

City of East Palo Alto

Measure HH Fund
East Palo Alto, California

*Financial Statements and
Independent Auditor's Reports*

For the year ended June 30, 2023

City of East Palo Alto
Measure HH Fund
Financial Statements
For the Year Ended June 30, 2023
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Independent Accountants' Report

To the Honorable Mayor and Members of City Council
of the City of East Palo Alto
East Palo Alto, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Measure HH Special Revenue Fund (Fund), a nonmajor special revenue fund of the City of East Palo Alto, California (City) as of and for the year ended June 30, 2023, 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 Measure HH Special Revenue Fund of the City of East Palo Alto, California, as of June 30, 2023, and the changes in its 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 (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 Matter

As discussed in Note 1, the financial statements present only the Measure HH Special Revenue Fund, and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2023, and the changes in its financial position, or 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 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.

Required Supplementary Information

Management has omitted management's discussion and analysis 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 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 22, on our consideration of the Fund 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 Fund 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 Fund of the City's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
December 22, 2023

City of East Palo Alto
Measure HH Fund
Balance Sheet
June 30, 2023

	Measure HH Special Revenue Fund
ASSETS:	
Cash and Investments	\$ 4,978,379
Accrued interest	37,213
Total assets	\$ 5,015,592
LIABILITIES AND FUND BALANCES:	
Accounts payable and accrued liabilities	\$ 45,272
Total liabilities	45,272
Fund Balances:	
Restricted	4,970,320
Total fund balances	4,970,320
Total liabilities and fund balances	\$ 5,015,592

See accompanying notes to the financial Statements

City of East Palo Alto
Measure HH Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2023

	Measure HH Special Revenue Fund
REVENUES:	
Parcel Tax - Measure HH	\$ 1,677,265
Interest income	111,162
Total revenues	1,788,427
EXPENDITURES:	
Administration:	
General government	1,500
Community development	14,053
Program expenditures:	
Job Train and First Source Hiring	45,272
965 Weeks affordable housing	1,500,000
Total expenditures	1,560,825
REVENUES OVER (UNDER) EXPENDITURES:	227,602
FUND BALANCES:	
Beginning of year	4,742,718
End of year	\$ 4,970,320

See accompanying notes to the financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

All transactions of the Measure HH Special Revenue Fund (Measure HH Fund) of the City of East Palo Alto, California (City), are included as a separate special revenue fund in the basic financial statements of the City. The Measure HH Fund accounts for the City's share of revenues earned and expenditures incurred under the City's Measure HH parcel tax. The accompanying financial statements are for the Measure HH Fund only and are not intended to fairly present the financial position or results of operations of the City.

B. *Basis of Accounting and Measurement Focus*

The accompanying financial statements are prepared on the modified accrual basis of accounting. Revenues are generally recorded when measurable and available, and expenditures are recorded when the related liabilities are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus, wherein only current assets and current liabilities generally are included on the balance sheet. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

C. *Fund Accounting*

The operations of the Measure HH Fund are accounted for in a separate special revenue fund. The fund is a separate accounting entity with a set of self-balancing accounts which comprise the assets, liabilities, fund equity, revenues, and expenses.

D. *Use of Estimates*

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

City of East Palo Alto
Measure HH Fund
Notes to Financial Statements
For the Year Ended June 30, 2023

2. CASH AND INVESTMENTS

Measure HH monies are pooled with the City's cash, cash equivalents, and investments. The City pools cash resources from all funds to facilitate the management of cash. Cash and cash equivalents are considered amounts on hand, in demand deposits, and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments". The City invests in two external investment pools, the State of California Local Agency Investment Fund (LAIF) and the San Mateo County Investment Fund (County Pool).

All pooled cash and investments held by the City are considered cash and cash equivalents because LAIF and the County Pool are used essentially as demand deposits from the standpoint of the City. Information about the City's Cash and Investments is disclosed in the City's Comprehensive Annual Financial Report.

As of June 30, 2022, the Measure HH Fund had the following cash and investment activity:

Cash and investments	<u>\$ 4,978,379</u>
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Investments are stated at fair value using the aggregate method, resulting in the following investment income allocated to the Measure HH Fund:

Interest income	\$ 107,247
Unrealized gain on change in fair value of investments	<u>3,921</u>
	<u><u>\$ 111,168</u></u>

3. MEASURE HH FUNDS

In November 2018, the voters approved Measure HH, a special parcel tax to combat community displacement through affordable housing programs and assets, and provide programs for facilitating community access to job opportunities. The proceeds of the parcel tax are to be used for affordable and supportive housing programs, programs that facilitate access to job opportunities in the S.T.E.M. sectors, and building trades and strengthen First Source Hiring.

Revenue generated from this special tax can be used only for the following purposes:

- to create and maintain affordable and supportive housing programs, with an emphasis on the creation of net new housing;
- to create and maintain programs that facilitate access to job opportunities for East Palo Alto residents in the science, technology, engineering, and mathematics (STEM) sectors, building trades, and to strengthen the City's First Source Hiring Program, and;
- to pay for City staff and overhead costs to administer the ordinance and provide an annual report.

Revenue generated from this special tax must be used in the following manner:

- a minimum of 35% of the revenue must be used exclusively for the construction of new, affordable housing stock.

3. MEASURE HH FUNDS, CONTINUED

- a maximum of 15% of the revenue may be used for City staff and overhead costs to administer the ordinance and to provide an annual report.
- the remaining proceeds may be used for any of the other purposes specified in the ordinance at the discretion of the City Council

The tax revenue cannot be used for any other purpose.

The authority to levy the tax imposed by Chapter 3.70 shall not expire unless ended by the voters of East Palo Alto. Measure HH authorizes the City Council to amend the parcel tax without subsequent voter approval, provided such amendment does not increase the amount of tax paid by any taxpayer in excess of the rate set forth in the Measure or change the allowed uses for the tax revenues.

A. Measure HH Expenditures

During fiscal year 2022, the City incurred \$15,553 and \$1,545,272 in administrative activities and program activities, respectively.

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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*

To the Honorable Mayor and Members of City Council
of the City of East Palo Alto, 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 HH Special Revenue Fund (Fund) of the City of East Palo Alto, California (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated Report December 22, 2023. Our opinion included an emphasis of matter as discussed that the financial statements present only the financial position specific to the Fund and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 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 have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure HH Special Revenue 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.

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Menlo Park, California
December 22, 2023