

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, 2020

City of East Palo Alto
Measure HH Fund
Financial Statements
For the year ended June 30, 2020

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1
Financial Statements:	
Balance Sheet.....	3
Statement of Revenues, Expenditures and Changes in Fund Balances.....	4
Notes to Financial Statements	5
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 <i>Government Auditing Standards</i>	9

This page intentionally left blank



INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Measure HH Special Revenue Fund (Measure HH Fund) of the City of East Palo Alto, as of and for the year ended June 30, 2020, and the related notes to the financial statements as listed in the table of contents.

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 of the 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 City's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing such an opinion on the effectiveness of the City'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 financial statement presentation.

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

To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California
Page 2

Opinion

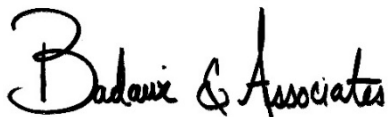
In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the Measure HH Special Revenue Fund at June 30, 2020 and the results of operations and changes in fund balance for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure HH Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2020, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020 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 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.



Badawi and Associates
Certified Public Accountants
Berkeley, California
December 21, 2020

City of East Palo Alto
Measure HH Fund
Balance Sheet
June 30, 2020

	Measure HH Special Revenue Fund
ASSETS:	
Cash and investments	\$ 1,676,905
Accrued interest	5,794
Total assets	<u>\$ 1,682,699</u>
LIABILITIES AND FUND BALANCES:	
Accounts payable and accrued liabilities	\$ 12,105
Total liabilities	<u>12,105</u>
Fund Balances:	
Restricted	1,670,594
Total fund balances	<u>1,670,594</u>
Total liabilities and fund balances	<u>\$ 1,682,699</u>

City of East Palo Alto
Measure HH Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2020

	Measure HH Special Revenue Fund
REVENUES:	
Parcel Tax - Measure HH	\$ 1,677,265
Interest income	24,676
Total revenues	<u>1,701,941</u>
EXPENDITURES:	
Administration	
General government	1,390
Community development	29,957
Total expenditures	<u>31,347</u>
REVENUES OVER (UNDER)	
EXPENDITURES	1,670,594
FUND BALANCES:	
Beginning of year	<u>-</u>
End of year	<u>\$ 1,670,594</u>

City of East Palo Alto
Measure HH Fund
Notes to Financial Statements
For the year ended June 30, 2020

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, 2020

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, 2020, the Measure HH Fund had the following cash and investment activity:

Cash and Investments	<u>\$ 1,676,905</u>
----------------------	---------------------

Investments are stated at fair value using the aggregate method, resulting in the following investment income allocated to the Measure C Fund:

Interest income	\$ 11,031
Unrealized gain on change in fair value of investments	<u>13,645</u>
	<u><u>\$ 24,676</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.

City of East Palo Alto
Measure HH Fund
Notes to Financial Statements
For the year ended June 30, 2020

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 2020, the City incurred \$31,348 in administrative activities.

This page intentionally left blank



**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 the City Council
of the City of East Palo Alto
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, the basic financial statements of the Measure HH Special Revenue Fund, as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2020.

Internal Control over Financial Reporting

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

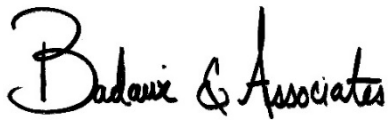
To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure HH Special Revenue Fund 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 is 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates
Certified Public Accountants
Berkeley, California
December 21, 2020