

Measure J Capital Projects Fund of the City of Palm Springs

Palm Springs, California

Financial Statements and Independent Auditors' Reports

For the Year Ended June 30, 2022



**Measure J Capital Projects Fund of the City of Palm Springs
For the Year Ended June 30, 2022**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Palm Springs
Palm Springs, California

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the Measure J Capital Projects Fund (the "Fund") of the City of Palm Springs (the "City"), which comprise the balance sheet as of June 30, 2022, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

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, 2022, and the change in 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the balance sheet and the statement of revenues, expenditures and changes in fund balance of the Fund and do not purport to, and do not present fairly the financial position of the City as of June 30, 2022, 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; 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.

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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Honorable Mayor and Members of the City Council
of the City of Palm Springs
Palm Springs, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2022, 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 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 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.

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

Santa Ana, California
December 23, 2022

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**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 Palm Springs
Palm Springs, 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 J Capital Projects Fund (the "Fund") of the City of Palm Springs (the "City"), and for the year ended June 30, 2022, and the related notes to the financial statements and have issued our report thereon dated December 23, 2022.

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 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. 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 may exist that have not been identified.

Report on Compliance and Other Matters

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

To the Honorable Mayor and Members of the City Council
of the City of Palm Springs
Palm Springs, California
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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 PwC Group, LLP

Santa Ana, California
December 23, 2022

FUND FINANCIAL STATEMENTS

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Measure J Capital Projects Fund of the City of Palm Springs
Balance Sheet
June 30, 2022

Assets		
Cash and investments		\$ 29,483,270
Due from State of California Department of Tax and Fee Administration		4,031,577
Interest receivable		30,102
Total assets		<u><u>\$ 33,544,949</u></u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable		\$ 797,898
Accrued payroll		2,250
Total liabilities		<u>800,148</u>
Fund Balance:		
Assigned		32,744,801
Total fund balance		<u>32,744,801</u>
Total liabilities and fund balance		<u><u>\$ 33,544,949</u></u>

Measure J Capital Projects Fund of the City of Palm Springs
Statement of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2022

Revenues:	
Taxes	\$ 22,202,207
Use of money and property	(445,703)
Other revenue	13,955
Total revenues	21,770,459
Expenditures:	
Current:	
Public works	599,308
Capital outlay	8,166,086
Total expenditures	8,765,394
EXCESS OF REVENUES OVER EXPENDITURES	13,005,065
Other financing (uses):	
Transfers out	(1,402,832)
Total other financing (uses)	(1,402,832)
NET CHANGE IN FUND BALANCE	11,602,233
Fund Balance:	
Beginning of year	21,142,568
End of year	\$ 32,744,801

NOTES TO THE FINANCIAL STATEMENTS

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Measure J Capital Projects Fund of the City of Palm Springs
Notes to the Financial Statements
For the Year Ended June 30, 2022

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Measure J Capital Projects Fund (the "Fund") of the City of Palm Springs, California ("the City") is used to account for the activities of Measure J. Measure J is a local revenue measure passed on November 8, 2011, to maintain local community services and economically revitalize the downtown area. These funds are general purpose revenues that have no restrictions placed upon them. A majority of voters must approve the decision to impose, increase or extend a general tax. Measure J includes a "sunset provision", causing the tax to expire at the end of its twenty-five (25) years.

The Fund is a governmental fund of the City of Palm Springs, California, and the accompanying financial statements are included in the City of Palm Springs, California's basic financial statements.

The accompanying financial statements are for the Measure J Capital Projects Fund only and are not intended to fairly present the financial position of the City of Palm Springs, California or the results of its operations.

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 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 change in fund balance present increases (revenues) and decrease (expenditures) in net current assets.

The activities of the Fund are recorded in a capital projects fund and accounted for using the modified accrual basis of accounting. Capital projects funds are used to account for the financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. 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.

Cash and Investments

The Fund's cash balance was pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarter-end cash balances to the total of the pooled cash and investments.

Measure J Capital Projects Fund of the City of Palm Springs
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and Payables

All receivables are shown net of an allowance for uncollectible.

Classification of Fund Balance

All fund balance in the Fund is assigned.

Assigned - amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The governing council has authorized the City Manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally do not exist temporarily. In other words, an additional action does not normally have to be taken for the removal of the assignment. The authority for assigning fund balance is expressed by the City Manager or the appointed designee based on the City's approved policies.

Budget and Budgetary Accounting

The City Council establishes budgets for capital projects funds, which are budgeted on a project-length basis. The City Council approves budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the City Council. All supplemental appropriations, where required during the period, are also approved by the City Council. Intradepartmental budget transfers are approved by the City Manager. Encumbrances are estimates of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in governmental funds. Encumbrances are closed out at the end of each fiscal year.

Use of Estimates

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

Note 2 – Cash and Investments

The Fund's cash and investments are pooled with the City of Palm Springs in the amount of \$29,483,270. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their month-end cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e. credit, interest rate, custodial, etc.) and other disclosures associated with the Fund's pooled cash and investments is included in the City of Palm Springs' basic financial statements, which are available at 3200 East Tahquitz Canyon Way, Palm Springs, California 92262 or on the City's website.

Note 3 – Commitments and Contingencies

The Fund is subject to litigation arising in the normal course of business. In the opinion of legal counsel there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Fund.

Measure J Capital Projects Fund of the City of Palm Springs
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 4 – Risk Management

The Fund is covered under the City of Palm Springs' insurance policies. Therefore, the limitations and self-insured retentions applicable to the City also apply to the Fund. Additional information on coverage and self-insured retentions can be obtained by contacting the City of Palm Springs.

Note 5 – Transfers

The Fund transferred \$1,402,832 to the City's General Fund to provide funding for debt service payments.

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SUPPLEMENTARY INFORMATION

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Measure J Capital Projects Fund of the City of Palm Springs
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 16,500,000	\$ 17,800,000	\$ 22,202,207	\$ 4,402,207
Use of money and property	-	-	(445,703)	(445,703)
Other revenue	-	-	13,955	13,955
Total revenues	<u>16,500,000</u>	<u>17,800,000</u>	<u>21,770,459</u>	<u>3,970,459</u>
Expenditures:				
Current:				
Public works	4,350,000	4,490,828	599,308	3,891,520
Capital outlay	10,755,000	24,537,753	8,166,086	16,371,667
Total expenditures	<u>15,105,000</u>	<u>29,028,581</u>	<u>8,765,394</u>	<u>20,263,187</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,395,000</u>	<u>(11,228,581)</u>	<u>13,005,065</u>	<u>24,233,646</u>
Other Financing (Uses):				
Transfers out	(1,402,832)	(1,402,832)	(1,402,832)	-
Total other financing (uses)	<u>(1,402,832)</u>	<u>(1,402,832)</u>	<u>(1,402,832)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (7,832)</u>	<u>\$ (12,631,413)</u>	11,602,233	<u>\$ 24,233,646</u>
Fund Balance:				
Beginning of year			21,142,568	
End of year			<u>\$ 32,744,801</u>	

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