

City of East Palo Alto

Measure C Fund

East Palo Alto, California

*Financial Statements and
Independent Auditor's Reports*

For the year ended June 30, 2017

City of East Palo Alto
Measure C Fund
Financial Statements
For the year ended June 30, 2017

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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 C Special Revenue Fund (Measure C) of the City of East Palo Alto, as of and for the year ended June 30, 2017, 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
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Opinion

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the Measure C Special Revenue Fund at June 30, 2017 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 C Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, 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 29, 2017 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
Oakland, California
December 29, 2017

**City of East Palo Alto
Measure C Fund
Combined Balance Sheet
June 30, 2017**

	Special Revenue Funds		Total
	Public Safety Program	Violence Prevention Program	
ASSETS:			
Cash and investments	\$ 37,469	\$ 1,582,665	\$ 1,620,134
Accrued interest	-	4,622	4,622
Total assets	<u>\$ 37,469</u>	<u>\$ 1,587,287</u>	<u>\$ 1,624,756</u>
LIABILITIES AND FUND BALANCES:			
Accounts payable and accrued liabilities	\$ -	\$ 113,911	\$ 113,911
Total liabilities	<u>-</u>	<u>113,911</u>	<u>113,911</u>
Fund Balances:			
Restricted	<u>37,469</u>	<u>1,473,376</u>	<u>1,510,845</u>
Total fund balances	<u>37,469</u>	<u>1,473,376</u>	<u>1,510,845</u>
Total liabilities and fund balances	<u>\$ 37,469</u>	<u>\$ 1,587,287</u>	<u>\$ 1,624,756</u>

See accompanying notes to the financial statements

City of East Palo Alto
Measure C Fund
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	Special Revenue Funds		Total
	Public Safety Program	Violence Prevention Program	
REVENUES:			
Parcel Tax - Measure C	\$ 352,718	\$ 350,708	\$ 703,426
Interest income and Miscellaneous	870	13,034	13,904
Total revenues	353,588	363,742	717,330
EXPENDITURES:			
Programs			
Public Safety	374,408	-	374,408
Violence Prevention	-	239,822	239,822
Administration			
Public Safety	(5,214)	-	(5,214)
Violence Prevention	-	(1,210)	(1,210)
Total expenditures	369,194	238,612	607,806
REVENUES OVER (UNDER) EXPENDITURES	(15,606)	125,130	109,524
FUND BALANCES:			
Beginning of year	53,075	1,348,246	1,401,321
End of year	\$ 37,469	\$ 1,473,376	\$ 1,510,845

See accompanying Notes to Financial Statements.

City of East Palo Alto
Measure C Fund
Notes to Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All transactions of the Measure C Special Revenue Fund (Measure C 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. Measure C Funds are used to account for the City's share of revenues earned and expenditures incurred under the City's Measure C. The accompanying financial statements are for the Measure C 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 C Fund are accounted for in separate special revenue funds. The fund is a separate accounting entity with a set of self-balancing accounts which comprise their 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 C Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2017

2. CASH AND INVESTMENTS

Measure C funds are pooled with the City's cash and investments in order to generate optimum interest income.

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from date of acquisition. 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). Information about the City's investments is included in the City's Comprehensive Annual Financial Report. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Measure C Funds had the following cash and investments at June 30, 2017:

Cash and Investments	<u>\$1,620,134</u>
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3. MEASURE C FUNDS

The City Council sponsored a special tax to fight crime through the community prevention and law enforcements programs. Under Measure C, the proceeds of the parcel tax are to be used for enhancing services and programs to prevent violence and crime in East Palo Alto. This measure was adopted with the intention that the funds generated by the parcel tax would raise revenue to retain and enhance services and programs to prevent violence and crime in the City.

As stated in Section 3 of the Measure, tax proceeds raised by this Ordinance may only be used as part of the following integrated programs of violence prevention and public safety intervention, in accordance with the following specific purposes:

- (1) Community and neighborhood policing, training, crime suppression and investigations.
- (2) Violence Prevention services with an emphasis on youth and families. Such services include preventive social services provided by the City of East Palo Alto or by adding capacity to community-based nonprofit programs with a focus on youth, ex-felons, domestic violence, and support for senior citizens.
- (3) Not less than 1% or more than 3% of funds appropriated to each police service or social service program shall be set aside for the purpose of independent evaluation of the program, including the number of people served and the rate of crime or violence reduction achieved.
- (4) Mandated apportionment of funds: Of the total proceeds spent on programs enumerated in this section 3, Paragraphs 1 and 2, not less than 50% of such proceeds shall be directed at violence prevention programs with emphasis on youth, ex-felons, and senior protection.

The City Council approved that 50% of Measure C funding is designated to the Police Department for Public Safety and the remaining 50% of funding is used for Crime Prevention Programs.

City of East Palo Alto
Measure C Fund
Notes to Financial Statements, Continued
For the year ended June 30, 2017

3. MEASURE C FUNDS, Continued

A. Measure C Expenditures

<u>Expenditures:</u>	<u>Public Safety</u>	<u>Violence Prevention</u>	<u>Total</u>
Police Officer	\$ 374,408	\$ -	\$ 374,408
Program Award	-	239,822	239,822
Bright Research Group, Inc. (program evaluation)	(8,825)	(4,821)	(13,646)
Program audit	382	382	764
County of San Mateo Administration Fees (Measure C collection fees)	3,229	3,229	6,458
	<u>\$ 369,194</u>	<u>\$ 238,612</u>	<u>\$ 607,806</u>

During FY15-16, the City inadvertently double-posted and accrued an invoice in the amount of \$13,646 for administrative services provided by Bright Research Group. During the current year, the negative expenses reflect the correction of the double-posted invoice from the previous year.

B. Measure C Violence Prevention Program Award Expenditures

<u>Detail of Program Award Expenditures - Awardee</u>	<u>Amount</u>
Boys & Girls Club	\$ 15,500
Building Futures Now	11,947
Community Legal Services	5,000
Community Overcoming Relationship Abuse (CORA)	89,822
EPA Boxing	15,500
EPA Greyhounds	10,000
Free At Last	22,500
Mid-Peninsula Athletic Association	15,500
Project We Hope	10,053
One East Palo Alto	22,500
Retraining the Village	9,500
St. Francis of Assisi	12,000
	<u>\$ 239,822</u>

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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 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 C Special Revenue Fund, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2017.

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) to determine the 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
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure C 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 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 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.



Badawi and Associates
Certified Public Accountants
Oakland, California
December 29, 2017