

City of Berkeley

Berkeley, California

*Business Economic Development
Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)*

For the year ended June 30, 2018

City of Berkeley
Business Economic Development Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)
For the year ended June 30, 2018
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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 Business Economic Development Administration Revolving Loan Fund ("Fund") of the City of Berkeley, California (City), as of and for the year ended June 30, 2018, 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Business Economic Development Administration Revolving Loan Fund, as of June 30, 2018, 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
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Emphasis of Matter

As discussed in Note 1, the financial statements present only the Business Economic Development Administration Revolving Loan Fund and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2018, 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 opinion on the financial statements that collectively comprise the Business Economic Development Administration Revolving Loan Fund's basic 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 subjected 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 July 19, 2019, on our consideration of the City's internal control over financial reporting related to the Business Economic Development Administration Revolving Loan 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 related to the Business Economic Development Administration Revolving Loan Fund.



Badawi and Associates
Certified Public Accountants
Oakland, California
July 19, 2019

City of Berkeley
Business Economic Development Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)
Balance Sheet
June 30, 2018

ASSETS

Cash and investments	\$ 357,909
Notes receivable	460,618
Total assets	\$ 818,527

**LIABILITIES AND
FUND BALANCE**

Liabilities:

Other liabilities	\$ 134
Due to City of Berkeley	117,724
Total liabilities	117,858

Fund Balance:

Restricted	700,669
Total fund balance	700,669
Total liabilities and fund balance	\$ 818,527

City of Berkeley
Business Economic Development Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended June 30, 2018

REVENUES:

Interest	\$ 22,889
Total revenues	<u>22,889</u>

EXPENDITURES:

Current:

Planning and community development	7,234
Miscellaneous	<u>5,506</u>
Total expenditures	<u>12,740</u>

**EXCESS OF REVENUES OVER
EXPENDITURES**

10,149

FUND BALANCE:

Beginning of year	<u>690,520</u>
End of year	<u><u>\$ 700,669</u></u>

City of Berkeley
Business Economic Development Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)
Notes to the Financial Statements
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *The Reporting Entity*

The Business Economic Development Administration Revolving Loan Fund (the Fund) was established in 1981 by the City of Berkeley (the City) to plan and assist projects which will diversify and stabilize South Berkeley's economy, increase employment and income, and stem the out-migration of South Berkeley's population. Since its inception, the Fund has granted 33 loans for renovation, remodeling, expansion, and working capital purposes.

The City entered into a subgrant agreement on April 16, 1981 with the U.S. Department of Commerce to administer an Economic Development Administration (EDA) Title IX Grant. The purpose of the EDA Grant was, in part, to provide funds to establish a revolving fund to offer financial assistance to eligible recipients in South Berkeley for projects that comply with the Economic Development Act of 1965.

The Fund is a special revenue fund of the City, and the accompanying financial statements present only the Business Economic Development Administration Revolving Loan Fund and are not intended to present fairly the financial position and results of operations of the City.

B. *Basis of Accounting*

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period.

C. *Cash and Investments*

The Fund pools its cash and investments with the City. The City pools cash resources from all funds in order to facilitate and maximize the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

City of Berkeley

Business Economic Development Administration Revolving Loan Fund

(EDA Grant No. 07-39-02523)

Notes to the Financial Statements

For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Cash and Investments, Continued

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

1. Interest Rate Risk
2. Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investments is allocated to all funds on the basis of daily cash and investment balances.

D. Receivables

Receivables consist of notes receivables that were the funds loaned to local businesses, which were intended to expand their business capacities.

E. Fund Balances

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then use unrestricted resources as needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

F. 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 Berkeley
Business Economic Development Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)
Notes to the Financial Statements
For the year ended June 30, 2018

2. CASH

Starting on September 26, 2006, the City maintains a separate Sequestration Account for Excess Funds. Deposits in this account are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. On November 3, 2016, the City was informed by the U.S. Department of Commerce that the City had satisfied the Capital Utilization Requirement, and is no longer subject to sequestration. The balance of the account as of June 30, 2018 was \$357,908.

All of the City's bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure local agencies' deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for noninterest bearing cash deposits by the Federal Deposit Insurance Corporation.

3. NOTES RECEIVABLE

The Fund's outstanding loans totaled \$460,618 on June 30, 2018. This balance consists of the following loans:

Houshmand Ghaderi dba The Vault Café Restaurant	\$ 24,748
East Bay Media Center	49,294
SlingFin, Inc	48,875
Synthesis Group, Inc (Minuteman Press)	110,670
The Glam Box (dba Anton Salon)	40,250
Kitchen on fire II	44,034
California Jazz Conservatory	142,747
Total outstanding loans	\$ 460,618

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City of Berkeley
Business Economic Development Administration Revolving Loan Fund
(EDA Grant No. 07-39-02523)
Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2018

	Original Budget	Final Budget	Actual (Budget Basis)	Variance Favorable (Unfavorable)
REVENUES:				
Interest	\$ 150,000	\$ 150,000	\$ 22,889	\$ (127,111)
Miscellaneous revenue	-	-	72,335	(72,335)
Total revenues	<u>150,000</u>	<u>150,000</u>	<u>95,224</u>	<u>(54,776)</u>
EXPENDITURES:				
Current:				
Planning and community development	156,095	308,956	207,234	101,722
Total expenditures	<u>156,095</u>	<u>308,956</u>	<u>207,234</u>	<u>101,722</u>
Net Change in Fund Balance	<u>\$ (6,095)</u>	<u>\$ (158,956)</u>	(112,010)	<u>\$ 46,946</u>
FUND BALANCE:				
Beginning of year			352,061	
End of year			<u>\$ 240,051</u>	
Explanation of differences between budgetary basis to modified accrual basis:				
Net change in fund balance - budgetary basis			(112,010)	
New loans issued			200,000	
Repayment of loan			<u>(77,841)</u>	
Net change in fund balance - GAAP basis			<u>\$ 10,149</u>	

SUPPLEMENTARY INFORMATION

City of Berkeley

Business Economic Development Administration Revolving Loan Fund (EDA Grant No. 07-39-02523)

Note to the Supplementary Information For the year ended June 30, 2018

1. BUDGETARY BASIS OF ACCOUNTING

A. *Budgetary Control and Budgetary Accounting*

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 the proposed expenditures and forecasted revenues of the Fund. At the fund level, expenditures may not legally exceed appropriations.

The City Council adopts the budget by June 30, for the upcoming fiscal year, through passage of an adopting ordinance. All appropriated amounts are as originally adopted or as amended by the City Council, and lapses at year-end are subject to re-appropriation in the following fiscal year. Expenditures of each fund may not legally exceed the amount of appropriations. Transfers between funds and interfund loans require authorization by ordinance and resolution of the City Council. Budgetary control is maintained at the fund level. The budget is adopted on a cash basis, which is not consistent with the accounting principles generally accepted in the United States of America (GAAP). Under this budget basis, revenues are recorded when received, and interfund loans and repayments are recorded as other financing sources/uses, instead of increases and decreases in the due to/due from accounts.

**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 Business Economic Development Administration Revolving Loan Fund ("Fund") of City of Berkeley, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated July 19, 2019.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

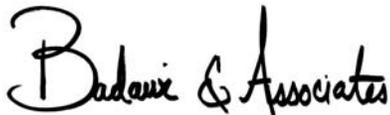
To the Honorable Mayor and Members of City Council
of the City of Berkeley
Berkeley, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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.

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
Oakland, California
July 19, 2019