

Measure M
Strong Communities Fund
of the City of Stockton

Stockton, California

Financial Statements and
Independent Auditors' Reports

For the Year Ended June 30, 2023

City of Stockton
Measure M Strong Communities Fund
For the Year Ended June 30, 2023

Table of Contents

| | <u>Page</u> |
|---|-------------|
| <u>FINANCIAL SECTION</u> | |
| Independent Auditors’ Report on the Financial Statements | 1 |
| Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>..... | 5 |
| Basic Financial Statements: | |
| Balance Sheet | 9 |
| Statement of Revenues, Expenditures, and Change in Fund Balance | 10 |
| Notes to the Fund Financial Statements | 13 |
| Required Supplementary Information (Unaudited): | |
| <i>Budgetary Information:</i> | |
| Budget Process | 19 |
| Budgetary Basis of Accounting | 19 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual | 20 |

This page intentionally left blank.

FINANCIAL SECTION

This page intentionally left blank.



200 E. Sandpointe Avenue, Suite 600
Santa Ana, California 92707



INDEPENDENT AUDITORS' REPORT

www.pungroup.cpa



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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Stockton, California (the "City") Strong Communities Initiative Measure M (the "Fund"), which comprise the balance sheet as of June 30, 2023 and the related statement of revenues, expenditures, and change in fund balance for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Stockton, California, as of June 30, 2023, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.



To the Honorable Mayor and Members of the City Council
of the City of Stockton
Stockton, California
Page 2

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

To the Honorable Mayor and Members of the City Council
of the City of Stockton
Stockton, California
Page 3

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 that accounting principles generally accepted in the United States of America requires 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, 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. 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 March 13, 2024, on our consideration of the City's internal control over the Fund's 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 solely 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 the Fund's 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 the Fund's financial reporting and compliance.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
March 13, 2024

This page intentionally left blank.



200 E. Sandpointe Avenue, Suite 600
Santa Ana, California 92707

www.pungroup.cpa

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, California (the "City"), which comprise the balance sheet as of June 30, 2023 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the fund financial statements and have issued our report thereon dated March 13, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the Fund's financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Honorable Mayor and Members of the City Council
of the City of Stockton
Stockton, California
Page 2

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure M Strong Communities Fund of the City 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.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
March 13, 2024

FUND FINANCIAL STATEMENTS

This page intentionally left blank.

City of Stockton
Measure M Strong Communities Fund
Balance Sheet
June 30, 2023

| Assets | |
|---|-----------------------------|
| Cash and investments | \$ 31,008,586 |
| Interest receivable | 146,896 |
| Deposits | 18,097 |
| Due from State of California Department of Tax and Fee Administration | 2,682,599 |
| Total assets | <u><u>\$ 33,856,178</u></u> |
| Liabilities and Fund Balances | |
| Liabilities: | |
| Accounts payable | \$ 247,521 |
| Accrued payroll | 199,882 |
| Total liabilities | <u>447,403</u> |
| Fund Balance: | |
| Nonspendable | 18,097 |
| Restricted | 33,390,678 |
| Total fund balance | <u>33,408,775</u> |
| Total liabilities and fund balance | <u><u>\$ 33,856,178</u></u> |

City of Stockton
Measure M Strong Communities Fund
Statement of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2023

Revenues:

Taxes:

| | |
|------------------------|---------------|
| Sales - levied by City | \$ 16,551,044 |
| Interest income (loss) | (234,758) |

Total revenues

| | |
|--|------------|
| | 16,316,286 |
|--|------------|

Expenditures:

Current:

| | |
|----------------------|-----------|
| Library | 2,892,739 |
| Parks and recreation | 4,821,876 |

Capital outlay

| | |
|--|-----------|
| | 6,721,241 |
|--|-----------|

Total expenditures

| | |
|--|------------|
| | 14,435,856 |
|--|------------|

Change in fund balance

| | |
|--|-----------|
| | 1,880,430 |
|--|-----------|

Fund Balance:

Beginning of year

| | |
|--|------------|
| | 31,528,345 |
|--|------------|

End of year

| | |
|--|---------------|
| | \$ 33,408,775 |
|--|---------------|

NOTES TO THE FUND FINANCIAL STATEMENTS

This page intentionally left blank.

City of Stockton
Measure M Strong Communities Fund
Notes to the Fund Financial Statements
For the Year Ended June 30, 2023

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 annual comprehensive financial report. The accounting policies of the Fund conform to the modified accrual basis of accounting.

These financial statements present only the Fund and do not present fairly the financial position of the City as of June 30, 2023, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Note 2 – Summary of Significant Accounting Policies**A. Basis of Presentation**

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

The 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.

B. 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 90 days after year-end. Expenditures are generally recognized when the related liability is incurred.

City of Stockton
Measure M Strong Communities Fund
Notes to the Fund Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Summary of Significant Accounting Policies (Continued)

C. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP 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.

D. Cash and Investments

All cash and investments 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 annual comprehensive financial report.

E. Receivables

Revenues are recorded when received in cash, except revenues subject to accrual (up to 90 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 Department of Tax and Fee Administration.

F. Classification of Fund Balance

All fund balance in the Fund are nonspendable and restricted.

Nonspendable – Amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, deposits 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.

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 library and recreation.

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

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 Fund Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Summary of Significant Accounting Policies (Continued)

G. 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 Investments

The Fund's share of the City's cash and investments at June 30, 2023 was \$31,008,588.

Cash is deposited in the City's internal investment pool, which is reported at the amortized cost. The Fund does not own specifically identifiable securities in the City's pool. Interest income is allocated based on average cash balances. Investment policies and associated risk factors applicable to the Fund are those of the City and are included in the City's basic financial statements. Please refer to the City's annual comprehensive financial report for related disclosures for cash and investments.

Note 4 – Due From Other Governments

Due from other governments consists of retail transactions and use tax due from the State of California Department of Tax and Fee Administration. At June 30, 2023, the amount due from the State of California Department of Tax and Fee Administration was \$2,682,599.

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 Fund as of June 30, 2023.

Commitments

In addition to library and recreation operations, Strong Communities funds are being used for capital projects expanding or improving library and recreation facilities. The capital appropriations outstanding as of June 30, 2023 were \$12,123,912 for eight projects. The largest project underway, with an outstanding appropriation of \$4,464,768 is allocated toward the renovation of the Cesar Chavez Library for life safety upgrades and to make the building more accessible and inviting to the community. A new library and recreation facility in Northeast Stockton is also under construction with an outstanding balance of \$3,660,669. \$1,190,658 is appropriated to renovate the Victory Park Pool and \$1,500,000 is appropriated to renovate the Oak Park Pool. The McKinley Park renovation project has a balance of \$1,121,481. In addition, \$85,529 is appropriated to complete renovations at the Stockton Soccer Complex, \$59,500 is appropriated to install UV sterilization systems at pools, and \$41,307 is appropriated to complete fencing and gate upgrades for improved security at the McNair Soccer Complex.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This page intentionally left blank.

City of Stockton
Measure M Strong Communities Fund
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2023

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 ongoing capital improvement projects and miscellaneous grants in the respective funds. Encumbered appropriations are re-appropriated in the following year's budget.

Budgetary 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.

City of Stockton
Measure M Strong Communities Fund
Required Supplementary Information (Unaudited) (Continued)
For the Fiscal Year Ended June 30, 2023

1. Budgetary Information (Continued)*Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual*

| | Budget | | Actual | Variance with Final Budget |
|---|-----------------------|-----------------------|----------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes: | | | | |
| Sales - levied by City | \$ 14,027,000 | \$ 14,027,000 | \$ 16,551,044 | \$ 2,524,044 |
| Interest income (loss) | - | - | (234,758) | (234,758) |
| Total revenues | <u>14,027,000</u> | <u>14,027,000</u> | <u>16,316,286</u> | <u>2,289,286</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Library | 4,471,381 | 4,466,089 | 2,892,739 | 1,573,350 |
| Recreation programs | 6,238,267 | 6,699,620 | 4,821,876 | 1,877,744 |
| Capital outlay | <u>5,350,000</u> | <u>8,600,753</u> | <u>6,721,241</u> | <u>1,879,512</u> |
| Total expenditures | <u>16,059,648</u> | <u>19,766,462</u> | <u>14,435,856</u> | <u>5,330,606</u> |
| Changes in fund balance | <u>\$ (2,032,648)</u> | <u>\$ (5,739,462)</u> | <u>1,880,430</u> | <u>\$ 7,619,892</u> |
| Fund Balance (GAAP Basis): | | | | |
| Beginning of year | | | <u>31,528,345</u> | |
| End of year | | | <u>\$ 33,408,775</u> | |
| Basis Adjustment: | | | | |
| Changes in fund balances - GAAP basis | | | \$ 1,880,430 | |
| Encumbrances | | | <u>(411,140)</u> | |
| Changes in fund balances - Budget basis | | | 1,469,290 | |
| Fund Balance (Budgetary Basis): | | | | |
| Beginning of year | | | <u>31,528,345</u> | |
| End of year | | | <u>\$ 32,997,635</u> | |