurance. Each insurance policy provided for in this provision shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority or the Trustee without first giving written notice thereof to the Authority and the Trustee at least sixty (60) days in advance of such intended cancellation or modification; provided, that the Trustee shall not be responsible for the sufficiency of any insurance required in the Indenture and shall be fully protected in accepting payment on account of such insurance or any adjustments, compromise or settlement of any loss agreed to by it.

Events of Default; Remedies

Events of Default. The following events shall be Events of Default: (a) default by the Authority in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; (b) default by the Authority in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; and (c) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within said sixty-day period and thereafter diligently and in good faith proceed to cure such default within a reasonable period of time.

Remedies on Default. Upon the occurrence and continuance of any Event of Default specified in (a) or (b) above under "Events of Default," the Trustee shall proceed, or upon the occurrence and continuance of any Event of Default specified in (c) above under "Events of Default," the Trustee may proceed (and upon written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding), to exercise the remedies set forth in the Lease or available to the Trustee under the Indenture and under the Cooperation Agreement and the Deed; provided, however, that there shall be no right to accelerate maturities of the Bonds or otherwise to declare any Base Rent not then in default to be immediately due and payable. Upon the occurrence and continuance of any Event of Default, the Trustee shall exercise the rights and remedies invested in it by the Indenture with the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

Notwithstanding anything to the contrary contained in the Indenture, in the event the Trustee is entitled or required to foreclose, commence an action or otherwise exercise remedies to acquire control or

possession of any or all of the Leased Premises under, but not limited to, the provisions of the Deed, the Trustee shall not be required to foreclose, commence any such action or exercise any such remedy if the Trustee has determined in good faith that it may incur liability under an Environmental Law (as defined below) as the result of the presence at, or release on or from the Leased Premises of any Hazardous Substances (as defined below) unless the Trustee has received security or indemnity satisfactory to the Trustee in its sole discretion, protecting the Trustee from all such liability. The term "Environmental Laws" shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto. The term "Hazardous Substances" shall mean any chemical, substance or material classified or designated as hazardous, toxic or radioactive, or other similar term, and now or hereafter regulated under any Environmental Law, including without limitation, asbestos, petroleum and hydrocarbon products. The Trustee shall not be required to take any foreclosure action if the approval of a government regulator shall be a condition precedent to taking such action.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order of priority: (a) to the payment of any expenses (including those of its attorneys, agents and advisors) necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of all reasonable fees, charges and expenses of the Trustee incurred in and about the performance of its powers and duties under the Indenture; and (b) to the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid), subject to the provisions of the Indenture, as follows:

First: To the payment to the Persons entitled thereto, of all interest then due and payable, and, if the amount available shall not be sufficient to pay in full all such interest, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto, of the unpaid principal of any Bonds which shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full all the principal of the Bonds due on any date, together with such interest, then to the payment first of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference; and

Third: To the payment of the interest on and the principal of the Bonds, the purchase and retirement of the Bonds and to the redemption of the Bonds, all in accordance with the provisions of the Indenture.

Trustee to Represent Bondowners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to

such Owners under the provisions of the Bonds, the Indenture, and applicable provisions of the JPA Law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondowners, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture or any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture or the Bonds pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondowners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction.

Limitation on Bondowners' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond unless (1) such Owner previously shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in the Indenture, or in the Bonds, contained, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets

pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceeding. In case any proceedings taken by the Trustee or any one or more Bondowners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondowners, then in every such case the Authority, the Trustee and the Bondowners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bondowners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Amendments

Amendments Permitted With Consent. The Indenture and the rights and obligations of the Owners of the Bonds and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplement which shall become effective when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Bond or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Bond, or (2) reduce or have the effect of reducing the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification of the Indenture or the Lease, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Indenture.

Amendments Permitted Without Consent. The Indenture and the rights and obligations of the Owners of the Bonds, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, and only to the extent permitted by law and only (1) to cure, correct or supplement any ambiguous or defective provision contained therein or in the Indenture, and which shall not adversely affect the interest of the Owners of the Bonds, (2) to reflect the comments of S&P and/or Moody's in order to maintain any applicable rating on the Bonds, or (3) in regard to matters arising thereunder or under the Indenture, as the parties thereto or to the Indenture may deem necessary or desirable and which shall not adversely affect the interest of the Owners of the Bonds. Any such supplemental agreement shall become effective upon execution and delivery by the parties thereto or to the Indenture as the case may be.

Procedure for Amendment with Written Consent of Bond Owners. The Indenture or the Lease may be amended by supplemental agreement as provided therein in the event the consent of the

Owners of the Bonds is required pursuant to the Indenture. A copy of such supplemental agreement, together with a request to the Owners of the Bonds for their consent thereto, shall be mailed first class mail by the Trustee to each Owner of a Bond at his address as set forth in the Bond registration books maintained, but failure to receive copies of such supplemental agreement and request so mailed shall not affect the validity of the supplemental agreement when assented to as provided in the Indenture. Such supplemental agreement shall not become effective unless there shall be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and notices shall have been mailed as provided in the Indenture. Each such consent by the Owners of the Bonds shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given. Any such consent shall be binding upon the Owner of the Bond giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the supplemental agreement has become effective. After the Owners of the required percentage of Bonds shall have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Owners of the Bonds in the manner provided in the Indenture for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this provision (but failure to mail copies of said notice shall not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by this provision to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved.

Discharge of Indenture

Discharge. The Bonds may be paid, in whole or in part, by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority: (a) by well and truly paying or causing to be paid the principal of and interest and redemption premiums, if any, on such Bond, as and when the same become due and payable; (b) if prior to maturity and having given notice of redemption by irrevocably depositing with the Trustee, in trust, at or before maturity, an amount of cash which, together with amounts then on deposit in the Debt Service Fund and available for such purpose, is sufficient to pay all principal of and interest and redemption premiums, if any, on such Bonds; or (c) by irrevocably depositing with the Trustee, in trust, noncallable Authorized Investments described in paragraph (1) or (2) of the definition thereof, together with cash, if required, in such amount as will in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund and available for such purpose, together with the interest to accrue thereon, be fully sufficient to pay and discharge the Bonds (including all principal and interest represented thereby and redemption premiums, if any). If all Outstanding Bonds shall be discharged and paid in one or more of the preceding ways, then, notwithstanding that any Bonds shall not have been surrendered for payment, all obligations of the Authority and the Trustee with respect to all Outstanding Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from funds deposited pursuant to paragraphs (b) and (c) of this provision, to the Owners of the Bonds not so surrendered and paid all sums due with respect thereto.

Payment of Bonds After Discharge of Indenture. In any event any Bond shall not be presented for payment when the principal with respect thereof becomes due, either at maturity, or at the date fixed for redemption thereof, if moneys sufficient to pay such Bond shall have been deposited in the Debt Service Fund, all liability of the Authority to the Owner thereof for payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Bond who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part

under the Indenture or on, or with respect to, said Bond. Any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds within two (2) years after the date on which the same were deposited with the Trustee due shall be paid by the Trustee to the Authority. Thereafter, Owners shall be entitled to look only to the Authority for payment, and then only to the extent of the amount so disbursed by the Trustee. The Authority shall not be labile for any interest on the sums paid to it pursuant to this provision and shall not be regarded as a trustee or trustees of such money. Any moneys held in accordance with the Indenture shall be held uninvested.

APPENDIX B

CITY AUDITED FINANCIAL STATEMENTS

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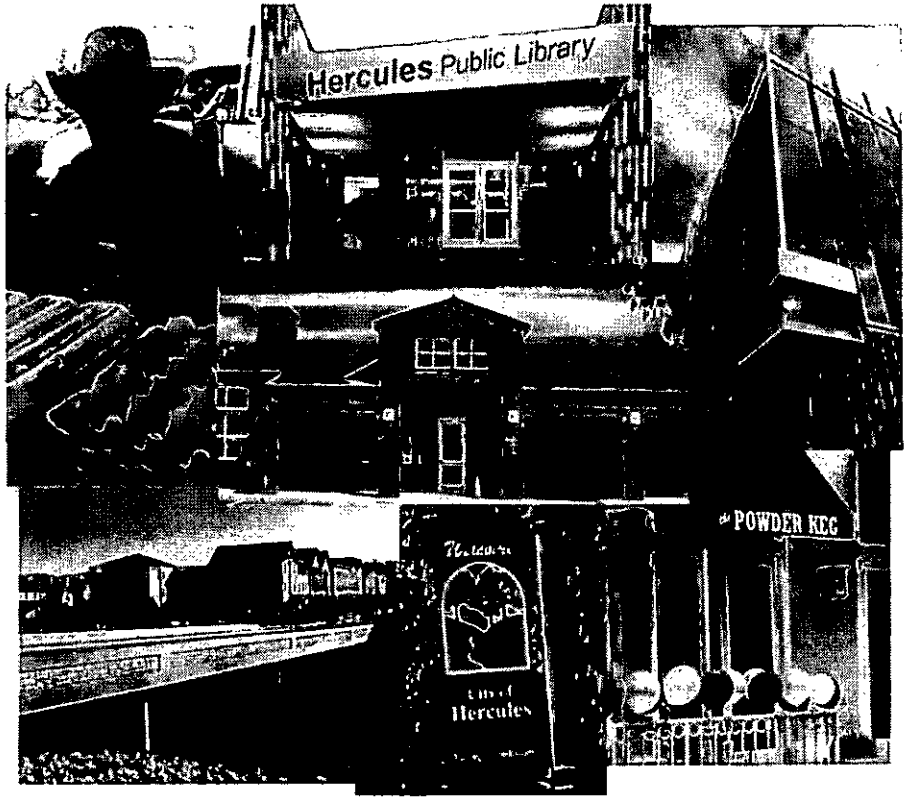
City of Hercules California

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



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INTRODUCTORY SECTION

January 29, 2009

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

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

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

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

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

Profile of the Government

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

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

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

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

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

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

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

Factors Affecting Financial Condition

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

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

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

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

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

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

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

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

Acknowledgements

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

Respectfully submitted,

Nelson E Oliva
City Manager

Gloria Leon
Finance and Personnel Director

CITY OF HERCULES

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2008

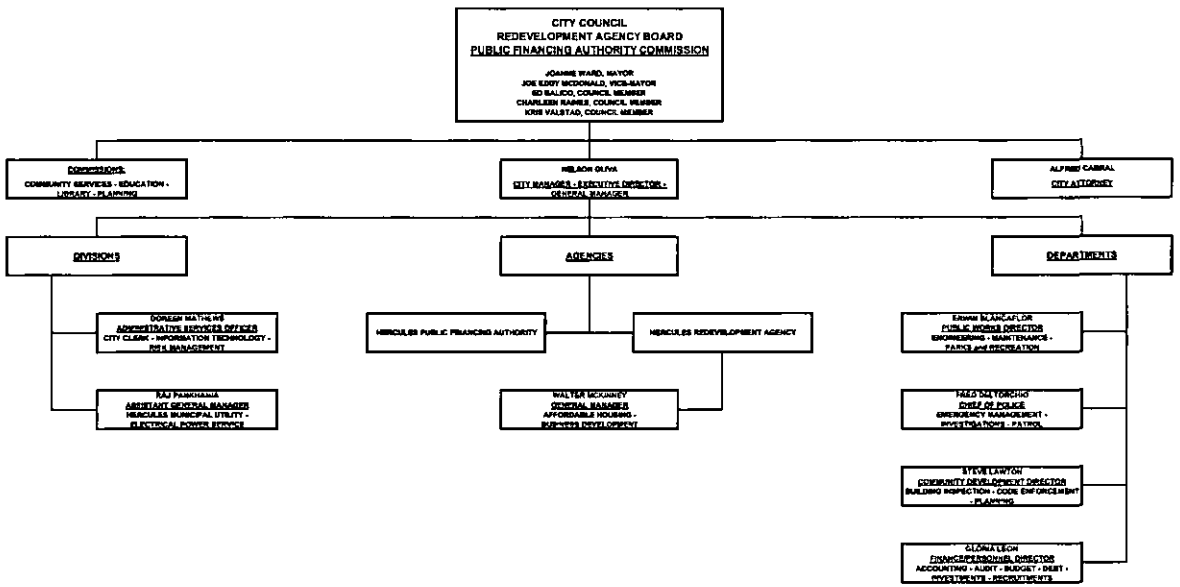
CITY COUNCIL AND ELECTED OFFICIALS

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

ADMINISTRATIVE PERSONNEL

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

CITY OF HERCULES
MANAGEMENT CHART



FINANCIAL SECTION

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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, 2008, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

OFFICES: BEVERLY HILLS · SANTA MARIA

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

In accordance with the *Government Auditing Standards*, we have also issued a report dated January 9, 2009, on our consideration of the City of Hercules' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

A. FINANCIAL HIGHLIGHTS

- The assets of the City of Hercules Governmental Activities exceeded its liabilities at the close of the fiscal year by $115 million. Of this amount $64.9 million was invested in capital assets net of related debt. There are restricted funds of $14.6 million for capital projects, debt service and other. The remaining $35.5 million are unrestricted funds. These amounts include all funds of the City, the Redevelopment Agency and the Public Financing Authority.

- The City's net assets increased by $ 11.1 million for the year including a prior period adjustment of negative $.5 million, representing a $10.7 million increase in Governmental and a $.4 million increase in Business-Type Activities. The majority of the increase in the Governmental Activities came from the City's cash and investments and the Redevelopment Agency having taxes and assessment revenue more than sufficient to cover the Agency expenses, including debt service and capital outlay. There was a prior period adjustment of ($248,703) on the Statement of Activities for Governmental Activities for an understatement of loans payable in the amount of ($340,383), and an overstatement of accumulation depreciation in infrastructure in the amount of $91,680. A prior period adjustment of $20,534 was made on the General Fund for an understatement of advances to other funds in the amount of $270,534 and an understatement of deferred revenue in the amount of ($250,000). In addition a negative $270,534 was made on the Statement of Activities for Business-type Activities for an understatement of advances from other funds.

- As of the close of the fiscal year, the City's Governmental funds, including the general, special revenue, debt service, capital projects, redevelopment and public financing funds, reported combined ending fund balances of $146.4 million, an increase of $53.1 million in comparison with the prior year, which includes a prior period adjustment of $20,534. There is a negative $16.0 million in the Debt Service total unreserved, undesignated fund balance.

- At the end of the current fiscal year, unreserved designated fund balance for the General Fund was $7.4 million, or 48 percent of total General Fund expenditures/transfers out for the year.

- Total net bonded debt increased by $87.6 million during the fiscal year. The increase was due primarily to the issuance of the 2007 Housing Tax Allocation Bonds, Series A in the amount of $13.1 million, 2007 Housing Tax Allocation Bonds, Series B in the amount of $12.8 million, 2007 Tax Allocation Bonds in the amount of $60.6 million, and $2.1 million for the Suntrust Lease. In addition the normal annual principal payments on the 2005 tax allocation bonds for the Redevelopment Agency (RDA), 2003A PFA Lease Revenue Bonds, 2003B PFA Lease Revenue Bonds, H.E.L.P Loan, and other Long-Term Notes were paid.

- During the fiscal year, the Governmental-Wide Financial Statements' total revenues of $52.7 million exceeded total expenses of $41.2 million, by $11.5 million. The expenses are higher (16.4%) than expenses for the prior fiscal year. The expense increases are the result of increased affordable housing programs which include revitalization and beautification, first-time homebuyers and homeownership retention loss programs; increased interest expense and bond issuance costs due to

A. FINANCIAL HIGHLIGHTS, Continued

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

B. OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Government-Wide Financial Statements, Continued

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

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

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

Fund Financial Statements

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

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

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

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

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

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Fund Financial Statements, Continued

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

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

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

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

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

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

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

C. *GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued*

Statement of Net Assets, Continued

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

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

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

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

C. *GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued*

Statement of Activities

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

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

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

Governmental Activities:

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

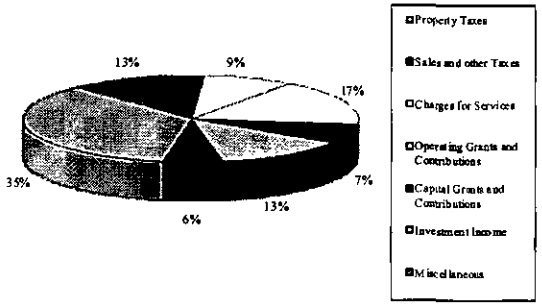
Revenue highlights:

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

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

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

Governmental Activities
Revenues by Source
June 30, 2008



Expense highlights:

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

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

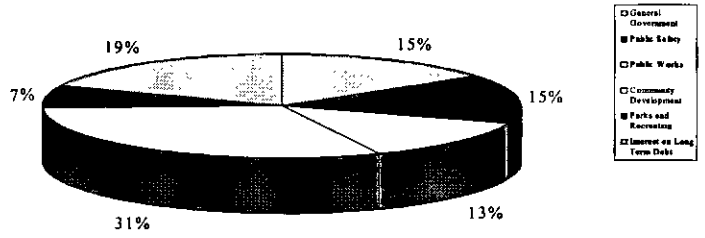
The City received operating contributions and grants totaling $8.1 million which included bond proceeds from the 2005-1 John Muir Assessment Bond to assist in the John Muir Parkway Construction, Bay Area Quality Management District and State of California to assist in the street maintenance program,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

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

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

Governmental Activities
Expenses by Function/Program
June 30, 2008



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

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

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities, Continued

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

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

Business Type Activities

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

Revenue Highlights:

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

Expense Highlights:

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

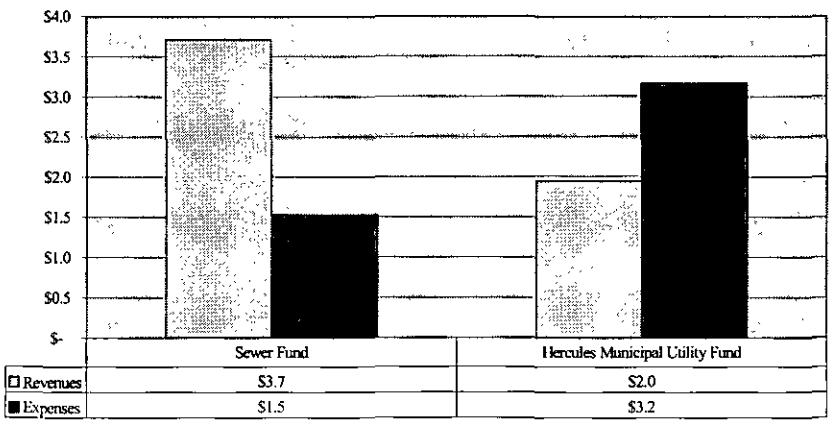
Balance Sheet Highlights:

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

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business Type Activities, Continued

Business Type Activities
Revenues and Expenses
June 30, 2008



D. FUND FINANCIAL STATEMENT ANALYSIS

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

Governmental Funds

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

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

D. FUND FINANCIAL STATEMENT ANALYSIS, Continued

Governmental Funds, Continued

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

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

Proprietary Funds

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

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

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

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, 2008, net capital assets of the governmental activities totaled $118.1 million and the net capital assets of the business-type activities totaled $17.0 million, including depreciation on capital assets, which is recognized in the Government-Wide Financial Statements.

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

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

Governmental Activities:

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

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

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

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

Capital Assets including Infrastructure, Continued

Business-type Activities:

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

Long-Term Obligations

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

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

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

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

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.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HERCULES
STATEMENT OF NET ASSETS
June 30, 2008

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

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

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

		Program Revenues			Net (Expense) Revenue and Change in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Net Governmental Activities	Net Business-type Activities	Total
Governmental activities:							
General government	$ 5,498,329	$ 324,794	$ 2,459,928	$ 223,975	$ (2,489,632)	$ -	$ (2,489,632)
Public safety	5,539,521	295,446	11,276		(5,232,799)		(5,232,799)
Public works	4,751,045	43,436	831,501	3,196,129	(679,979)		(679,979)
Parks and recreation	2,651,586	1,230,799	4,712,466		3,291,679		3,291,679
Community development	11,243,869	1,494,729			(9,749,140)		(9,749,140)
Interest on long term debt	6,796,215	720,036			(6,076,179)		(6,076,179)
Total governmental activities	36,480,565	4,109,240	8,015,171	3,420,104	(20,936,050)		(20,936,050)
Business-type activities:							
Sewer	1,530,858	3,709,926				2,179,068	2,179,068
Electricity	3,198,259	1,953,079				(1,245,180)	(1,245,180)
Total business-type activities	4,729,117	5,663,005				933,888	933,888
Total government	$ 41,209,682	$ 9,772,245	$ 8,015,171	$ 3,420,104	(20,936,050)	933,888	(20,002,162)
General Revenues							
Taxes:							
Secured and unsecured property taxes					16,640,658		16,640,658
Sales and use taxes					1,927,217		1,927,217
Utility user taxes					1,802,766		1,802,766
Other taxes					703,353		703,353
Unrestricted motor vehicle taxes in-lieu					1,957,208		1,957,208
Use of money and property					6,046,175	6,008	6,052,183
Miscellaneous revenue					2,452,593		2,452,593
Transfers					286,249	(286,249)	
Total general revenues and transfers					31,816,219	(280,241)	31,535,978
Change in net assets					10,880,169	653,647	11,533,816
Net Assets, July 1, 2007					104,324,319	7,274,915	111,599,234
Prior period adjustments					(228,169)	(270,534)	(498,703)
Net Assets, July 1, 2007, restated					104,096,150	7,004,381	111,100,531
Net assets, June 30, 2008					$ 114,976,319	$ 7,658,028	$ 122,634,347

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

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

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

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

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

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

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

CITY OF HERCULES
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	General Fund	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund	Hercules Public Financing Authority Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total
ASSETS							
Cash and investments	$ 12,948,501	$ 5,599,945	$ -	$ 230,590	$ -	$ 13,192,903	$ 31,971,939
Cash and investments with fiscal agent			103,476,862	1,724,716		879,557	106,081,135
Accounts receivable	761,268	50	1,858		4,161	2,106,240	2,873,577
Interest receivable	147,383	316,955				1,034	465,372
Grants receivable						2,194,970	2,194,970
Prepaid expenditures	2,817						2,817
Due from other funds	1,044,047	1,353,087	823,593		4,533,670	1,261,116	9,015,513
Loans receivable	250,000	8,813,974					9,063,974
Land held for resale		674,563			3,862,040		4,536,603
Advances to other funds	18,336,986			5,399,759		130,202	23,866,947
Total assets	$ 33,491,002	$ 16,758,574	$ 104,302,313	$ 7,355,065	$ 8,399,871	$ 19,766,022	$ 190,072,847
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 373,153	$ 311,536	$ 6,039,561	$ 2,250	$ 1,136,651	$ 1,561,179	$ 9,424,330
Accrued wages	348,244	8,862				18,055	375,161
Deposits payable	424,781						424,781
Claims and judgments payable	64,979						64,979
Deferred revenue	250,000	9,130,929					9,380,929
Due to other funds			3,335,997	49,589	2,176,680	3,502,836	9,065,102
Advances from other funds	5,529,960		9,441,967				14,971,927
Total liabilities	6,991,117	9,451,327	18,817,525	51,839	3,313,331	5,082,070	43,707,209
Fund Balances:							
Reserved:							
Debt service				1,903,467		218,567	2,122,034
Capital projects			101,531,008				101,531,008
Advances to other funds	18,336,986			5,399,759		130,202	23,866,947
Prepaid expenditures	2,817						2,817
Petty cash	2,455						2,455
Land held for resale		674,563			3,862,040		4,536,603
Future commitments	792,986					7,417	800,403
Low and moderate income housing		1,250,867					1,250,867
Unreserved, designated:							
Future projects	7,364,641					11,755,742	19,120,383
Unreserved, undesignated							
Reported in:							
Special Revenue Funds		5,381,817				2,572,024	7,953,841
Capital Projects Fund					1,224,500		1,224,500
Debt Service Fund			(16,046,220)				(16,046,220)
Total fund balances	26,499,885	7,307,247	85,484,788	7,303,226	5,086,540	14,683,952	146,365,638
Total liabilities and fund balances	$ 33,491,002	$ 16,758,574	$ 104,302,313	$ 7,355,065	$ 8,399,871	$ 19,766,022	$ 190,072,847

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

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 146,365,638
In the governmental funds balance sheet, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost	$ 157,198,863	
Accumulated depreciation	(40,091,028)	
Net		117,107,835
In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred.		(2,852,890)
In governmental funds balance sheet, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt.		
Issuance costs	4,796,068	
Accumulated amortization	(274,017)	
Net		4,522,051
Internal service funds are used by management to charge the costs of certain activities, such as replacement and maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		2,531,046
Long-term liabilities: In the governmental funds balance sheet, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
2005 Tax Allocation Bonds	(53,640,000)	
Premium on 2005 Tax Allocation Bonds	(1,958,372)	
Deferred loss on refunding for the 2005 Tax Allocation Bonds	262,045	
2007 Housing Tax Allocation Bonds, Series A	(13,130,000)	
2007 Housing Tax Allocation Bonds, Series B	(12,760,000)	
Premium on 2007 Housing Tax Allocation Bonds, Series B	(78,660)	
2007 Tax Allocation Bonds	(60,555,000)	
2003A PFA Lease Revenue Bonds	(6,760,000)	
2003B PFA Lease Revenue Bonds	(8,440,000)	
Long-term Notes Payable	(500,193)	
H.E.L.P Loan	(1,146,707)	
Suntrust Lease	(2,134,677)	
Compensated Absences Payable	(536,726)	
Total		(161,378,290)
In the governmental funds balance sheet, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue.		
Loans receivable	$ 9,380,929	
Allowance for uncollectible loan	(700,000)	8,680,929
TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES		$ 114,976,319

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

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

	General Fund	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund	Hercules Public Financing Authority Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Totals
Revenues:							
Taxes and assessments	$ 5,414,588	$ 13,473,319	$ -	$ -	$ -	$ 1,862,512	$ 20,750,419
Licenses and permits	337,291						337,291
Fines and forfeitures	134,502						134,502
Use of money and property	1,805,821	(85,246)	3,238,518	821,048		906,105	6,686,246
Intergovernmental revenues	1,991,472					8,404,483	10,395,955
Program income		30,748					30,748
Charges for services	2,044,478	309,858				251,833	2,606,169
Lease revenue				310,000			310,000
Other revenues	2,199,002	253,539				52	2,452,593
Total revenues	13,927,154	13,982,218	3,238,518	1,131,048		11,424,985	43,703,923
Expenditures:							
Current:							
General government	4,373,374						4,373,374
Public safety	5,255,248						5,255,248
Streets and public works	371,196					2,188,590	2,559,786
Parks and recreation	2,424,980						2,424,980
Community development	1,664,024	8,146,887	3,034,223			11,734	12,856,868
Lease expense	1,132,585						1,132,585
Capital outlay	16,593	33,505			31,218,618	10,061,966	41,330,682
Debt service:							
Principal			1,453,933	310,000		50,861	1,814,794
Interest and fiscal agent fees			4,247,546	720,037		52,788	5,020,371
Bond issuance costs			3,105,728				3,105,728
Total expenditures	15,238,000	8,180,392	11,841,430	1,030,037	31,218,618	12,365,939	79,874,416
Excess of revenues over (under) expenditures	(1,310,846)	5,801,826	(8,602,912)	101,011	(31,218,618)	(940,954)	(36,170,493)
Other Financing Sources (Uses):							
Proceeds from issuance of long-term debt			86,445,000			2,591,862	89,036,862
Original issue premium from issuance of long-term debt			81,806				81,806
Transfers in	709,518	3,279,876	7,322,048		33,864,086	6,238,005	51,413,533
Transfers out	(42,000)	(7,182,539)	(35,464,048)		(1,064,214)	(7,490,840)	(51,243,641)
Total other financing sources (uses)	667,518	(3,902,663)	58,384,806		32,799,872	1,339,027	89,288,560
Net changes in fund balances	(643,328)	1,899,163	49,781,894	101,011	1,581,254	398,073	53,118,067
Fund balances - July 1, 2007	27,122,679	5,408,084	35,702,894	7,202,215	3,505,286	14,285,879	93,227,037
Prior period adjustments	20,534						20,534
Fund balances - July 1, 2007, restated	27,143,213	5,408,084	35,702,894	7,202,215	3,505,286	14,285,879	93,247,571
Fund balances - June 30, 2008	$ 26,499,885	$ 7,307,247	$ 85,484,788	$ 7,303,226	$ 5,086,540	$ 14,683,952	$ 146,365,638

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

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

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

NET CHANGE IN FUND BALANCES	$ 53,118,067
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay expenditures are, therefore, added back to fund balances	41,208,812
Depreciation expense not reported in governmental funds	(2,788,270)
Contributed capital not reported in governmental funds	3,196,129
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but in the statement of net assets the repayment reduces long-term liabilities.	
Proceeds from issuance of long-term debt	(89,036,862)
Repayment of debt principal is added back to fund balances	1,814,794
Costs of issuance from issuance of long-term debt	3,105,728
Amortization expense of costs of issuance not reported in governmental funds	(123,532)
Original issue premium from issuance of long-term debt	(81,806)
Amortization of premium and deferred loss on refunding	65,973
The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Interest payable	(1,718,285)
Compensated absences	(64,229)
Certain revenues are offset by deferred revenue in the governmental funds because they are not available to pay for current period expenditures. This amount represents the amount by which prior year deferred revenue exceeded current year includes the $700,000 allowance for uncollectible loan.	2,177,421
Dispositions of capital assets result in no gain or loss on the governmental funds statements. However, on the statement of activities, gains and losses on sales and dispositions are reported.	(34,429)
Internal service funds are used by management to charge the costs of certain activities, such as replacement and maintenance, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.	40,658
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 10,880,169

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

PROPRIETARY FUND FINANCIAL STATEMENTS

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

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

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

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

(continued)

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

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

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

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

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

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

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

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

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

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

(continued)

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

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

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

FIDUCIARY FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Hercules Redevelopment Agency

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

Hercules Public Financing Authority

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

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

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

B. Basis of Accounting and Measurement Focus

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Government-wide Financial Statements

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

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

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

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

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

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

Governmental Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The following are the description of the major funds:

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

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

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

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

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

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

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

Proprietary Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

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

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

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

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

Fiduciary Fund Financial Statements

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

C. Cash and Investments

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Cash and Investments, Continued

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

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

D. Capital Assets

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

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Capital Assets, Continued

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

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

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

E. Long-Term Obligations

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

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

F. Compensated Absences

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

G. Net Assets

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

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.
Restricted for Debt Service represents amounts accumulated in accordance with a bond indenture or similar covenant.
Restricted for Special Projects and Programs represents funds designated for the completion of future projects.
Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets" as defined above.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Net Assets, Continued

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

Reserved for Debt Service represents funds which legally may only be used for debt service payments.
Reserved for Advances to Other Funds represents funds that are to be received from other funds on a long-term basis.
Reserved for Prepaid Expenditures and Petty Cash is provided to indicate that petty cash and prepaid costs are not "available" as a resource to meet expenditures of the current year.
Reserved for Future Commitments represents funds that are reserved for future miscellaneous commitments.
Reserved for Low and Moderate Income Housing represents funds reserved for low and moderate income housing.
Reserved for Land Held for Resale represents amounts provided to indicate that land held for resale is not "available" as a resource to meet expenditures of the current year.

H. Use of Restricted/Unrestricted Net Assets

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

I. Property Taxes, Tax Increment and Special Assessment Revenue

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

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

J. Use of Estimates

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

K. New Accounting Pronouncements

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

GASB Statement No. 48
This statement is effective for periods beginning after December 15, 2006 and establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Pronouncements, Continued

GASB Statement No. 48, Continued

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

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

2. CASH AND INVESTMENTS

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

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

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

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

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

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

2. CASH AND INVESTMENTS, Continued

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

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

Investments Authorized by Debt Agreements

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

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

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Interest Rate Risk

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

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

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

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:

Maturity	% of Portfolio
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.

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Credit Risk, Continued

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

Concentration of Credit Risk

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

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

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

Custodial Credit Risk

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

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

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

2. CASH AND INVESTMENTS, Continued

Investment in State Investment Pool

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

3. LOANS RECEIVABLE

Loans Receivable

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

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

A. Bridge Housing Corporation

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

B. Eden Housing Loan

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

C. Radston's Office Plus

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

3. LOANS RECEIVABLE, Continued

D. First Time Homebuyers

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

E. Affordable Housing Loans

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

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

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

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

F. Employee Loan

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

G. Home Emergency Loans

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

H. Business Development Loans

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

4. DEFERRED REVENUE

Fund Financial Statements

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

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

5. CAPITAL ASSETS

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

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

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

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

5. CAPITAL ASSETS, Continued

Depreciation Allocation

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

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

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

5. CAPITAL ASSETS, Continued

Depreciation Allocation

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

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

6. COMPENSATED ABSENCES

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

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

7. LONG-TERM OBLIGATIONS

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

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

7. LONG-TERM OBLIGATIONS, Continued

2005 Tax Allocation Bonds

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

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

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

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

2007 Housing Tax Allocation Bonds Series A and B

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

7. LONG-TERM OBLIGATIONS, Continued

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

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

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

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

2007 Tax Allocation Bonds Series A

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

7. LONG-TERM OBLIGATIONS, Continued

2007 Tax Allocation Bonds Series A, Continued

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

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

2003A Public Financing Authority Lease Revenue Bonds

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

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

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

7. LONG-TERM OBLIGATIONS, Continued

2003B Public Financing Authority Lease Revenue Bonds

The Public Financing Authority issued lease revenue bonds, series 2003B, dated October 15, 2003, totaling $9,150,000. The purpose of the bonds was to refinance the 1994 Refunding Certificates of Participation and to finance a portion of the construction for a public library. The interest rate on the bonds ranges from 2.00% to 5.00%. The interest is payable on semiannually on June 1 and December 1, commencing December 1, 2003. The bonds are subject to optional and mandatory early redemption provisions. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the facility lease. Principal is due annually beginning on December 1, 2005, in amounts ranging from $170,000 to $2,480,000. The bonds mature on December 1, 2033. The balance at June 30, 2008 is $8,440,000.

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

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

H.E.L.P. Loan Payable

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

Long-term Notes Payable

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

7. LONG-TERM OBLIGATIONS, Continued

Long-term Notes Payable, Continued

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

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

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

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

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

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

SunTrust Lease

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

7. LONG-TERM OBLIGATIONS, Continued

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

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

Defeased Debt -- 2001 Tax Allocation Bonds

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

8. NON-CITY OBLIGATIONS

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

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

9. RISK MANAGEMENT

General Liability Insurance

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

9. RISK MANAGEMENT, Continued

Workers' Compensation

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

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

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

General Liability	$ 59,153
Workers Compensation	5,826
Total	$ 64,979

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

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

Miscellaneous Coverages

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

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

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.

10. INTERFUND TRANSACTIONS

A. Long-Term Advances

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

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

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

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

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

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

B. Due To/From Other Funds

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

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

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

10. INTERFUND TRANSACTIONS, Continued

C. Transfers

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

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

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

11. PUBLIC EMPLOYEE RETIREMENT SYSTEM

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

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

11. PUBLIC EMPLOYEE RETIREMENT SYSTEM, Continued

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

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

12. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

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

B. Commitments

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

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

13. JOINT POWERS AGREEMENTS

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

A. West Contra Costa Transportation Advisory Committee (WCCTAC)

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

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

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

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

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

C. Pinole/Hercules Wastewater Treatment Plant

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

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

14. EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

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

15. PRIOR PERIOD ADJUSTMENTS

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

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

16. DEFICIT NET ASSETS

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

17. SUBSEQUENT EVENTS

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

18. RELATED PARTY TRANSACTIONS

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

1. BUDGETARY PRINCIPLES

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

1. In June, the City Manager submits to the City Council a proposed operating budget for the following fiscal year. This budget includes proposed expenditures, by fund and department, and the revenues expected to finance them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted through passage of a resolution before July 1.

4. The City Manager is authorized to transfer budgeted amounts between objects within the same department; however, any revisions, which alter total expenditures of any fund, must be approved by the City Council.

5. Formal budgetary integration is employed as a management control device. Commitments for material and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are encumbered at year-end lapse, then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance. The Fire Equipment Special Revenue Fund, Regional Water Quality Special Revenue Fund, and SunTrust Lease Debt Service Fund do not have adopted budgets.

6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fees schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2008, based on the calculations by City Management, proceeds of taxes did not exceed the appropriations limit.

7. Budget revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. The City Manager must approve adjustments to departmental budgets; however, management may amend the budgeted amounts within departmental expenditure classifications, with approval of the Finance Director.

8. Certain appropriations carry over and are rebudgeted for the coming year.

9. Budget appropriations for the various governmental funds become effective July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level.

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

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

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

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

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OTHER SUPPLEMENTAL INFORMATION

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

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

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

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

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

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

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NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Special Revenue Funds											
	AB 3229 COPS Program Fund	Citywide L&L Fund	LLAD Fund	Stormwater Assessment Fund	DIF Fund	Community Development Fund	Development Fee Fund	Developer Park Fees Fund	State Gas Tax Fund	Measure C Street Fund
Assets										
Cash and investments	$ -	$ 113,430	$ 932,781	$ 150,916	$ 5,120,993	$ 691,867	$ 2,154,743	$ -	$ 355,756	$ 714,319
Cash and investments with fiscal agent										
Accounts receivable				6,417		188			145,097	
Interest receivable										
Grants receivable										
Due from other funds						40,000				
Advances to other funds						130,202				
Total assets	$ -	$ 113,430	$ 932,781	$ 157,333	$ 5,120,993	$ 862,257	$ 2,154,743	$ -	$ 500,853	$ 714,319
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	$ -	$ 63,168	$ 44,197	$ 4,400	$ 35	$ 12,034	$ -	$ -	$ 83,229	$ 916
Accrued wages		7,002	7,215	3,838						
Due to other funds										
Total liabilities		70,170	51,412	8,238	35	12,034			83,229	916
Fund Balances:										
Reserved:										
Debt service										
Advances to other funds						130,202				
Future commitments				3,975						
Unreserved, designated:										
Future projects		43,260	881,369	145,120	5,120,958	720,021	2,154,743		417,624	713,403
Unreserved, undesignated										
Reported in:										
Special Revenue Funds										
Total fund balances		43,260	881,369	149,095	5,120,958	850,223	2,154,743		417,624	713,403
Total liabilities and fund balances	$ -	$ 113,430	$ 932,781	$ 157,333	$ 5,120,993	$ 862,257	$ 2,154,743	$ -	$ 500,853	$ 714,319

(Continued)

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

	Special Revenue Funds				Special Revenue Funds			Capital Project Fund	Debt Service Fund	
	STMP Traffic Impact Fund	SB 1266 Road Improvement Fund	State AB-939 Fund	Grant Fund	Fiscal Neutrality Fee Fund	Fire Equipment Fund	Regional Water Quality Fund	City Capital Projects Fund	SunTrust Lease Debt Service Fund	Totals
Assets										
Cash and investments	$ 95,062	$ -	$ 81,320	$ 260,693	$ 2,478,440	$ -	$ 42,583	$ -	$ -	$ 13,192,903
Cash and investments with fiscal agent									879,557	879,557
Accounts receivable								1,954,538		2,106,240
Interest receivable									1,034	1,034
Grants receivable		400,000		1,794,970						2,194,970
Due from other funds								1,221,116		1,261,116
Advances to other funds										130,202
Total assets	$ 95,062	$ 400,000	$ 81,320	$ 2,055,663	$ 2,478,440	$ -	$ 42,583	$ 3,175,654	$ 880,591	$ 19,766,022
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	$ 1,478	$ -	$ 71,319	$ -	$ -	$ -	$ -	$ 1,280,403	$ -	$ 1,561,179
Accrued wages										18,055
Due to other funds		400,000		1,796,765				644,047	662,024	3,502,836
Total liabilities	1,478	400,000	71,319	1,796,765				1,924,450	662,024	5,082,070
Fund Balances:										
Reserved:										
Debt service									218,567	218,567
Advances to other funds										130,202
Future commitments				3,442						7,417
Unreserved, designated:										
Future projects			10,001	255,456			42,583	1,251,204		11,755,742
Unreserved, undesignated										
Reported in:										
Special Revenue Funds	93,584				2,478,440					2,572,024
Total fund balances	93,584		10,001	258,898	2,478,440		42,583	1,251,204	218,567	14,683,952
Total liabilities and fund balances	$ 95,062	$ 400,000	$ 81,320	$ 2,055,663	$ 2,478,440	$ -	$ 42,583	$ 3,175,654	$ 880,591	$ 19,766,022

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

	Special Revenue Funds				Special Revenue Funds					
	AB 3229 COPS Program Fund	Citywide L&L Fund	LLAD Fund	Stormwater Assessment Fund	DIF Fund	Community Development Fund	Development Fee Fund	Developer Park Fees Fund	State Gas Tax Fund	Measure C Street Fund
Revenues:										
Taxes and assessments	$ -	$ 856,169	$ 689,180	$ 317,163	$ -	$ -	$ -	$ -	$ -	$ -
Use of money and property	447	(16,397)	36,337	7,121	341,386	38,193	131,550	3,381	6,557	28,627
Intergovernmental revenues	100,000								431,501	304,685
Charges for services					208,397	19,236				
Other revenues		29	22							1
Total revenues	100,447	839,801	725,539	324,284	549,783	57,429	131,550	3,381	438,058	333,313
Expenditures:										
Current:										
Streets and public works		974,091	754,759	368,749					90,991	
Community development					11,734					
Capital outlay		2,269			76,273	105,968			981,416	52,379
Debt service:										
Principal										
Interest and fiscal agent fees										
Total expenditures		976,360	754,759	368,749	88,007	105,968			1,072,407	52,379
Excess of revenues over (under) expenditures	100,447	(136,559)	(29,220)	(44,465)	461,776	(48,539)	131,550	3,381	(634,349)	280,934
Other Financing Sources (Uses):										
Proceeds from issuance of long-term debt										
Transfers in					81,949	241,955			611,646	41,096
Transfers out	(104,490)				(1,431,357)	(190,809)		(6,870)	(139,979)	(80,000)
Total other financing sources (uses)	(104,490)				(1,349,408)	51,146		(6,870)	471,667	(38,904)
Net changes in fund balances	(4,043)	(136,559)	(29,220)	(44,465)	(887,632)	2,607	131,550	(3,489)	(162,682)	242,030
Fund balances - July 1, 2007	4,043	179,819	910,589	193,560	6,008,590	847,616	2,023,193	3,489	580,306	471,373
Fund balances - June 30, 2008	$ -	$ 43,260	$ 881,369	$ 149,095	$ 5,120,958	$ 850,223	$ 2,154,743	$ -	$ 417,624	$ 713,403

(Continued)

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

	Special Revenue Funds				Special Revenue Funds			Capital Project Fund	Debt Service Fund	
	STMP Traffic Impact Fund	SB 1266 Road Improvement Fund	State AB-939 Fund	Grant Fund	Fiscal Neutrality Fee Fund	Fire Equipment Fund	Regional Water Quality Fund	City Capital Projects Fund	Suntrust Lease Debt Service Fund	Totals
Revenues:										
Taxes and assessments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,862,512
Use of money and property	5,742		4,874	28,720	150,998		2,566	7	135,996	906,105
Intergovernmental revenues		400,000		2,459,928				4,708,369		8,404,483
Charges for services	24,200									251,833
Other revenues										52
Total revenues	29,942	400,000	4,874	2,488,648	150,998		2,566	4,708,376	135,996	11,424,985
Expenditures:										
Current:										
Streets and public works										2,188,590
Community development										11,734
Capital outlay	24,200	400,000						8,419,461		10,061,966
Debt service:										
Principal									50,861	50,861
Interest and fiscal agent fees									52,788	52,788
Total expenditures	24,200	400,000						8,419,461	103,649	12,365,939
Excess of revenues over (under) expenditures	5,742		4,874	2,488,648	150,998		2,566	(3,711,085)	32,347	(940,954)
Other Financing Sources (Uses):										
Proceeds from issuance of long-term debt				406,324					2,185,538	2,591,862
Transfers in				240,621				5,020,738		6,238,005
Transfers out				(3,322,383)	(50,000)	(78)		(165,556)	(1,999,318)	(7,490,840)
Total other financing sources (uses)				(2,675,438)	(50,000)	(78)		4,855,182	186,220	1,339,027
Net changes in fund balances	5,742		4,874	(186,790)	100,998	(78)	2,566	1,144,097	218,567	398,073
Fund balances - July 1, 2007	87,842		5,127	445,688	2,377,442	78	40,017	107,107		14,285,879
Fund balances - June 30, 2008	$ 93,584	$ -	$ 10,001	$ 258,898	$ 2,478,440	$ -	$ 42,583	$ 1,251,204	$ 218,567	$ 14,683,952

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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FIDUCIARY FUNDS

Agency Funds:

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

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

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

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

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

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

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

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

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

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

	Westcat Transit	West Contra Costa Integrated Waste Management Authority	Reassessment District 91-1	Reassessment District 05-1	A. Nobel Reassessment District	Taylor Woodrow Maintenance LMOD	Hercules Community Library	Hercules Golf Club	Pinole/Hercules Wastewater Treatment Plant	Totals
Assets										
Cash and investments	$ -	$ 6,820,572	$ 339,540	$ -	$ 795,716	$ 57,831	$ 3,305	$ 22,948	$ 19,582	$ 8,059,494
Cash and investments with fiscal agent				4,296,227	948,743					5,244,970
Accounts receivable		607,827						100		607,927
Prepaid expense		883								883
Total Assets	$ -	$ 7,429,282	$ 339,540	$ 4,296,227	$ 1,744,459	$ 57,831	$ 3,305	$ 23,048	$ 19,582	$ 13,913,274
Liabilities										
Accounts payable	$ 3,533	$ 64,544	$ 339,540	$ 2,019,881	$ -	$ -	$ 419	$ -	$ -	$ 2,427,917
Compensated absences		7,224								7,224
Deposits payable	(3,533)	7,357,514		2,276,346	1,744,459	57,831	2,886	23,048	19,582	11,478,133
Total Liabilities	$ -	$ 7,429,282	$ 339,540	$ 4,296,227	$ 1,744,459	$ 57,831	$ 3,305	$ 23,048	$ 19,582	$ 13,913,274

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

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

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

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

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

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

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

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

MOSS, LEVY & HARTZHEIM LLP
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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, 2008, which collectively comprise the City of Hercules' basic financial statements, and have issued our report thereon dated January 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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Compliance and Other Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fiscal Year	Property Tax	Utility Users Tax	Sales Tax	Gas Tax	Franchise Tax	Transfer Tax	Transportation Tax	Business License Tax	Total
2003	$ 5,387	$ 1,120	$ 1,078	$ 423	$ 308	$ 198	$ 283	$ 140	$ 8,937 [1]
2004	7,256	1,254	1,023	392	353	368	265	139	11,050
2005	13,134	1,431	1,271	420	383	279	259	138	17,315
2006	13,478	1,789	1,669	690	479	295	1,765	168	20,333
2007	16,777	1,824	1,821	441	496	131	1,884	152	23,526
2008	16,641	1,803	1,927	432	472	73	1,957	158	23,463

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

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

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

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

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

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

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

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

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

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

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

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

City of Hercules
Property Tax Rates
Direct and Overlapping[1] Governments
Last Six Fiscal Years

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

(10 years information not available)

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

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

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

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

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

[1] Teeter Plan

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

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

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

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

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

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

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

City of Hercules

Direct and Overlaping Governmental Activities Debt

As of June 30, 2008

(amounts expressed in thousands)

	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping Tax and Assessment Debt:			
Bay Area Rapid Transit District	467,320	0.513%	2,397
Contra Costa Community College District	184,890	1.592%	2,943
John Swett Unified School District	9,585	9.426%	903
West Contra Costa Unified School District	527,016	9.930%	52,333
West Contra Costa Healthcare Parcel Tax Obligations	24,620	10.124%	2,493
East Bay Regional Park District	149,445	1.467%	2,192
California Statewide Comm Development Authority 1915 Act Bonds	1,252	0.748%	9
City of Hercules 1915 Act Bonds	12,515	100.000%	12,515
Total Gross Overlapping Tax and Assessment Debt	1,376,643		75,785
Less East Bay Municipal Utility District (100% self-supporting)			16
Total Net Overlapping Tax and Assessment Debt	1,376,643		75,769
Direct and Overlapping General Fund Debt:			
Contra Costa County General Fund Obligations	361,925	1.588%	5,747
Contra Costa County Pension Obligations	492,985	1.588%	7,829
Contra Costa County Board of Education Certificates of Participation	470	1.588%	7
Contra Costa Community College District Certificates of participation	1,100	1.520%	17
West Contra Costa Unified School District Certificates of Participation	24,755	9.930%	2,458
City of Hercules General Fund Obligations	15,200	100.000%	15,200
Total Direct and Overlapping General Fund Debt	896,435		31,258
Gross Combined Total Debt	2,273,078		107,043 2
Net Combined Total Debt	2,273,078		107,027

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

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

Ratios to 2007-08 Assessed Valuation:	
Total Gross Overlapping Tax and Assessment Debt	2.14%
Total Net Overlapping Tax and Assessment Debt	2.14%
Ratios to Adjusted Assessed Valuation:	
Combined Direct Debt ($15,510,000)	0.72%
Gross Combined Total Debt	4.91%

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

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

	Fiscal Year 2006	2007	2008
Debt Limit	$ 428,560	$ 483,966	$ 483,966
Total net debt applicable to limit			
Legal debt margin	428,560	483,966	483,966
Total net debt applicable to the limit as a percentage of debt limit			

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

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

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

City of Hercules

Pledged-Revenue Coverage

Last Ten Fiscal Years

2007 Tax Allocation bonds

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

City of Hercules

Pledged-Revenue Coverage

Last Ten Fiscal Years

2007 Housing Tax Allocation Bonds, Series B

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

City of Hercules

Pledged-Revenue Coverage

Last Ten Fiscal Years

2007 Housing Tax Allocation Bonds, Series A

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

City of Hercules

Pledged-Revenue Coverage

Last Ten Fiscal Years

2005 Tax Allocation Bonds

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

City of Hercules

Pledged-Revenue Coverage

Last Ten Fiscal Years

Alfred Nobel Assessment

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

City of Hercules

Pledged-Revenue Coverage

Last Ten Fiscal Years

John Muir Parkway Assessment

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

City of Hercules
Demographic and Economic Statistics
Last Six Fiscal Years

Fiscal Year	Population	Personal Income (In thousands)	Per Capita Personal Income	Labor Force	Unemployment Rate
2003	20,489	43,954 [5]	43,957 [3]	11,100 [3]	4.4% [1]
2004	21,814	n/a	n/a [4]	11,100 [4]	4.0% [1]
2005	23,360	n/a	n/a [4]	11,300 [4]	3.3% [2]
2006	23,834	n/a	n/a [4]	11,200 [4]	2.9% [2]
2007	23,975	n/a	n/a [4]	11,600 [4]	3.1% [6]
2008	24,324	n/a	n/a [4]	11,600 [4]	4.1% [2]

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

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

City of Hercules
Principal Employers
Current Year and Prior Year

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

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

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

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

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

City of Hercules
Operating Indicators by Function
Last Three Fiscal Years

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

Notes: Indicators are not available for the general government function.
[1]Part 1 Crimes are the following as reported to DOJ:
homicide, rape, robbery, burglary, assault, theft, auto theft,
[2]Measures public construction/improvement within the city.
[4]Measures 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	2006	2007	2008
Public Safety			
Police			
Stations	1	1	1
Patrol units	18	18	18
Public Works			
Streets (miles)	57	57	57
Streetlights	1800	1800	1800
Traffic Lights	12	12	12
Sanitary Sewers (miles)	58	58	58
Parks and Recreation			
Parks acreage	104.5	104.5	106.5
Parks	9	9	11
Swimming pools	1	1	1

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

APPENDIX C

CERTAIN INFORMATION REGARDING THE CITY OF HERCULES

Location

The City of Hercules ("Hercules" or the "City") is located along the I-80 corridor in the western portion of Contra Costa County, one of the nine counties comprising the San Francisco Bay Area. The City occupies 7.6 square miles, stretching from San Pablo Bay inland to the rolling coastal hills, and is located about 40 minutes from San Francisco and about one hour from Sacramento. The City's climate can best be described as Mediterranean, meaning that it experiences cool summer breezes and winter days which rarely fall far below 50° Fahrenheit. There is an abundance of open space areas and trails throughout the community providing the opportunity for spotting various types of wildlife and offering views of the bay.

As a newly developing city, Hercules offers residents a high standard of living with relatively new streets and other infrastructure, a design award-winning community park and a high level of city services.

Organization

The City was incorporated on December 15, 1900 under the general laws of the State of California and enjoys all the rights and privileges pertaining to "general law" cities. The City operates under the council/manager form of government. The five Council Members, including the Mayor, are elected at large for four-year overlapping terms. The City Council hires the City Manager, who is then responsible for all management functions of the City, including preparation of the budget, delivery of services, hiring of personnel and implementation of capital projects.

Members and Officers

The members and officers of the City and the expiration dates of their terms are as follows:

Name and Office	Expiration of Term
Joe Eddy McDonald, Mayor	November 2010
Kris Valstad, Vice Mayor	November 2010
Ed Balico, Councilmember	November 2012
Donald Kuehne, Councilmember	November 2012
Joanne Ward, Councilmember	November 2012

The policy set by the City Council is executed by City staff. Brief biographies of key staff members follows.

Nelson E. Oliva, City Manager. Mr. Oliva has over 28 years of administration experience in the public, private and nonprofit sector. He previously served municipal government agencies in California as City Manager, City Administrator, Executive Director of Redevelopment, Housing Authority Director, Director of Public Works, Director of Economic Development, Director of Community and Recreation Services and Capital Projects Manager. He also served as the Executive Director of the Montebello Housing Development Corporation, a non-profit housing agency. Mr. Oliva was retained by the City of Hercules to assist in re-establishing the city's affordable housing program. Mr. Oliva is a graduate of California State University of Long Beach. Prior to pursuing his college education, Mr. Oliva served in the United States Air Force.

Alfred A. Cabral, City Attorney. Alfred A. "Mick" Cabral is a partner in the law firm of Pelletreau, Alderson & Cabral a small, AV rated, West County law firm established in 1946 by founding partner Robert W. Pelletreau. Mr. Cabral is a 1977 graduate of the University of California, Berkeley and a 1980 graduate of the University of San Francisco School of Law (Kendrick Hall). Mr. Cabral is licensed to practice before the United States Supreme Court, the United States Ninth Circuit Court of Appeals, the United States District Court for the Northern and Eastern Districts of California and in all California courts. Mr. Cabral's practice emphasizes the representation of municipal entities. In addition to representing the City of Hercules and the Hercules Redevelopment Agency, Mr. Cabral is General Counsel to the West County Wastewater District, General Counsel to the West County Agency of Contra Costa County and Special Counsel to the City of Richmond Housing Authority.

Doreen Mathews, Administrative Services Director/City Clerk. Doreen Mathews was appointed to City Clerk in July 1999 and was appointed Administrative Services Director/City Clerk in 2009. Her tenure with the City of Hercules includes serving as the Administrative Secretary for the Planning Division and subsequently as the Executive Assistant to the Community Development Director. Prior to her employment with the City of Hercules, Ms. Mathews was employed by the Vallejo City Unified School District for approximately thirteen years, moving her way up through the ranks to become the Administrative Assistant to the Director of Secondary School Improvement and at the end of her tenure with the School District, also served as an assistant to the Superintendent of Vallejo Schools. Ms. Mathews is a member of the Certified Municipal Clerks Association and the City Clerks Association of California.

Timothy Hansen, Treasurer. As the Treasurer, Tim Hansen is responsible for the maintenance of all City fiscal programs. That responsibility is to protect the City's monetary resources and to ensure that the City remains solvent. Mr. Hansen holds a Bachelor of Science degree in Business Administration – Accounting from San Jose State College and, over the past thirty years, has served as the Finance Director for the Cities of San Leandro and Visalia, California, the Chief Financial Officer/Financial Services Director for the City of Fremont, California, the Finance Officer for the County of Clatsop in Astoria, Oregon, and the Assistant Auditor-Controller for Kings County in Hanford, California. Prior to his public service career he worked in the private sector for a major California bank. He has been active in government finance professional organizations.

Gloria Leon, Finance Director. Gloria Leon serves as the Finance/Human Resources Director for the City of Hercules. She has held this position for 2 years. Prior to this position she served 2 years as the Deputy Finance Director for the City and 3 years as the Finance Director for another municipal government agency. She has over 10 years of municipal government, non-profit and private finance experience. Ms. Leon is responsible for planning, directing, managing and overseeing the activities and operations of the Finance and Personnel Department including labor relations, affirmative action, employee training, recruitment, benefits administration, budget preparation, grant administration, analyzing revenue-generating and cost-reducing proposals for capital and operating programs; supervision of accounting procedures and the design and implementation of automated financial accounting systems and provides responsible and complex administrative support to the City Manager.

Population

The following table sets forth total population statistics for the City and Contra Costa County for the last five years.

CITY OF HERCULES AND COUNTY OF CONTRA COSTA

Year	Hercules	County of Contra Costa
2005	23,200	1,016,407
2006	23,535	1,025,509
2007	23,859	1,035,322
2008	24,309	1,048,242
2009	24,480	1,060,435

Source: California Department of Finance.

Employment

Residents of Hercules find employment in a variety of local industries, as shown in the listing of principal County-wide employees below. Sources of employment are mostly in retail trade and professional and business services.

COUNTY OF CONTRA COSTA
Civilian Labor Force, Employment and Unemployment
Annual Average

	2003	2004	2005	2006	2007	2008
Labor Force	512,200	509,700	512,700	515,900	519,700	529,200
Employment	480,900	482,000	487,700	493,800	495,400	496,400
Unemployment	31,300	27,800	25,000	22,100	24,300	32,700
Unemployment Rate	6.1%	5.4%	4.9%	4.3%	4.7%	6.2%

Source: State of California Employment Development Department.

Commercial Activity

Trade outlet and retail sales activity are summarized in the following two tables, which are based upon reports of the California State Board of Equalization.

CONTRA COSTA COUNTY
2007[1] Taxable Sales By Jurisdiction
(In Thousands)

Jurisdiction	Retail Stores Totals	All Other Outlets	Total
Hercules	$ 87,601	$ 37,278	$ 124,879
Contra Costa County	10,109,704	3,420,618	14,086,295

[1]2008 Figures unavailable.
Source: California State Board of Equalization, Taxable Sales in California.

CONTRA COSTA COUNTY
2007[1] Taxable Sales By Type Of Business

Type of Business	Permits	Taxable Transactions
Retail Stores		
Apparel stores group	837	$ 470,507
General merchandise group	409	1,878,711
Service stations group	341	1,351,405
Food stores group	520	616,296
Eating and drinking group	2,022	1,125,644
Household group	764	427,995
Building material group	287	944,683
Automotive group	701	1,812,785
All other retail stores group	5,250	1,481,678
Retail Stores Total	11,131	$10,109,704
Business and Personal Services	2,862	555,973
All Other Outlets	9,188	3,420,618
Total All Outlets	23,181	$14,086,295

[1]2008 figures unavailable.
Source: California State Board of Equalization, Taxable Sales in California.

Building Activity

The following table summarizes the building activity for 2003 through 2007 in the City.

CITY OF HERCULES
Building Permits And Valuation
2003 and 2007
(Amounts in thousands)

	2003	2004	2005	2006	2007
Residential:					
New Single-Dwelling	$179,193	$67,426	$77,302	$5,195	$ 925
New Multi-Dwelling	5,280	6,684	0	0	600
Additions, Alterations	2,661	2,078	5,689	3,831	2,245
Total Residential	$187,135	$76,189	$82,992	$9,027	$3,771
No. of New Dwelling Units:					
Single Dwelling	594	267	328	21	4
Multi Dwelling	74	77	0	0	5
Total Units	998	344	328	21	9

Source: Construction Industry Research Board.

Utilities

Pacific Gas and Electric Company (PG&E) provides electricity and gas service to most City residences and businesses. SBC Pacific Bell offers telephone and DSL Internet connections. Comcast offers cable services and internet access. Water service is provided by East Bay Municipal Utility District (EBMUD).

Transportation

The City is located on Interstate 80, the principal transcontinental route in Northern California. State Highway 4 intersects Interstate 80 in the City and runs east through Concord and to Stockton and beyond. Freeway connections can easily be made to San Francisco, Sacramento, San Jose, the Central Valley, and Los Angeles.

Bus service in the City is provided by WestCAT, which operates local fixed routes, Express routes and Paratransit within its service area. Express buses are timed to connect to BART (Bay Area Rapid Transit) trains at the Richmond and El Cerrito Del Norte stations, located nine miles southwest of the City.

Two transcontinental rail lines and Amtrak serve the City. There are 133 shipping companies in the West Contra Costa region. Nevada, warehouse capital of the West, is about four hours away by truck.

A regional executive airport in Concord, and international airports in San Francisco, Oakland and Sacramento are an easy drive from the City.

Deep water terminals at the Ports of Richmond and Oakland offer access to international markets.

Education

The City is located at the border of two school districts: West Contra Costa Unified School District and John Swett Unified School District. The majority of residents are within the West Contra Costa Unified School District boundary and are served by three elementary schools and one middle/high school. Residents that reside on the border of the City and the City of Rodeo are within the John Swett Unified School District boundary and are served by a head start program, one elementary school, one middle school and one high school.

Community Facilities

The City has two community and six neighborhood parks. Refugio Valley Park comprises 66 acres and includes the City's Swim Center. The planned Waterfront Park encompasses 7 acres, and includes the recently restored Historic Clubhouse community building. The six neighborhood parks contain about 40 acres.

Hercules also offers residents an unusually high level of other municipal services. The City provides a full range of recreational programs including youth, teen, adult activities, year-round child care, and two major community events which attract visitors from the regional area as well as the local citizens. The City's Senior Center provides daily senior programs and activities and sponsors special community events and trips.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of July 1, 2009, is executed and delivered by the Hercules Public Financing Authority (the "Authority") and The Bank of New York Mellon Trust Company, N.A., as dissemination agent hereunder (the "Dissemination Agent") in connection with the issuance of its $10,080,000 Taxable Lease Revenue Bonds, Series 2009 (Bio-Rad Project) (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of July 1, 2009 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Authority, the Trustee and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined herein).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"City" shall mean the City of Hercules.

"Disclosure Representative" shall mean the Executive Director of the Authority or his or her designee, or such other officer or employee as the Authority shall designate in writing to the Dissemination Agent (if other than the Authority) from time to time.

"Dissemination Agent" shall mean The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing March 31, 2010, provide to the MSRB and the Participating

Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If the Authority's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MRSB, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). The Authority shall provide, or cause the preparer of the Annual Report to provide, a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Authority shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall, to the extent information is known to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Authority Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City, prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided in Section 3 above, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the section of the Official Statement entitled "CITY FINANCING INFORMATION."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which are available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. optional, contingent or unscheduled bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds, if applicable;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on credit enhancements reflecting financial difficulties;

10. substitution of credit or liquidity providers, or their failure to perform;

11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within seven (7) Business Days or as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Authority promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Trustee whether or not to report such event to the Bondholders. In the absence of such direction, the Trustee shall not report such event unless otherwise required to be reported by the Trustee to the Bondholders under the Indenture. The Trustee may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Trustee shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Authority has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Authority determines that the Listed Event would not be material under applicable federal securities laws, the Authority shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the Authority and the Trustee. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Authority in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Authority or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been

otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Authority agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the respective parties' gross negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bondholders, or any other party. Neither the Trustee or the Dissemination Agent shall have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Filings with the MSRB. All financial information, operating data, financial statements, notices, and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. Notices. Any notices or communications to the Authority or the Dissemination Agent may be given as follows:

To the Authority:	Hercules Public Financing Authority 111 Civic Drive Hercules, California 94547 Attention: Executive Director (510) 799-8200 (510) 799-2521 Fax
To the Dissemination Agent:	The Bank of New York Mellon Trust Company, N.A. 700 South Flower Street, Suite 500 Los Angeles, California 90017-4104 Attention: Corporate Trust Services (213) 630-6231 (213) 630-6215 Fax

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be duly executed and delivered by their respective officers as of the date first above written.

HERCULES PUBLIC FINANCING AUTHORITY

By_____
Executive Director

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Dissemination Agent

By_____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	Hercules Public Financing Authority
Name of Bonds:	Hercules Public Financing Authority Taxable Lease Revenue Bonds, Series 2009 (Bio-Rad Project)
Date of Delivery:	July 29, 2009

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-captioned Bonds as required by the Continuing Disclosure Agreement, dated as of July 1, 2009, with respect to the Bonds. [The Authority anticipates that the Annual Report will be filed by _____.]

Dated:_____

HERCULES PUBLIC FINANCING AUTHORITY

By _____

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APPENDIX E

FORM OF LEGAL OPINION OF BOND COUNSEL

[Dated the Closing Date]

Hercules Public Financing Authority
111 Civic Drive
Hercules, California 94547

$10,080,000
Hercules Public Financing Authority
Taxable Lease Revenue Bonds, Series 2009
(Bio-Rad Project)

Ladies and Gentlemen:

In our role as Bond Counsel to the Hercules Public Financing Authority (the "Authority"), we have examined certified copies of the proceedings taken in connection with the issuance by the Authority of its $10,080,000 Taxable Lease Revenue Bonds, Series 2009 (Bio-Rad Project) (the "Bonds"). We have also examined supplemental documents furnished to us and have obtained such certificates and documents from public officials as we have deemed necessary for the purposes of this opinion. The Bonds are issued under Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), pursuant to an Indenture, dated as of June 1, 2009 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and pursuant to an authorizing resolution of the Authority adopted May 13, 2008. The Bonds are payable from Revenues, as defined in the Indenture.

Unless otherwise defined herein, all capitalized terms shall have the meaning given items in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming such Indenture constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, and the Bonds are entitled to the benefits of the Indenture.

2. The proceedings for the issuance of the Bonds have been taken in accordance with the laws and Constitution of the State of California, and the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers, constitute legal and binding special obligations of the Authority enforceable in accordance with their terms.

3. The Bonds are secured by a pledge of the Revenues and all moneys in the funds and accounts as described in the Indenture, including all amounts derived from the investment of such moneys, subject to the application thereof on the terms and conditions as set forth in the Indenture.

4. The interest on the Bonds is exempt from personal income taxes of the State of California. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

Very truly yours

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC; and DTC's book-entry system has been obtained from sources that Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to die provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC's records reflect only the

identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners well be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

APPENDIX G

BIO-RAD LEASE AGREEMENT

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LEASE AGREEMENT

BY AND BETWEEN

THE CITY OF HERCULES
("LANDLORD")

AND

BIO-RAD LABORATORIES, INC.,
A DELAWARE CORPORATION

("TENANT")

VENTURE COMMERCE CENTER
HERCULES, CALIFORNIA

("PREMISES")

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LEASE AGREEMENT

Basic Lease Information

Each reference in this Lease to any of the Basic Lease Information shall be deemed and construed to incorporate all the terms provided under each such Basic Lease Information; provided, that the Basic Lease Information shall be controlled by the specific terms and provisions of this Lease relating to the subject matter of those Basic Lease Information. Any terms not defined within the Basic Lease Information shall have the meanings as set forth in this Lease.

Lease Date	August 14, 2008
Tenant	Bio-Rad Laboratories, Inc. 1000 Alfred Nobel Drive Hercules, California 94547 Attn: General Counsel With copy to: Nixon Peabody LLP One Embarcadero Center, Suite 1800 San Francisco, California 94111 Attn: Paul E. Schrier Telephone: (415) 984-8280 Facsimile: (866) 741-1480
Landlord	The City of Hercules 111 Civic Drive Hercules, California 94547 Attn: City Manager Phone: (510) 799-8200 Facsimile: (510) 799-2521
Premises	Land located in the City of Hercules, County of Contra Costa, State of California, commonly known as the Venture Commerce Center located at 203-295 Linus Pauling Drive, including five (5) buildings and associated improvements.
Rentable Area of Premises	Approximately 96,847 rentable square feet.

Lease Term	30 years, with an option to terminate as to all or a portion of the Premises on or after the fifteenth (15th) anniversary date.
Commencement Date	September 15, 2008
Expiration Date	September 14, 2038

Base Rent

Period	Amount
9/15/2008 to 9/14/2009	$55,300/mo.
9/15/2009 to 9/14/2010	$57,193/mo.
9/15/2010 to 9/14/2011	$59,086/mo.
9/15/2011 to 9/14/2012	$60,979/mo.
9/15/2012 to 9/14/2013	$62,872/mo.
9/15/2013 to 9/14/2014	$64,765/mo.
9/15/2014 to 9/14/2015	$66,658/mo.
9/15/2015 to 9/14/2016	$68,551/mo.
9/15/2016 to 9/14/2017	$70,444/mo.
9/15/2017 to 9/14/2018	$72,337/mo.
9/15/2018 to 9/14/2019	$74,230/mo.
9/15/2019 to 9/14/2020	$74,751/mo.
9/15/2020 to 9/14/2021	$75,272/mo.
9/15/2021 to 9/14/2022	$75,793/mo.
9/15/2022 to 9/14/2023	$76,314/mo.
9/15/2023 to 9/14/2024	$76,835/mo.
9/15/2024 to 9/14/2025	$77,356/mo.
9/15/2025 to 9/14/2026	$77,877/mo.
9/15/2026 to 9/14/2027	$78,398/mo.
9/15/2027 to 9/14/2028	$78,919/mo.
9/15/2028 to 9/14/2029	$80,000/mo.
9/15/2029 to 9/14/2030	$81,411/mo.
9/15/2030 to 9/14/2031	$81,697/mo.
9/15/2031 to 9/14/2032	$81,983/mo.
9/15/2032 to 9/14/2033	$82,269/mo.
9/15/2033 to 9/14/2034	$82,555/mo.
9/15/2034 to 9/14/2035	$82,841/mo.
9/15/2035 to 9/14/2036	$83,127/mo.
9/15/2036 to 9/14/2037	$83,413/mo.
9/15/2037 to 9/14/2038	$83,699/mo.

Tenant Improvement Allowance	$1,600,000

Option to Purchase	From and after the fifteenth (15th) anniversary date, Tenant shall have the option to purchase the Premises on the terms and conditions set forth in Section 37 of this Lease.
Use	Any lawful use, including, without limitation, general office, lab and light manufacturing/assembly.
Security Deposit	Not Applicable.
Parking	319 unreserved spaces.
Brokers	Not Applicable.

LEASE AGREEMENT

This Lease Agreement ("Lease") is made and effective as of August 14, 2008, by and between The City of Hercules ("Landlord"), and Bio-Rad Laboratories, Inc., a Delaware corporation ("Tenant"). For the purposes of this Lease, Landlord and Tenant may be individually referred to as the "Party" and collectively referred to as the "Parties."

1. Premises. Landlord, for and in consideration of the rents and all other charges and payments to be paid hereunder by Tenant, and of the covenants, terms and conditions to be kept and performed by Tenant hereunder, hereby agrees to lease to Tenant, and Tenant hereby agrees to lease from Landlord, the premises, consisting of the land located in the City of Hercules, County of Contra Costa, State of California, commonly known as the Venture Commerce Center located at 203-295 Linus Pauling Drive ("Land"), including five (5) buildings consisting of approximately Ninety Six Thousand Eight Hundred Forty-Seven (96,847) rentable square feet ("Buildings"), together with the parking lot and associated improvements ("Improvements") serving the Buildings. The Land, Buildings, Improvements and the parking lot shall be collectively referred to as the "Premises." The Premises is depicted on the Site Plan attached hereto as Exhibit A and incorporated herein by reference.

(a) Condition of the Premises. Tenant acknowledges that as of the date of this Lease, Tenant has inspected the Premises and that the Premises is in good order, repair, and condition. Subject to the provisions of Section 11 below, Tenant hereby accepts the Premises in its "As-Is" condition existing as of the date of this Lease, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises. Notwithstanding the foregoing, Landlord shall deliver the Premises to Tenant on or prior to the Commencement Date in broom clean condition.

2. Lease Term.

(a) Lease Term. The term of this Lease shall be for thirty (30) years, commencing on September 15, 2008 (the "Commencement Date") and ending on September 14, 2038, or terminated sooner pursuant to the terms of this Lease (the "Expiration Date") and Tenant's Purchase Option in Section 37 below ("Lease Term"). Tenant has the option to terminate this Lease anytime on or after the fifteenth (15th) anniversary date as to a portion or the entire Premises by delivering to Landlord not later than three (3) months prior to said fifteenth (15th) anniversary date or any applicable later termination date, a notice of such election. If Tenant elects to so terminate this Lease as to less than the entire Premises, then (i) Rent (as defined below) shall be equitably proportioned based on the rentable square footage of the portion of the Premises remaining subject to this Lease to the rentable square footage of the Premises; and (ii) all references herein to the "Premises" in this Lease (including without limitation in Section 37 – Option to Purchase) shall mean the portion of the Premises not covered by Tenant's election to terminate as provided herein.

If Landlord fails to deliver possession of the Premises to Tenant on or prior to the Commencement Date, then the following provisions shall apply: (i) the Lease Term shall not commence on the Commencement Date but shall commence on a date that Landlord delivers possession of the Premises to Tenant in the condition described in Section 1(a); (ii) neither the

validity of this Lease nor the obligations of Landlord or Tenant under this Lease shall be affected thereby, except that the Lease Term shall begin on the date that Landlord delivers possession of the Premises to Tenant in the condition described in Section 1(a) above; and (iii) the Expiration Date of the Lease Term shall be extended beyond the date specified in the Basic Lease Information by one day for every day of delay in delivery of possession of the Premises to Tenant in the condition described in Section 1(a) above. Notwithstanding the foregoing, if Landlord fails to deliver possession of the Premises in the manner provided herein on or before ninety (90) days following September 1, 2008, Tenant may terminate this Lease upon delivery to Landlord of written notice of its election to do so, at anytime thereafter, in addition to any other right or remedy Tenant may have as a result of such failure. If Landlord tenders possession of the Premises to Tenant prior to the Commencement Date and Tenant chooses to accept such possession, then the Lease Term and Tenant's obligations hereunder shall commence on the date that Tenant accepts such possession (other than the obligation to pay Rent, which shall commence on the Commencement Date), but in no event shall the Expiration Date be advanced by such early possession. Promptly following the Commencement Date, the parties shall enter into a supplementary agreement identifying the Commencement Date and the Expiration Date.

3. Base Rent. Tenant agrees to pay Landlord promptly on the first day of each month without notice, offset, deduction or demand, in advance, during the Lease Term, an initial monthly rental as described in the Basic Lease Terms ("Base Rent"). Tenant shall have the right to use all areas of the Premises without any increase in Base Rent. Payment of Base Rent shall be made to Landlord at the address set forth in the Basic Lease Terms, or at such other place as Landlord may from time-to-time designate in writing to Tenant. Upon execution of this Lease, Tenant shall pay Landlord in advance for the Base Rent for the first month of the Lease Term.

4. Additional Rent

(a) In addition to the Base Rent, Tenant shall pay to Landlord the items specified in this Section 4 as additional rent ("Additional Rent"). Landlord will require that Tenant pay monthly, together with the Base Rent, Landlord's estimate of the monthly allocable costs for real property taxes, Outside Area maintenance expenses (as defined in paragraph (iii) of this Subsection 4(a)), and property insurance premiums. Any and all improvements, alterations or additions of a capital nature undertaken by Landlord during the Lease Term shall be amortized over their useful life in accordance with generally accepted accounting principles consistently applied. For the purposes of this Lease, Base Rent, Additional Rent and all other sums due under this Lease shall be collectively referred to as "Rent."

(i) Real Property Taxes. The amount of all real property taxes and the current portion of all assessments levied against the Premises from the Commencement Date until Expiration Date.

(1) The term "taxes and assessments" shall mean and include all taxes, assessments and other governmental charges, general and special, ordinary and extraordinary, of any kind and nature whatsoever, including, but not limited to, assessments for public improvements or benefits, which shall for the Lease Term be laid, assessed, levied, imposed upon or become due and payable.

(2) In the event any such real property taxes or assessments paid by Tenant cover any period of time after the Expiration Date, or before the Commencement Date, Tenant's share of such taxes shall be equitably prorated to cover only the period of time within the fiscal tax year during which this Lease is in effect, and Landlord shall reimburse Tenant within ten (10) business days, to the extent required with respect to any assessments which may be levied against or upon the Premises, or which under the laws then in force may be evidenced by improvement or other bonds or maybe paid in annual installments, only the annual installments falling due within the Lease Term (with appropriate prorations for any partial year) and interest due thereon shall be included within the computation of the annual taxes and assessments levied against the Premises.

(ii) Personal Property Taxes. The amount of all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises shall be paid by Tenant prior to delinquency. When possible, Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from Landlord's real property.

(iii) Outside Area Maintenance. Tenant shall be responsible for paying for the maintenance repair, supervision, and administration of the Premises including, painting, lighting, landscaping, gardening, pest control, sprinkler systems, sidewalks, and patio areas ("Outside Areas"). The maintenance expenses for the Outside Areas shall be paid monthly by Tenant pursuant to Subsection 4(a) above. If Tenant does not pay these bills, Landlord may, at its sole discretion, pay them and such payment shall be added to the Rent.

(iv) Utilities. The amount of all water, sewer, gas, electricity, fuel, phone, light, heat, electric power and other utility bills for the Premises together with any taxes thereon shall be promptly paid by Tenant. If Tenant does not pay these bills, Landlord may, at its sole discretion, pay them and such payment shall be added to the Rent.

(v) Property Insurance. The amount of any and all premiums for such insurance carried on the Premises, and paid by Landlord pursuant to Section 9.

It is hereby acknowledged and agreed by the Parties that this is a triple net lease (as described in Section 5) and that the intent of this Lease is that Landlord shall not pay for any repairs or maintenance of the Premises and Tenant shall pay any and all costs and expenses related to the Premises.

5. Triple Net Lease. This is a triple net lease and all Rent and all other sums payable hereunder by Tenant are absolute and unconditional obligations of Tenant and shall be paid without notice or demand, and without set-off, counterclaim, abatement, suspension, deduction or defense, deferment or diminution of any kind. Landlord shall receive the Rent free and clear of any and all other impositions, taxes, liens, charges or expense of any nature in connection with the ownership and operation of the Premises whatsoever (which shall be the responsibility of Tenant, except as otherwise specifically provided for in this Lease).

6. Use of Premises.

(a) The Premises shall be used for any lawful use, including without limitation, general office, lab and light manufacturing/assembly and other legally related uses.

(b) With respect to matters created, covered by, or used in connection with its occupancy and use of the Premises, Tenant, at its sole cost, shall comply with all laws relating to the storage, generation, use, disposal and clean-up of hazardous, toxic or radioactive matter, including any substance or material which has been determined by any state, federal or local governmental authority to be capable of posing a risk of injury to health, safety and property including all of those materials and substances designated as hazardous or toxic by the Environmental Protection Agency, the California Water Quality Control Board, the Department of Labor, the California Department of Industrial Relations, the Department of Transportation, the Department of Agriculture, the Consumer Product Safety Commission, the Department of Health, Education and Welfare, the Food and Drug Agency or any other governmental agency now or hereafter authorized to regulate materials and substances in the environment (collectively "Hazardous Materials"). Without limiting the generality of the foregoing, the term "Hazardous Materials" shall include all of those materials and substances defined as "Hazardous Materials" in Sections 66680 through 66685 of Title 22 of the California Administrative Code, Division 4, Chapter 30, as the same shall be amended from time to time.

7. Damage or Destruction.

(a) Landlord's Obligation to Rebuild. Tenant shall notify Landlord in writing immediately upon the occurrence of any material damage to the Premises. Following any damage to or destruction of the Premises, Landlord shall repair the damage as soon as reasonably practicable under the circumstances, and this Lease shall remain in effect, unless Landlord elects to terminate this Lease pursuant to Section 8 below.

(b) Landlord has no right to Terminate. Landlord shall not have the right to terminate this Lease as a result of any such damage or destruction.

(c) Statutory Waiver. Tenant waives any applicability to the Premises of the provisions of California Civil Code Sections 1932(2) and 1933(4), and any successor statutes thereto, with respect to any damage to or destruction of the Premises. Tenant shall have no right to terminate this Lease due to any fire, earthquake or other casualty affecting the Premises.

8. Condemnation. If the Premises or any portion thereof is taken under the power of eminent domain or sold under the threat of the exercise of such power (all of which are herein called "Condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than forty percent (40%) of the floor area of the Premises are taken by condemnation, then this Lease shall terminate. If this Lease does not terminate in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining; provided, however, that if the taking reduces the rentable floor area of the Premises, then the Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. Any award for the taking of all or any part of the Premises under the

power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however that Tenant shall be entitled to any compensation separately awarded to Tenant for Tenant's relocation expenses and/or loss of Tenant's trade fixtures. If this Lease is not terminated by reason of such condemnation, Landlord shall repair any damage to the Premises caused by such condemnation, except to the extent that Tenant has been reimbursed therefor by the condemning authority. In the event of a condemnation, the Parties' rights and obligations shall be governed solely by this Lease, and Tenant waives any right to terminate this Lease (or any other right) available under applicable law. Tenant hereby waives the provisions of California Code of Civil Procedure Section 1265.130 and any other applicable existing or future law allowing Tenant to petition for a termination of this Lease upon a partial taking of the Premises. Notwithstanding anything to the contrary if property is condemned Tenant will be compensated equivalent to the loss equal to the value of the business in the premises and for an amount equal to the total project value, in that Tenant will receive the ownership of the premises at the completion of the thirty year lease for One Dollar ($1.00).

9. Insurance.

(a) Tenant shall at all times maintain in full force and effect with respect to the entire Premises (including, without limitation, all alterations, additions, improvements, fixtures, personal property) commercial property insurance providing coverage on an "all risk" basis in an amount equal to the full replacement cost of the covered property, plus earthquake and flood insurance if Landlord so elects. Landlord shall be designated as the loss payee under such insurance. The "all-risk" insurance that Tenant is required to maintain hereunder shall be at least as broad as the Insurance Services Office "Causes of Loss - Special Form" policy. In the event of a casualty with respect to which Tenant is required to carry property insurance pursuant to this Section 9(a), Tenant shall be fully responsible for all costs of repair, restoration, reconstruction, excavation, demolition and other costs incurred in connection with Landlord's reconstruction of the Premises, to the extent that such costs are not fully covered by insurance proceeds actually paid to Landlord. Tenant shall be responsible for paying all deductibles in connection with any casualty affecting the Premises.

(b) Tenant agrees to procure and maintain public liability insurance, including products and completed operations insurance, from a responsible insurance company authorized to do business in California, with a combined single limit of not less than Two Million Dollars ($2,000,000) for injury or death to any person or damage to property and Two Million Five Hundred Thousand Dollars ($2,500,000) excess umbrella coverage for injury or death or property damage, for any claims, demands, or causes of action of any person arising out of accidents occurring on the Premises during the Lease Term or arising out of Tenant's use of the Premises. Any subtenants of the Premises pursuant to Section 12, shall be required to carry the above referenced insurance with a combined single limit of not less than Two Million Dollars ($2,000,000) for injury or death to any person or damage to property and Two Million Five Hundred Thousand Dollars ($2,500,000) excess umbrella coverage for injury or death or property damage, for any claims, demands, or causes of action of any person arising out of accidents occurring on the Premises during the Lease Term or arising out of Tenant's use of the Premises.

(c) Each policy of insurance obtained pursuant to subsection (b) above shall be issued by an insurance company rated A-VIII or better in "Best's Key Rating Guide" and which is authorized to do business in California. Said policies shall name Landlord and any beneficiary under any deed of trust covering the Premises, if required by the deed of trust, as additional insureds as their respective interests may appear. Tenant shall deliver to Landlord copies of policies of liability insurance or certificates of insurance required herein with loss payable clauses reasonably satisfactory to Landlord prior to the Commencement Date, and annually thereafter, and failure to do so shall constitute a material default of this Lease. Each policy of insurance shall be primary and noncontributory with any policies carried by Landlord and, to the extent obtainable, any loss shall be payable notwithstanding any act or negligence of Landlord that might otherwise result in forfeiture of insurance. Each insurance policy shall provide that a thirty (30) day notice of cancellation and of any material modification of coverage shall be given to all named and additional insureds. Tenant agrees that upon the failure to insure as provided in this Lease, or to pay the premiums in the insurance, Landlord may contract for the insurance and pay the premiums, and all sums expended by Landlord for the insurance shall be considered additional rent under this Lease and shall be immediately repayable by Tenant.

(d) At all times during the Lease Term, Tenant agrees to keep and maintain, or cause Tenant's agents, contractors, or subcontractors to keep and maintain, workmen's compensation insurance and other forms of insurance as may from time to time be required by law or may otherwise be necessary to protect Landlord and the Premises from claims of any person who may at any time work on the Premises, whether as an agent, or employee of Tenant or otherwise. This insurance shall be maintained at the expense of Tenant, or Tenant's agents, contractors, or subcontractors and not at the expense of Landlord.

(e) Landlord agrees that it will tender and turn over to Tenant or to Tenant's insurers the defense of any claims, demands, or suits instituted, made, or brought against Landlord or against Landlord and Tenant jointly, within the scope of this Section 9. However, Landlord shall have the right to approve the selection of legal counsel, to the extent that selection is within Tenant's control, which approval shall not be unreasonably withheld or delayed, and subject to the requirements of Tenant's insurance carriers. In addition, Landlord shall retain the right at Landlord's election to have Landlord's own legal counsel participate as co-counsel, to the extent that claims are made that may not be covered by Tenant's insurers.

(f) As long as their respective insurers so permit, Landlord and Tenant hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage and other property insurance policies existing for the benefit of the respective parties. Each Party shall apply to their insurers for such waivers and shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

10. Fire Insurance-Fixtures and Equipment. Landlord shall have no interest in the insurance upon Tenant's equipment and trade fixtures and will sign all documents reasonably necessary or proper in connection with the settlement of any claim or loss by Tenant. Landlord will not carry insurance on Tenant's possessions.

11. Maintenance and Repairs by Tenant.

(a) Tenant shall at all times throughout the Lease Term at its sole cost and expense retain and keep the interior and exterior of the Premises (including structural and non-structural items and all building systems) in good order, condition and repair. The costs of any such repairs or maintenance shall be billed directly to, and paid by, Tenant. Tenant, at its sole cost and expense, will contract for service of the HVAC system serving the Premises. Tenant shall keep the glass of all windows, doors, and showcases clean and presentable; replace immediately all broken glass in the Premises; at reasonable intervals paint or refinish the interior of the Premises, including entrances as determined by Landlord; make any necessary repairs to, or replacements of, all door closure apparatuses and mechanisms; keep all plumbing clean and in good state of repair including pipes, drains, toilets, basins, water heaters and those portions of the heating system within the walls of the Premises; and keep all utilities, including circuit breaker and panel box and Tenant's meters within the Premises, in a good state of repair. If the Premises includes a grease trap, Tenant will clean and maintain such grease trap at intervals reasonably acceptable to Landlord.

(b) Failure to Maintain. If Tenant fails to keep and preserve the Premises as set forth in Section 11(a) above, Landlord may at its option, put or cause the same to be put in the condition and state of repair required pursuant to this Lease, and in such case, upon receipt of written statements from Landlord, Tenant shall promptly pay the entire cost thereof as additional rent. Landlord shall have the right, without liability, to enter the Premises for the purpose of making such repairs upon the failure of Tenant to do so.

12. Assignment and Subletting. Tenant shall not assign, transfer, mortgage, pledge, hypothecate or encumber this Lease or any interest therein, and sublet the Premises or any part thereof, or any right or privilege appurtenant thereto, or any portion thereof without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that Tenant may, without the consent of Landlord but upon at least thirty (30) days prior written notice to Landlord, and without otherwise affecting this Lease, (i) sublease all or part of the Premises or assign its interest in this Lease to any entity which controls, is controlled by, or is under common control with the original Tenant to this Lease by means of an ownership interest of more than 50%; (ii) transfer the shares of stock in Tenant to another party in connection with any merger, consolidation, or sale of Tenant as a going concern; (iii) sublet the entire Premises (but not a portion of the Premises) assign the Lease to a successor to Tenant or to any person, entity, partnership, or corporation which acquires Tenant's business at the Premises; and (iv) mortgage or encumber this Lease.

13. Tenant's Default. The occurrence of any one of the following events shall constitute an event of default ("Default") on the part of Tenant:

(a) Failure to pay any installment of Rent or any other monies due and payable hereunder, said failure continuing for a period of ten (10) business days after written notice of such Default.

(b) Material default in the performance of any of Tenant's covenants, agreements or obligations hereunder, said Default (except Default in the payment of any

installment of Rent, or other monies) continuing for thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that if any such default cannot reasonably be cured within thirty (30) days, the default shall not be deemed uncured if Tenant commences to cure within thirty (30) days from Landlord's notice and continues to prosecute diligently the curing thereof to completion within a reasonable time, but in any event Tenant must complete such cure within ninety (90) days after the date of Landlord's notice.

(c) A general assignment by Tenant for the benefit of creditors.

(d) The filing of a voluntary petition in bankruptcy by Tenant, the filing of a voluntary petition for an arrangement, the filing of a petition, voluntary or involuntary, for reorganization, or the filing of an involuntary petition by Tenant's creditors, said involuntary petition remaining undischarged for a period of sixty (60) days.

(e) Receivership, attachment, or other judicial seizure of substantially all of Tenant's assets on the Premises, such attachment or other seizure remaining undismissed or undischarged for a period of sixty (60) days after the levy thereof.

(f) The filing of any claim or lien against the Premises unless discharged or satisfied or provision for payment is made in accordance with Section 33, hereof.

14. Landlord's Remedies.

(a) Damages. In the event of any such Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving written notice of such intention to terminate. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(i) The worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform his obligation under this Lease or which in the ordinary course of things would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord: (A) in retaking possession of the Premises; (B) in maintaining, repairing, preserving, restoring, replacing, cleaning, altering or rehabilitating the Premises or any portion thereof, including such acts for reletting to a new

tenant or tenants; (C) for leasing commissions; or (D) for any other costs necessary or appropriate to relet the Premises; plus

(v) Such reasonable attorneys' fees incurred by Landlord as a result of such Default, and costs in the event suit is filed by Landlord to enforce such remedy; and

(vi) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time-to-time by applicable law.

As used in subsections (i) and (ii) above, the "worth at the time of award" is computed by allowing interest at the rate of six percent (6%) per annum. As used in subsection (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future Law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(b) Election. In the event of any Default by Tenant, Landlord may from time to time, without terminating this Lease either recover all Rent as it becomes due or relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied, first, to reasonable attorneys' fees incurred by Landlord as a result of such Default and costs in the event suit is filed by Landlord to enforce such remedies; second, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; third, to the payment of any cost of such reletting; fourth, to the payment of cost of any alterations and repairs to the Premises; fifth, to the payment of Rent due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future Rent as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied by the payment of Rent hereunder, be Less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any reasonable costs and expenses incurred by Landlord in such reletting, including any reasonable alteration and repair costs.

(c) Termination. No re-entry or taking of possession of the Premises by Landlord pursuant to this article shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

15. Subordination. Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all mortgages and deeds of trust ("Encumbrances") which are now (but not hereafter) executed covering the Premises; provided, only, that in the event of the foreclosure of any such Encumbrance(s), so long as Tenant is not in

default, the holder (the "Holder") of said Encumbrances agrees to recognize Tenant's rights under this Lease (including, without limitation, the Purchase Option as defined in Section 37) and not to disturb Tenant's possession and quiet enjoyment of the Premises, as long as Tenant shall pay the Rent and observe and perform all the provisions of this Lease to be observed and performed by Tenant. Prior to the Commencement Date, and as a condition to this Lease, Landlord shall deliver to Tenant the foregoing agreement(s) executed by the Holder.

16. Alterations and Additions; Removal of Fixtures. Tenant has the absolute right to make or allow to be made any alterations, additions or improvements to or on the Premises or any part thereof, including, but not limited to, wall covering, paneling and built-in cabinet work. Such alterations, additions or improvements shall be owned by Tenant. Any work done by Tenant hereunder shall be subject to the provisions of Section 33 of this Lease. Tenant may (if not in default hereunder) prior to the Expiration Date, remove all trade fixtures and equipment which Tenant has placed in the Premises, provided Tenant repairs all damage to the Premises caused by such removal. Any alterations, additions or improvements shall be made according to all applicable laws. Landlord shall reimburse Tenant for any alterations, additions or improvements in a total amount not to exceed One Million Six Hundred Thousand Dollars ($1,600,000) ("Tenant Improvement Allowance"). Upon completion of any alterations, additions or improvements, Tenant shall provide to Landlord (i) a written request for payment from the Tenant Improvement Allowance; and (ii) reasonable proof that such costs have been incurred in connection with such alterations, additions or improvements. Landlord shall reimburse Tenant for all such costs from the Tenant Improvement Allowance no later than 30 days after Landlord receives the foregoing proof.

17. Exterior Signs. Tenant shall be permitted to place monument type signs on the outside area of the Premises provided that such sign conforms to all applicable laws, including the City of Hercules Sign Regulations. The right to place monument type signs on the outside area of the Premises shall be assignable or transferable to any sub-tenant. Tenant shall also have the right to place signs in conformance with all applicable laws, on the exterior of the Buildings and in the windows thereof. Tenant shall remove any of its signs upon Expiration Date and if *Tenant fails to do so, Landlord shall have the right to remove the signs at Tenant's expense.* Tenant agrees upon removal of said sign(s) to repair all damage incident to such removal.

18. Entry for Carding and Repairs. Landlord may card the Premises "For Rent" six (6) months before the Expiration Date. Landlord may enter the Premises, upon three (3) business days prior notice to Tenant to inspect the same, to exhibit them to prospective purchasers or tenants, to make repairs required of Landlord or permitted to be made by Landlord under the terms hereof, and to post notices of non-responsibility. Landlord shall not interfere with Tenant's business operations during any such entry.

19. Mortgagee's Rights. Tenant agrees to give any mortgagee and/or trust deed holder, by registered mail, a copy of any notice of default served upon Landlord, provided that prior to such notice Tenant has been notified, in writing, of the address of such mortgagee(s) and/or trust deed holder(s). Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the mortgagee and/or trust deed holder shall have an additional thirty (30) days within which such default or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30)

days, any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated while such remedies are being so diligently pursued.

20. End of Lease Term. Tenant agrees to promptly vacate the Premises at the Expiration Date thereof and to leave such Premises broom clean, free of all debris, waste(s) caused by Tenant, its employees, agents, contractors or invitees, Hazardous Materials and by-products, and, as to Tenant's use of the Premises, in an environmentally safe (in Landlord's reasonable opinion) condition, in compliance with all governmental laws, rules, orders, and regulations.

21. No Estate in Law. This Lease shall create the relationship of Landlord and Tenant between the parties hereto; no greater estate shall pass out of Landlord as a result of this Lease.

22. Holding Over. If Tenant remains in possession of the Premises after the Expiration Date without the express written consent of Landlord, Tenant's occupancy shall be a tenancy from month to month. During such holdover, Tenant shall pay one hundred fifty percent (150%) of the Rent in effect for the last month of the Lease Term. In addition, Tenant shall also pay all other charges payable hereunder, and upon the same terms and conditions herein contained.

23. [Intentionally deleted.]

24. Rules and Regulations. Tenant agrees to comply with such reasonable rules and regulations as Landlord may adopt from time to time for the orderly and proper operation of the Premises. Such rules may include but shall not be limited to the regulation of the removal, storage and disposal of Tenant's refuse and other rubbish at the sole cost and expense of Tenant. The rules and regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant.

25. Rights Cumulative. All rights, powers and privileges conferred hereunder upon parties hereto shall be cumulative but not restrictive to those given by law.

26. Waiver of Rights. No failure of Landlord to exercise any power given Landlord hereunder, or to insist upon strict compliance by Tenant with his obligation hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's right to demand exact compliance with the terms hereof.

27. Time of Essence. Time is of the essence of this agreement.

28. Definitions. "Landlord" as used in this Lease shall include Landlord's heirs, representatives, assigns and successors in title to Premises. "Tenant" shall include Tenant's heirs and representatives, and if this Lease shall be validly assigned or the Premises sublet, shall include Tenant's assignees or sublessees, as to Premises covered by such assignment or sublease. "Landlord" and "Tenant" include male and female, singular and plural, corporation, partnership or individual, as may fit the particular parties.

29. Notices. All notices and demands which may or are to be required or permitted to be given to either Party by the other hereunder shall be in writing and shall be given as follows: (a) by hand delivery; (b) by deposit in the United States Mail as first class certified mail, return receipt requested, postage paid; (c) by overnight nationwide commercial courier service; or (d) by facsimile (other than for notices of default) with conformation of receipt and a conformation copy to be delivered in accordance with any of clauses (a)-(c) above. In each case, notices shall be addressed to the Party intended to receive the same at the addresses located in the Basic Lease Terms.

30. Estoppel Certificates. Landlord and Tenant shall, from time to time, upon written request of either Party to the other Party, execute, acknowledge and deliver to either Party or it designee a written statement stating the following: (i) the date this Lease was executed and the date it expires; (ii) the date that either Party entered into occupancy of the Premises; (iii) the amount of Rent and the date to which such rent has been paid; (iv) that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way (or specifying the date and terms of any agreement so affecting this Lease); (v) that this Lease represents the entire agreement between the Parties as to this Lease; (vi) that all conditions under this Lease (if appropriate to do so) to be performed by either Party have been satisfied; (vii) that all required contributions by the Parties on account of either's improvements have been received; (viii) that on this date, to the best of either Party's knowledge, there are no existing defenses or offsets regarding the enforcement of this Lease (or, if there are any, describing the same); (ix) that no Rent has been paid more than one (1) month in advance; and (x) that no security has been deposited with Landlord (or, if so, the amount thereof or any other matters evidencing the status of this Lease that may be required either by a lender making a loan to Landlord or Tenant to be secured by a deed of trust or a mortgage covering the Premises). It is intended that any such statement delivered pursuant to this Section 30 may be relied upon by a prospective purchaser of either Party's interest or a mortgagee of either Party's interest or assignee of any mortgage upon either Party's interest in the Premises.

31. Landlord's Right to Perform Tenant's Covenants. If Tenant shall at any time fail, to make any payment or perform any other act on its part to be made or performed under this Lease after any applicable notice and cure period, Landlord may, but shall not be obligated to and without waiving or releasing Tenant from any obligation of Tenant under this Lease, make such payment or perform such other act to the extent Landlord may deem desirable, and in connection therewith, pay expenses and employ legal counsel. All sums so paid by Landlord and all penalties, interest and costs in connection therewith shall be due and payable by Tenant on the next day after any such payment by Landlord, together with interest thereon at the maximum rate permitted by law from such date to the date of payment thereof, by Tenant to Landlord, plus collection costs and attorneys' fees. Landlord shall have the same rights and remedies for the nonpayment thereof as in the case of Default in the payment of Rent.

32. Governmental Orders. Tenant agrees, at its own expense, to promptly comply with all requirements of any legally constituted public authority made necessary by reason of Tenant's occupancy of said Premises. Landlord agrees to promptly comply with any such requirements if not made necessary by reason of Tenant's occupancy.

33. Liens. Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant. Landlord may require, at Landlord's sole option, that Tenant provide to Landlord, at no cost to Landlord, evidence that a lien and completion bond in an amount equal to the estimated cost of any improvements, additions, or alterations which Tenant desires to make is in effect. Tenant shall cause any such lien imposed to be released of record in payment or posting of the proper bond acceptable to Landlord within ten (10) business days after the earlier of the imposition of the lien or written request by Landlord. Tenant shall give Landlord written notice of Tenant's intention to perform work on the Premises which might result in any claim of lien at least ten (10) business days prior to the commencement of such work to enable Landlord to post and record a notice of non-responsibility or other notice deemed proper before commencement of any such work. If Tenant fails to remove such lien within the prescribed 10-day period, then Landlord may do so at Tenant's expense and Tenant's reimbursement to Landlord shall be deemed Additional Rent. Such reimbursement shall include all sums disbursed, incurred or deposited by Landlord, including Landlord's costs, expenses and reasonable attorneys' fees, with interest thereon at the maximum interest permitted by law.

34. Authority of Parties. Tenant and Landlord each hereby represents and warrants to the other that it is duly authorized to execute and deliver this Lease on its behalf and that this Lease is binding upon it.

35. No Accord or Satisfaction. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly rent and other sums due hereunder shall be deemed to be other than on account of the earliest rent or other sums due, nor shall any endorsement or statement on any check or accompanying any check or payment be deemed an accord and satisfaction; and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or other sum or pursue any other remedy provided in this Lease.

36. Brokers. Landlord and Tenant represent and warrant to each other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker in the negotiation or making of this Lease, and Tenant agrees to indemnify and hold Landlord harmless from any claim or claims, as well as costs and expenses including attorneys' fees incurred by Landlord in conjunction with any such claim or claims of any broker or brokers claiming to have interested Tenant in the Premises or claiming to have caused Tenant to enter into this Lease.

37. Purchase Option.

(a) Purchase and Sale of the Premises. Landlord hereby grants to Tenant the option to purchase the Premises upon the terms and conditions set forth in this Section 37 ("Purchase Option"). Tenant may elect to exercise the Purchase Option by delivering to Landlord written notice of such election within thirty (30) days prior to either of the following dates: (i) the fifteenth (15th) anniversary date; (ii) the twentieth (20th) anniversary date; or (iii) the twenty-fifth (25th) anniversary date. Notwithstanding anything contrary herein, if Tenant has not elected to exercise the Purchase Option during the time periods set forth in this Section 37(a) (i.e., the 15th anniversary date, the 20th anniversary date, or the 25th anniversary date), then the Purchase Option shall automatically be deemed elected by Tenant as of the Expiration Date

unless Tenant provides prior written notice to Landlord within fifteen (15) days prior to the Expiration Date electing not to pursue the Purchase Option.

(b) Closing of the Purchase Option. The closing of the Purchase Option ("Closing") shall occur within thirty (30) days of the date that Tenant provides written notice to Landlord regarding the election to exercise the Purchase Option as provided in Section 37(a) above.

(c) Purchase Price.

(1) Prior to the Expiration Date. If Tenant exercises the Purchase Option prior to the Expiration Date, the purchase price of the Purchase Option shall be as set forth in Schedule 1 and incorporated herein by reference.

(2) Termination on or after 15th anniversary of a portion of Premises prior to the Expiration Date. If Tenant elects to exercise its option to terminate this Lease on or after the fifteenth (15th) anniversary date as to a portion of the Premises (as described in Section 2(a) of this Lease), the purchase price of the Purchase Option for the portion of the Premises remaining subject to this Lease shall be as set forth in Schedule 1.

(3) On the Expiration Date. If Tenant elects to exercise the Purchase Option on the Expiration Date, the purchase price for the Premises shall be One Dollar ($1.00).

(d) Terms and Conditions of Purchase Option. The Purchase Option shall be subject to each of the following terms and conditions:

(i) Landlord shall transfer good and marketable legal title in the Premises to Tenant. At the Closing, title to the Premises shall be conveyed free and clear of all liens and encumbrances except for: (a) liens for payment of current real property taxes and assessments, and the customary charges of governmental entities providing services to the Premises, not yet delinquent; (b) liens and encumbrances of record as of the date of this Lease (other than monetary encumbrances); (c) liens or encumbrances on the Premises created or caused by Tenant or Tenant's use of the Premises; and (d) non-monetary encumbrances or easements as may be established after the Commencement Date by or with Landlord's consent, which do not: (1) significantly adversely affect the ownership, use or value of the Premises; (2) significantly diminish existing rights under existing appurtenant easements or beneficial agreements; or (3) expose the owner of the Premises to a significant expense or liability. Any such encumbrance or easement shall be subject to Tenant's prior written approval, which shall not be unreasonably withheld. The foregoing items described in clause (d)(i) shall be referred to collectively as the "Permitted Exceptions."

(e) Tenant shall purchase the Premises in their "AS-IS WHERE IS" AND "WITH ALL FAULTS, LIABILITIES, AND DEFECTS, LATENT OR OTHERWISE, KNOWN OR UNKNOWN."

(f) At the Closing, Landlord shall deliver the applicable grant deed(s) for the Premises ("Grant Deed") and title shall be insured pursuant to an ALTA owner's title insurance policy in the amount of the purchase price subject only to Permitted Exceptions.

(g) Given that Tenant is leasing the Premises on a triple net basis, real property taxes, bonds, and assessments shall not be prorated. At the Closing, Landlord shall pay and be responsible for all documentary transfer taxes and Tenant shall pay and be responsible for the amount due for (i) all title, survey and other costs related to Tenant's obtaining the ALTA owners title insurance policy, including, without limitation, any endorsements to such title policy in whatever form; (ii) all recording charges; and (iii) all escrow fees charged by the title company for the Closing. Any Closing costs not specifically allocated herein shall be borne by Tenant.

(h) The Parties shall reasonably cooperate with each other to ensure that the transfer is in compliance with all applicable laws.

38. Memorandum of Lease and Purchase Option. Concurrently with the execution of this Lease, the Parties shall execute a Memorandum of Lease and Purchase Option in the form attached hereto as Exhibit B (the "Memorandum") and incorporated herein by reference, and shall promptly cause the same to be recorded in the Official Records of Contra Costa County.

39. General Provisions.

(a) Joint Obligation. If there be more than one tenant, the obligations hereunder imposed shall be joint and several.

(b) Marginal Headings, Etc. The marginal headings and titles to the articles of this Lease are not a part of the Lease and shall have no effect upon the construction or interpretation of any part hereof.

(c) Choice of Law. This Lease shall be governed by and construed in accordance with the laws of the State of California.

(d) Successors and Assigns. The covenants and conditions herein contained, subject to the provisions as to assignment, inure to and bind the heirs, successors, executors, administrators and assigns of the Parties.

(e) Quiet Possession. Upon Tenant's paying the rent reserved hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire term hereof, subject to all the provisions of this Lease.

(f) Inability to Perform. This Lease and the obligations of Tenant hereunder shall not be affected or impaired because Landlord is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of strike, labor troubles, acts of God, or any other cause beyond the reasonable control of Landlord.

(g) Partial Invalidity. Any provision of this Lease which shall prove to be invalid, void, or illegal shall in no way affect, impair or invalidate any other provision hereof and such other provision(s) shall remain in full force and effect.

(h) Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall be cumulative with all other remedies at law or in equity provided that relief shall not be redundant.

(i) Entire Agreement. This Lease contains the entire agreement of the Parties hereto and no representations, inducements, promises or agreements, oral or otherwise, between the Parties, not embodied herein, shall be of any force or effect.

(j) Acceptance. This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant.

(k) Operating System. Landlord warrants that upon the Commencement Date of the Lease all operating systems including but not limited to, plumbing, electrical, HVAC and roof are in good working order.

(l) Compliance with laws. Landlord hereby represents and warrants that the Premises are currently in compliance with all applicable laws, including, without limitation, ADA and similar laws. Tenant shall pay for any and all improvements, additions or alterations required to bring the Premises into compliance with the ADA and the California Life, Safety and Handicap Access Laws with respect to any and all improvements, alterations and additions constructed by Tenant or any subtenant in connection with this Lease.

(o) Ownership of Premises. At the time of signing this Lease, The Redevelopment Agency of the City of Hercules is the owner of the Premises. Landlord covenants that (i) The Redevelopment Agency of the City of Hercules will convey title to the Premises to Landlord prior to the Commencement Date; (ii) that the execution of this Lease by the undersigned has been authorized by the City of Hercules and The Redevelopment Agency of the City of Hercules; and (iii) upon such conveyance this Lease shall continue in full force and effect without any further actions being required of Landlord or Tenant hereunder.

(p) Counterparts. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute one and the same instrument. Signatures of the parties transmitted by facsimile, or by pdf or similar imaging transmission, will be deemed to be their original signatures for any purpose whatsoever.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have executed this Lease on the date set forth above.

LANDLORD:

The City of Hercules

By: _____
Name: Nelson E. Oliva
Its: City Manager

TENANT:

Bio-Rad Laboratories, Inc.,
a Delaware corporation

By: _____
Name: Sanford S. Wadler
Its: Vice President & General Counsel

HEREBY ACKNOWLEDGED AND APPROVED BY LANDLORD'S LEGAL COUNSEL:

By: _____
Name: Alfred A. Calasi
Its: City Attorney

SCHEDULE 1

SCHEDULE 1

Buyout Options

Building	S.F.	Percent of Total SF	15-Yr. Option (multiplier=11036374)	20-Yr. Option (multiplier=8213073)	25-Yr. Option (multiplier=4545904)
A	14,483	15%	$1,650,436	$1,228,225	$679,818
B	17,289	18%	$1,970,199	$1,466,187	$811,529
C	17,289	18%	$1,970,199	$1,466,187	$811,529
D	23,893	25%	$2,722,770	$2,026,237	$1,121,514
E	23,893	25%	$2,722,770	$2,026,237	$1,121,514
ALL Buildings	**96,847**	**100%**	**$11,036,374**	**$8,213,073**	**$4,545,904**

EXHIBIT A

SITE PLAN

EXHIBIT B

MEMORANDUM

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO

Paul E. Schrier
Nixon Peabody LLP
One Embarcadero Center, Suite 1800
San Francisco, CA 94111

MEMORANDUM OF LEASE AND PURCHASE OPTION

This Memorandum of Lease and Purchase Option ("Memorandum") dated as of August 14, 2008 is entered into by and between The City of Hercules ("Landlord") and Bio-Rad Laboratories, Inc., a Delaware corporation ("Tenant").

RECITALS

A. On or about August 14, 2008, Landlord and Tenant entered into that certain Lease Agreement ("Lease") pursuant to which Landlord leased to Tenant and Tenant leased from Landlord commonly known as the Venture Commerce Center located at 203-295 Linus Pauling Drive, as more particularly described on Exhibit B-1 and incorporated herein by reference (collectively, the "Premises").

B. Tenant has the option to purchase the Premises subject to the satisfaction of certain conditions more particularly set forth in the Lease.

C Landlord and Tenant desire to execute this Memorandum to provide constructive notice to all third parties of Tenant's and Landlord's rights under the Lease.

AGREEMENT

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Term. Landlord leases to Tenant the Premises for the term commencing on September 15, 2008 and ending on September 14, 2038.

2. Incorporation of Lease Provisions. All of the terms and conditions of the Lease are incorporated in this Memorandum by reference. The Lease includes, among other terms, the option of Tenant to purchase the Premises.

3. Successors and Assigns. This Memorandum shall bind and inure to the benefit of the parties and their respective heirs, successors, and assigns, subject, however, to the provisions of the Lease on assignment.

4. Subdivision Map Act. Nothing herein is intended to, nor shall be construed as, creating any interest or parcel in violation of the California Subdivision Map Act.

5. Governing Law. This Memorandum is governed by California law.

6. Counterparts. This Memorandum may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute one and the same instrument. Signatures of the parties transmitted by facsimile, or by pdf or similar imaging transmission, will be deemed to be their original signatures for any purpose whatsoever.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Memorandum of Lease as of the date first written above.

LANDLORD:

The City of Hercules

By: _____
Name: _____
Its: City Manager

HEREBY ACKNOWLEDGED AND APPROVED BY LANDLORD'S LEGAL COUNSEL:

By: _____
Name: _____
Its: City Attorney

TENANT:

Bio-Rad Laboratories, Inc.,
a Delaware corporation

By: _____
Name: _____
Its: _____

EXHIBIT B-1

DESCRIPTION OF PREMISES

LEGAL DESCRIPTION

Real property in the City of Hercules, County of Contra Costa, State of California, described as follows:

PARCEL 1, AS SHOWN ON THAT CERTAIN PARCEL MAP FILED IN THE OFFICE OF THE RECORDER OF THE COUNTY OF CONTRA COSTA, STATE OF CALIFORNIA ON NOVEMBER 9, 2006, IN BOOK 198 OF MAPS PAGES 47-48.

EXCEPTING FROM A PORTION THEREOF:

MINERAL RESERVATION CONTAINED IN THE DEED FROM HERCULES POWDER COMPANY, A CORPORATION, TO SIGNAL OIL AND GAS COMPANY, A CORPORATION, DATED MAY 28, 1965, RECORDED JUNE 2, 1965, IN BOOK 4880, PAGE 541, OFFICIAL RECORDS, AS FOLLOWS:

"EXCEPTING AND RESERVING UNTO GRANTOR, ITS SUCCESSORS AND ASSIGNS, UNDIVIDED TWENTY-FIVE PERCENT (25%) OF ALL OIL, GAS AND OTHER HYDROCARBONS AND ANY OTHER MINERALS OR MINERAL RIGHTS, WHETHER OR NOT SIMILAR TO THOSE HEREIN MENTIONED, UNDERLYING THAT PORTION OF THE LAND DESCRIBED ABOVE SITUATED BELOW THE SURFACE THEREOF SPECIFICALLY, INCLUDING THE RIGHT TO EXPLORE, DRILL FOR, PRODUCE, EXTRACT, TREAT, REMOVE AND MARKET OIL, GAS AND OTHER HYDROCARBONS AND MINERAL THEREFROM, BUT WITHOUT ANY RIGHT TO ENTER UPON OR TO UTILIZE THE SURFACE OF THE LAND DESCRIBED ABOVE FOR ANY SUCH PURPOSES."

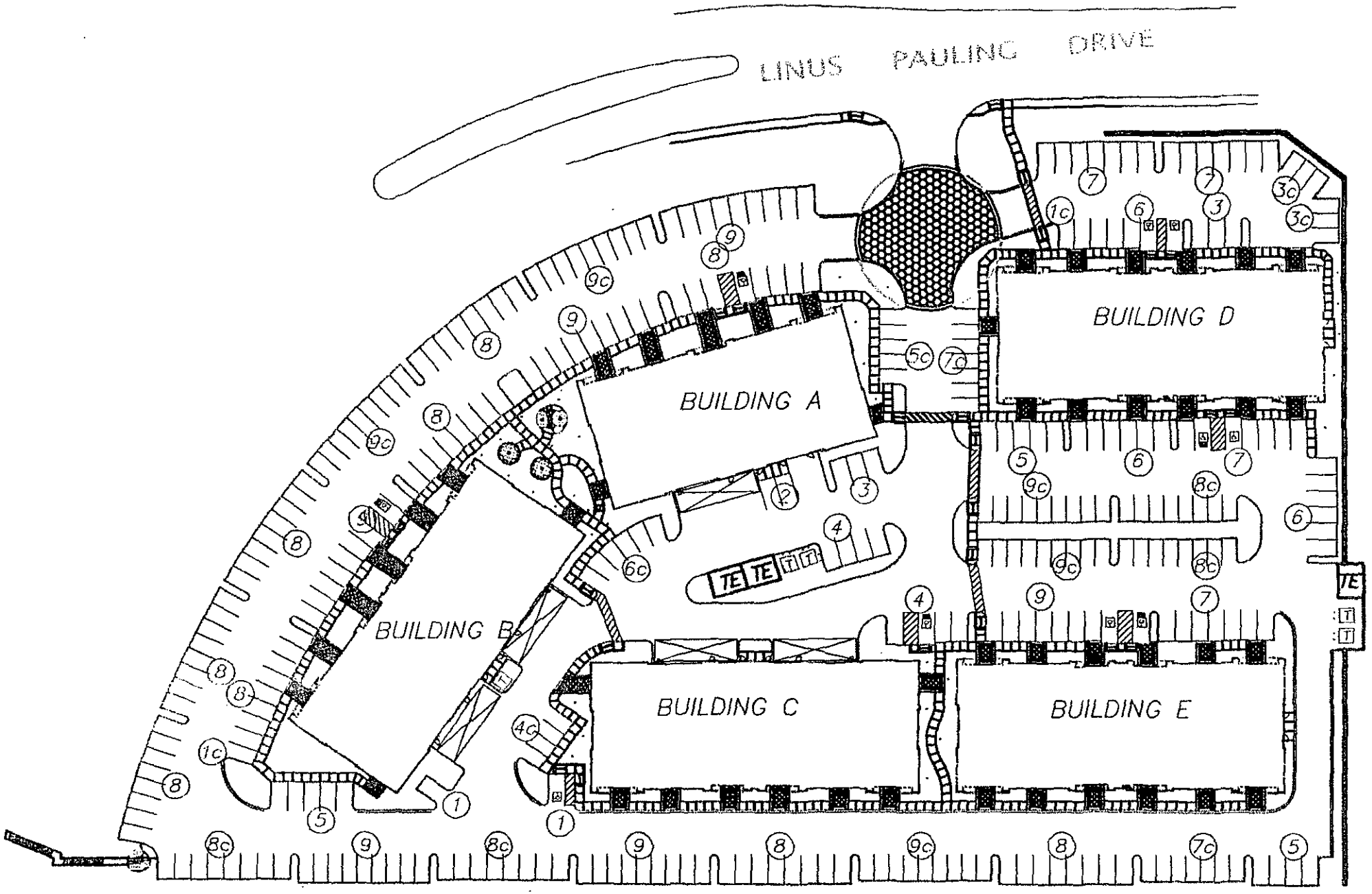
ALSO EXCEPTING FROM A PORTION THEREOF:

THE FOLLOWING AS RESERVED IN THE DEED FROM AMINOIL HOLDINGS, INC., A CORPORATION TO HERCULES PROPERTIES, LTD., A CALIFORNIA LIMITED PARTNERSHIP, RECORDED AUGUST 15, 1979, INSTRUMENT NO. 79-114702.

"ALSO EXCEPTING AND RESERVING TO THE GRANTOR HEREIN THE REMAINING 75% OF 100% OF THE OIL, GAS AND OTHER HYDROCARBONS FROM PARCELS 1 AND 2, TOGETHER WITH THE RIGHT TO EXPLORE, DRILL FOR, USING SLANT DRILLING METHODS, PASS IN, UNDER OR THROUGH SAID LAND, PRODUCE, EXTRACT, TREAT, REMOVE, MARKET OIL, GAS AND OTHER HYDROCARBONS, BUT WITHOUT ANY RIGHT TO ENTER UPON OR TO UTILIZE THE SURFACE OF THE LAND DESCRIBED FOR ANY SUCH PURPOSES."

APN: 404-182-003-8 and 404-182-004-6 (Old APNs);

404-182-15 (New APN, Not yet assessed)


LINUS PAULING DRIVE
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