

City of Watsonville
Measure G Fund Financial Statements
Watsonville, California
For the Year Ended June 30, 2017

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CITY OF WATSONVILLE
MEASURE G 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 City Council
of the City of Watsonville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure G Fund of the City of Watsonville, California, 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 and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 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 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 fairly, in all material respects, the financial position of the Measure G Fund as of June 30 2017, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Measure G Fund and do not purport to, and do not present fairly the financial position of the City of Watsonville as of June 30, 2017, the changes in its financial position, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018 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.

Maze & Associates

January 12, 2018
Pleasant Hill, California

CITY OF WATSONVILLE
MEASURE G FUND
BALANCE SHEET
June 30, 2017

ASSETS

Cash and investments	\$ 2,452,869
Accounts receivable	580,300
Due from other governments	<u>54,786</u>
Total Current Assets	<u><u>\$ 3,087,955</u></u>

LIABILITIES

Accounts payable	\$ 53,844
Accrued liabilities	58,588
Unearned revenues	<u>54,786</u>
Total Liabilities	<u>\$ 167,218</u>

FUND BALANCE

Restricted for fire services	1,107,289
Restricted for police services	<u>1,813,448</u>
Total Fund Balance	<u>2,920,737</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 3,087,955</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WATSONVILLE
 MEASURE G FUND
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGE IN FUND BALANCE
 For The Year Ended June 30, 2017**

REVENUES

Sales tax - Fire	\$	1,418,757
Sales tax - Police		2,128,135
Interest - Fire		5,218
Interest - Police		7,827
Other revenue - police		122,383
		122,383
Total Revenues		3,682,320

EXPENDITURES

Fire		1,473,644
Police		1,810,462
		1,810,462
Total Expenditures		3,284,106

NET CHANGE IN FUND BALANCE		398,214
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FUND BALANCE

Beginning Fund Balance		2,522,523
		2,522,523
Ending Fund Balance	\$	2,920,737

See accompanying Notes to Basic Financial Statements.

CITY OF WATSONVILLE
MEASURE G FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
For The Year Ended June 30, 2017

REVENUES	Final Budget	Actual	Variance Favorable (Unfavorable)
Sales tax - Fire	\$ 1,156,176	\$ 1,418,757	\$ 262,581
Sales tax - Police	1,734,264	2,128,135	393,871
Interest - Fire	1,440	5,218	3,778
Interest - Police	1,440	7,827	6,387
Other revenue - Police	125,000	122,383	(2,617)
Total Revenues	3,018,320	3,682,320	664,000
 EXPENDITURES			
Fire:			
Salaries and Wages	644,939	490,300	154,639
Operations	145,125	111,164	33,961
Capital Outlay	1,341,985	872,180	469,805
Total Fire	<u>2,132,049</u>	<u>1,473,644</u>	<u>658,405</u>
Police:			
Salaries and Wages	995,994	876,998	118,996
Operations	532,500	376,925	155,575
Capital Outlay	681,675	556,539	125,136
Total Police	<u>2,210,169</u>	<u>1,810,462</u>	<u>399,707</u>
Total Expenditures	<u>4,342,218</u>	<u>3,284,106</u>	<u>1,058,112</u>
 NET CHANGE IN FUND BALANCE	 <u><u>\$ (1,323,898)</u></u>	 398,214	 <u><u>\$ (394,112)</u></u>
 FUND BALANCE			
Beginning Fund Balance		<u>2,522,523</u>	
Ending Fund Balance		<u><u>\$ 2,920,737</u></u>	

See accompanying Notes to Basic Financial Statements

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**CITY OF WATSONVILLE
MEASURE G FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In the June 3, 2014 election, City of Watsonville (City) voters approved Measure G, establishing a temporary half-cent transaction sales and use tax. The Measure G Fund (Fund) was established to accumulate revenues transmitted by the State Board of Equalization (BOE), the agency responsible for administering and collecting the transactions and use taxes for the City, and apportion them to essential services outlined within the approved expenditure plan.

The financial statements presented only the activities of the Measure G Fund, and are not intended to present the financial position and changes in financial position of the City of Watsonville, in accordance with accounting principles generally accepted in the United States of America.

B. Basis of Accounting

The Measure G Fund of the City is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

C. 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

Cash and investments at June 30, 2017, consist of the following:

Pooled cash and investments with the	
City of Watsonville	\$2,452,869

Please refer to the notes of the City's June 30, 2017 Comprehensive Annual Financial Report regarding cash and investments for additional detail.

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE WITH THE APPLICABLE REQUIREMENTS
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 Watsonville, 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 City of Watsonville Measure G Fund (Measure G) 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 January 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the Measure G financial statements, we considered the Measure G'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 Measure G's internal control. Accordingly, we do not express an opinion on the effectiveness of Measure G'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 Measure G'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 Measure G'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 determination of financial statement amounts. Our procedures included the applicable audit procedures and tests of compliance with the applicable provisions of City Ordinance No. 1301-14 Section. 3- 6.1102 Program Restrictions. Section 3-6.1102 requires that an independent auditor shall perform at least the following tasks: (a) test expenditures to ensure Measure G revenue was being spent on hiring more police officers, helping improve police emergency response times, increase neighborhood patrols, maintain anti-gang and youth violence prevention, intervention and suppression efforts, including the Caminos and Police Activities League programs, upgrade equipment and technology to help solve crimes, catch criminals and fight gangs, expand programs to identify and shutdown gang houses, hire more firefighters to ensure enough are on duty, maintain fire and paramedic emergency response times, and replace inadequate and outdated life-saving equipment, (b) ensure that the city has created a Measure G fund with two separate divisions for Police and Fire into which new monies was deposited in the proportion of 60% to Police and 40% to Fire, (c) ensure that the City maintains a maintenance of effort from General Fund monies of at least the fiscal year 2013-2014 adopted General Fund budgeted amounts for Police and Fire operations, (d) ensure that no more than 2% of the annual budgeted revenues were spent on administrative overhead for accounting, payroll, and human resources, (e) ensure that the City has established a contingency fund that holds no less than 10% of annual budgeted revenues.

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 result of that testing, and not to provide an opinion on the effectiveness of the Measure G'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 Measure G's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the City Council, others within the City, and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of the report, which is a matter of public records.

Maze & Associates

Pleasant Hill, California
January 12, 2018