

City of Berkeley

Measure F Alameda County Vehicle Registration Fee Fund

Berkeley, California

*Financial Statements and
Independent Auditors' Reports*

For the year ended June 30, 2015

City of Berkeley
Measure F Alameda County Vehicle Registration Fee Fund
Financial Statements
For the year ended June 30, 2015

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report..... | 1 |
| Financial Statements: | |
| Balance Sheet..... | 3 |
| Statement of Revenues, Expenditures and Changes in Fund Balance | 4 |
| Notes to Financial Statements | 5 |
| Supplementary Information: | |
| Budgets and Budgetary Accounting | 11 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: Measure F Vehicle Registration Fund | 12 |
| Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 13 |
| Independent Auditors' Report on Measure F Vehicle Registration Fee Compliance..... | 15 |



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Berkeley
Berkeley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure F Alameda County Vehicle Registration Fee Fund (VRF Fund) of the City of Berkeley, California (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements.

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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 entity's preparation and fair presentation of the financial statements 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 entity'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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VRF Fund of the City of Berkeley as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members of City Council
of the City of Berkeley
Berkeley, California
Page 2

Emphasis of Matter

As discussed in Note 1, the financial statements present only the VRF Fund and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2015, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VRF Fund's financial statements. The budgetary comparison information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison 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. Such information has been subject 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 auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2015, on our consideration of the City's internal control over financial reporting in relation to VRF Fund 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 City's internal control over financial reporting and compliance in relation to VRF Fund.



Badawi & Associates
Certified Public Accountants
Oakland, California
December 22, 2015

City of Berkeley
Measure F Alameda County Vehicle Registration Fee Fund
Balance Sheet
June 30, 2015

| | <u>Total</u> |
|---|----------------------------|
| ASSETS: | |
| Cash and investments | \$ 1,080,363 |
| Intergovernmental receivable | <u>90,541</u> |
| Total assets | <u><u>\$ 1,170,904</u></u> |
| LIABILITIES AND FUND BALANCE: | |
| Liabilities: | |
| Accounts payables | \$ 99,413 |
| Accrued salaries and fringe benefit | <u>11,583</u> |
| Total liabilities | <u>110,996</u> |
| Fund Balance: | |
| Restricted | <u>1,059,908</u> |
| Total fund balance | <u>1,059,908</u> |
| Total liabilities and fund balance | <u><u>\$ 1,170,904</u></u> |

See accompanying Notes to Financial Statements.

City of Berkeley
Measure F Alameda County Vehicle Registration Fee Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2015

| | Total |
|------------------------------|---------------------|
| REVENUES: | |
| Measure F revenues | \$ 511,302 |
| Interest income | 1,136 |
| Total revenues | 512,438 |
| EXPENDITURES: | |
| Operating expenditures | 568,129 |
| Total expenditures | 568,129 |
| REVENUES OVER (UNDER) | |
| EXPENDITURES | (55,691) |
| FUND BALANCE: | |
| Beginning of year | 1,115,599 |
| End of year | \$ 1,059,908 |

See accompanying Notes to Financial Statements.

City of Berkeley
Measure F Alameda County Vehicle Registration Fee Fund
Notes to Financial Statements
For the year ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All transactions of the Measure F Alameda County Vehicle Registration Fees are reported in a special revenue fund (VRF Fund) of the City of Berkeley, California (City). The special revenue fund is included as part of the State Construction and Maintenance fund in the basic financial statements of the City. The Fund is used to account for the City's revenues earned and expenditures incurred under the City's various street maintenance and construction projects. The accompanying financial statements are for the VRF Fund only and are not intended to fairly present the financial position of the City.

B. Basis of Accounting

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. 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.

D. Cash, Cash Equivalents and Investments

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. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

City of Berkeley

Measure F Alameda County Vehicle Registration Fee Fund

Notes to Financial Statements

For the year ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

E. Revenues and Receivables

During the course of normal operations, the fund carries various receivable balances for taxes and interest. Revenues are recorded when received in cash, except revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the fund, are Measure F vehicle registration fees.

2. MEASURE F ALAMEDA COUNTY VEHICLE REGISTRATION FEES

The Measure F Alameda County Vehicle Registration Fee (VRF) Program was approved by the voters in November 2010, with 63 percent of the vote. The fee will generate about \$10.7 million per year with a \$10 per year vehicle registration fee County-wide. The collection of the \$10 per year vehicle registration fee started in the first week of May 2011.

The goal of the VRF program is to sustain the County's transportation network and reduce traffic congestion and vehicle related pollution. The program includes four categories of projects:

- Local Road Improvement and Repair Program (60 percent)
- Transit for Congestion Relief (25 percent)
- Local Transportation Technology (10 percent)
- Pedestrian and Bicyclist Access and Safety Program (5 percent)

City of Berkeley
Measure F Alameda County Vehicle Registration Fee Fund
Notes to Financial Statements
For the year ended June 30, 2015

3. CASH AND INVESTMENTS

Measure F VRF Fund's cash and investments are part of the City's pooled cash and investments. 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 pool consists of U.S. Agency Securities, Medium Term Notes, Money Market Funds and Guaranteed Investment Contracts. The VRF Fund's share of the pool is \$1,080,363.

A. Investments

The table below identifies the investment types that are authorized for the City of Berkeley's pooled investment policies.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage/Dollar of Portfolio | Maximum Investment in one issuer |
|------------------------------------|---------------------|--|--|
| Local Agency bonds | 5 years | 5% | N/A |
| U.S. Treasury Securities | 5 years | 25% | N/A |
| U.S. Agency Securities | 5 years | 100% | N/A |
| Banker's Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 180 days | 25% | \$5M or 2% |
| Negotiable Certificates of Deposit | 5 years | 30% | N/A |
| Repurchase Agreements | 1 year | 10% | N/A |
| Medium-Term Notes | 5 years | 30% | N/A |
| Guaranteed Investment Contracts | 5 years | 25% | N/A |
| Money Market funds | N/A | 100% | N/A |
| Mortgage pass-Through Securities | 5 years | 20% | N/A |
| County Pooled Investment Funds | N/A | N/A | N/A |
| JPA Pools (other investment pools) | N/A | N/A | N/A |

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds and component units. The City's investments are carried at fair market value as required by generally accepted accounting principles. The City accounts for all changes in fair value that occurred during the year and are reflected in the fund balance for the fiscal year. These investment value changes are unrealized since the City's policy is to hold and buy investments until maturity dates.

City of Berkeley
Measure F Alameda County Vehicle Registration Fee Fund
Notes to Financial Statements
For the year ended June 30, 2015

3. CASH AND INVESTMENTS, Continued

B. Risk Disclosures

Interest Risk – Interest rate risk is that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, there is the greater the sensitivity of its fair value to changes in market interest rates. One of the way that the City manages its exposures to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City has the intention to hold all investments to maturity. The average maturity of the City's pooled investments governed by the Investment Policies was approximately 15.7 months as of June 30, 2015.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City requires the issuer to have the highest rating from two nationally recognized rating agencies. Purchases of corporate notes shall be limited to securities rated "A" or higher by Moody's and "A" or higher by Stand and Poor's. The U.S. Agency Securities and Medium Term Notes in the pool are rated AAA and A/AA, respectively. The Money Market Funds and Guaranteed Investment Contracts are not rated.

Concentration of Credit Risk- The investment policies of the City contain no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk – The custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments except money market mutual funds and guaranteed investment contracts are subject to custodial risk.

4. ACCOUNTS RECEIVABLES

The accounts receivables represent the Measure F VRF revenues for the fiscal year received from the Alameda County Transportation Commission after June 30, 2015. The balance as of June 30, 2015 is \$90,541.

5. COMMITMENTS AND CONTINGENCIES

The City participates in several grant programs. These programs are subject to any further examination by the grantors and the amount, in any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

This page intentionally left blank.

City of Berkeley

Measure F Alameda County Vehicle Registration Fee Fund

Supplementary Information

For the year ended June 30, 2015

1. BUDGETS AND BUDGETARY ACCOUNTING

The VRF Fund follows the City's budgetary procedures in establishing the budgetary data reflected in the financial statements:

Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the upcoming fiscal year. The proposed budget includes a summary of proposed expenditures and forecasted revenues of the City's special revenue funds.

The City Council adopts the budget prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund. The Council may adopt supplemental appropriations during the year. Any unused funds are re-appropriated to the following fiscal year until the project is completed. The budget is adopted on a modified cash basis, which is not consistent with generally accepted accounting principles (GAAP).

City of Berkeley

Supplementary Information, Continued

Measure F Alameda County Vehicle Registration Fee Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual June 30, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|---------------------|---------------------|---------------------|--|
| | Original | Final | Amounts | Final Budget Positive (Negative) |
| REVENUES: | | | | |
| Measure F sales tax revenue | \$ 425,197 | \$ 425,197 | \$ 510,794 | \$ 85,597 |
| Interest income | - | - | 1,136 | 1,136 |
| Total revenues | 425,197 | 425,197 | 511,930 | 86,733 |
| EXPENDITURES: | | | | |
| Operating expenditures | 895,951 | 895,656 | 477,009 | 418,647 |
| Total expenditures | 898,451 | 898,156 | 477,009 | 421,147 |
| Net change in fund balance | \$ (473,254) | \$ (472,959) | 34,921 | \$ 507,880 |
| FUND BALANCE: | | | | |
| Beginning of year | | | 1,111,813 | |
| End of year | | | <u>\$ 1,146,734</u> | |
| Explanation of difference between budgetary basis to modified accrual basis: | | | | |
| Net change in fund balances - Budgetary basis | | | 34,921 | |
| Receivable accrual | | | 507 | |
| Accounts payable accrual | | | (91,119) | |
| Net change in Fund balances - GAAP basis | | | <u>\$ (55,691)</u> | |



**INDEPENDENT AUDITORS' 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 Berkeley
Berkeley, 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 F Alameda County Vehicle Registration Fee Fund (VRF Fund) of the City of Berkeley, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2015.

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 in relation to VRF Fund (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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VRF Funds' 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 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.



Badawi & Associates
Certified Public Accountants
Oakland, California
December 22, 2015



INDEPENDENT AUDITORS' REPORT ON MEASURE F VEHICLE REGISTRATION FEE COMPLIANCE

To the Honorable Mayor and Members of City Council
of the City of Berkeley
Berkeley, California

Report on Compliance

We have audited the City of Berkeley, California (City)'s compliance with the types of compliance requirements described in the agreement between the City and Alameda County Transportation Commission applicable to Measure F Alameda County Vehicle Registration Fee Fund (VRF Fund), that could have a direct and material effect on the City's VRF Fund, for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the VRF Fund.

Auditors' Responsibility

Our responsibility is to express an opinion on City's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the agreement between the City and Alameda County Transportation Commission applicable to Measure F Alameda County Vehicle Registration Fee Fund. Those standards and the agreement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the VRF Fund. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for VRF Fund. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Measure F Funds

In our opinion, the City complied, in all material respects, with the types of compliance requirements related to the agreement between the City and Alameda County Transportation Commission applicable to the VRF Fund for the year ended June 30, 2015.

To the Honorable Mayor and Members of City Council
of the City of Berkeley
Berkeley, California
Page 2

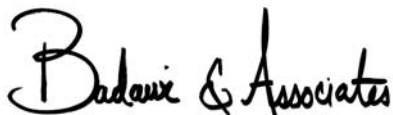
Report on Internal Control Over Compliance

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the agreement between the City and Alameda County Transportation Commission applicable to the VRF Fund. Accordingly, this report is not suitable for any other purpose.



Badawi & Associates
Certified Public Accountants
Oakland, California
December 22, 2015