Attachment C

Measure M
Strong Communities Fund
of the City of Stockton

Stockton, California

Financial Statements and
Independent Auditors' Reports

For the Year Ended June 30, 2017

THE PUN GROUP
ACCOUNTANTS & ADVISORS

Attachment C

Attachment C

City of Stockton
Measure M Strong Communities Fund
For the Year Ended June 30, 2017

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FINANCIAL SECTION

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Attachment C

THE PUN GROUP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Measure M Strong Communities Fund (the "Fund") of the City of Stockton (the "City"), which comprise the balance sheet as of June 30, 2017, and the related statements of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and result of operations and changes in fund balance of the Fund of the City, as of and for the year ended June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules – Measure M Strong Communities Fund, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis ("MD&A") that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB"), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

The Pun Group, LLP

The Pun Group, LLP
Santa Ana, California
December 29, 2017

THE PUN GROUP
ACCOUNTANTS & ADVISORS

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*

Independent Auditors' Report

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

We have audited, in accordance with the 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, the financial statements of the Measure M Strong Communities Fund (the "Fund") of the City of Stockton (the "City"), which comprise the balance sheet as of June 30, 2017 and the related revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness.

To the Honorable Mayor and Members of the City Council
of the City of Stockton
Stockton, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The Pun Group, LLP

The Pun Group, LLP
Santa Ana, California
December 29, 2017

BASIC FINANCIAL STATEMENTS

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City of Stockton
Measure M Strong Communities Fund
Balance Sheet
June 30, 2017

Assets:		
Cash and cash equivalent	$	543
Due from State of California Board of Equalization		2,421,355
Total assets		2,421,898
Liabilities and Fund Balance:		
Accounts payable		30,308
Total liabilities		30,308
Fund Balance:		
Restricted		2,391,590
Total Fund Balance		2,391,590
Total liabilities, and fund balance	$	2,421,898

See accompanying Notes to the Basic Financial Statements

City of Stockton
Measure M Strong Communities Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2017

Revenues:	
Taxes:	
Sales - levied by City	$ 2,474,095
Total revenues	2,474,095
Expenditures:	
Current:	
Parks and recreation	82,505
Total expenditures	82,505
Change in fund balance	2,391,590
Fund Balance:	
Beginning of year	-
End of year	$ 2,391,590

See accompanying Notes to the Basic Financial Statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Stockton
Measure M Strong Communities Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 – Definition of the Fund

On November 8, 2016, the people of the City of Stockton (the "City") approved the Strong Communities Initiative ("Measure M"), which authorized the City of Stockton Special Library and Recreation Transactions and Use Tax Ordinance (Ordinance No. 2016-06-07-1212). The original Ordinance is adopted by the Stockton City Council on May 24, 2016. An amended Ordinance was approved by the City Council on June 7, 2016. The Ordinance allows the City to implement a dedicated one-quarter (¼) cent special transaction and use tax for a period of 16 years for the restoration and expansion of library and recreation services.

The City established the Measure M Strong Communities Fund (the "Fund"), to account for the Measure M taxes collected and spent on library and recreation services. These operations constitute part of the overall financial reporting entity of the City and are accounted for as a special revenue fund in accordance with generally accepted accounting principles within the City's comprehensive annual financial report. The accounting policies of the Fund conform to the modified accrual basis of accounting.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements present only information pertain to the Fund and are not intended to present the financial position, changes in financial position, or cash flows of the City in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The City's financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board ("GASB") commonly referred to as U.S. GAAP. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Measurement Focus and Basis of Accounting

In the accompanying financial statements, the Fund is presented using the "*current financial resources*" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance present increases (revenues) and decrease (expenditures) in net current assets.

The activities of the Fund are recorded in a special revenue fund and accounted for using the modified accrual basis of accounting. Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual (i.e. both measurable and available). Measurable means that the amount of the transaction can be estimated, or otherwise determined. Available means the funds are collectible within 60 days after year-end. Expenditures are generally recognized when the related liability is incurred.

Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

All cash and cash equivalents reported in the Fund are accounted for by the City. For further information, please refer to Note 1 – Summary of Significant Accounting Policies in the City's comprehensive annual financial report.

Receivables

Revenues are recorded when received in cash, except revenues subject to accrual (up to 60 days after year-end) are recognized when due. The primary revenue source of the Fund is transactions and use tax collected through the State of California Board of Equalization.

Classification of Fund Balance

All fund balance in the Fund is fully restricted.

Restricted – Amounts that are restricted by external parties such as creditors or imposed by grants, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The City has legislative restrictions on amounts collected and reported in the Fund. As a result, these restrictions have been classified as restricted for parks and recreation.

Other types of fund balance that are not applicable to the Fund are described below:

Nonspendable – Amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, inventories and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund or (2) legally or contractually required to be maintained intact.

Committed – This amount indicates the portion of fund balances which can only be used for specific purposes under formal resolution or ordinance of the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

Assigned – Amounts that have been allocated by action of an official authorized by the Stockton City Council in which the City's intent is to use the funds for a specific purpose. The City considers this level of authority to be the City Manager of the City of Stockton.

Unassigned – Amounts that constitute the residual balances that have no restrictions placed upon them. If restrictions exceed available resources at the end of the year, the deficit amounts are reported and classified as unassigned.

City of Stockton
Measure M Strong Communities Fund
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

Note 2 – Summary of Significant Accounting Policies (Continued)

Spending Policy

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is first to expend restricted fund balances, then unrestricted fund balances as they are needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned depending on the nature of the expenditure

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2017 consist of the following:

Description	June 30, 2017
Demand Deposits	$ 543
Total cash and cash equivalents	$ 543

The Fund's cash was part of the pool cash and investments of the City of Stockton (the "City").

At June 30, 2017, the carrying amount of the Fund's deposits was $543. The total bank balance was covered by federal depository insurance or by collateral with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure Stockton deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC"). The City, however, has not waived the collateralization requirements for deposits insured by FDIC.

Note 4 – Due From Other Governments

Due from other governments consists of retail transactions and use tax due from the State of California Board of Equalization. At June 30, 2017, the amount due from the State of California Board of Equalization was $2,421,355.

City of Stockton
Measure M Strong Communities Fund
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

Note 5 – Commitments and Contingencies

Litigation

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will not materially affect the financial statements of the City as of June 30, 2017.

Commitments

On April 1, 2017, the Stockton City Council approved an allocation of 26 new positions for the Community Services Department for the restoration of library and recreation services. The restoration of services includes increasing library center hours on evenings and weekends, support for sports programs, library programs, after-school programs, homework assistance, and youth programing. The estimated expenditure from the Fund for full-time and part-time staffing is approximately $2.5 million.

On August 21, 2017, the Stockton City Council approved to appropriate $154,060 from the Fund to initiate a program to place micro libraries in community centers and to increase funding for City arts programs. In addition, $250,000 in the Capital Improvement Projects funds was reallocated from the Northwest Thornton Road Library and Recreation Center project to the Northeast Stockton McNair Library and Recreation Center project for the design costs for a new library/community center in Northeast Stockton.

On August 21, 2017, the Stockton City Council approved the Strong Communities Expenditure Plan for the use of Strong Communities revenues. The expenditure plan includes revenue and expenditure projections for the 16-year lifespan of the measure.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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City of Stockton
Measure M Strong Communities Fund
Required Supplementary Information (Unaudited)
For the Fiscal Year Ended June 30, 2017

1. Budgetary Information

Budget Process

In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. Total Appropriations shall not exceed the total of estimated revenues, estimated unencumbered balances of funds to be carried over from the preceding year and unencumbered available fund balances. Prior to July 1, the original adopted budget is legally enacted through the passage of a resolution by the City Council. In the event this does not occur, the City Manager's draft budget is in force until a budget is adopted by the City Council.

If expenditures exceed appropriations at the department level for the General Fund or at the fund level for all other funds, Council approval must be obtained to amend the budget. The City Manager is authorized to transfer budgeted amounts between line items within a General Fund department and within a fund for all other funds. During the year, the City Council approves supplemental appropriations and, by resolution, has also authorized the City Manager to transfer fund balances to applicable appropriation accounts, or to transfer between funds, when necessary to continue purposes approved by the City Council in the current year, adopted budget, or subsequent action. Amounts reported as final budget in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – On a Budgetary Basis include amendments authorized throughout the year.

All unencumbered appropriations lapse at year-end, with the exception of some capital improvement projects and miscellaneous grants in the respective funds. Encumbered appropriations are re-appropriated in the following year's budget.

Budget Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting, which is different from accounting principles generally accepted in the United States of America (GAAP).

The statements of revenue, expenditures and changes in fund balances have been prepared on the modified accrual basis of accounting in accordance with GAAP. The schedules of revenues, expenditures and changes in fund balances – budget and actual – on a budgetary basis have been prepared on the budgetary basis, which is different from GAAP.

The variations from GAAP that are for budgetary purposes include the following:

- Outstanding commitments relating to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.

- The write-off uncollectable accounts receivables is not recognized as an expenditure. Under GAAP, these write-offs are recognized as expenditures when the accounts receivables are determined to be uncollectable.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year or project length basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds are excluded from budgetary reporting.

City of Stockton
Measure M Strong Communities Fund
Required Supplementary Information (Unaudited) (Continued)
For the Fiscal Year Ended June 30, 2017

1. Budgetary Information (Continued)

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Sales - levied by City	$ -	$ 2,250,000	$ 2,474,095	$ 224,095
Total revenues	-	2,250,000	2,474,095	224,095
Expenditures:				
Current:				
Parks and recreation	-	204,000	82,505	121,495
Total expenditures	-	204,000	82,505	121,495
Change in fund balance	$ -	$ 2,046,000	2,391,590	$ 345,590
Fund Balances:				
Beginning of year			-	
End of year			$ 2,391,590	