

City of Newark

Utility Users Tax Fund

Newark, California

*Financial Statements and
Independent Auditors' Reports
For the year ended June 30, 2014*

City of Newark
Utility Users' Tax Fund
Financial Statements
For the year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Utility Users Tax Fund (UUT Fund) of the City of Newark, California (City), as of and for the year ended June 30, 2014 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.

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 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.

To the Honorable Mayor and Members of City Council
of the City of Newark
Newark, California
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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 UUT Fund of the City as of June 30, 2014, and the changes in financial position for the year then ended in accordance 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 UUT Fund and do not purport to, and do not, present fairly the financial positions of the City as of June 30, 2014, 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. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the UUT Fund's basic financial statements. The transfer out to the City schedule and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The transfer out to the City schedule and budgetary comparison information are the responsibility of management and were derived from and relate 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 transfer out to the City schedule and budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Honorable Mayor and Members of City Council
of the City of Newark
Newark, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, 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 City's internal control over financial reporting and compliance.

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Badawi & Associates
Certified Public Accountants
Oakland, California
November 26, 2014

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City of Newark
Utility Users' Tax Fund
Balance Sheet
June 30, 2014

	<u>Total</u>
ASSETS:	
Taxes Receivable	\$ 326,770
Total assets	<u>\$ 324,237</u>
 LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts payable	\$ 150
Due to the City of Newark	326,620
Total liabilities	<u>326,770</u>
 Fund Balance:	
Unassigned	<u>-</u>
Total fund balance	<u>-</u>
 Total liabilities and fund balance	 <u>\$ 326,770</u>

See accompanying Notes to Financial Statements.

City of Newark
Utility Users' Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
June 30, 2014

	<u>Total</u>
REVENUES:	
Utility Users Tax	\$ 3,644,068
Total revenues	<u>3,644,068</u>
EXPENDITURES:	
Contractual services	<u>2,534</u>
Total expenditures	<u>2,534</u>
REVENUES OVER (UNDER)	
EXPENDITURES	3,641,534
OTHER FINANCING SOURCES (USES):	
Transfer out for General Fund Support for Police, Parks and Recreation Services	(1,207,867)
Transfer out to Fiscal Uncertainty Fund	<u>(2,433,667)</u>
Total other financing sources (uses)	<u>(3,641,534)</u>
FUND BALANCE:	
Beginning of year	<u>-</u>
End of year	<u>\$ -</u>

See accompanying Notes to Financial Statements.

City of Newark
Utility Users' Tax Fund
Notes to Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All transactions of the Utility Users' Tax are reported in a special revenue fund (Fund) of the City of Newark, California (City). The special revenue fund is included as part of the General Fund in the basic financial statements of the City. The Fund is used to account for the City's revenues earned and expenditures incurred according to the Utility Users' Tax Ordinance of the City of Newark. The accompanying financial statements are for the Utility Users Tax fund only and are not intended to fairly present the financial position 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 (60 days), 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 Utility Users' Tax Fund are accounted for as part of the General Fund. Funds are separate accounting entities with a set of self-balancing accounts which comprise their assets, liabilities, fund equity, revenues, and expenditures.

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 Newark
Utility Users' Tax Fund
Notes to Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Revenues and Receivables

During the course of normal operations, the fund carries a receivable balances for utility users tax. Revenues are recorded when received in cash, except revenues subject to accrual (generally 60 days after year-end) are recognized when due.

2. UTILITY USERS' TAX

A utility users' tax is imposed upon every person in the City using telecommunication services (including landline telephone and cell phone services), video services (including cable television), electricity and gas consumption. The tax rate for services mentioned is 3.5% and expires on December 31, 2015. Water, sewer, and garbage utilities are not taxed. Internet service and satellite television are also not taxed.

3. TAXES RECEIVABLES

The taxes receivables represent the utility user's tax revenues for the fiscal year remitted by various utility providers after June 30, 2014.

SUPPLEMENTARY INFORMATION

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City of Newark
Utility Users' Tax Fund
Supplementary Information
For the year ended June 30, 2014

1. TRANSFER OUT TO THE CITY

The following table summarized how the revenue transferred to the City of Newark was spent during fiscal year 2013/14.

	2013-14 <u>Approved Budget</u>	2013-14 <u>Actuals</u>
Management/Support Services		
Human Resources	\$ 38,700	\$ 19,112
Information Systems	7,300	7,300
Financial Services	90,500	87,596
Subtotal	<u>136,500</u>	<u>114,008</u>
Public Safety		
Patrol	197,200	197,200
Investigation	148,700	148,700
School Crossing Guard	64,000	55,484
School Resource Officer	50,000	50,000
Subtotal	<u>459,900</u>	<u>451,384</u>
Community Promotion		
Community Preservation	62,400	36,545
Engineering	37,800	13,084
Subtotal	<u>100,200</u>	<u>49,629</u>
Recreation		
General Recreation Services	194,800	194,184
Senior Services	67,000	38,947
Subtotal	<u>261,800</u>	<u>233,131</u>
Park & Landscape Maintenance		
Environmental Services	83,300	83,300
Street Repairs	6,400	4,868
Park & Landscape	207,800	207,800
Subtotal	<u>297,500</u>	<u>295,968</u>
Internal Service Funds		
Equipment Maintenance	38,000	38,000
Building Maintenance	25,800	25,747
Subtotal	<u>63,800</u>	<u>63,747</u>
TOTAL UTILITY USERS TAX EXPENDITURES	1,319,700	1,207,867
TRANSFER TO RESERVES AND FISCAL UNCERTAINTY FUND	\$ 2,324,368	\$ 2,433,667

City of Newark
Utility Users' Tax Fund
Supplementary Information
For the year ended June 30, 2014

2. BUDGETS AND BUDGETARY ACCOUNTING

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

1. Every other year, the City Manager submits to the City Council a proposed biennial operating budget for the two fiscal years commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. Public work sessions are conducted to obtain taxpayer comments.
3. The budget is adopted by the City Council resolution prior to July 1st of even numbered years.
4. Expenditures may not legally exceed budgeted appropriations at the department level.
5. All budget adjustments and transfers between funds must be approved by the City Council by resolution during the fiscal year. The City Manager is authorized to transfer any unencumbered appropriations within a department within the same fund.
6. Formal budgetary integration, including the recording of encumbrances, is employed as a management control device during the year in all budgeted funds. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities at that date.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
8. Budgeted amounts are as originally adopted or as amended by the City Council.

City of Newark
Supplementary Information
Utility Users' Tax Fund
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Utility User's Tax Revenue	\$ 3,345,000	\$ 3,345,000	\$ 3,644,068	\$ 299,068
Total revenues	3,345,000	3,345,000	3,644,068	\$ 299,068
EXPENDITURES:				
Contractual services	-	-	2,534	(2,534)
Total expenditures	-	-	2,534	(2,534)
REVENUES OVER EXPENDITURES	3,345,000	3,345,000	3,641,534	296,534
OTHER FINANCING SOURCES (USES):				
Transfer out for General Fund Support for Police, Parks and Recreation Services	(1,319,700)	(1,319,700)	(1,207,867)	111,833
Transfer out to Fiscal Uncertainty Fund	(1,824,500)	(2,324,368)	(2,433,667)	(109,299)
Total other financing sources (uses)	(3,144,200)	(3,644,068)	(3,641,534)	2,534
Net change in fund balance	\$ 200,800	\$ (299,068)	-	\$ 299,068
FUND BALANCE:				
Beginning of year			-	
End of year			\$ -	

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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 City Council
of the City of Newark
Newark, 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 Utility Users Tax Fund (UUT Fund) of the City of Newark, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2014.

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 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.

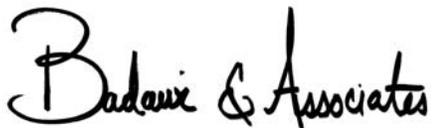
To the Honorable Mayor and Members of City Council
of the City of Newark
Newark, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the UUT 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.

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Badawi & Associates
Certified Public Accountants
Oakland, California
November 26, 2014