

CITY OF PLEASANT HILL

Measure K Fund

Independent Auditor's Reports and
Financial Statements

For the Year Ended June 30, 2022



Certified
Public
Accountants

CITY OF PLEASANT HILL
Measure K Fund
For the Year Ended June 30, 2022

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Independent Auditor's Report

City Council and
Measure K Oversight Committee
City of Pleasant Hill, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Measure K Fund (Fund) of the City of Pleasant Hill, California (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2022, and the changes in its financial position 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City 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 a Matter

As discussed in Note 2, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022, and 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

The City's management is responsible for the preparation and fair presentation of the 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.

Auditor’s 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 auditor’s 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 GAAS 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 GAAS 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2023, 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.



Walnut Creek, California
February 7, 2023

CITY OF PLEASANT HILL

Measure K Fund

Balance Sheet

June 30, 2022

Assets

Cash and investments held in City Treasury	\$ 9,890,112
Tax receivable	997,995
Due from other agencies	27,500
Interest receivable	<u>19,131</u>
Total assets	<u><u>\$ 10,934,738</u></u>

Liabilities and Fund Balance

Liabilities

Accounts payable	<u>\$ 716,773</u>
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Deferred inflows of resources - unavailable revenue	<u>27,500</u>
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Fund Balance

Restricted	4,164,686
Assigned	<u>6,025,779</u>

Total fund balance	<u>10,190,465</u>
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Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 10,934,738</u></u>
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See accompanying Notes to Financial Statements.

CITY OF PLEASANT HILL
Measure K Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2022

Revenues	
Measure K transactions & use tax	\$ 5,344,293
Contributions from other agencies	184,290
Use of money and property	50,748
Total revenues	<u>5,579,331</u>
Expenditures	
Capital outlay - New library project	13,431,807
Others	13,254
Debt service:	
Principal	2,066,668
Interest and fiscal charges	425,704
Total expenditures	<u>15,937,433</u>
Other Financing Sources (Uses)	
Transfers in	491,500
Transfers out to other funds	<u>(1,168,000)</u>
Total other financing sources (uses)	<u>(676,500)</u>
Net change in fund balance	(11,034,602)
Fund balance - beginning	<u>21,225,067</u>
Fund balance - ending	<u><u>\$ 10,190,465</u></u>

See accompanying Notes to Financial Statements.

CITY OF PLEASANT HILL
Measure K Fund
Notes to Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

In November 2016, registered voters of the City of Pleasant Hill (City) approved Measure K, authorizing a half-cent transaction and use tax to for the funding of the construction of improvements to neighborhood library facilities and infrastructure throughout the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

The Measure K Fund (Fund) is accounted for as part of the City’s General Fund, which is a type of governmental fund included in the City’s basic financial statements. The City’s General Fund accounts for all of the general revenues and financial resources of the City not specifically levied or collected for the other City funds, as well as the related expenditures.

The financial statements do not purport to, and do not, present the financial position or changes in financial position of the City. The projects represent a portion of the activities of the City and, as such, are included in the City’s basic financial statements.

(b) *Basis of Accounting*

The accompanying financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded when the related governmental fund liabilities are incurred. Revenues, including transaction and uses tax, are recognized when they become measurable and available (generally received within 45 days after year-end).

(c) *Fund Balance*

The City established a policy on governmental fund balance financial reporting to provide necessary clarification on the terminology used in the fund balance classifications and assist with adhering to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 outlines the requirements to report fund balance for governmental funds in specific classifications (nonspendable, restricted, committed, assigned and unassigned), which create a hierarchy primarily based on the extent to which the City is bound to the constraints on the specific purposes for which funds can be spent. Restricted fund balance represents amount that can be spent for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Assigned fund balance represents amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or the City Manager to whom the City Council has delegated the authority to assign amounts to be used for specific purposes by adoption of a resolution. As of June 30, 2022, \$4,164,686 represents restricted fund balance for capital projects funded through a lease financing loan, of which \$3,029,508 related to encumbrances. \$6,025,779 was assigned fund balance for capital projects funded by Measure K revenue.

CITY OF PLEASANT HILL
 Measure K Fund
 Notes to Financial Statements
 For the Year Ended June 30, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS HELD IN CITY TREASURY

Cash and investments held in City Treasury represent the Fund’s share of the City Treasury’s pool. All of the Fund’s cash and investments are deposited in the City Treasury’s pool as described in the City’s *Annual Comprehensive Financial Report*, which can be obtained from the City’s Department of Finance. Investments in the pool are made in accordance with the City’s investment policy as approved by the City Council. Investments are stated at fair value. However, the value of the pool shares in the City Treasury’s pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the Fund’s position in the pool. Interest earned from cash and investments held in City Treasury is allocated quarterly to all City funds, including the Fund, based on the City funds’ cash balance. At June 30, 2022, the City Treasury’s pool is unrated and has a weighted average maturity of 355 days. The Fund’s investments in the City Treasury’s pool is exempt from fair value hierarchy disclosure.

NOTE 4 – TRANSFERS TO AND FROM OTHER FUNDS

Resources may be transferred from one City fund to another with City Council or City Manager approval. The purpose of the transfers is to support capital projects activities of another City fund. During the year ended June 30, 2022, the Fund transferred \$1,168,000 to other City funds. The following schedule summarized the Fund’s transfer out activities:

<u>Fund Receiving Transfers</u>	<u>Project Name</u>	<u>Current Year Amount Transferred</u>	<u>Total Amount Unspent as of June 30, 2022</u>
Gas Tax Fund	Pedestrian and Bicycle Program	167,000	348,631
Gas Tax Fund	Street Resurfacing Program	826,000	826,000
NPDES Fund	Storm Drain Improvement Program	175,000	175,000
Total Transfers To Other Funds		<u>\$ 1,168,000</u>	<u>\$ 1,349,631</u>

During the year ended June 30, 2022, the Fund received transferred funds from the Public Educational and Governmental Access Capital Grant fund and the Unified Street Lighting fund in the amounts of \$340,000, and \$151,500 respectively. These funds were used for the New Library capital project.

CITY OF PLEASANT HILL
Measure K Fund
Notes to Financial Statements
For the Year Ended June 30, 2022

NOTE 5 – LOAN FINANCING – NEW LIBRARY

The City is financing the construction of a new library building, a portion of the Oak Park Monticello Backbone Infrastructure Improvements, and incidental expenses in the amount of \$26,396,078 through a lease financing private placement loan with Bank of the West executed on August 1, 2020. The interest rate on the private placement is 1.75% per annum. Payments are to be made semiannually on December 1 and June 1 with final maturity on June 1, 2032. The loan's debt service payments will be funded with Measure K revenues. As of June 30, 2022, total debt service requirements remaining on the Lease Financing are \$24,923,718.

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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***

City Council and
Measure K Oversight Committee
City of Pleasant Hill, 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 (*Government Auditing Standards*), the financial statements of the Measure K Fund (Fund) of the City of Pleasant Hill, California (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2023.

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 of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund’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 financial statements. 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.

Handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California

February 7, 2023